

# 2023

## ANNUAL REVIEW

 **ARROW** Financial Corporation

While the last year posed its challenges, it did not distract us from growing the business. We remain steadfast in our commitment to serving our shareholders, customers and communities and empowering our employees.

**David S. DeMarco**  
President and CEO

The information in this document may contain statements based on management's beliefs, assumptions, expectations, estimates and projections about the future. Such "forward-looking statements," as defined in Section 21E of the Securities Exchange Act of 1934, as amended, involve a degree of uncertainty and attendant risk. Actual outcomes and results may differ, explicitly or by implication. We are not obliged to revise or update these statements to reflect unanticipated events. This document should be read in conjunction with Arrow's Annual Report on Form 10-K for the year ended December 31, 2023 and other filings with the Securities and Exchange Commission.

# Arrow Stakeholders:



As we reflect on the past year, I am pleased to share our accomplishments and milestones. While the last year posed its challenges, it did not distract us from growing the business. We remain steadfast in our commitment to serving our shareholders, customers and communities and empowering our employees.

One of the highlights of 2023 was our robust loan growth. This growth was coupled with record-high loan balances, a testament to our ability to meet the diverse financial needs of our customers while maintaining strong credit, capital and liquidity positions. We issued a cash dividend to our shareholders for the 43<sup>rd</sup> consecutive quarter, expanded our existing stock repurchase program by \$5 million, reinstated our dividend reinvestment program and issued an annual stock dividend for the 15<sup>th</sup> consecutive year. Both Glens Falls National Bank and Trust Company and Saratoga National Bank and Trust Company maintained their Bauer Financial 5-Star "Exceptional Performance" ratings for the 16<sup>th</sup> and 14<sup>th</sup> consecutive years, respectively.

Furthermore, we completed a multi-year renovation project on our downtown Glens Falls headquarters, providing a modern and welcoming space for both employees and customers alike. The Main Office branch of Glens Falls National Bank also reopened right in the center of downtown Glens Falls, serving as a centerpiece of what community banking means to us—accessible, long-lasting and friendly. This investment in our infrastructure underscores our dedication to providing the best possible customer experience and reinforces our commitment to the community. You can read more about the headquarters renovation on page 4.

In line with our commitment to innovation, we continued to advance our technology, enhancing our capabilities and delivering a superior customer experience. Additionally, we invested in our people through expanded learning and development programs designed to support our culture of collaboration and continuous improvement.

At the heart of everything we do is our mission to strengthen financial lives and make a positive impact in the communities we serve. As noted at the end of this review, we continued to demonstrate an impressive commitment to our communities by donating \$781,000 and more than 11,000 volunteer hours in 2023. We are incredibly proud of the dollars we donate, the thousands of hours our team gives back and the impact we make on our communities by doing so.

Finally, I would like to take this opportunity to recognize our exceptional team for their hard work and dedication throughout the year. Our success is directly tied to their unwavering commitment to our values and vision.

As we look ahead, we remain focused on building upon our achievements and continuing to deliver value to our shareholders, customers and communities.

Thank you for your commitment to the Arrow Family of Companies. For those of you who are shareholders, thank you for your investment in Arrow Financial Corporation. Your support is appreciated as we continue to work to maintain your trust in us and create increased value for your investment.

A handwritten signature in black ink, appearing to read "David S. DeMarco". The signature is fluid and cursive, with a large initial "D" and "S".

**David S. DeMarco**  
President and CEO

# 2023 IN REVIEW

Our team continued to advance our strategic goals while serving the needs of our customers, communities and shareholders. Find more details below, followed by our financial highlights.

## **SOLID RESULTS**

In 2023, Arrow Financial Corporation saw robust loan growth and retail deposit balances of \$3.5 billion, slightly ahead of year-end 2022. Arrow finished the year with solid earnings, again thanks to the hard work and dedication of our exceptional team. In a challenging rate environment, we looked to draw in new customers with competitive rates on deposit products while continuing to

deepen existing customer relationships. We maintained asset quality with total assets reaching \$4.17 billion at year-end.

Throughout the year, we focused on enhancing customer relationships, expanding our presence in newer markets and maintaining asset quality and other performance metrics.



