

ARROW FINANCIAL CORP  
Form 10-Q  
May 08, 2014

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

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

For the Quarterly Period Ended March 31, 2014

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  
(State or other jurisdiction of  
incorporation or organization)  
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

22-2448962  
(I.R.S. Employer  
Identification No.)

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

Indicate by check mark whether the registrant has submitted electronically 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). ☒ Yes ☐ No

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

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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 April 30, 2014

Common Stock, par value \$1.00 per share

12,351,013

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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)

	March 31, 2014	December 31, 2013	March 31, 2013
<b>ASSETS</b>			
Cash and Due From Banks	\$40,056	\$37,275	\$23,943
Interest-Bearing Deposits at Banks	35,994	12,705	113,231
Investment Securities:			
Available-for-Sale	429,230	457,606	478,775
Held-to-Maturity (Approximate Fair Value of \$322,335 at March 31, 2014; \$302,305 at December 31, 2013; and \$259,562 at March 31, 2013)	317,632	299,261	251,456
Federal Home Loan Bank and Federal Reserve Bank Stock	3,896	6,281	4,493
Loans	1,310,423	1,266,472	1,164,759
Allowance for Loan Losses	(14,636)	(14,434)	(14,603)
Net Loans	1,295,787	1,252,038	1,150,156
Premises and Equipment, Net	28,717	29,154	29,363
Goodwill	22,003	22,003	22,003
Other Intangible Assets, Net	3,996	4,140	4,457
Other Assets	44,270	43,235	38,085
Total Assets	\$2,221,581	\$2,163,698	\$2,115,962
<b>LIABILITIES</b>			
Noninterest-Bearing Deposits	\$277,086	\$278,958	\$254,308
NOW Accounts	908,028	817,366	845,531
Savings Deposits	524,670	498,779	476,115
Time Deposits of \$100,000 or More	74,127	78,928	89,797
Other Time Deposits	164,108	168,299	185,455
Total Deposits	1,948,019	1,842,330	1,851,206
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	13,787	11,777	12,166
Federal Home Loan Bank Overnight Advances	—	53,000	—
Federal Home Loan Bank Term Advances	20,000	20,000	30,000
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	20,000
Other Liabilities	25,284	24,437	24,787
Total Liabilities	2,027,090	1,971,544	1,938,159
<b>STOCKHOLDERS' EQUITY</b>			
Preferred Stock, \$5 Par Value; 1,000,000 Shares Authorized	—	—	—
Common Stock, \$1 Par Value; 20,000,000 Shares Authorized (16,744,486 Shares Issued at March 31, 2014, and December 31, 2013; and 16,416,163 Shares Issued at March 31, 2013)	16,744	16,744	16,416
Additional Paid-in Capital	229,842	229,290	219,178
Retained Earnings	29,692	27,457	28,423
	(1,650)	(1,800)	(2,000)

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Unallocated ESOP Shares (79,763 Shares at March 31, 2014; 87,641 Shares at December 31, 2013; and 95,172 Shares at March 31, 2013)

Accumulated Other Comprehensive Loss	(4,075	)	(4,373	)	(8,324	)
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Treasury Stock, at Cost (4,315,156 Shares at March 31, 2014;

4,296,723 Shares at December 31, 2013; and 4,310,578 Shares at March 31, 2013)	(76,062	)	(75,164	)	(75,890	)
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Total Stockholders' Equity	194,491		192,154		177,803	
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Total Liabilities and Stockholders' Equity	\$2,221,581		\$2,163,698		\$2,115,962	
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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 March	
	31,	
	2014	2013
INTEREST AND DIVIDEND INCOME		
Interest and Fees on Loans	\$12,774	\$12,783
Interest on Deposits at Banks	13	27
Interest and Dividends on Investment Securities:		
Fully Taxable	2,008	1,796
Exempt from Federal Taxes	1,471	1,390
Total Interest and Dividend Income	16,266	15,996
INTEREST EXPENSE		
NOW Accounts	464	778
Savings Deposits	219	268
Time Deposits of \$100,000 or More	230	319
Other Time Deposits	391	554
Federal Funds Purchased and		
Securities Sold Under Agreements to Repurchase	4	3
Federal Home Loan Bank Advances	145	173
Junior Subordinated Obligations Issued to		
Unconsolidated Subsidiary Trusts	141	144
Total Interest Expense	1,594	2,239
NET INTEREST INCOME	14,672	13,757
Provision for Loan Losses	458	100
NET INTEREST INCOME AFTER PROVISION FOR		
LOAN LOSSES	14,214	13,657
NONINTEREST INCOME		
Income From Fiduciary Activities	1,873	1,574
Fees for Other Services to Customers	2,194	2,282
Insurance Commissions	2,444	2,028
Net Gain on Securities Transactions	—	527
Net Gain on Sales of Loans	123	607
Other Operating Income	252	156
Total Noninterest Income	6,886	7,174
NONINTEREST EXPENSE		
Salaries and Employee Benefits	7,642	7,621
Occupancy Expenses, Net	2,341	2,276
FDIC Assessments	273	264
Other Operating Expense	3,210	3,250
Total Noninterest Expense	13,466	13,411
INCOME BEFORE PROVISION FOR INCOME		
TAXES	7,634	7,420
Provision for Income Taxes	2,314	2,239
NET INCOME	\$5,320	\$5,181
Average Shares Outstanding:		
Basic	12,354	12,272

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Diluted	12,378	12,290
Per Common Share:		
Basic Earnings	\$0.43	\$0.42
Diluted Earnings	0.43	0.42

Share and Per Share Amounts have been restated for the September 2013 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 March 31,	
	2014	2013
Net Income	\$5,320	\$5,181
Other Comprehensive Income, Net of Tax:		
Net Unrealized Securities Holding Gains		
Arising During the Period	241	220
Reclassification Adjustment for Securities Gains	—	(318)
Included in Net Income		
Amortization of Net Retirement Plan Actuarial Loss	70	236
Accretion of Net Retirement Plan Prior Service Credit	(13)	—
Other Comprehensive Income	298	138
Comprehensive Income	\$5,618	\$5,319

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 Income (Loss)	Treasury Stock	Total
Balance at December 31, 2013	\$16,744	\$229,290	\$27,457	\$ (1,800 )	\$ (4,373 )	\$ (75,164 )	\$192,154
Net Income	—	—	5,320	—	—	—	5,320
Other Comprehensive (Loss) Income	—	—	—	—	298	—	298
Cash Dividends Paid, \$.25 per Share <sup>1</sup>	—	—	(3,085 )	—	—	—	(3,085 )
Stock Options Exercised, Net (19,308 Shares)	—	284	—	—	—	190	474
Shares Issued Under the Employee Stock Purchase Plan (4,272 Shares)	—	63	—	—	—	42	105
Stock-Based Compensation Expense	—	90	—	—	—	—	90
Tax Benefit for Disposition of Stock Options	—	5	—	—	—	—	5
Purchase of Treasury Stock (45,608 Shares)	—	—	—	—	—	(1,165 )	(1,165 )
Acquisition of Subsidiaries (3,595 Shares)	—	56	—	—	—	35	91
Allocation of ESOP Stock (7,878 Shares)	—	54	—	150	—	—	204
Balance at March 31, 2014	\$16,744	\$229,842	\$29,692	\$ (1,650 )	\$ (4,075 )	\$ (76,062 )	\$194,491
Balance at December 31, 2012	\$16,416	\$218,650	\$26,251	\$ (2,150 )	\$ (8,462 )	\$ (74,880 )	\$175,825
Net Income	—	—	5,181	—	—	—	5,181
Other Comprehensive (Loss) Income	—	—	—	—	138	—	138
Cash Dividends Paid, \$.245 per Share <sup>1</sup>	—	—	(3,009 )	—	—	—	(3,009 )
Stock Options Exercised, Net (23,434 Shares)	—	259	—	—	—	231	490
Shares Issued Under the Directors' Stock Plan (396 Shares)	—	6	—	—	—	4	10
Shares Issued Under the Employee Stock Purchase Plan (4,683 Shares)	—	64	—	—	—	46	110
Stock-Based Compensation Expense	—	97	—	—	—	—	97

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Tax Benefit for Disposition of Stock Options	—	8	—	—	—	—	8
Purchase of Treasury Stock (54,231 Shares)	—	—	—	—	—	(1,328 )	(1,328 )
Acquisition of Subsidiaries (3,757 Shares)	—	54	—	—	—	37	91
Allocation of ESOP Stock (7,718 Shares)	—	40	—	150	—	—	190
Balance at March 31, 2013	\$ 16,416	\$ 219,178	\$ 28,423	\$ (2,000 )	\$ (8,324 )	\$ (75,890 )	\$ 177,803

<sup>1</sup> Cash dividends paid per share have been adjusted for the September 2013 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)

	Three Months Ended March 31,	
	2014	2013
Cash Flows from Operating Activities:		
Net Income	\$5,320	\$5,181
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	458	100
Depreciation and Amortization	1,965	2,373
Allocation of ESOP Stock	204	190
Gains on the Sale of Securities Available-for-Sale	—	(527 )
Loans Originated and Held-for-Sale	(4,592 )	(18,842 )
Proceeds from the Sale of Loans Held-for-Sale	4,277	21,385
Net Gains on the Sale of Loans	(123 )	(607 )
Net Losses on the Sale of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	3	105
Contributions to Retirement Benefit Plans	(261 )	(191 )
Deferred Income Tax (Benefit) Expense	(45 )	358
Shares Issued Under the Directors' Stock Plan	—	10
Stock-Based Compensation Expense	90	97
Net Increase in Other Assets	(1,025 )	(991 )
Net Increase in Other Liabilities	1,274	1,006
Net Cash Provided By Operating Activities	7,545	9,647
Cash Flows from Investing Activities:		
Proceeds from the Sale of Securities Available-for-Sale	—	16,261
Proceeds from the Maturities and Calls of Securities Available-for-Sale	44,907	22,846
Purchases of Securities Available-for-Sale	(16,905 )	(39,928 )
Proceeds from the Maturities and Calls of Securities Held-to-Maturity	16,561	6,815
Purchases of Securities Held-to-Maturity	(35,328 )	(18,930 )
Net (Increase) Decrease in Loans	(44,253 )	4,247
Proceeds from the Sales of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	289	341
Purchase of Premises and Equipment	(89 )	(991 )
Cash Paid for Subsidiaries, Net	(75 )	(75 )
Net Decrease in Other Investments	2,385	1,299
Net Cash Used In Investing Activities	(32,508 )	(8,115 )
Cash Flows from Financing Activities:		
Net Increase in Deposits	105,689	120,051
Net Decrease in Short-Term Borrowings	(50,990 )	(29,512 )
Purchase of Treasury Stock	(1,165 )	(1,328 )
Stock Options Exercised, Net	474	490
Shares Issued Under the Employee Stock Purchase Plan	105	110
Tax Benefit from Exercise of Stock Options	5	8
Cash Dividends Paid	(3,085 )	(3,009 )
Net Cash Provided By Financing Activities	51,033	86,810
Net Increase in Cash and Cash Equivalents	26,070	88,342
Cash and Cash Equivalents at Beginning of Period	49,980	48,832

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Cash and Cash Equivalents at End of Period	\$76,050	\$137,174
Supplemental Disclosures to Statements of Cash Flow Information:		
Interest on Deposits and Borrowings	\$1,628	\$2,299
Income Taxes	335	511
Non-cash Investing and Financing Activity:		
Transfer of Loans to Other Real Estate Owned and Repossessed Assets	484	604
Acquisition of Subsidiaries	91	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 March 31, 2014, December 31, 2013 and March 31, 2013; the results of operations for the three-month periods ended March 31, 2014 and 2013; the consolidated statements of comprehensive income for the three-month periods ended March 31, 2014 and 2013; the changes in stockholders' equity for the three-month periods ended March 31, 2014 and 2013; and the cash flows for the three-month periods ended March 31, 2014 and 2013. 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, 2013, included in Arrow's 2013 Form 10-K.