## HEADQUARTERS RENOVATION

After a multi-year investment, we reopened our completely renovated corporate headquarters in downtown Glens Falls and welcomed back our team and our customers.



These renovations and updates, which include our Main Office branch and lending areas, provide our team with an efficient and flexible workspace, an enhanced experience for our customers and will help reduce our environmental impact. Project updates included:

- A fully renovated lobby and lending center for the main branch of Glens Falls National Bank
- The replacement of aging infrastructure and equipment including a full overhaul of electrical and HVAC, a rooftop green space, solar panels, energy-saving lighting and water-conserving plumbing
- Flexible and functional workspaces for our teams
- Increased physical security
- Energy-saving interior and exterior improvements

The completion of our corporate headquarters renovation project is more than just a revitalization of our bank and offices—it's an investment in the future of our customers, our employees and our communities. See images on page 6.

## ADVANCING TECHNOLOGY

As a company, we are continually making enhancements to our customer-facing platforms. Upgrades focused on improving the user experience with efficient tools and mobile capabilities.



In addition, we continue to introduce easy-to-use fraud prevention digital services for businesses to monitor and approve activity on their accounts. As always, our goal is to improve operational efficiency and internal reporting to make data-driven decisions.

## SAFER BANKING, TOGETHER

Fraud attempts are widespread, targeting both individuals and businesses. We are dedicated to educating and empowering our customers to prevent, detect and report fraud on their accounts. We also urge our customers and communities to be cautious with their financial and personal information. Behind the scenes, we work to maintain robust and ever-evolving fraud prevention measures to protect customer data.



## SOCIALLY CONSCIOUS PERFORMANCE

At Arrow, we are committed to operating in a socially conscious manner that demonstrates positive environmental, social and governance contributions.

Below are some examples of our commitment to conserving natural resources, supporting our employees, customers and communities, demonstrating that we value differences, particularly in the areas of diversity, equity, inclusion and belonging (“DEIB”) and adhering to strong corporate governance.

- **Digital banking** options and paperless statements are provided and encouraged
- Facility renovations, including our corporate headquarters, incorporate **energy-saving** features
- **Emissions reduction** through remote work and video conferencing



- Long-standing **dedication to diversity** on Arrow's Board of Directors, exceeding Nasdaq requirements
- **Professional development, wellness and mental health** employee services are available to our team
- Annual engagements with a third party to assess diversity within our employee base and support for the **setting and tracking of goals** to encourage the advancement of minorities, women, veterans and persons with disabilities
- Incorporation of **inclusion and belonging** into our HR policies, practices and programs
- Products to facilitate **first-time home ownership**
- Bank On certification for Smart Steps checking to **serve the underbanked**
- Annually, **time, dollars and expertise are donated** to community organizations with an emphasis on affordable homeownership, economic empowerment, health and human services and social progress (find more about our 2023 support on page 12)
- Comprehensive **governance program**, as described in further detail in our annual Proxy Statement
- Expanding our **philanthropic support of environmental sustainability in our community**, including organizations that impact soil, water and land conservation, sustainable farming, mountain and lake protection and stewardship, and parks and recreation
- Developed **sustainability investment models** for our socially conscious clients
- Strong **cybersecurity protections and training**

Find additional details in our shareholder communications and filings with the Securities and Exchange Commission.

## GREAT TEAM, GREAT RESULTS



What we achieve, we achieve together. It is through our team's hard work and dedication that we continue to deliver on our mission of strengthening financial lives.

Beyond our mission, we have a company culture of continuous improvement. That means we are constantly growing, learning and evolving. We have internal programs in place to support our emerging talent and our seasoned managers. As our business environment changes more rapidly, we want to meet the evolving needs of our customers, and that starts with a culture of learning and collaboration. Together, the Arrow Team will continue to deliver the results that our customers, communities and shareholders expect.

## IN MEMORY OF THOMAS L. HOY

Finally, we would like to acknowledge and remember Tom Hoy, former President and CEO, and Chairman of Arrow Financial Corporation.

In his nearly five-decade career with the Arrow Family of Companies, Tom's dedication was unwavering. He held various roles before becoming company President and CEO from 1997 until his retirement in 2012. He remained Chair of the Board until early 2023, when he stepped back due to health reasons.