New Accounting Standards Updates (ASU): During 2014, through the date of this report, the FASB issued eight accounting standards updates, only two of which apply to Arrow.

ASU 2014-01 "Investments-Equity Method and Joint Ventures" allows an entity that invests in affordable housing projects that qualify for low-income housing tax credits to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. The standard is effective for annual years beginning after December 15, 2014, with earlier adoption allowed. We adopted the proportional amortization method in the first quarter of 2014. The adoption did not have a material impact on our financial condition or results of operations.

ASU 2014-04 "Receivables - Trouble Debt Restructurings by Creditors" provides additional guidance on when an in substance repossession or foreclosure occurs and is effective for annual periods beginning after December 15, 2014. We are evaluating the impact of adopting this standard, and we do not expect that it will have a material impact on our financial condition or results of operations.

Note 2. INVESTMENT SECURITIES (In Thousands)

The following table is the schedule of Available-For-Sale Securities at March 31, 2014, December 31, 2013 and March 31, 2013:

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
March 31, 2014						
Available-For-Sale Securities, at Amortized Cost	\$ 121,477	\$ 125,165	\$ 160,023	\$ 17,115	\$ 1,120	\$ 424,900
Available-For-Sale Securities, at Fair Value	121,220	125,410	164,541	16,839	1,220	429,230
Gross Unrealized Gains	3	333	4,616	14	100	5,066
Gross Unrealized Losses	260	88	98	290	—	736
Available-For-Sale Securities, Pledged as Collateral						329,039

Maturities of Debt Securities,  
at Amortized Cost:

Within One Year	—	49,942	9,544	—	59,486
From 1 - 5 Years	121,477	72,919	133,726	16,115	344,237
From 5 - 10 Years	—	1,624	16,753	—	18,377
Over 10 Years	—	680	—	1,000	1,680

Maturities of Debt Securities,  
at Fair Value:

Within One Year	—	49,991	9,714	—	59,705
From 1 - 5 Years	121,220	73,099	137,302	16,039	347,660
From 5 - 10 Years	—	1,640	17,525	—	19,165
Over 10 Years	—	680	—	800	1,480

Securities in a Continuous  
Loss Position, at Fair Value:

Less than 12 Months	\$50,778	\$17,937	\$10,613	\$5,868	\$—	\$85,196
12 Months or Longer	6,124	3,653	4,063	3,392	—	17,232

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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
Total	\$56,902	\$21,590	\$14,676	\$9,260	\$—	\$102,428
Number of Securities in a Continuous Loss Position	16	87	9	13	—	125

Unrealized Losses on  
Securities in a Continuous  
Loss Position:

Less than 12 Months	\$222	\$72	\$81	\$50	\$—	\$425
12 Months or Longer	38	16	17	240	—	311
Total	\$260	\$88	\$98	\$290	\$—	\$736

## December 31, 2013

Available-For-Sale Securities, at Amortized Cost	\$136,868	\$127,224	\$171,321	\$17,142	\$1,120	\$453,675
Available-For-Sale Securities, at Fair Value	136,475	127,389	175,778	16,798	1,166	457,606
Gross Unrealized Gains	2	306	4,714	10	46	5,078
Gross Unrealized Losses	395	141	257	354	—	1,147
Available-For-Sale Securities, Pledged as Collateral						243,769

Securities in a Continuous  
Loss Position, at Fair Value:

Less than 12 Months	\$60,664	\$29,967	\$15,190	\$7,375	\$—	\$113,196
12 Months or Longer	33,849	4,597	11,841	6,063	—	56,350
Total	\$94,513	\$34,564	\$27,031	\$13,438	\$—	\$169,546
Number of Securities in a Continuous Loss Position	26	107	13	19	—	165

Unrealized Losses on  
Securities in a Continuous  
Loss Position:

Less than 12 Months	\$336	\$120	\$108	\$92	\$—	\$656
12 Months or Longer	59	21	149	262	—	491
Total	\$395	\$141	\$257	\$354	\$—	\$1,147

## March 31, 2013

Available-For-Sale Securities, at Amortized Cost	\$132,217	\$104,304	\$219,067	\$12,913	\$1,120	\$469,621
Available-For-Sale Securities, at Fair Value	132,153	104,469	228,323	12,691	1,139	478,775
Gross Unrealized Gains	23	228	9,256	2	19	9,528
Gross Unrealized Losses	87	63	—	224	—	374
Available-For-Sale Securities,						274,433

Pledged as Collateral

Securities in a Continuous

Loss Position, at Fair Value:

Less than 12 Months	\$94,909	\$31,325	\$3	\$8,452	\$—	\$134,689
12 Months or Longer	—	1,481	—	—	—	1,481
Total	\$94,909	\$32,806	\$3	\$8,452	\$—	\$136,170
Number of Securities in a Continuous Loss Position	28	154	1	11	—	194

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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
Unrealized Losses on Securities in a Continuous Loss Position:						
Less than 12 Months	\$87	\$61	\$—	\$224	\$—	\$372
12 Months or Longer	—	2	—	—	—	2
Total	\$87	\$63	\$—	\$224	\$—	\$374

The following table is the schedule of Held-To-Maturity Securities at March 31, 2014, December 31, 2013 and March 31, 2013:

## Held-To-Maturity Securities

	State and Municipal Obligations	Mortgage- Backed Securities - Residential	Corporate and Other Debt Securities	Total Held-To- Maturity Securities
March 31, 2014				
Held-To-Maturity Securities, at Amortized Cost	\$190,847	\$125,785	\$1,000	\$317,632
Held-To-Maturity Securities, at Fair Value	195,524	125,811	1,000	322,335
Gross Unrealized Gains	5,042	274	—	5,316
Gross Unrealized Losses	365	248	—	613
Held-To-Maturity Securities, Pledged as Collateral				316,632
Maturities of Debt Securities, at Amortized Cost:				
Within One Year	31,895	—	—	31,895
From 1 - 5 Years	83,077	39,598	—	122,675
From 5 - 10 Years	72,886	86,187	—	159,073
Over 10 Years	2,989	—	1,000	3,989
Maturities of Debt Securities, at Fair Value:				
Within One Year	31,941	—	—	31,941
From 1 - 5 Years	85,023	39,656	—	124,679
From 5 - 10 Years	75,467	86,155	—	161,622
Over 10 Years	3,093	—	1,000	4,093
Securities in a Continuous Loss Position, at Fair Value:				
Less than 12 Months	\$19,696	\$43,049	\$—	\$62,745
12 Months or Longer	5,112	—	—	5,112
Total	\$24,808	\$43,049	\$—	\$67,857

Number of Securities in a Continuous Loss Position	86	17	—	103
Unrealized Losses on Securities in a Continuous Loss Position:				
Less than 12 Months	\$324	\$248	\$—	\$572
12 Months or Longer	41	—	—	41
Total	\$365	\$248	\$—	\$613

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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
December 31, 2013				
Held-To-Maturity Securities, at Amortized Cost	\$ 198,206	\$ 100,055	\$ 1,000	\$ 299,261
Held-To-Maturity Securities, at Fair Value	202,390	98,915	1,000	302,305
Gross Unrealized Gains	4,762	24	—	4,786
Gross Unrealized Losses	578	1,164	—	1,742
Held-To-Maturity Securities, Pledged as Collateral				298,261

Securities in a Continuous  
Loss Position, at Fair Value:

Less than 12 Months	\$ 23,633	\$ 85,339	\$ —	\$ 108,972
12 Months or Longer	5,111	—	—	5,111
Total	\$ 28,744	\$ 85,339	\$ —	\$ 114,083
Number of Securities in a Continuous Loss Position	101	36	—	137

Unrealized Losses on  
Securities in a Continuous  
Loss Position:

Less than 12 Months	\$ 519	\$ 1,164	\$ —	\$ 1,683
12 Months or Longer	59	—	—	59
Total	\$ 578	\$ 1,164	\$ —	\$ 1,742

## March 31, 2013

Held-To-Maturity Securities, at Amortized Cost	\$ 198,858	\$ 51,598	\$ 1,000	\$ 251,456
Held-To-Maturity Securities, at Fair Value	206,141	52,421	1,000	259,562
Gross Unrealized Gains	7,317	823	—	8,140
Gross Unrealized Losses	34	—	—	34
Held-To-Maturity Securities, Pledged as Collateral				250,456

Securities in a Continuous  
Loss Position, at Fair Value:

Less than 12 Months	\$ 8,794	\$ —	\$ —	\$ 8,794
12 Months or Longer	173	—	—	173
Total	\$ 8,967	\$ —	\$ —	\$ 8,967
Number of Securities in a Continuous Loss Position	33	—	—	33

## Unrealized Losses on

Securities in a Continuous

Loss Position:

Less than 12 Months	\$34	\$—	\$—	\$34
12 Months or Longer	—	—	—	—
Total	\$34	\$—	\$—	\$34

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.

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In the available-for-sale category at March 31, 2014, U.S. agency obligations consisted solely of U.S. Government Agency securities with an amortized cost of \$121.5 million and a fair value of \$121.2 million. Mortgage-backed securities - residential consisted of U.S. Government Agency securities with an amortized cost of \$30.6 million and a fair value of \$31.3 million and government sponsored entity (GSE) securities with an amortized cost of \$129.4 million and a fair value of \$133.2 million. In the held-to-maturity category at March 31, 2014, mortgage-backed securities-residential consisted of U.S. Government Agency securities with an amortized cost of \$4.8 million and a fair value of \$4.8 million and GSE securities with an amortized cost of \$121.0 million and a fair value of \$121.0 million. In the available-for-sale category at December 31, 2013, U.S. agency obligations consisted solely of U.S. Government Agency securities with an amortized cost of \$136.9 million and a fair value of \$136.5 million. Mortgage-backed securities-residential consisted of U.S. Government Agency securities with an amortized cost of \$31.5 million and a fair value of \$32.2 million and GSE securities with an amortized cost of \$139.8 million and a fair value of \$143.6 million. In the held-to-maturity category at December 31, 2013, mortgage-backed securities-residential consisted of U.S. Government Agency securities with an amortized cost of \$4.9 million and a fair value of \$4.7 million and GSE securities with an amortized cost of \$95.2 million and a fair value of \$94.2 million.

In the available-for-sale category at March 31, 2013, U.S. agency obligations consisted solely of U.S. Government Agency securities with an amortized cost of \$132.2 million and a fair value of \$132.2 million. Mortgage-backed securities-residential consisted of US Government Agency securities with an amortized cost of \$35.3 million and a fair value of \$37.2 million and GSE securities with an amortized cost of \$183.8 million and a fair value of \$191.1 million. In the held-to-maturity category at March 31, 2013, mortgage-backed securities-residential consisted of GSE securities with an amortized cost of \$51.6 million and a fair value of \$52.4 million.

Securities in a continuous loss position, in the tables above for March 31, 2014, December 31, 2013 and March 31, 2013, 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 shows no deterioration in the credit worthiness of the municipalities. Subsequent to March 31, 2014, 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 March 31, 2014, December 31, 2013 and March 31, 2013 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 \$502, \$64 and \$864 as of March 31, 2014, December 31, 2013 and March 31, 2013, respectively, are included in the residential real estate loan balances.

## Past Due Loans

	Commercial	Commercial Construction	Commercial Real Estate	Other Consumer	Automobile	Residential	Total
March 31, 2014							
Loans Past Due 30-59 Days	\$597	\$—	\$1,381	\$73	\$2,641	\$2,026	\$6,718
Loans Past Due 60-89 Days	579	—	237	16	512	438	1,782
Loans Past Due 90 or more Days	29	—	1,785	—	150	2,244	4,208
Total Loans Past Due	1,205	—	3,403	89	3,303	4,708	12,708
Current Loans	88,671	28,026	305,438	7,694	397,318	470,568	1,297,715
Total Loans	\$89,876	\$28,026	\$308,841	\$7,783	\$400,621	\$475,276	\$1,310,423
Loans 90 or More Days							
Past Due and Still Accruing Interest	\$—	\$—	\$—	\$—	\$—	\$347	\$347
Nonaccrual Loans	\$182	\$—	\$2,042	\$1	\$372	\$3,687	\$6,284
December 31, 2013							
Loans Past Due 30-59 Days	\$304	\$—	\$200	\$37	\$3,233	\$529	\$4,303
Loans Past Due 60-89 Days	601	—	1,200	19	1,041	1,527	4,388
Loans Past Due 90 or more Days	177	—	2,034	—	98	3,113	5,422
Total Loans Past Due	1,082	—	3,434	56	4,372	5,169	14,113
Current Loans	86,811	27,815	284,685	7,593	389,832	455,623	1,252,359
Total Loans	\$87,893	\$27,815	\$288,119	\$7,649	\$394,204	\$460,792	\$1,266,472
Loans 90 or More Days							
Past Due and Still Accruing Interest	\$28	\$—	\$—	\$—	\$—	\$624	\$652
Nonaccrual Loans	\$352	\$—	\$2,048	\$—	\$219	\$3,860	\$6,479
March 31, 2013							
Loans Past Due 30-59 Days	\$428	\$—	\$1,351	\$26	\$1,986	\$1,481	\$5,272
Loans Past Due 60-89 Days	421	—	200	10	375	1,058	2,064
Loans Past Due 90 or more Days	130	—	1,886	—	98	1,302	3,416
Total Loans Past Due	979	—	3,437	36	2,459	3,841	10,752
Current Loans	88,188	27,380	251,805	6,995	351,542	428,097	1,154,007
Total Loans	\$89,167	\$27,380	\$255,242	\$7,031	\$354,001	\$431,938	\$1,164,759

Loans 90 or More Days Past Due	\$—	\$—	\$—	\$—	\$—	\$259	\$259
and Still Accruing Interest							
Nonaccrual Loans	\$253	\$—	\$1,953	\$4	\$334	\$2,674	\$5,218

The Company disaggregates its loan portfolio into the following six 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.

Commercial Construction - The Company 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 secured by first liens on the real estate, which may include apartments, commercial structures, housing businesses, healthcare facilities, and both owner-occupied and nonowner-occupied facilities. There is enhanced risk during the construction period, since the loan is secured by an incomplete project.

**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.

**Other 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.

**Automobile** - 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. The majority of 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. 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 Construction	Other Real Estate	Consumer Automobile	Residential	Unallocated	Total
Roll-forward of the Allowance for Loan							



Losses for the  
Year-to-Date  
Periods:

December 31, 2013	\$ 1,886	\$ 417	\$ 3,545	\$ 272	\$ 4,206	\$ 3,026	\$ 1,082	\$ 14,434	
Charge-offs	(123	) —	—	(14	) (183	) (16	) —	(336	)
Recoveries	19	—	—	—	61	—	—	80	
Provision	15	3	233	22	222	67	(104	) 458	
March 31, 2014	\$ 1,797	\$ 420	\$ 3,778	\$ 280	\$ 4,306	\$ 3,077	\$ 978	\$ 14,636	
December 31, 2012	\$ 2,344	\$ 601	\$ 3,050	\$ 304	\$ 4,536	\$ 3,405	\$ 1,058	\$ 15,298	
Charge-offs	(773	) —	(11	) (8	) (98	) —	—	(890	)
Recoveries	4	—	—	—	91	—	—	95	
Provision	44	11	340	12	(235	) (13	) (59	) 100	
March 31, 2013	\$ 1,619	\$ 612	\$ 3,379	\$ 308	\$ 4,294	\$ 3,392	\$ 999	\$ 14,603	

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## Allowance for Loan Losses

	Commercial	Commercial Construction	Commercial Real Estate	Other Consumer	Automobile	Residential	Unallocated	Total
March 31, 2014								
Allowance for loan losses - Loans Individually Evaluated for Impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Allowance for loan losses - Loans Collectively Evaluated for Impairment	\$ 1,797	\$ 420	\$ 3,778	\$ 280	\$ 4,306	\$ 3,077	\$ 978	\$ 14,636
Ending Loan Balance - Individually Evaluated for Impairment	\$ 214	\$ —	\$ 1,810	\$ —	\$ 144	\$ 1,913	\$ —	\$ 4,081
Ending Loan Balance - Collectively Evaluated for Impairment	\$ 89,662	\$ 28,026	\$ 307,031	\$ 7,783	\$ 400,477	\$ 473,363	\$ —	\$ 1,306,342
December 31, 2013								
Allowance for loan losses - Loans Individually Evaluated for Impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Allowance for loan losses - Loans Collectively Evaluated for Impairment	\$ 1,886	\$ 417	\$ 3,545	\$ 272	\$ 4,206	\$ 3,026	\$ 1,082	\$ 14,434
Ending Loan Balance - Individually Evaluated for Impairment	\$ 221	\$ —	\$ 1,785	\$ —	\$ 173	\$ 2,309	\$ —	\$ 4,488
Ending Loan Balance - Collectively Evaluated for Impairment	\$ 87,672	\$ 27,815	\$ 286,334	\$ 7,649	\$ 394,031	\$ 458,483	\$ —	\$ 1,261,984
March 31, 2013	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

Allowance for loan losses - Loans Individually Evaluated for Impairment								
Allowance for loan losses - Loans Collectively Evaluated for Impairment	\$ 1,619	\$ 612	\$ 3,379	\$ 308	\$ 4,294	\$ 3,392	\$ 999	\$ 14,603
Ending Loan Balance - Individually Evaluated for Impairment	\$ 37	\$ —	\$ 1,505	\$ —	\$ 182	\$ 1,085	\$ —	\$ 2,809
Ending Loan Balance - Collectively Evaluated for Impairment	\$ 89,130	\$ 27,380	\$ 253,737	\$ 7,031	\$ 353,819	\$ 430,853	\$ —	\$ 1,161,950

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, commercial construction, 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 March 31, 2014, December 31, 2013 and March 31, 2013:

## Loan Credit Quality Indicators

	Commercial	Commercial	Other			
	Commercial	Construction	Real Estate	Consumer	Automobile	Residential Total
March 31, 2014						
Credit Risk Profile by						
Creditworthiness Category:						
Satisfactory	\$82,263	\$28,026	\$287,532			\$397,821
Special Mention	960	—	614			1,574
Substandard	6,653	—	20,695			27,348
Doubtful	—	—	—			—
Credit Risk Profile Based on						
Payment Activity:						
Performing				\$7,782	\$400,249	\$471,242 879,273
Nonperforming				1	372	4,034 4,407
December 31, 2013						
Credit Risk Profile by						
Creditworthiness Category:						
Satisfactory	79,966	27,815	267,612			375,393
Special Mention	204	—	634			838
Substandard	7,723	—	19,873			27,596
Doubtful	—	—	—			—
Credit Risk Profile Based on						
Payment Activity:						
Performing				7,649	393,985	456,308 857,942
Nonperforming				—	219	4,484 4,703
March 31, 2013						
Credit Risk Profile by						
Creditworthiness Category:						
Satisfactory	82,063	26,180	234,609			342,852
Special Mention	183	—	1,385			1,568
Substandard	6,921	1,200	19,248			27,369
Doubtful	—	—	—			—
Credit Risk Profile Based on						
Payment Activity:						
Performing				7,027	353,667	429,004 789,698
Nonperforming				4	334	2,934 3,272

We use an internally developed system of five credit quality indicators to rate the credit worthiness of each commercial loan defined as follows: 1) Satisfactory - "Satisfactory" borrowers have acceptable financial condition with satisfactory record of earnings and sufficient historical and projected cash flow to service the debt. Borrowers have satisfactory repayment histories and primary and secondary sources of repayment can be clearly identified; 2) Special Mention - Loans in this category have potential weaknesses that deserve management's close attention. If left

uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. "Special mention" assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Loans which might be assigned this risk rating include loans to borrowers with deteriorating financial strength and/or earnings record and loans with potential for problems due to weakening economic or market conditions; 3) Substandard - Loans classified as "substandard" are inadequately protected by the current sound net worth or paying capacity of the borrower or the collateral pledged, if any. Loans in this category have well defined weaknesses that jeopardize the repayment. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. "Substandard" loans may include loans which are likely to require liquidation of collateral to effect repayment, and other loans where character or ability to repay has become suspect. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard; 4) Doubtful - Loans classified as "doubtful" have all of the weaknesses inherent in those classified as "substandard" with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values highly questionable and improbable. Although possibility of loss is extremely high, classification of these loans as "loss" has been deferred due to specific pending factors or events which may strengthen the value (i.e. possibility of additional collateral, injection of capital, collateral liquidation, debt restructure, economic recovery, etc). Loans classified as "doubtful" need to be placed on

non-accrual; and 5) Loss - Loans classified as "loss" are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. As of the date of the balance sheet, all loans in this category have been charged-off to the allowance for loan losses. Commercial loans are evaluated on an annual basis, unless the credit quality indicator falls to a level of "substandard" or below, when the loan is evaluated quarterly. The credit quality indicator is one of the factors used to determine any loss, as further described in this footnote.

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 Construction	Commercial Real Estate	Other Consumer	Automobile	Residential	Total
March 31, 2014							
Recorded Investment:							
With No Related Allowance	\$214	\$—	\$1,810	\$—	\$144	\$1,913	\$4,081
With a Related Allowance	—	—	—	—	—	—	—
Unpaid Principal Balance:							
With No Related Allowance	214	—	1,810	—	144	1,913	4,081
With a Related Allowance	—	—	—	—	—	—	—
December 31, 2013							
Recorded Investment:							
With No Related Allowance	\$221	\$—	\$1,785	\$—	\$173	\$2,309	\$4,488
With a Related Allowance	—	—	—	—	—	—	—
Unpaid Principal Balance:							
With No Related Allowance	221	—	1,785	—	173	2,309	4,488
With a Related Allowance	—	—	—	—	—	—	—
March 31, 2013							
Recorded Investment:							
With No Related Allowance	\$37	\$—	\$1,505	\$—	\$182	\$1,085	\$2,809
With a Related Allowance	—	—	—	—	—	—	—
Unpaid Principal Balance:							
With No Related Allowance	37	—	1,505	—	182	1,085	\$2,809
With a Related Allowance	—	—	—	—	—	—	—
For the Year-To-Date Period Ended:							
March 31, 2014							
Average Recorded Balance:							
With No Related Allowance	\$218	\$—	\$1,798	\$—	\$159	\$2,111	\$4,286
With a Related Allowance	—	—	—	—	—	—	—
Interest Income Recognized:							
With No Related Allowance	3	—	10	—	2	1	16
With a Related Allowance	—	—	—	—	—	—	—
Cash Basis Income:							
With No Related Allowance	—	—	—	—	—	—	—



With a Related Allowance — — — — — —

March 31, 2013

Average Recorded Balance:

With No Related Allowance \$41 \$— \$2,017 \$— \$193 \$1,088 \$3,339

With a Related Allowance 694 — — — — — 694

Interest Income Recognized:

With No Related Allowance 1 — — — 2 4 7

With a Related Allowance 72 — — — — — 72

Cash Basis Income:

With No Related Allowance — — — — — —

With a Related Allowance 72 — — — — — 72

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At March 31, 2014, December 31, 2013 and March 31, 2013, all impaired loans were considered to be collateral dependent and were therefore evaluated for impairment based on the fair value of collateral less estimated cost to sell. There was no allowance for loan losses allocated to impaired loans at March 31, 2014. 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:  
Loans Modified in Trouble Debt Restructurings During the Period

	Commercial	Commercial	Other			
	Commercial	Construction	Real Estate	Consumer	Automobile	Residential Total
For the Year-To-Date Period						
Ended:						
March 31, 2014						
Number of Loans	—	—	—	—	1	1
Pre-Modification						
Outstanding Recorded	\$—	\$—	\$—	\$—	\$2	\$2
Investment						
Post-Modification						
Outstanding Recorded	\$—	\$—	\$—	\$—	\$2	\$2
Investment						
March 31, 2013						
Number of Loans	—	—	—	—	2	2
Pre-Modification						
Outstanding Recorded	\$—	\$—	\$—	\$—	\$11	\$11
Investment						
Post-Modification						
Outstanding Recorded	\$—	\$—	\$—	\$—	\$11	\$11
Investment						

In general, loans requiring modification are restructured to accommodate the projected cash-flows of the borrower. As indicated in the table above, no loans modified during the preceding twelve months subsequently defaulted as of March 31, 2014.