During his time as CEO, Tom expanded our company's footprint and set forth a strategic vision that we still follow today. As Chair, his steadiness and integrity helped us navigate significant growth and continuous improvement.

We are grateful to have known Tom, and his professional legacy lives on in the company culture he helped shape.



This is more than just a revitalization of our bank and offices—it's an investment in the future of our customers, our employees and our communities.



*Here's a look at our revitalized corporate headquarters and Main Office branch at 250 Glen Street in downtown Glens Falls.*

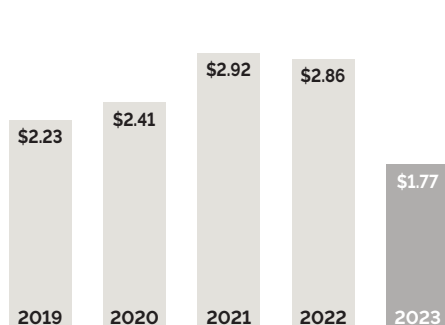
# 2023 Financial Highlights

Arrow finished the year with robust loan growth, posting record high loan balances while maintaining strong credit, capital and liquidity positions.

<b>Net Income:</b>	\$30.08 million
<b>Total Loans:</b>	\$3.18 billion, up 7.7%
<b>Total Retail Deposits:</b>	\$3.51 billion, up 0.4%
<b>Total Assets:</b>	\$4.17 billion, up 5.0%
<b>Total Shareholders' Equity:</b>	\$379.77 million, up 7.4%
<b>Return on Average Equity:</b>	8.29%
<b>Return on Average Assets:</b>	0.74%
<b>Stock Dividend:</b>	3% distributed in September 2023
<b>Current Quarterly Cash Dividend:</b>	\$0.27
<b>Book Value Per Share:</b>	\$22.42
<b>Diluted Earnings per Share:</b>	\$1.77

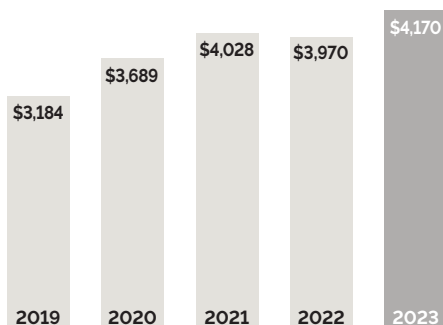


## Performance Comparisons



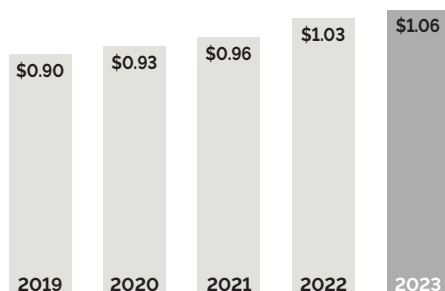
### DILUTED EARNINGS PER SHARE

For the 12 Months Ended December 31\*



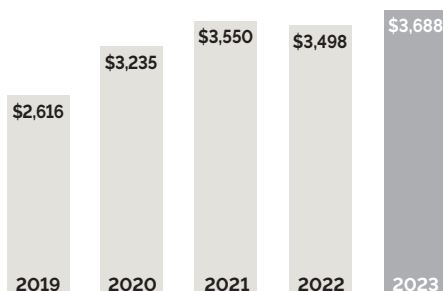
### ASSETS

As of December 31  
(\$ in Millions)



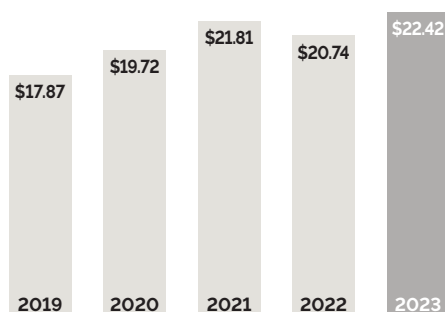
### CASH DIVIDENDS PAID PER SHARE

For the 12 Months Ended December 31\*



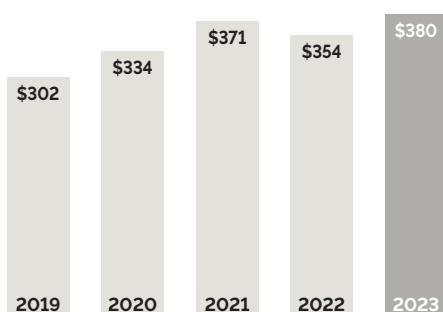
### DEPOSITS

As of December 31  
(\$ in Millions)



### BOOK VALUE PER SHARE

As of December 31\*

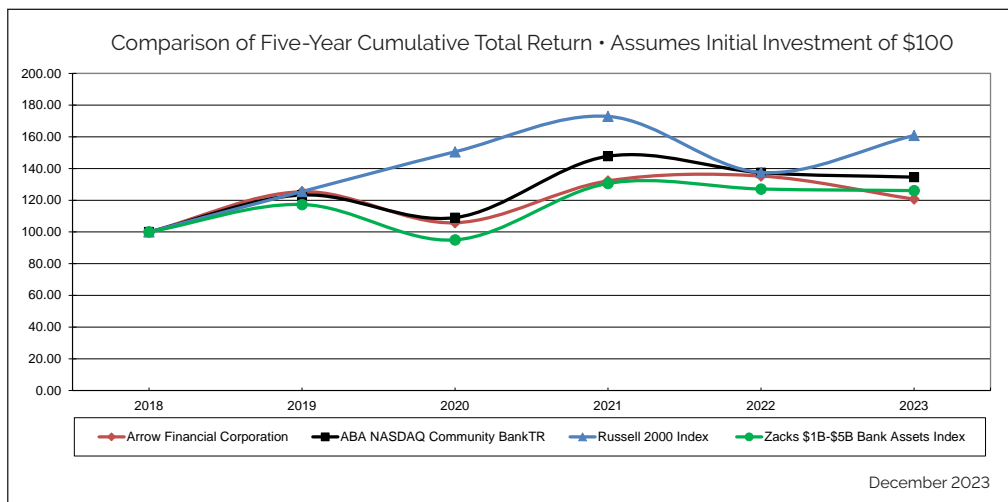


### SHAREHOLDERS' EQUITY

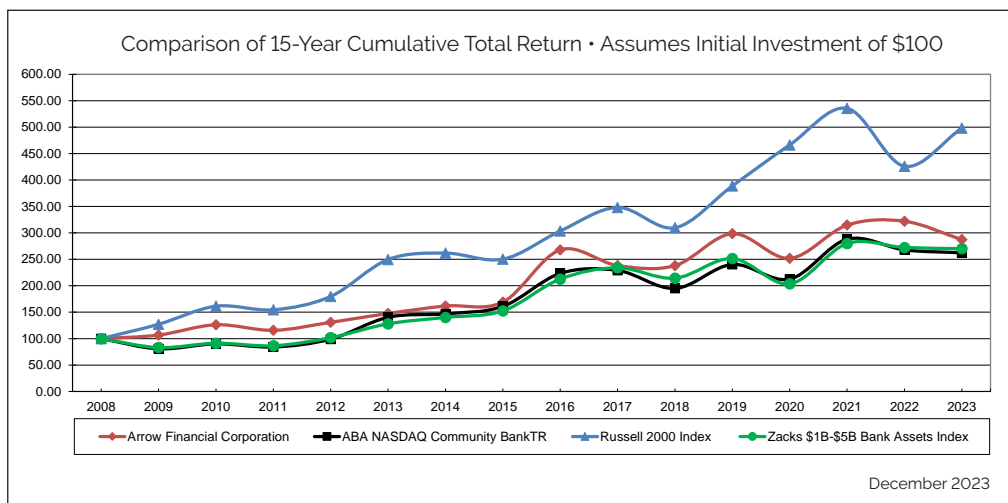
As of December 31  
(\$ in Millions)

\*Per Share Amounts have been restated for stock dividends distributed.  
\*\*Includes retail and wholesale deposits.