#### Note 4. GUARANTEES (In Thousands)

The following table presents the balance for standby letters of credit for the periods ended March 31, 2014, December 31, 2013 and March 31, 2013:

#### Loan Commitments and Letters of Credit

	March 31, 2014	December 31, 2013	March 31, 2013
Notional Amount:			
Commitments to Extend Credit	\$235,549	\$237,940	\$215,498
Standby Letters of Credit	3,333	3,345	3,562
Fair Value:			
Commitments to Extend Credit	\$—	\$—	\$—
Standby Letters of Credit	56	65	53

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Arrow evaluates each customer's creditworthiness on a case-by-case basis. Home equity lines of credit are secured by residential real estate.

Construction 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 March 31, 2014, December 31, 2013 and March 31, 2013 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 March 31, 2014, December 31, 2013 and March 31, 2013, 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 months ended March 31, 2014 and 2013 :

##### Schedule of Comprehensive Income

	Three Months Ended March 31,		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
2014			
Net Unrealized Securities Holding Gains Arising During the Period	\$399	\$(158 )	\$241
Reclassification Adjustment for Securities Gains Included in Net Income	—	—	—
Amortization of Net Retirement Plan Actuarial Loss	116	(46 )	70
Accretion of Net Retirement Plan Prior Service Credit	(22 )	9	(13 )
Other Comprehensive Income	\$493	\$(195 )	\$298
2013			
Net Unrealized Securities Holding Gains Arising During the Period	\$367	\$(147 )	\$220
Reclassification Adjustment for Securities Gains Included in Net Income	(527 )	209	(318 )

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Amortization of Net Retirement Plan Actuarial Loss	391	(155	)	236
Accretion of Net Retirement Plan Prior Service Credit	—	—		—
Other Comprehensive Income	\$231	\$(93	)	\$138

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

Changes in Accumulated Other Comprehensive Income by Component <sup>(1)</sup>

	Unrealized Gains and Losses on Available-for- Sale Securities	Defined Benefit Plan Items		Total
		Net Gain (Loss)	Net Prior Service (Cost ) Credit	
For the Year-To-Date periods ended:				
December 31, 2013	\$2,374	\$(6,697 )	\$(50 )	\$(4,373 )
Other comprehensive income before reclassifications	241	—	—	241
Amounts reclassified from accumulated other comprehensive income	—	70	(13 )	57
Net current-period other comprehensive income	241	70	(13 )	298
March 31, 2014	\$2,615	\$(6,627 )	\$(63 )	\$(4,075 )
December 31, 2012	\$5,625	\$(14,036 )	\$(51 )	\$(8,462 )
Other comprehensive income before reclassifications	220	—	—	220
Amounts reclassified from accumulated other comprehensive income	(318 )	236	—	(82 )
Net current-period other comprehensive income	(98 )	236	—	138
March 31, 2013	\$5,527	\$(13,800 )	\$(51 )	\$(8,324 )

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

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

# Reclassifications Out of Accumulated Other Comprehensive Income <sup>(1)</sup>

Details about Accumulated Other Comprehensive Income 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:

March 31, 2014

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	\$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 \$(57) ) Net of tax

March 31, 2013

Unrealized gains and losses on available-for-sale securities

\$527	Gain on Securities Transactions
527	Total before tax
(209)	) Provision for Income Taxes
\$318	Net of tax

Amortization of defined benefit pension items

Prior-service costs	—	(2) Salaries and Employee Benefits
Actuarial gains/(losses)	\$(391)	) (2) Salaries and Employee Benefits
	(391)	) Total before tax
	155	Provision for Income Taxes
	\$(236)	) Net of tax

Total reclassifications for the period \$82 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 (see pension footnote for additional details.).

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# Note 6. STOCK BASED COMPENSATION PLANS

Under our 2013 Long-Term Incentive Plan, we granted options in the first quarter of 2014 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. Share and per share amounts have been restated for the September 2013 2% stock dividend.

The following table presents a roll-forward of our stock option plans and grants issued during 2014:

## Schedule of Share-based Compensation Arrangements

	Stock Option Plans	
Roll-Forward of Shares Outstanding:		
Outstanding at January 1, 2014	389,392	
Granted	74,037	
Exercised	(19,308)	)
Forfeited	—	
Outstanding at March 31, 2014	444,121	
Exercisable at Period-End	307,765	
Vested and Expected to Vest	136,356	
Roll-Forward of Shares Outstanding - Weighted Average Exercise Price:		
Outstanding at January 1, 2014	\$22.89	
Granted	25.00	
Exercised	24.55	
Forfeited	—	
Outstanding at March 31, 2014	23.17	
Exercisable at Period-End	22.38	
Vested and Expected to Vest	24.95	
Grants Issued During 2013 - Weighted Average Information:		
Fair Value	6.04	
Fair Value Assumptions:		
Dividend Yield	3.97	%
Expected Volatility	35.30	%
Risk Free Interest Rate	2.19	%
Expected Lives (in years)	6.85	

The following table presents information on the amounts expensed for the periods ended March 31, 2014 and 2013:

	For the Three Months Ended March 31,	
	2014	2013
Share-Based Compensation Expense	\$90	\$97

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-month periods ended March 31:

	Employees' Pension Plan	Select Executive Retirement Plan	Postretirement Benefit Plans
Net Periodic Benefit Cost			
For the Three Months Ended March 31, 2014:			
Service Cost	\$377	\$—	\$53
Interest Cost	330	61	110
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	\$60	\$102	\$141
Plan Contributions During the Period	\$—	\$119	\$142
Estimated Future Contributions in the Current Fiscal Year	—	357	426
For the Three Months Ended March 31, 2013:			
Service Cost	\$367	\$22	\$51
Interest Cost	353	38	81
Expected Return on Plan Assets	(716)	) —	—
Amortization of Prior Service (Credit) Cost	9	20	(29)
Amortization of Net Loss	312	38	41
Net Periodic Benefit Cost	\$325	\$118	\$144
Plan Contributions During the Period	\$—	\$111	\$81

We are not required to make a contribution to our qualified pension plan in 2014, and currently, we do not expect to make a contribution in 2014. 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 March 31, 2014 and 2013. All share and per share amounts have been adjusted for the September 2013 2% stock dividend.

## Earnings Per Share

	Year-to-Date Period Ended:	
	March 31, 2014	March 31, 2013
Earnings Per Share - Basic:		
Net Income	\$5,320	\$5,181
Weighted Average Shares - Basic	12,354	12,272
Earnings Per Share - Basic	\$0.43	\$0.42

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Earnings Per Share - Diluted:

Net Income	\$5,320	\$5,181
Weighted Average Shares - Basic	12,354	12,272
Dilutive Average Shares Attributable to Stock Options	24	18
Weighted Average Shares - Diluted	12,378	12,290
Earnings Per Share - Diluted	\$0.43	\$0.42
Antidilutive Shares Excluded from the Calculation of Earnings Per Share	—	129

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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 March 31, 2014, December 31, 2013 and March 31, 2013 were securities available-for-sale. Arrow held no securities or liabilities for trading on such date.

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:					
March 31, 2014					
Securities Available-for Sale:					
U.S. Agency Obligations	\$121,220	\$—	\$121,220	\$—	
State and Municipal Obligations	125,410	—	125,410	—	
Mortgage-Backed Securities - Residential	164,541	—	164,541	—	
Corporate and Other Debt Securities	16,839	—	16,839	—	
Mutual Funds and Equity Securities	1,220	—	1,220	—	
Total Securities Available-for-Sale	\$429,230	\$—	\$429,230	\$—	
December 31, 2013					
Securities Available-for Sale:					
U.S. Agency Obligations	\$136,475	\$—	\$136,475	\$—	
State and Municipal Obligations	127,389	—	127,389	—	
Mortgage-Backed Securities - Residential	175,778	—	175,778	—	
Corporate and Other Debt Securities	16,798	—	16,798	—	
Mutual Funds and Equity Securities	1,166	—	1,166	—	
Total Securities Available-for Sale	\$457,606	\$—	\$457,606	\$—	
March 31, 2013					
Securities Available-for Sale:					
U.S. Agency Obligations	\$132,153	\$—	\$132,153	\$—	
State and Municipal Obligations	104,469	—	104,469	—	
Mortgage-Backed Securities - Residential	228,323	—	228,323	—	
Corporate and Other Debt Securities	12,691	—	12,691	—	
Mutual Funds and Equity Securities	1,139	—	1,139	—	
Total Securities Available-for Sale	\$478,775	\$—	\$478,775	\$—	
Fair Value of Assets and Liabilities Measured on a Nonrecurring Basis:					
March 31, 2014					
	\$198	\$—	\$—	\$198	\$(52 )

Other Real Estate Owned and Repossessed

Assets, Net

December 31, 2013

Other Real Estate Owned and Repossessed Assets, Net	\$ 144	\$—	\$—	\$ 144	\$(79 )
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March 31, 2013

Other Real Estate Owned and Repossessed Assets, Net	\$ 1,194	\$—	\$—	\$ 1,194	\$(56 )
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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 March 31, 2014, December 31, 2013 and March 31, 2013.