# Total Return Performance



	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Arrow Financial Corporation	100.00	125.39	105.80	132.22	135.28	120.71
NASDAQ Banks Index	100.00	123.30	109.05	147.76	137.43	134.58
Russell 2000 Index	100.00	125.52	150.58	172.90	137.56	160.85
Zacks \$1B-\$5B Bank Assets Index	100.00	117.34	95.01	130.61	127.10	126.09



	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Arrow Financial Corporation	100.00	106.74	126.21	115.69	130.80	147.59	161.74	169.10	267.96	238.23	238.10	298.56	251.91	314.82	322.12	287.41
NASDAQ Banks Index	100.00	80.80	90.06	84.18	99.10	140.40	146.94	160.97	223.37	229.11	194.97	240.40	212.62	288.09	267.94	262.39
Russell 2000 Index	100.00	127.17	161.32	154.57	179.84	249.66	261.87	250.32	303.66	348.15	309.82	388.90	466.53	535.66	426.19	498.34
Zacks \$1B-\$5B Bank Assets Index	100.00	83.14	91.29	86.56	101.88	128.00	140.15	152.44	212.71	234.10	214.34	251.50	203.63	279.96	272.42	270.26

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# Consolidated Statements of Income (Unaudited)

Years Ended December 31

(In thousands, except Per Share Amounts)	2019	2020	2021	2022	2023
Interest and Dividend Income	\$109,759	\$111,896	\$115,550	\$129,651	\$162,564
Interest Expense	21,710	12,694	5,195	11,308	57,732
Net Interest Income	88,049	99,202	110,355	118,343	104,832
Provision for Credit Losses	2,079	9,319	272	4,798	3,381
Net Interest Income after Provision for Credit Losses	85,970	89,883	110,083	113,545	101,451
Total Noninterest Income	28,555	32,658	32,369	30,898	29,117
Total Noninterest Expense	67,450	70,678	78,048	81,530	93,048
Income Before Taxes	47,075	51,863	64,404	62,913	37,520
Provision for Income Taxes	9,600	11,036	14,547	14,114	7,445
<b>Net Income</b>	<b>\$37,475</b>	<b>\$40,827</b>	<b>\$49,857</b>	<b>\$48,799</b>	<b>\$30,075</b>
<b>Share and Per Share Data</b>					
Diluted Average Shares					
Outstanding	16,864	16,915	17,052	17,059	17,037
Diluted Earnings Per Share	\$2.23	\$2.41	\$2.92	\$2.86	\$1.77
Cash Dividends Per Share	\$0.90	\$0.93	\$0.96	\$1.03	\$1.06
Book Value Per Share	\$17.87	\$19.72	\$21.81	\$20.74	\$22.42
Tangible Book Value Per Share*	\$16.48	\$18.32	\$20.41	\$19.37	\$21.06
<b>Key Earnings Ratios</b>					
Return on Average Assets	1.24%	1.17%	1.28%	1.21%	0.74%
Return on Average Equity	13.17%	12.77%	14.09%	13.55%	8.29%
Return on Tangible Equity*	14.36%	13.78%	15.11%	14.50%	8.86%
Net Interest Margin	3.05%	2.99%	2.97%	3.03%	2.65%
<b>Capital Ratios</b>					
Tier 1 Leverage Ratio	9.98%	9.07%	9.20%	9.80%	9.84%
Total Risk-Based Capital Ratio	14.78%	15.48%	15.69%	15.11%	14.74%
<b>Asset Quality Ratios</b>					
Nonperforming Assets to Period-End Assets	0.18%	0.18%	0.29%	0.32%	0.51%
Allowance for Credit Losses to Period-End Loans	0.89%	1.13%	1.02%	1.00%	0.97%

\*Further discussion and reconciliation of non-GAAP financial measures can be found in our earnings press release and Form 8-K furnished February 1, 2024.