## Fair Value by Balance Sheet Grouping

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

## Schedule of Fair Values by Balance Sheet Grouping

			Fair Value Hierarchy		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
March 31, 2014					
Cash and Cash Equivalents	\$76,050	\$76,050	\$76,050	\$—	\$—
Securities Available-for-Sale	429,230	429,230	—	429,230	—
Securities Held-to-Maturity	317,632	322,335	—	322,335	—
Federal Home Loan Bank and Federal Reserve Bank Stock	3,896	3,896	3,896	—	—
Net Loans	1,295,787	1,306,043	—	—	1,306,043
Accrued Interest Receivable	6,808	6,808	6,808	—	—
Deposits	1,948,019	1,944,116	1,709,784	234,332	—
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	13,787	13,787	13,787	—	—
Federal Home Loan Bank Term Advances	20,000	20,519	—	20,519	—
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	—	20,000	—
Accrued Interest Payable	405	405	405	—	—
December 31, 2013					
Cash and Cash Equivalents	\$49,980	\$49,980	\$49,980	\$—	\$—
Securities Available-for-Sale	457,606	457,606	—	457,606	—
Securities Held-to-Maturity	299,261	302,305	—	302,305	—
Federal Home Loan Bank and Federal Reserve Bank Stock	6,281	6,281	6,281	—	—
Net Loans	1,252,038	1,266,020	—	—	1,266,020
Accrued Interest Receivable	5,745	5,745	5,745	—	—
Deposits	1,842,330	1,839,613	1,595,103	244,510	—
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	11,777	11,777	11,777	—	—
Federal Home Loan Bank Term Advances	73,000	74,629	53,000	21,629	—
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	—	20,000	—
Accrued Interest Payable	439	439	439	—	—
March 31, 2013					
Cash and Cash Equivalents	\$137,174	\$137,174	\$137,174	\$—	\$—
Securities Available-for-Sale	478,775	478,775	—	478,775	—
Securities Held-to-Maturity	251,456	259,562	—	259,562	—
Federal Home Loan Bank and Federal	4,493	4,493	4,493	—	—



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Reserve Bank Stock					
Net Loans	1,150,156	1,167,063	—	—	1,167,063
Accrued Interest Receivable	6,481	6,481	6,481	—	—
Deposits	1,851,206	1,850,614	1,575,954	274,660	—
Federal Funds Purchased and Securities Sold Under Agreements to	12,166	12,166	12,166	—	—
Repurchase					
Federal Home Loan Bank Term Advances	30,000	31,263	—	31,263	—
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	—	20,000	—
Accrued Interest Payable	523	523	523	—	—

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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 March 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the three-month periods ended March 31, 2014 and 2013. 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, 2013, 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 14, 2014, 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, 2013, 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  
May 8, 2014

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

March 31, 2014

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); three property and casualty insurance agencies: Loomis & LaPann, Inc., 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 344 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 December 31, 2013 (the most recent such Report currently available), and peer group data 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
Impact of market rate structure on net interest margin, loan yields and deposit rates	38	1st and Last paragraph under "Quarterly Taxable Equivalent Yield on Loans"
	48	Last paragraph under "Quantitative and Qualitative Disclosures about Market Risk"
Provision for loan losses	41	1st paragraph in section
Future level of nonperforming assets	42	Last 3 paragraphs under "Risk Elements"
Future level of residential real estate loans	38	2nd paragraph under "Residential Real Estate Loans"

Future level of indirect consumer loans	38	Last paragraph under "Automobile Loans"
Future level of commercial loans	38	3rd paragraph under "Commercial, Commercial Real Estate and Construction and Land Development Loans"
Impact of changing capital standards and legislative developments	34	1st paragraph under "Regulatory Capital and Increase in Stockholders' Equity"
	42	"Important Future Changes to Regulatory Capital Standards"
Liquidity	45	1st full paragraph
Fees for other services to customers	46	3rd paragraph under "Noninterest Income"
Impact of changes in mortgage rates	39	Paragraph under "Investment Sales, Purchases and Maturities"
VISA	34	"VISA Class B Common Stock"

These forward-looking statements 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 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 experienced in the early stages of the 2008-2009 "financial crisis;"

- b. sharp fluctuations in interest rates, economic activity, and consumer spending patterns;
- c. sudden changes in the market for products we provide, such as real estate loans;
- d. significant new banking laws and regulations, including an assortment of new banking regulations still to be issued under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2011 (the Dodd-Frank Act or Dodd-Frank);
- e. unexpected or enhanced competition from new or unforeseen sources;
- f. network attacks or unauthorized access to computer systems and network infrastructure, interruptions of service and other security risks; and
- g. similar uncertainties inherent in banking operations, the financial world, or governmental finance generally, such as 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, 2013.

#### USE OF NON-GAAP FINANCIAL MEASURES

The Securities and Exchange Commission (SEC) has adopted Regulation G, which applies to all public disclosures, including earnings releases, made by registered companies that contain "non-GAAP financial measures." GAAP is generally accepted accounting principles in the United States of America. Under Regulation G, companies making public disclosures containing non-GAAP financial measures must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure and a statement of 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. The following measures used in this Report, which are commonly utilized by financial institutions, have not been specifically exempted by the SEC and may constitute "non-GAAP financial measures" within the meaning of the SEC's new rules, although we are unable to state with certainty that the SEC would so regard them.

**Tax-Equivalent Net Interest Income and Net Interest Margin:** Net interest income, as a component of the tabular presentation by financial institutions of Selected Financial Information regarding their recently completed operations, 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 other institutions 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, as opposed to actual net interest income, 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, once again, typically expressed on a tax-equivalent basis (see preceding paragraph). 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 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 essentially represents goodwill for Arrow.

**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 in accordance with GAAP, we may also provide comparative disclosures that adjust these GAAP financial measures by removing the impact of certain 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 the 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. Our non-GAAP financial measures may differ from similar measures presented by other companies.

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Selected Quarterly Information - Unaudited (dollars in thousands)

Quarter Ended	03/31/2014	12/31/2013	09/30/2013	06/30/2013	03/31/2013	
Net Income	\$5,320	\$5,784	\$5,623	\$5,207	\$5,181	
Transactions Recorded in Net Income (Net of Tax):						
Net Gain on Securities Transactions	—	—	—	8	318	
Net Gain on Sales of Loans	74	114	100	301	367	
Share and Per Share Data: <sup>1</sup>						
Period End Shares Outstanding	12,350	12,360	12,329	12,284	12,251	
Basic Average Shares Outstanding	12,354	12,339	12,308	12,261	12,272	
Diluted Average Shares Outstanding	12,378	12,387	12,344	12,279	12,290	
Basic Earnings Per Share	\$0.43	\$0.47	\$0.46	\$0.42	\$0.42	
Diluted Earnings Per Share	0.43	0.47	0.46	0.42	0.42	
Cash Dividend Per Share	0.25	0.25	0.25	0.25	0.25	
Selected Quarterly Average Balances:						
Interest-Bearing Deposits at Banks	\$17,184	\$46,853	\$14,096	\$26,632	\$41,145	
Investment Securities	755,008	762,768	744,928	771,018	711,848	
Loans	1,284,649	1,254,957	1,224,840	1,185,041	1,169,870	
Deposits	1,887,589	1,904,922	1,800,181	1,801,346	1,773,126	
Other Borrowed Funds	68,375	62,038	92,073	94,596	64,622	
Shareholders' Equity	194,127	184,506	179,634	178,867	176,874	
Total Assets	2,176,038	2,176,264	2,095,017	2,099,138	2,039,314	
Return on Average Assets	0.99	% 1.05	% 1.06	% 0.99	% 1.03	%
Return on Average Equity	11.11	% 12.44	% 12.42	% 11.68	% 11.88	%
Return on Tangible Equity <sup>2</sup>	12.84	% 14.50	% 14.55	% 13.70	% 13.97	%
Average Earning Assets	\$2,056,841	\$2,064,578	\$1,983,864	\$1,982,691	\$1,922,863	
Average Interest-Bearing Liabilities	1,678,080	1,686,993	1,614,873	1,641,300	1,590,401	
Interest Income, Tax-Equivalent	17,439	17,633	17,032	16,989	17,059	
Interest Expense	1,594	1,713	1,747	2,223	2,239	
Net Interest Income, Tax-Equivalent	15,845	15,920	15,285	14,766	14,820	
Tax-Equivalent Adjustment	1,173	1,174	1,158	1,180	1,063	
Net Interest Margin <sup>3</sup>	3.12	% 3.06	% 3.06	% 2.99	% 3.13	%
Efficiency Ratio Calculation:						
Noninterest Expense	\$13,466	\$13,385	\$13,133	\$13,274	\$13,411	
Less: Intangible Asset Amortization	(106)	) (108)	) (108)	) (112)	) (124)	)
Net Noninterest Expense	\$13,360	\$13,277	\$13,025	\$13,162	\$13,287	
Net Interest Income, Tax-Equivalent	\$15,845	\$15,920	\$15,285	\$14,766	\$14,820	
Noninterest Income	6,886	6,877	6,939	7,071	7,174	
Less: Net Securities Gains	—	—	—	(13)	) (527)	)
Net Gross Income	\$22,731	\$22,797	\$22,224	\$21,824	\$21,467	
Efficiency Ratio	58.77	% 58.24	% 58.61	% 60.31	% 61.90	%
Period-End Capital Information:						
Total Stockholders' Equity (i.e. Book Value)	\$194,491	\$192,154	\$182,683	\$177,607	\$177,803	
Book Value per Share	15.75	15.55	14.82	14.46	14.51	
Intangible Assets	25,999	26,143	26,273	26,387	26,460	
Tangible Book Value per Share <sup>2</sup>	13.64	13.43	12.69	12.31	12.35	
Capital Ratios:						
Tier 1 Leverage Ratio	9.30	% 9.19	% 9.37	% 9.19	% 9.30	%
Tier 1 Risk-Based Capital Ratio	14.55	% 14.70	% 14.59	% 14.82	% 15.15	%



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Total Risk-Based Capital Ratio	15.62	% 15.77	% 15.69	% 15.96	% 16.34	%
Assets Under Trust Administration and Investment Management	\$1,182,661	\$1,174,891	\$1,111,085	\$1,073,523	\$1,094,708	

<sup>1</sup>Share and Per Share Data have been restated for the September 27, 2013 2% stock dividend.

<sup>2</sup>Tangible Book Value and Tangible Equity exclude intangible assets from total equity. These are non-GAAP financial measures which we believe provide investors with information that is useful in understanding our financial performance (see page 31).

<sup>3</sup>Net Interest Margin is the ratio of our annualized tax-equivalent net interest income to average earning assets. This is also a non-GAAP financial measure which we believe provides investors with information that is useful in understanding our financial performance (see page 31).

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## Average Consolidated Balance Sheets and Net Interest Income Analysis

(see "Use of Non-GAAP Financial Measures" on page 31)

(Fully Taxable Basis using a marginal tax rate of 35%)

(Dollars In Thousands)

Three-Month Period Ended March 31:	2014			2013		
	Average Balance	Interest Income/ Expense	Rate Earned/ Paid	Average Balance	Interest Income/ Expense	Rate Earned/ Paid
Interest-Bearing Deposits at Banks	\$17,184	\$13	0.31 %	\$41,145	\$27	0.27 %
Investment Securities:						
Fully Taxable	436,477	2,012	1.87	442,671	1,800	1.65
Exempt from Federal Taxes	318,531	2,562	3.26	269,177	2,381	3.59
Loans	1,284,649	12,852	4.06	1,169,870	12,851	4.46
Total Earning Assets	2,056,841	17,439	3.44	1,922,863	17,059	3.60
Allowance for Loan Losses	(14,381 )			(15,307 )		
Cash and Due From Banks	30,512			30,635		
Other Assets	103,066			101,123		
Total Assets	\$2,176,038			\$2,039,314		
Deposits:						
NOW Accounts	\$857,286	464	0.22	\$791,669	778	0.40
Savings Deposits	510,428	219	0.17	455,311	268	0.24
Time Deposits of \$100,000 or More	75,819	230	1.23	91,322	319	1.42
Other Time Deposits	166,172	391	0.95	187,477	554	1.20
Total Interest-Bearing Deposits	1,609,705	1,304	0.33	1,525,779	1,919	0.51
Short-Term Borrowings	28,375	19	0.27	14,622	3	0.08
FHLBNY Term Advances and Other	40,000	271	2.75	50,000	317	2.57
Long-Term Debt						
Total Interest-Bearing Liabilities	1,678,080	1,594	0.39	1,590,401	2,239	0.57
Demand Deposits	277,884			247,347		
Other Liabilities	25,947			24,692		
Total Liabilities	1,981,911			1,862,440		
Stockholders' Equity	194,127			176,874		
Total Liabilities and Stockholders' Equity	\$2,176,038			\$2,039,314		
Net Interest Income (Tax-equivalent Basis)		15,845			14,820	
Reversal of Tax Equivalent Adjustment		(1,173 )	0.23 %		(1,063 )	0.22 %
Net Interest Income		\$14,672			\$13,757	
Net Interest Spread			3.05 %			3.03 %
Net Interest Margin			3.12 %			3.13 %

## OVERVIEW

We reported net income for the first quarter of 2014 of \$5.3 million, representing diluted earnings per share (EPS) of \$0.43. This EPS result was an increase of one cent, or 2.4%, from the EPS of \$0.42 reported for the first quarter of 2013. Return on average equity (ROE) for the 2014 quarter continued to be strong at 11.11%, although a decrease from the ROE of 11.88% for the quarter ended March 31, 2013. Return on average assets (ROA) for the 2014 first quarter was 0.99%, a decrease from ROA of 1.03% for the quarter ended March 31, 2013. Although net income increased period-to-period, both ROA and REO decreased, reflecting the fact that total assets and total equity grew faster than net income. Net interest income for the 2014 first quarter was \$15.8 million on a tax-equivalent basis, an

increase of \$1.0 million, or 6.9%, from net interest income of \$14.8 million for the quarter ended March 31, 2013. The net interest margin decreased from the year-earlier quarter by just one basis point, from 3.13% to 3.12%, however, net interest margin for the first quarter of 2014 exceeded the margins earned in the preceding three quarters. Total assets were \$2.222 billion at March 31, 2014, which represented an increase of \$57.9 million, or 2.7%, above the level at December 31, 2013, and an increase of \$105.6 million, or 5.0%, from the March 31, 2013 level.