# Consolidated Balance Sheets (Unaudited)

As of December 31

(In thousands)	2019	2020	2021	2022	2023
<b>Assets</b>					
Cash and Due from Banks	\$47,035	\$42,116	\$26,978	\$31,886	\$36,755
Interest-Bearing Deposits at Banks	23,186	338,875	430,718	32,774	105,781
Investment Securities	614,779	590,677	763,009	757,097	636,138
Loans	2,386,120	2,595,030	2,667,941	2,983,207	3,212,908
Allowance for Credit Losses	(21,187)	(29,232)	(27,281)	(29,952)	(31,265)
Net Loans	2,364,933	2,565,798	2,640,660	2,953,255	3,181,643
Premises and Equipment, Net	40,629	42,612	46,217	56,491	59,642
Goodwill and Intangible Assets, Net	23,534	23,823	23,791	23,373	22,983
Other Assets	70,179	84,735	96,579	114,633	126,926
<b>Total Assets</b>	<b>\$3,184,275</b>	<b>\$3,688,636</b>	<b>\$4,027,952</b>	<b>\$3,969,509</b>	<b>\$4,169,868</b>
<b>Liabilities and Shareholders' Equity</b>					
Noninterest-Bearing Deposits	\$484,944	\$701,341	\$810,274	\$836,871	\$758,425
Interest-Bearing Checking and Savings Deposits	1,735,789	2,255,792	2,525,678	2,452,058	2,266,065
Time Deposits	395,321	277,593	214,545	209,435	663,076
Total Deposits	2,616,054	3,234,726	3,550,497	3,498,364	3,687,566
Borrowings	211,099	62,486	45,000	54,800	26,500
Other Long-Term Debt	20,000	20,000	20,000	20,000	20,000
Other Liabilities	35,394	37,032	41,269	42,807	56,030
Total Liabilities	2,882,547	3,354,244	3,656,766	3,615,971	3,790,096
Total Shareholders' Equity	301,728	334,392	371,186	353,538	379,772
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$3,184,275</b>	<b>\$3,688,636</b>	<b>\$4,027,952</b>	<b>\$3,969,509</b>	<b>\$4,169,868</b>

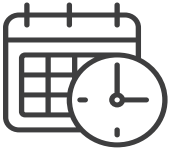
# Community Contributions

## OUR 2023 GIVING IN ACTION

**\$781,000**

DONATED TO OUR COMMUNITIES | **UP 19%**  
FROM 2022

INCLUDING  
**\$103,076**  
from employee  
contributions



**11,193**

HOURS  
LOGGED  
**UP 19%**  
FROM 2022

**252** EMPLOYEE  
VOLUNTEERS  
**UP 21%**  
FROM 2022

**561** NON-PROFITS SUPPORTED  
across our 8 county footprint

Nearly **\$3 million** donated  
in the last five years.

Beyond our mission, we have a company culture of continuous improvement. That means we are constantly growing, learning and evolving.



# Our Leadership

## Executive Team



**David S. DeMarco**  
President and CEO



**Penko Ivanov**  
Senior Executive Vice President,  
Chief Financial Officer, Treasurer  
and Chief Accounting Officer



**Michael Jacobs**  
Executive Vice President  
and Chief Information Officer



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



**Brooke M. Pancoe**  
Executive Vice President and  
Chief Human Resources Officer



**Andrew J. Wise**  
Senior Executive Vice President  
and Chief Risk Officer



**Marc J. Yrsha**  
Senior Executive Vice President  
and Chief Banking Officer

## Board of Directors



**William L. Owens, Esq.**  
**(Chairman)**  
Partner  
Stafford, Owens, Piller, Murnane,  
Kelleher and Trombley, PLLC



**Mark L. Behan**  
Founder and President  
Behan Communications, Inc.



**Tenée R. Casaccio, AIA**  
President  
JMZ Architects and Planners, PC



**Gregory J. Champion**  
Executive Vice President - Legal  
Syncromune, Inc.



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



**David S. DeMarco**  
President and CEO



**David G. Kruczynski**  
Retired President and CEO  
Glens Falls Hospital



**Elizabeth A. Miller**  
President and CEO  
Miller Mechanical  
Services, Inc.



**Raymond F. O'Connor**  
Chairman and Retired  
President and CEO  
Saratoga National Bank



**Colin L. Read, PhD**  
Professor of  
Economics/Finance  
SUNY Plattsburgh

## Directors Emeriti

Herbert O. Carpenter

John J. Carusone, Jr.

Michael B. Clarke

Mary-Elizabeth T. FitzGerald

Herbert A. Heineman, Jr.

Elizabeth O'Connor Little

Michael F. Massiano  
*(Chairman Emeritus)*

David L. Moynehan

John J. Murphy

Doris E. Ornstein

Richard J. Reisman, DMD

### In Memoriam

Thomas L. Hoy  
*(Chairman Emeritus)*

# Our Family of Companies

Arrow Financial Corporation is the parent company of Glens Falls National Bank and Trust Company and Saratoga National Bank and Trust Company. Other subsidiaries include Upstate Agency, LLC and North Country Investment Advisers, Inc.

## *Glens Falls National* Bank and Trust Company

**Glens Falls National Bank and Trust Company** is a community bank headquartered in Glens Falls, New York, that serves Warren, Washington, Essex, Clinton and northern Saratoga counties in Upstate New York. It operates 26 banking offices and provides a wide range of financial products and services to individuals and businesses, including banking, investments and insurance.



**Saratoga National Bank and Trust Company** is a community bank headquartered in Saratoga Springs, New York. It serves Saratoga, Albany, Rensselaer and Schenectady counties through 11 banking offices and provides a wide range of financial products to individuals and businesses, including banking, investments and insurance.

Other Arrow Financial Corporation subsidiaries include:

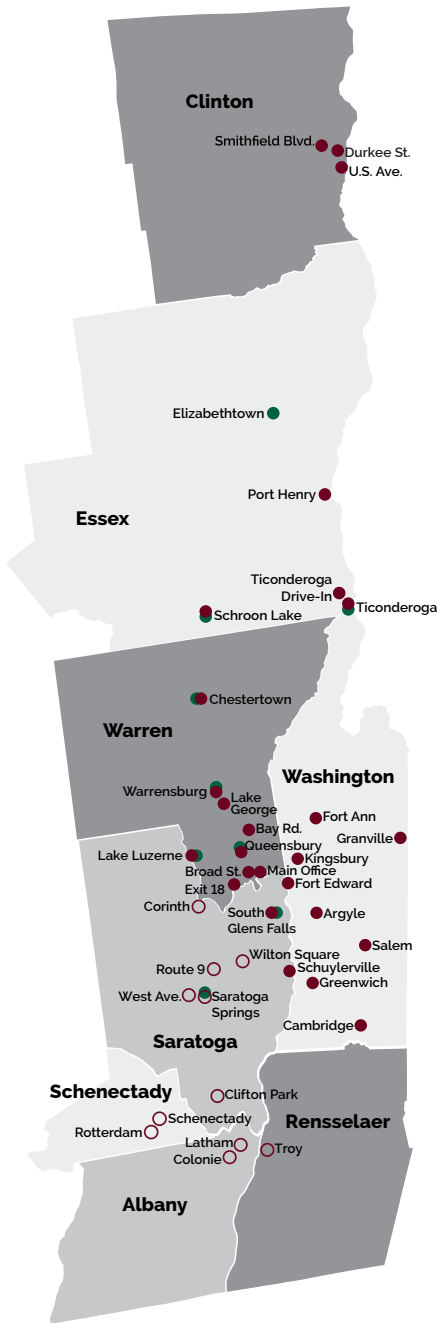


**Upstate Agency, LLC**, an insurance agency that specializes in personal and business insurance, as well as group health and employee benefits.

**North Country Investment Advisers, Inc.**, an investment advisory firm that provides portfolio management of proprietary accounts for our banks.



# Our Footprint



Arrow Financial Corporation is a multi-bank holding company headquartered in Glens Falls, New York, providing banking, insurance and wealth management services from 37 branches and nine insurance offices in eight counties from Plattsburgh to Albany.

With a footprint of more than 160 miles along the eastern border of New York State, our companies reach a broad customer base including rural, urban and suburban areas from the Canadian border to the Hudson Valley. As of the 2020 Census, this service area includes a population of over 1.1 million individuals, families and businesses.

Our Arrow Team of more than 530 staff members strives to deliver an exceptional customer experience across all lines of business. They make our achievements and financial results possible!

- Glens Falls National Bank and Trust Company
- Saratoga National Bank and Trust Company
- Upstate Agency, LLC



**ARROW**  
Financial Corporation

*Our Family of Companies*

*Glens Falls National*  
*Bank and Trust Company*

**SARATOGA**  
**BANK & TRUST COMPANY**  
**NATIONAL**



**UPSTATE**  
**AGENCY**<sup>LLC</sup>  
INSURANCE

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