The changes in net income, net interest income and net interest margin between the three-month periods are more fully described under the heading "RESULTS OF OPERATIONS," beginning on page 45.

Stockholders' equity was \$194.5 million at March 31, 2014, an increase of \$16.7 million, or 9.4%, from the year earlier level. Stockholders' equity was also up \$2.3 million, or 1.2%, from the December 31, 2013 level of \$192.2 million. The components of the change in stockholders' equity since year-end 2013 are presented in the Consolidated Statement of Changes in Stockholders' Equity on page 6, and are discussed in more detail in the next section.

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**Regulatory Capital and Increase in Stockholders' Equity:** At period-end, we continued to exceed all current regulatory minimum capital requirements at both the holding company and bank levels, by a substantial amount. As of March 31, 2014 both of our banks, as well as our holding company, qualified as "well-capitalized" under federal bank regulatory guidelines. Our regulatory capital levels have consistently remained well in excess of required minimums during recent years, despite the economic downturn, because of our continued profitability and strong asset quality. Even when the new enhanced capital requirements, announced in June 2013, go into effect in 2015, we expect that Arrow and our subsidiary banks will continue to meet all of these enhanced standards. See the discussions of "Two Sets of Current Capital Standards" under the "Current Regulatory Capital Standards" section beginning on page 43, and "Important Future Changes to Regulatory Capital Standards" under the "CAPITAL RESOURCES" section beginning on page 42.

At March 31, 2014, our tangible book value per share (calculated based on stockholders' equity reduced by goodwill and other intangible assets) amounted to \$13.64, an increase of \$0.21, or 1.6%, from December 31, 2013 and an increase of \$1.29, or 10.4%, from the level as of March 31, 2013. Our total stockholders' equity at March 31, 2014 increased 9.4% over the year-earlier level, and our total book value per share increased by 8.5% over the year earlier level. In the past three months, total shareholders' equity increased 1.2% and our total book value per share increase by 1.3%. The increase in stockholders' equity over the first three months of 2014 principally reflected the following factors: (i) \$5.3 million net income for the period; (ii) issuance of \$579 thousand of common stock through our employee benefit and dividend reinvestment plans and (iii) \$241 thousand of unrealized net securities gains; offset in part by (iv) cash dividends of \$3.1 million; and (v) repurchases of our own common stock of \$1.2 million. As of March 31, 2014, our closing stock price was \$26.44, representing a trading multiple of 1.94 to our tangible book value. The Board of Directors declared and the Company paid quarterly cash dividends of \$.245 per share for the first three quarters of 2013, as adjusted for a 2% stock dividend distributed September 27, 2013, and cash dividends of \$.25 per share for the last quarter of 2013 and the first quarter of 2014.

**Loan Quality:** The credit quality of our loan portfolio continued to be significantly stronger than the average for our peer group of U.S. bank holding companies with \$1 billion to \$3 billion in total assets (see page 30 for information on how we define our peer group).

Our net charge-offs for the first quarter of 2014 were \$256 thousand as compared to \$795 thousand for the 2013 quarter. In the first quarter of 2013, we charged-off one commercial loan for \$753 thousand, which had been fully reserved at December 31, 2012. This charge-off led to an annualized ratio of charge-offs to average loans for the 2013 first quarter of 0.28%. However, our charge-off totals in the three ensuing quarters of 2013 were much lower. By December 31, 2013, our full year charge-off ratio was down to 0.09%. By contrast, our peer group's ratio of net charge-offs to average loans for 2013 was 0.25%. Our ratio of net charge-offs to average loans (annualized) for the first quarter of 2014 was 0.08%. At March 31, 2014, our allowance for loan losses was \$14.6 million representing 1.12% of total loans, down two basis points from the December 31, 2013 ratio, due to the improving credit quality in the loan portfolio.

Nonperforming loans were \$7.0 million at March 31, 2014, representing 0.53% of period-end loans. By way of comparison, this ratio for our peer group was 1.46% at December 31, 2013, and this peer ratio represented a significant improvement from the peer group's ratios of earlier years. For example, our peer group's nonperforming loans ratio was 3.60% at year-end 2010, the high-point after the onset of the 2008 recession, while our ratio remained quite low and stable throughout that period.

During the first three months of 2014, we experienced increases in outstanding balances of all three of our major loan portfolio segments, without any significant deterioration in our credit quality:

**Commercial Loans:** These loans comprised approximately 33% of our loan portfolio at period-end. Current unemployment rates in our region remain elevated from pre-crisis levels, although the local economy continues to be stable and in some areas recovering. Similarly, commercial property values in our region remain stable, and have not showed significant deterioration, even in the worst phases of the financial crisis. We update the appraisals on our nonperforming and watched commercial loan properties as deemed necessary, usually when the loan is downgraded or when we perceive significant market deterioration since our last appraisal.

**Residential Real Estate Loans:** These loans, including home equity loans, made up approximately 36% of our portfolio at period-end. The residential real estate market in our service area has been stable in recent periods. Throughout the financial crisis, we have not experienced a notable increase in our foreclosure or loss rates on our residential real estate loans, primarily due to the fact that we never have originated or participated in underwriting high-risk mortgage loans, such as so called “Alt A,” “negative amortization,” “option ARM's” or “negative equity” loans. We originated all of the residential real estate loans currently held in our portfolio and apply conservative underwriting standards to our originations.

**Automobile Loans (Primarily Through Indirect Lending):** These loans comprised approximately 31% of our loan portfolio. In the first quarter, we did not experience any significant change in our delinquency rate or level of nonperforming loans.

**Liquidity and Access to Credit Markets:** We have not experienced any liquidity problems or special concerns during 2014 to date, nor did we during 2013 or 2012. The terms of our lines of credit with our correspondent banks, the FHLBNY and the Federal Reserve Bank have not changed. In general, we rely on asset-based liquidity (i.e., funds in overnight investments and cash flow from maturing investments and loans) with liability-based liquidity as a secondary source (our main liability-based sources are overnight borrowing arrangements with our correspondent banks, term credit arrangement advances from the FHLBNY and the Federal Reserve Bank discount window). During the recent financial crisis, many financial institutions, small and large, relied extensively on the Fed's discount window to support their liquidity positions, but we had no such need. We regularly perform a liquidity stress test and periodically test our contingent liquidity plan to ensure that we can generate an adequate amount of available funds to meet a wide variety of potential liquidity crises, including a severe crisis.

**VISA Class B Common Stock:** We continue to believe, that the multi-billion dollar balance that Visa maintains in its escrow fund is substantially sufficient to satisfy the contingent liability of the Visa member banks, including the Company's share of such liability, for the remaining covered litigation. The Company continues not to recognize any economic value for its remaining shares of Visa Class B common stock.

## CHANGE IN FINANCIAL CONDITION

## Summary of Selected Consolidated Balance Sheet Data

(Dollars in Thousands)

	At Period-End			\$ Change	\$ Change	% Change	% Change		
	March 31, 2014	December 31, 2013	March 31, 2013	From December	From March	From December	From March		
Interest-Bearing Bank Balances	\$ 35,994	\$ 12,705	\$ 113,231	\$ 23,289	\$(77,237 )	183.3	%	(68.2	)%
Securities Available-for-Sale	429,230	457,606	478,775	(28,376 )	(49,545 )	(6.2	)%	(10.3	)%
Securities Held-to-Maturity	317,632	299,261	251,456	18,371	66,176	6.1	%	26.3	%
Loans <sup>(1)</sup>	1,310,423	1,266,472	1,164,759	43,951	145,664	3.5	%	12.5	%
Allowance for Loan Losses	14,636	14,434	14,603	202	33	1.4	%	0.2	%
Earning Assets <sup>(1)</sup>	2,097,175	2,042,325	2,012,714	54,850	84,461	2.7	%	4.2	%
Total Assets	2,221,581	2,163,698	2,115,962	57,883	105,619	2.7	%	5.0	%
Demand Deposits	277,086	278,958	254,308	(1,872 )	22,778	(0.7	)%	9.0	%
NOW Accounts	908,028	817,366	845,531	90,662	62,497	11.1	%	7.4	%
Savings Deposits	524,670	498,779	476,115	25,891	48,555	5.2	%	10.2	%
Time Deposits of \$100,000 or More	74,127	78,928	89,797	(4,801 )	(15,670 )	(6.1	)%	(17.5	)%
Other Time Deposits	164,108	168,299	185,455	(4,191 )	(21,347 )	(2.5	)%	(11.5	)%
Total Deposits	\$ 1,948,019	\$ 1,842,330	\$ 1,851,206	\$ 105,689	\$ 96,813	5.7	%	5.2	%
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	\$ 13,787	\$ 11,777	\$ 12,166	\$ 2,010	\$ 1,621	17.1	%	13.3	%
FHLB Advances - Overnight	—	53,000	—	(53,000 )	—	(100.0	)%	100.0	%
FHLB Advances - Term	20,000	20,000	30,000	—	(10,000 )	—	%	(33.3	)%
Stockholders' Equity	194,491	192,154	177,803	2,337	16,688	1.2	%	9.4	%

(1) Includes Nonaccrual Loans

Municipal Deposits: Fluctuations in balances of our NOW accounts and time deposits of \$100,000 or more are largely the result of municipal deposit seasonality factors. Over the past twelve months, municipal deposits on average have ranged from 27% to over 34% of our total deposits. As of March 31, 2014, municipal deposits represented 33.6% of total deposits. Municipal deposits typically are invested in NOW accounts and time deposits of short duration. Many of our municipal deposit relationships are subject to annual renewal, by formal or informal agreement.

In general, there is a seasonal pattern to municipal deposits starting with a low point during July and August. Account balances tend to increase throughout the fall and remain elevated during the winter months, due to tax deposits, and generally receive an additional boost at the end of March from the electronic deposit of state aid to school districts. In addition to these seasonal fluctuations within accounts, the overall level of municipal deposit balances fluctuates from year-to-year as some municipalities move their accounts in and out of our banks due to competitive factors. Often, the balances of municipal deposits at the end of a quarter are not representative of the average balances for that quarter.

The recent financial crisis had a significant negative impact on municipal tax revenues in many regions, and consequently on municipal funds available for deposit. To date, this has not resulted in either a sustained decrease in municipal deposit levels at our banks, adjusted for seasonal fluctuations (in fact, we have experienced an increase in such deposits in 2014 - see following paragraph), or an overall increase in the average rate we pay on such deposits (despite the continuing strong competition for such deposits). However, if interest rates begin to rise significantly or

the competition for municipal deposits otherwise becomes more intense, we may experience either or both of these adverse developments in the future.

**Changes in Sources of Funds:** In recent periods, for cost reasons and because of the sustained growth of customer deposits even at very low rates, we have lessened our reliance on wholesale funding sources and increased our reliance on customer deposits as a source of day-to-day funding. Our total deposits increased \$105.7 million, or 5.7%, from December 31, 2013 to March 31, 2014, mainly due to an increase in our municipal deposits. Our non-municipal deposit balances remained stable over the past three months, although we are still experiencing a shift in balances from time deposits to savings accounts. At March 31, 2014 we held a small amount of overnight funds, while we held \$53.0 million of overnight funds (obtained from the FHLB) at December 31, 2013. At March 31, 2014, our term advances from the FHLB were \$20.0 million, unchanged from year-end.

**Changes in Earning Assets:** Our loan portfolio increased by \$44.0 million, or 3.5%, from December 31, 2013 to March 31, 2014. We experienced the following trends in our three largest segments:

1. Commercial and commercial real estate loans. Period-end balances for this segment increased \$22.9 million, or 5.7%, from the December 31, 2013 total. Demand generally continued to be moderate.  
Residential real estate loans. The period-end balance increased by \$14.5 million, or 3.1% from December 31, 2013.
2. We continued to sell some of our residential mortgage originations during the three-month period to Freddie Mac, although a smaller percentage than we sold in the same period last year. Demand for new mortgage loans was modest throughout the period.
3. Automobile loans (primarily indirect loans). The balance of these loans at March 31, 2014, increased by \$6.4 million, or 1.6% from the December 31, 2013 balance, reflecting a modest resurgence of automobile sales region-wide and an expansion of our dealer

network for indirect lending, offset in part by the effects of a cold and snowy winter in the northeast, which depressed auto sales region-wide.

Most of our incoming cash flows for the first three months of 2014 came from the increase in deposit balances and secondarily from maturing investments. During that period, in addition to funding loan growth, we utilized a portion of the cash flow from maturing investments to purchase \$52.2 million of securities in the held-to-maturity and available-for-sale portfolios. The investment securities portfolio decreased by a net of \$5.1 million during the quarter.

### Deposit Trends

The following two tables provide information on trends in the balance and mix of our deposit portfolio by presenting, for each of the last five quarters, the quarterly average balances by deposit type and the percentage of total deposits represented by each deposit type.

#### Quarterly Average Deposit Balances (Dollars in Thousands)

	Quarter Ended				
	3/31/2014	12/31/2013	9/30/2013	6/30/2013	3/31/2013
Demand Deposits	\$277,884	\$279,967	\$277,381	\$254,642	\$247,347
NOW Accounts	857,286	855,106	749,654	796,330	791,669
Savings Deposits	510,428	517,542	509,014	479,480	455,311
Time Deposits of \$100,000 or More	75,819	81,804	85,757	87,059	91,322
Other Time Deposits	166,172	170,503	178,375	183,835	187,477
Total Deposits	\$1,887,589	\$1,904,922	\$1,800,181	\$1,801,346	\$1,773,126

#### Percentage of Total Quarterly Average Deposits

	Quarter Ended				
	3/31/2014	12/31/2013	09/30/2013	06/30/2013	03/31/2013
Demand Deposits	14.7 %	14.7 %	15.4 %	14.2 %	13.9 %
NOW Accounts	45.5	44.8	41.6	44.2	44.6
Savings Deposits	27.0	27.2	28.3	26.6	25.7
Time Deposits of \$100,000 or More	4.0	4.3	4.8	4.8	5.2
Other Time Deposits	8.8	9.0	9.9	10.2	10.6
Total Deposits	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

For a variety of reasons, we typically experience little growth in average deposit balances in the first quarter of each calendar year (even though municipal balances tend to grow sharply at the very end of the first quarter), little net growth or a small contraction in the second quarter of the year (when municipal deposits normally drop off), and resuming growth in the third and fourth quarters (when municipal deposits tend to increase, sometimes substantially, to and through year-end). This pattern has held true in recent periods. Growth in average deposit balances during the first quarter of 2014 over the first quarter of 2013 came from both municipal and non-municipal depositors.

#### Quarterly Cost of Deposits

	Quarter Ended				
	3/31/2014	12/31/2013	9/30/2013	6/30/2013	3/31/2013
Demand Deposits	— %	— %	— %	— %	— %
NOW Accounts	0.22	0.22	0.22	0.40	0.40
Savings Deposits	0.17	0.18	0.19	0.23	0.24
Time Deposits of \$100,000 or More	1.23	1.34	1.37	1.41	1.42
Other Time Deposits	0.95	1.01	1.05	1.10	1.20
Total Deposits	0.28	0.30	0.32	0.42	0.44

In keeping with industry trend lines, average rates paid by us on deposits decreased steadily over the five quarters ending March 31, 2014, for deposits generally and virtually all deposit categories, although the rate of decrease



slowed in the most recent quarters. Over the same period, our average yield on loans also decreased, for loans generally and almost all loan categories (see "Quarterly Taxable Equivalent Yield on Loans," page 38). The decrease in the cost of our NOW accounts from the second quarter of 2013 to the third quarter of 2013 was primarily attributable to a decrease in the rates paid on a large portion of our municipal NOW accounts, which had come up for repricing at quarter-end.

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## Non-Deposit Sources of Funds

We have several sources of funding other than deposits. Historically, we have borrowed funds from the Federal Home Loan Bank ("FHLB") under a variety of programs, including fixed and variable rate short-term borrowings and borrowings in the form of "structured advances." These structured advances typically have original maturities of 3 to 10 years and are callable by the FHLB at certain dates. If the advances are called, we may elect to receive replacement advances from the FHLB at the then prevailing FHLB rates of interest. In recent periods, we have reduced our utilization of FHLB advances as a source of funds.

We have also utilized, in the past, the issuance of trust preferred securities (or TRUPs) to supplement our funding needs. The \$20 million of Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts (i.e., TRUPs) listed on our consolidated balance sheet as of March 31, 2014 currently qualify as Tier 1 regulatory capital under regulatory capital adequacy guidelines, as discussed under "Capital Resources" beginning on page 42 of this Report. These trust preferred securities are subject to early redemption by us if the proceeds cease to qualify as Tier 1 capital of Arrow for any reason, or if certain other unanticipated but negative events should occur, such as any adverse change in tax laws that denies the Company the ability to deduct interest paid on these obligations for federal income tax purposes. Under Dodd-Frank, no future issuances of TRUPs by banking organizations of our size will qualify as Tier 1 regulatory capital. Under the final bank capital rules recently issued by the federal bank authorities pursuant to Dodd-Frank, our TRUPs will be eligible for treatment as Tier 1 capital until they mature or are earlier redeemed by us.

**Loan Trends**  
The following two tables present, for each of the last five quarters, the quarterly average balances by loan type and the percentage of total loans represented by each loan type.

**Quarterly Average Loan Balances**

(Dollars in Thousands)

	Quarter Ended				
	3/31/2014	12/31/2013	9/30/2013	6/30/2013	3/31/2013
Commercial and Commercial Real Estate	\$412,507	\$397,503	\$386,973	\$379,533	\$381,281
Residential Real Estate	332,142	322,080	316,582	305,222	308,091
Home Equity	103,694	99,722	94,726	91,339	88,926
Consumer Loans - Automobile	409,723	408,273	398,329	380,993	363,120
Other Consumer Loans (1)	26,583	27,379	28,230	27,954	28,452
Total Loans	\$1,284,649	\$1,254,957	\$1,224,840	\$1,185,041	\$1,169,870

**Percentage of Total Quarterly Average Loans**

	Quarter Ended							
	3/31/2014		12/31/2013		9/30/2013		6/30/2013	
Commercial and Commercial Real Estate	32.1	%	31.7	%	31.6	%	32.0	%
Residential Real Estate	25.9		25.6		25.9		25.7	
Home Equity	8.1		8.0		7.7		7.7	
Consumer Loans - Automobile	31.9		32.5		32.5		32.2	
Other Consumer Loans (1)	2.0		2.2		2.3		2.4	
Total Loans	100.0	%	100.0	%	100.0	%	100.0	%

(1) The category "Other Consumer Loans", in the tables above, includes home improvement loans secured by mortgages, which are otherwise reported with residential real estate loans in tables of period-end balances.

**Maintenance of High Quality in the Loan Portfolio**

For many reasons, including our conservative credit underwriting standards, we largely avoided the negative impact on asset quality that many other banks suffered during the financial crisis. From the start of the crises through the date of this Report, we have not experienced a significant deterioration in our loan portfolios. In general, we underwrite our residential real estate loans to secondary market standards for prime loans. We have never engaged in subprime mortgage lending as a business line, whether in residential mortgage loans, car loans or other consumer loans. We

never extended or purchased any so-called "Alt-A", "negative amortization", "option ARM", or "negative equity" mortgage loans. On occasion we have made loans to borrowers having a FICO score of 650 or below, where special circumstances justify doing so, or have had extensions of credit outstanding to borrowers who have developed credit problems after origination resulting in deterioration of their FICO scores.

**Residential Real Estate Loans:** In recent years, residential real estate and home equity loans have represented the largest single segment of our loan portfolio (comprising approximately 36% of the entire portfolio at March 31, 2014), eclipsing both our commercial and commercial real estate loans (33% of the portfolio) and automobile loans (31% of the portfolio). Our gross originations for residential real estate loans (including refinancings of mortgage loans) were \$26.7 million and \$30.3 million for the first quarters of 2014 and 2013, respectively. These origination totals exceeded the sum of repayments and prepayments in the respective quarters, but we also sold some of these originations, in the 2013 quarter, a significant portion thereof, on or immediately after, origination. In the first quarter of 2013, we sold \$20.8 million, or 68.7% of our originations during the quarter, whereas in the first quarter of 2014, we only sold \$4.2 million, or 15.7% of our originations. During 2014, we introduced competitive products for variable rate residential real estate and construction loans. We

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did not sell any of these variable rate loans to the secondary market. Also during 2014, we began to experience a decline in refinance activity and an increase in purchase-money originations.

Even though short-term rates have remained very low since 2008, rates on conventional real estate mortgages have fluctuated over the past few years in response to several programs taken by the Federal Reserve. If the current low-rate environment for newly originated residential real estate loans persists, we may continue to sell a significant portion of our loan originations and, as a result, may even experience a decrease in our outstanding balances in this segment of our portfolio. Moreover, if our local economy or real estate market suffers major downturns, the demand for residential real estate loans in our service area may decrease, which also may negatively impact our real estate portfolio and our financial performance. Management believes it is not possible at this point to project whether mortgage rates or interest rates generally will experience a meaningful and substantial increase in upcoming periods, or what the overall effect of such an increase will be on our mortgage loan portfolio or our loan portfolio generally, or on our net interest income, net income or financial results, in upcoming periods.

**Commercial, Commercial Real Estate and Commercial Construction Loans:** Over the last decade, we have experienced moderate and occasionally strong demand for commercial and commercial real estate loans. These loan balances have generally increased, both in dollar amount and as a percentage of the overall loan portfolio. For the first quarter of 2014, loan growth was strong in this category, as outstanding balances increased by \$22.9 million over the December 31, 2013 level, enhanced by a couple of large offerings.

Substantially all commercial and commercial real estate loans in our portfolio were extended to businesses or borrowers located in our regional market. Many of the loans in the commercial portfolio have variable rates tied to prime, FHLBNY rates or U.S. Treasury indices. We have not experienced any significant weakening in the quality of our commercial loan portfolio in recent years.

It is entirely possible, however, that we may experience a reduction in the demand for such loans and/or a weakening in the quality of our commercial and commercial real estate loan portfolio in upcoming periods. Generally, however, the business sector, at least in our service area, appeared to be in reasonably good financial condition at period-end.

**Automobile Loans (primarily through indirect lending):** At March 31, 2014, our automobile loans (primarily loans originated through dealerships located in upstate New York) represented the third largest category of loans in our portfolio, and continued to be a significant component of our business comprising almost a third of the portfolio. Beginning in 2012, there was a nation-wide resurgence in automobile sales, due in the view of many to an aging fleet and a modest resurgence in consumer optimism. Although our new automobile loan volume for the first three months of 2014 slowed down somewhat due to a cold and snowy winter, our automobile loan portfolio still grew by \$6.4 million, or 1.6%

There was no significant change in net charge-offs on automobile loans for the first quarter of 2014. Our experienced lending staff not only utilizes credit evaluation software tools but also reviews and evaluates each loan individually. We believe our disciplined approach to evaluating risk has contributed to maintaining our strong loan quality in this portfolio. If weakness in auto demand returns, our portfolio is likely to experience limited, if any, overall growth, either in real terms or as a percentage of the total portfolio, regardless of whether the auto company lending affiliates are offering highly-subsidized loans.

The following table indicates the annualized tax-equivalent yield of each loan category for the past five quarters. Quarterly Taxable Equivalent Yield on Loans

	Quarter Ended									
	3/31/2014		12/31/2013		9/30/2013		6/30/2013		3/31/2013	
Commercial and Commercial Real Estate	4.49	%	4.65	%	4.52	%	4.61	%	4.74	%
Residential Real Estate	4.55		4.53		4.62		4.75		4.93	
Home Equity	2.95		2.94		2.98		3.00		3.03	
Automobile	3.41		3.54		3.68		3.83		3.97	
Other Consumer Loans	5.54		5.72		5.95		5.97		6.16	

Total Loans	4.06	4.15	4.18	4.30	4.46
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In summary, average yields in our loan portfolio have steadily declined over the last year, dropping 40 basis points, or 9.0%, from the first quarter of 2013 to the first quarter of 2014, as a result of the continuing downward pressured on all portfolio yields resulting principally from the Federal Reserve's multi-year policy of generating and maintaining ultra-low rates, on both short-term and long-term debt, as well as continuing competition for loans from other lenders. To the extent that this declining rate environment may be "bottoming out" or even in the early stages of reversing itself, due to recent Federal Reserve tapering off of monetary easing, the impact of such a change, if it is in fact occurring, has not yet revealed itself in our loan portfolio. Nor would we expect that any bottoming out of prevailing rates would have an immediate impact on our portfolio yields generally.

In the first quarter of 2014, the average yield on our loan portfolio declined by 9 basis points from the last quarter of 2013, from 4.15% to 4.06%. The decrease was exacerbated by extremely competitive pressures on rates for new commercial and commercial real estate loans (a 16 basis point decrease from the prior quarter), as well as on rates for automobile loans (a 13 basis point decrease from the prior quarter). However, the yield on our residential real estate portfolio held steady, and even increased by 2 basis points. The 9 basis point decrease in average yield on our total loan portfolio in the just-completed quarter, as compared to the fourth quarter of 2013, was not matched by the decrease in our average cost of deposits during the quarter, which was only 2 basis points. Despite the more rapid drop in average loan yield than average deposit cost, our net-interest margin in the first quarter of 2014 increased by 6 basis points over the net interest margin in the fourth quarter of 2013, from 3.06% to 3.12%.

In general, the yield (tax-equivalent interest income divided by average loans) on our loan portfolio and other earning assets has been impacted by changes in prevailing interest rates. We expect that such will likely continue to be the case; that is, that loan yields will continue to rise and fall with changes in prevailing market rates, although the timing and degree of responsiveness will be influenced by a variety

of other factors, including the extent of federal government and Federal Reserve participation in the home mortgage market, the makeup of our loan portfolio, the shape of the yield curve, consumer expectations and preferences, and the rate at which the portfolio expands. Additionally, there is a significant amount of cash flow from normal amortization and prepayments in all loan categories, and much of this cash flow reprices at current rates for credit, as new loans are generated at the current yields. Thus, even if prevailing rates for loans stabilize in upcoming periods, our average rate on our portfolio may continue to decline as older credits in our portfolio bearing generally higher rates continue to mature and roll over or are redeployed into lower priced loans.

#### Investment Portfolio Trends

The following table presents the changes in the period-end balances for the securities available-for-sale and the securities held-to-maturity investment portfolios from December 31, 2013 to March 31, 2014 (in thousands):

	Fair Value at Period-End			Net Unrealized Gain (Loss)		
	03/31/2014	12/31/2013	Change	03/31/2014	12/31/2013	Change
<b>Securities Available-for-Sale:</b>						
U.S. Agency Securities	\$121,220	\$136,475	\$(15,255 )	\$(257 )	\$(393 )	\$136
State and Municipal Obligations	125,410	127,389	(1,979 )	245	165	80
Mortgage-Backed Securities-Residential	164,541	175,778	(11,237 )	4,518	4,457	61
Corporate and Other Debt Securities	16,839	16,798	41	(276 )	(344 )	68
Mutual Funds and Equity Securities	1,220	1,166	54	100	46	54
<b>Total</b>	<b>\$429,230</b>	<b>\$457,606</b>	<b>\$(28,376 )</b>	<b>\$4,330</b>	<b>\$3,931</b>	<b>\$399</b>
<b>Securities Held-to-Maturity:</b>						
State and Municipal Obligations	\$195,524	\$202,390	\$(6,866 )	\$4,677	\$4,184	\$493
Mortgage-Backed Securities-Residential	125,811	98,915	26,896	26	(1,140 )	1,166
Corporate and Other Debt Securities	1,000	1,000	—	—	—	—
<b>Total</b>	<b>\$322,335</b>	<b>\$302,305</b>	<b>\$20,030</b>	<b>\$4,703</b>	<b>\$3,044</b>	<b>\$1,659</b>

At period end, we held no investment securities in our portfolio that consisted of or included, directly or indirectly, obligations of foreign governments or governmental agencies or foreign issues of any sort.

As of both period-ends presented in the above table, all listed mortgage-backed securities and collateralized mortgage obligations (CMO's) in our portfolio were guaranteed by U.S. agency and government sponsored enterprises (GSEs), such as Fannie Mae or Freddie Mac. Mortgage-backed securities provide to the investor monthly portions of principal and interest payments pursuant to the contractual obligations of the underlying mortgages. In the case of most CMOs, the principal and interest payments on the pooled mortgages are separated into two or more components (tranches), with each tranche having a separate estimated life, risk profile and yield. Our practice has been to purchase only those CMOs that are guaranteed by GSEs or other federal agencies and only those tranches with shorter maturities and no more than moderate extension risk. Included in corporate and other debt securities are trust preferred securities issued by other financial institutions that were highly rated at the time of purchase.

#### Other-Than-Temporary Impairment

Each quarter we evaluate all investment securities with a fair value less than amortized cost, both in the available-for-sale portfolio and the held-to-maturity portfolio, to determine if there exists other-than-temporary impairment for any such security as defined under generally accepted accounting principles. There were no other-than-temporary impairment losses in the first three months of 2014.

**Increase in Net Unrealized Securities Gains:** Nearly all of the change in our net unrealized gains or losses is attributable to changes in the yield curve between the two period-ends, that is, there has been little or no change in the credit-worthiness of the issuers.

#### Investment Sales, Purchases and Maturities (In Thousands)

	Three Months Ended	
	03/31/2014	03/31/2013
Sales		
Available-For-Sale Portfolio:		

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Mortgage-Backed Securities-Residential	\$—	\$10,666
U.S. Agency Securities	—	5,057
Other	—	11
Total	—	15,734
Net Gains on Securities Transactions	—	527
Proceeds on the Sales of Securities	\$—	\$16,261

In recent periods, the steady decline in prevailing interest rates to historically low levels increased the likelihood of greater mortgage refinancing activity. We regularly review our holdings of collateralized mortgage obligations for those mortgages that revealed higher credit scores and/or moderate loan-to-value ratios, i.e., where refinancing may appear to be a greater probability. We have also reviewed the

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underlying prepayment speed of individual issues to identify mortgage pools that were experiencing accelerating principal payments. In 2013 we selectively sold collateralized mortgage obligations that were experiencing accelerating prepayments speeds and that were also selling at a premium, so as to capture the gain since prepayments (redemptions) of such securities typically are at par. If the multi-year widespread decline in mortgage rates may in fact be ending, and/or if such rates may now begin to increase, we would expect that refinancings as well as pre-payments of outstanding mortgage loans, including those in our portfolio, may diminish in upcoming periods, as would our anticipatory sales of loans that we deem likely to be refinanced or prepaid.

#### Investment Purchases - Available-for-Sale Portfolio

	Three Months Ended	
	03/31/2014	03/31/2013
Purchases		
U.S. Agency Securities	\$12,586	\$15,000
State and Municipal Obligations	4,308	20,677
Mortgage-Backed Securities-Residential	—	—
Other	11	4,251
Total Purchases	\$16,905	\$39,928
Maturities & Calls	\$44,907	\$22,846

#### Investment Purchases - Held-to-Maturity Portfolio

	Three Months Ended	
	03/31/2014	03/31/2013
Purchases		
State and Municipal Obligations	\$5,891	\$18,930
Mortgage-Backed Securities-Residential	29,437	—
Total Purchases	\$35,328	\$18,930
Maturities & Calls	\$16,561	\$6,815



# Asset Quality

The following table presents information related to our allowance and provision for loan losses for the past five quarters.

## Summary of the Allowance and Provision for Loan Losses

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

	3/31/2014	12/31/2013	9/30/2013	6/30/2013	3/31/2013
<b>Loan Balances:</b>					
Period-End Loans	\$1,310,423	\$1,266,472	\$1,243,370	\$1,204,734	\$1,164,759
Average Loans, Year-to-Date	1,284,649	1,208,954	1,193,452	1,177,498	1,169,870
Average Loans, Quarter-to-Date	1,284,649	1,254,957	1,224,840	1,185,041	1,169,870
Period-End Assets	2,221,581	2,163,698	2,156,858	2,083,169	2,115,962
<b>Allowance for Loan Losses, Year-to-Date:</b>					
Allowance for Loan Losses, Beginning of Period	\$14,434	\$15,298	\$15,298	\$15,298	\$15,298
Provision for Loan Losses, YTD	458	200	200	200	100
Loans Charged-off, YTD	(336)	(1,411)	(1,165)	(982)	(890)
Recoveries of Loans Previously Charged-off	80	347	251	162	95
Net Charge-offs, YTD	(256)	(1,064)	(914)	(820)	(795)
Allowance for Loan Losses, End of Period	\$14,636	\$14,434	\$14,584	\$14,678	\$14,603
<b>Allowance for Loan Losses, Quarter-to-Date:</b>					
Allowance for Loan Losses, Beginning of Period	\$14,434	\$14,584	\$14,678	\$14,603	\$15,298
Provision for Loan Losses, QTD	458	—	—	100	100
Loans Charged-off, QTD	(336)	(246)	(183)	(92)	(890)
Recoveries of Loans Previously Charged-off	80	96	89	67	95
Net Charge-offs, QTD	(256)	(150)	(94)	(25)	(795)
Allowance for Loan Losses, End of Period	\$14,636	\$14,434	\$14,584	\$14,678	\$14,603
<b>Nonperforming Assets, at Period-End:</b>					
Nonaccrual Loans	\$6,284	\$6,479	\$6,171	\$5,591	\$5,218
Restructured	380	641	446	461	473
Loans Past Due 90 or More Days and Still Accruing Interest	347	652	927	760	259
Total Nonperforming Loans	7,011	7,772	7,544	6,812	5,950
Reposessed Assets	138	63	18	34	45
Other Real Estate Owned	198	81	481	1,141	1,149
Total Nonperforming Assets	\$7,347	\$7,916	\$8,043	\$7,987	\$7,144

## Asset Quality Ratios: