

ARROW FINANCIAL CORP  
Form DEF 14A  
March 26, 2015

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934  
(Amendment No. )

Filed by the Registrant  [ x ]  
Filed by a Party other than the Registrant  [ ]

Check the appropriate box:

- [ ] Preliminary Proxy Statement  
 [ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
 [ x ] Definitive Proxy Statement  
 [ ] Definitive Additional Materials  
 [ ] Soliciting Material Pursuant to Rule Section 240.14a-12

Arrow Financial Corporation  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- [ x ] No fee required  
 [ ] Fee computed on the table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of the transaction:

5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

---

ARROW FINANCIAL CORPORATION

250 Glen Street  
Glens Falls, New York 12801

March 26, 2015

Dear Shareholder:

You are cordially invited to attend the Arrow Financial Corporation Annual Meeting of Shareholders on May 6, 2015, at the Charles R. Wood Theater in beautiful Glens Falls, New York, just down the street from the Main Office of our principal subsidiary, Glens Falls National Bank and Trust Company.

The meeting will begin with a review of all voting matters and feature a short presentation on the Company. Additional details about the meeting and voting instructions can be found in the Notice of 2015 Annual Meeting of Shareholders and related Proxy Statement.

The past year included a number of important milestones and highlights for our Company. We would like to take this opportunity to note a few of these achievements, which set us apart from our peers:

**Profitability:** We reported strong profitability for 2014, as represented by record net income for the year as well as 11.79% return on average equity, 1.07% return on average assets and 13.56% return on tangible equity at year-end.  
**Shareholder Value:** Diluted earnings per share for 2014 were a record \$1.85, and stockholders' equity reached a record high. In addition, cash dividends paid to shareholders effectively increased 2% in 2014, and we distributed a 2% stock dividend in September.

**Loan Growth:** Our loan portfolio increased 11.6% in 2014 to a record high at year-end, due to growth in all three of our major segments: residential real estate, commercial/commercial real estate and automobile. In addition, we continued to have excellent asset quality, as measured by low levels of charge-offs and non-performing assets.

**Expansion:** In June, our banking subsidiary Saratoga National Bank and Trust Company opened its eighth office, located in Colonie, New York, marking our entry into Albany County and further establishing our presence in the Capital Region.

**Industry Recognition:** In 2014 we were again named one of "America's 100 Most Trustworthy Companies" by Forbes, named a "Top-Performing Mid-Sized Bank" by the ABA Banking Journal, and included on the Sandler O'Neill "Sm-All Stars Class of 2014" list of top-performing small-cap banks and thrifts.

We are proud of our performance and these accomplishments. For a better understanding of our Company, including its compensation practices and corporate governance structure, please review our proxy materials. We hope you will vote, whether or not you plan to attend the Annual Meeting. It is important to us that your shares are represented.

Thank you for your investment in Arrow Financial Corporation.

Sincerely,

Thomas L. Hoy                      Thomas J. Murphy  
Chairman of the Board              President and Chief Executive Officer

ARROW FINANCIAL CORPORATION  
250 Glen Street  
Glens Falls, New York 12801

NOTICE OF 2015 ANNUAL MEETING OF SHAREHOLDERS

March 26, 2015

To the Shareholders of Arrow Financial Corporation:

The Annual Meeting of Shareholders of Arrow Financial Corporation, a New York corporation, will be held at the Charles R. Wood Theater, located at 207 Glen Street in Glens Falls, New York 12801, on Wednesday, May 6, 2015, beginning at 9 a.m. local time, to consider and vote upon the following matters, as described more fully in the Proxy Statement attached to this Notice:

1. The election of four Class B Directors to three-year terms and one Class A Director to a two-year term.
2. Ratification of the selection of KPMG LLP as our independent auditor for 2015.
3. Any other business that may properly come before the 2015 Annual Meeting, or any adjournment or postponement thereof.

Shareholders of record as of the close of business on March 9, 2015, will be entitled to vote at the 2015 Annual Meeting, or any adjournment or postponement thereof. To vote, please follow the instructions in the Notice of Internet Availability of Proxy Materials or the Proxy Statement. If you wish to receive a printed copy of our Proxy Statement and Annual Report on Form 10-K for the year ended December 31, 2014, please follow the instructions in the Notice of Internet Availability of Proxy Materials to request that a copy be provided to you. The Proxy Statement and Annual Report will be mailed within three business days of receipt of your request. Those shareholders who have previously requested printed or electronic copies of our proxy materials will receive a printed or electronic copy, as applicable.

Please ensure that your shares are voted properly at the 2015 Annual Meeting, as your vote is important. If you plan to attend our Annual Meeting, we ask that you also complete the attendance section on your proxy card.

Please see the attached Proxy Statement for more information on how to vote your shares.

By Order of the Board of Directors,

Mark E. Bulmer  
Vice President and Corporate Secretary

ARROW FINANCIAL CORPORATION  
250 Glen Street  
Glens Falls, New York 12801

TABLE OF CONTENTS

<u>General Voting Information</u>	<u>1</u>
<u>Voting Item 1 – Election of Directors</u>	<u>1</u>
<u>Voting Item 2 – Ratification of Independent Registered Public Accounting Firm</u>	<u>9</u>
<u>Audit Committee Report</u>	<u>10</u>
<u>Corporate Governance</u>	<u>11</u>
<u>Named Executive Officers</u>	<u>17</u>
<u>Stock Ownership Information</u>	<u>17</u>
<u>Compensation Discussion and Analysis</u>	<u>19</u>
<u>Executive Compensation</u>	<u>30</u>
<u>Agreements with Executive Officers</u>	<u>34</u>
<u>Section 16(a) Beneficial Ownership Reporting</u>	<u>37</u>
<u>Additional Voting Information</u>	<u>37</u>
<u>Additional Shareholder Information</u>	<u>40</u>

---

ARROW FINANCIAL CORPORATION

250 Glen Street

Glens Falls, New York 12801

PROXY STATEMENT

General Voting Information

---

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the “Board”) of Arrow Financial Corporation (the “Company”), a New York corporation, of proxies to be voted at the 2015 Annual Meeting of Shareholders (the “Annual Meeting”) to be held May 6, 2015, at 9 a.m. local time, at the Charles R. Wood Theater, 207 Glen Street, Glens Falls, New York 12801, or at any adjournment or postponement thereof.

The release of the Notice of Internet Availability of Proxy Materials, the Notice of 2015 Annual Meeting of Shareholders, the Proxy Statement and our Annual Report on Form 10-K for the year ended December 31, 2014 (collectively, the “Proxy Materials”), is scheduled to begin on March 26, 2015, to shareholders of record as of close of business on March 9, 2015.

To vote, please follow the instructions in the Notice of Internet Availability of Proxy Materials or the other Proxy Materials if you received printed copies. If you wish to receive a printed copy of the Proxy Materials, please follow the instructions in the Notice of Internet Availability of Proxy Materials to request that a copy be provided to you. The Proxy Materials will be mailed within three business days of receipt of your request. Shareholders who have previously requested printed or electronic copies of our Proxy Materials will receive a printed or electronic copy, as applicable.

Please be sure that your shares are represented at the Annual Meeting by completing and submitting your proxy by telephone, online or by requesting and returning a completed paper proxy card. Please see the Additional Voting Information section of this Proxy Statement for more information on how to vote.

Voting Item 1 – Election of Directors

---

Summary and Board Recommendation:

The Board currently includes 13 members divided into three classes (A, B and C), with one class elected each year for a term of three years. In January 2015, the Board expanded its membership from 12 to 13 persons. At that time, the Board appointed William L. Owens as a Class A Director to fill the vacancy resulting from its expansion.

Item 1 at the Annual Meeting is the election of four Class B Directors to three-year terms expiring at the 2018 Annual Meeting of Shareholders and/or until their successors are elected and qualified, and one Class A Director to a two-year term expiring at the 2017 Annual Meeting of Shareholders and/or until his successor is elected and qualified. The Class B nominees are our four current Class B directors: John J. Carusone, Jr., Michael B. Clarke, David G. Kruczynicki and David L. Moynehan; the Class A nominee is our recently appointed Class A Director, William L. Owens. As a result of Director Owens’ appointment, we are required by law to submit his position to a vote of our

shareholders.

All five nominees have been determined to be qualified and have consented to this nomination. In addition, all five nominees qualify as independent. For a discussion of independence of all existing Board members, including the nominees, please see “Director Independence” in the Corporate Governance section. The Board has no reason to believe that any of these nominees will decline or be unable to serve if elected. Under applicable law and the

1

---

Company's By-Laws, Directors are elected by a plurality of the shares voted at the Annual Meeting, meaning the nominees receiving the most "For" votes will be elected. For additional information regarding the vote requirements for Item 1 and a description of the Company's Majority Voting Policy with respect to the election of Directors, please see the Additional Voting Information section.

Vote Recommendation: Your Board recommends you vote "For" each of the Board's five nominees: Class B Directors John J. Carusone, Jr., Michael B. Clarke, David G. Kruczynski and David L. Moynehan, and Class A Director William L. Owens.

#### Director Nomination Process:

The Governance Committee is responsible for identifying and recommending to the full Board suitable nominees to serve as Director, including the re-nomination of incumbent Directors. Director nominees are selected based upon various criteria, including the candidate's particular strengths, such as knowledge, skill, experience and expertise, as well as the objective of achieving certain characteristics for the Board as a group, such as diversity of background, occupation, viewpoint and gender, along with a balance among age groups from those who are in mid-career to those nearing or recently entered into retirement. Additionally, the Governance Committee will not generally recommend a new candidate for nomination unless the candidate has demonstrated notable leadership and accomplishment in business, higher education, politics or cultural endeavors. The Governance Committee further assesses a candidate's understanding of the regulatory and policy environment in which the Company does business and his or her interest in the communities served by the Company. Other factors include a candidate's personal character, integrity and financial acumen. For candidates with prior experience as a Director of the Company or one of its subsidiaries, his or her service record will be an important factor in evaluating the desirability of his or her continuing service as a Director. Generally, Directors may not serve on the boards of more than two other public companies and may not serve on the board of any other public company whose principal business is financial services.

The Governance Committee will employ its own search protocols to identify new candidates for Director and seek suggestions from Management and consider any proposals it properly receives from shareholders for Director nominees. The same screening process is applied to all suggested candidates, regardless of the source. The Board will give substantial weight to the recommendations of the Governance Committee in selecting nominees for election as Directors and in its appointment of Directors to fill vacancies. Under normal circumstances, the Board will not select nominees, including incumbent Directors, who have not been recommended by a majority of the members of the Governance Committee. For information on how shareholders may participate in the Director nomination process, see "Shareholder Submissions of Director Nominees" in the Additional Shareholder Information section.

#### Nominee and Continuing Director Biographies:

We have prepared the following biographies to provide shareholders with detailed information about each Director, including his or her area of strength. No specific minimum qualification standards have been established.

##### Class B Nominees (terms to expire in 2018, if elected)

John J. Carusone, Jr., Esq., age 73, has been a Director of the Company since 1996 and a Director of the Company's subsidiary bank, Saratoga National Bank and Trust Company ("SNB"), since its formation in 1988. Mr. Carusone is an attorney with the law firm Carusone & Carusone in Saratoga Springs, New York. He received a bachelor's degree from Hamilton College and a law degree from Albany Law School. Mr. Carusone has practiced law in the greater Saratoga Springs community for over 40 years and has a strong community knowledge base.

Michael B. Clarke, age 68, has been a Director of the Company and a Director of the Company's subsidiary bank, Glens Falls National Bank and Trust Company ("GFNB"), since 2006. He previously served as a Director of the Company from 1988 to 1999 and as a Director of GFNB from 1987 to 1999, before temporarily relocating out of the



area. Mr. Clarke is a retired Management Consultant for Bradshaw Consulting, Inc., in Lake George, New York, and has extensive experience in the business of cement manufacturing. He served as President of Glens Falls Cement Company from 1985 to 1999, President and CEO of Lone Star Industries in Indiana from 1999 to 2004, and President of the Midwest Division of Buzzi Unicem, USA, from 2004 to 2005. Mr. Clarke has a bachelor's degree from McGill University and a master's degree from Harvard University. In addition to his executive experience at manufacturing companies, Mr. Clarke has a finance background and a longstanding historical knowledge of the Company.

David G. Kruczlnicki, age 62, has been a Director of the Company and a Director of GFNB since 1989. Mr. Kruczlnicki served as President and CEO of Glens Falls Hospital, a regional medical center employing over 3,000 people, from 1989 until his retirement in 2013. He received a bachelor's degree from Siena College and a master's degree from Rensselaer Polytechnic Institute. Mr. Kruczlnicki serves on the boards of directors of several health-related affiliates of Glens Falls Hospital as well as Pruyn & Company, a local, privately owned paper company. As a former health care executive, Mr. Kruczlnicki has significant experience overseeing finance and human resources as well as extensive directorship experience from his service as a director of numerous private and regional organizations.

David L. Moynehan, age 69, has been a Director of the Company since 1987 and a Director of GFNB since 1986. Mr. Moynehan is the President and owner of Riverside Gas & Oil Co., Inc., formerly a motor fuel and heating product distributor and convenience store retailer. In 2013, Mr. Moynehan sold Riverside's core businesses, although Riverside continues to manage some remaining properties. He holds a bachelor's degree from Providence College and an MBA from the University of Denver. Mr. Moynehan has a longstanding historical knowledge of the Company. He has also served on several local and regional economic development boards and has a thorough knowledge of the communities the Company serves.

Ü Class A Nominee (term to expire in 2017, if elected)

William L. Owens, Esq., age 66, was appointed Director of the Company and GFNB in January 2015. Mr. Owens is a former Congressman who represented New York's 21st District from late 2009 until January 2, 2015. Prior to his election, he was a managing partner at Stafford, Owens, Piller, Murnane, Kelleher & Trombley, PLLC, where he practiced business and tax law for more than 30 years. Mr. Owens recently rejoined the Plattsburgh, New York, firm as a partner. He also serves as Senior Strategic Advisor for the international law firm of McKenna Long & Aldridge, LLP. Mr. Owens holds a bachelor's degree from Manhattan College and a law degree from Fordham University. He has an extensive understanding of the North Country, and specifically the Plattsburgh market.

Ü Continuing Class C Directors (terms expiring in 2016)

Tenée R. Casaccio, AIA, age 49, has been a Director of the Company since December 2013, and has been a Director of GFNB since 2010. Ms. Casaccio has served as President of JMZ Architects and Planners, PC, a New York State-certified Women-Owned Business in Glens Falls, since 2009. She earned a Bachelor of Architecture degree from Virginia Tech and holds licenses to practice architecture in New York and several other states. Ms. Casaccio has been with JMZ Architects since 1993. She has significant executive experience and a strong understanding of the New York State business climate.

Gary C. Dake, age 54, has been a Director of the Company since 2003 and a Director of SNB since 2001. Mr. Dake is President of Stewart's Shops Corp., a large, privately owned, vertically integrated, multi-state convenience store chain, and of Stewart's Processing Corp., an affiliated dairy manufacturing and processing company. Mr. Dake holds a bachelor's degree from St. Lawrence University. He has extensive experience with large business operations as a result of his management of Stewart's, which also gives him a unique and broad understanding of the many communities the Company serves.

Thomas L. Hoy, age 66, has been a Director of the Company since 1996, Chairman since 2004, and a Director of GFNB since 1994. He was President of the Company from 1996 to June 2012, and CEO from 1997 until his retirement in December 2012. In addition, Mr. Hoy was President of GFNB from 1995 to June 2011. Mr. Hoy's nearly four-decade career with GFNB started in 1974 as a Management Trainee and included various roles in GFNB's Trust and Investment Division. He also serves on the Boards of Directors of the Federal Home Loan Bank of New York and the New York Business Development Corporation. Mr. Hoy holds a bachelor's degree from Cornell University. His expertise in the banking, investment and financial services industries is of great value to the Company.

Edgar Filing: ARROW FINANCIAL CORP - Form DEF 14A

Colin L. Read, PhD, age 55, has been a Director of the Company since 2013 and a Director of GFNB since 2010. Dr. Read teaches banking and finance as a tenured full professor in the State University of New York system. He writes a regular business column for the Plattsburgh Press-Republican newspaper and is a regular contributor to Bloomberg's online magazine and American Bankers Association publications. Dr. Read was elected to the Clinton County Legislature in 2013. In addition, he has

3

---

authored nine books on global finance and appears monthly on a regional PBS business and economics show. Dr. Read has a PhD in economics from Queen's University, an MBA from the University of Alaska, a law degree from the University of Connecticut, and a master's degree in Taxation from the University of Tulsa. His expertise in economics and understanding of the Plattsburgh area are key strengths.

Ü Continuing Class A Directors (terms expiring in 2017)

Elizabeth O'Connor Little, age 74, has been a Director of the Company and a Director of GFNB since 2001. She is a New York State Senator representing the 45th District since 2003. Prior to that, Senator Little served as a member of the New York State Assembly representing the 109<sup>th</sup> District from 1995 to 2002 and was the At-Large Supervisor on the Warren County Board of Supervisors from 1986 to 1991. Senator Little received a bachelor's degree from the College of St. Rose. Her organizational leadership skills and community involvement as a state politician, as well as her experience on numerous state commissions and councils, are key strengths. The majority of our bank offices are located in Senator Little's District, allowing her a unique perspective on issues affecting the Company.

John J. Murphy, age 63, has been a Director of the Company since 2007 and was a Director of GFNB from 2003 until December 31, 2014, when he retired from the GFNB Board. Mr. J. Murphy served as Executive Vice President, Treasurer and Chief Financial Officer ("CFO") of the Company, as well as Senior Executive Vice President and CFO of GFNB from 1983 until his retirement at the end of 2006. He started his career with GFNB in 1973 as a Management Trainee and over the following three decades held various roles in the Credit Department and Accounting Division, before serving 23 years as CFO. Mr. J. Murphy has a bachelor's degree from Niagara University. His expertise in the banking, investment and financial services business and his long tenure with the Company and GFNB are valuable strengths.

Thomas J. Murphy, CPA, age 56, has been a Director of the Company since July 2012 and a Director of GFNB since July 2011; he is also President and CEO of the Company and GFNB. Mr. T. Murphy joined GFNB in 2004 as Manager of the Personal Trust Department after 16 years as a founding partner in CMJ, LLP, a Glens Falls certified public accounting firm. He was named President of GFNB in July 2011, President of the Company in July 2012, and CEO of both GFNB and the Company in December 2012. Prior to these appointments, he served in many banking, trust and corporate capacities. Mr. T. Murphy holds a bachelor's degree in Business Administration from Siena College. His 24 years of public accounting experience and more than 10 years in various management positions with the Company and its subsidiaries provide valuable experience and expertise.

Richard J. Reisman, DMD, age 69, has been a Director of both the Company and GFNB since 1999. Dr. Reisman is an oral and maxillofacial surgeon and serves as Chairman of the Section of Dentistry at Glens Falls Hospital, a regional medical center. Dr. Reisman received a bachelor's degree from the University of Massachusetts-Amherst and a DMD from Harvard University. He also completed an oral surgery residency at Mt. Sinai Hospital in New York City. Dr. Reisman is a member of the New York State Board for Dentistry. His oral surgery practice in the Glens Falls community and his service at Glens Falls Hospital provide him with both small business acumen and large business organization experience and expertise.

Director Compensation:

There are three basic components of the compensation paid to our Directors. The first component is a fixed annual retainer fee, supplemented by additional retainer amounts for those Directors who also serve as a Board Chair or a Committee Chair. Retainer fees currently are paid partly in cash and partly in shares of the Company's common stock. The second component of Director compensation is meeting fees, which are paid to Directors based on the number of Board and Committee meetings they attend. Currently, this component of Director compensation is paid entirely in cash. The third and final component of Director compensation is incentive stock-based compensation, which currently consists of a modest number of stock options distributed annually to Directors that vest in installments during a Director's service on the Board and are exercisable for a period of time after termination of service. The Board, at its

discretion on a case-by-case basis, upon termination of a Director's service, may accelerate the vesting of unvested stock options and extend the post-termination exercise period.

4

---

Only non-Management Directors of the Company receive compensation for their services as a Director. Management Directors (those persons who are also officers of the Company) receive no additional compensation for their services as a Director. Thus, Mr. T. Murphy, who is both a Director and an Executive Officer of the Company, received no Director compensation in 2014, although he was entitled to reimbursement of any expenses he incurred in connection with his service as a Director.

The Compensation Committee makes recommendations to the full Board regarding all three components of Director compensation. The Board itself, however, is ultimately responsible for determining the compensation payable to Company Directors for their services. The amounts paid for service on the subsidiary bank Boards are also considered by the Board in its periodic review of total Director compensation.

#### Ü Annual Retainer and Meeting Fees

Each non-Management Director receives a fixed basic annual retainer fee for serving as a Company Director and, if he or she is also a Director of a Company subsidiary bank, a fixed basic annual retainer fee for serving as a Director of such bank. Non-Management Directors also receive meeting fees for the Board and Committee meetings they attend. Moreover, if a non-Management Director serves as a Board Chair or a Committee Chair for the Company or a subsidiary bank, he or she will also receive a supplemental annual retainer fee commensurate with the increased responsibility accompanying the Chair position. Directors who serve on Committees but do not serve as the Chair thereof receive no supplemental annual retainer fee for their Committee service.

A Director's total annual retainer fee, including any supplemental annual retainer fee for service as a Board Chair or a Committee Chair, is currently payable in two semi-annual installments: one in May and another in November, in advance of the period to which such payment relates. Directors who are appointed or elected to the Board in the middle of one of these six-month periods, receive a pro rata share of the annual retainer fee receivable by those Directors who serve for the entire period, first payable on or about the time their mid-year service commences.

Under the Arrow Financial Corporation 2013 Directors' Stock Plan (the "2013 Directors' Stock Plan"), the Board may elect from time to time to pay some or all of the Directors' fees, including annual retainer and meeting fees, in the form of shares of the Company's common stock, as opposed to cash. These shares are valued at their fair market value on the date of distribution, based on the market price of the Company's common stock on such date. All shares distributed under the 2013 Directors' Stock Plan in lieu of cash are fully vested and transferable by the recipient Directors on the date of distribution. In 2014, as in prior years, the Board determined to pay a portion of the annual retainer fee payable to each Director for such year in the form of shares of stock under the 2013 Directors' Stock Plan.

The following table sets forth the dollar amount of Directors' fees paid in cash (or dollar value of Directors' fees paid in shares of the Company's common stock) to our non-Management Directors in 2014 for their service on the Company's Board and any subsidiary bank Boards, and Committees thereof, including (i) the basic annual retainer fees, (ii) any supplemental annual retainer fees for Board Chair or Committee Chair and (iii) meeting fees for Board and Committee meetings attended. These fees were approved by the Board at its meeting in January 2014.

#### ANNUAL RETAINER

2014	Company	GFNB	SNB
Basic Annual Retainer <sup>(a)</sup>	\$18,500	\$11,000	\$11,000
Chair of the Board	\$9,000	\$9,000	\$9,000
Chair of the Audit Committee	\$7,500	—	\$750
Chair of the Compensation Committee	\$5,000	N/A	N/A
Chair of the Governance Committee	\$5,000	N/A	N/A
Chair of the Trust Committee	N/A	\$5,000	\$750
MEETING FEES			
Board of Directors <sup>(b)</sup>	\$650	\$450	\$450

Committee of the Board <sup>(b)</sup>	\$500	\$350	\$350
---------------------------------------	-------	-------	-------

In 2014, \$10,000 of the basic annual retainer for service as a Director of the Company and \$5,500 of the basic (a) annual retainer for service as a Director of the subsidiary banks was payable in shares of the Company's common stock.

(b) Per meeting attended.

#### Ü Directors' Fees for 2015

The Company Board and the Boards of the Company's subsidiary banks have made the following determinations regarding Directors' fees payable in 2015:

The basic annual retainer fees payable to non-Management Directors for serving on the Company Board and the Boards of the subsidiary banks will be as follows: Company Board will remain at \$18,500, GFNB Board will increase by \$2,000 to \$13,000 and SNB Board will remain at \$11,000 in 2015.

The supplemental annual retainer fee payable to those non-Management Directors who serve as Chair of the Company's Board or as Chair of either subsidiary bank Board will remain the same in 2015 as in 2014.

The supplemental annual retainer fee amounts payable to those non-Management Directors who also serve as Chair of a Committee of the Company or of the GFNB Trust Committee will remain the same in 2015 as 2014.

The supplemental annual retainer fee amounts payable to those non-Management Directors who also serve as Chair of the SNB Audit and Trust Committees were eliminated in 2015.

Meeting fees payable to non-Management Directors of the Company and its subsidiary banks for attendance at Board meetings will remain the same in 2015 as in 2014.

Meeting fees payable to non-Management Directors of the Company and its subsidiary banks for attendance at Committee meetings will increase by \$50 per each meeting attended in 2015.

The Board increased the basic annual retainer payable for service on the GFNB Board and increased the meeting fees generally because of the enhanced time and work demands on the Directors.

#### Ü Directors' Deferred Compensation Plan

Under the Company's Directors' Deferred Compensation Plan, Directors of the Company and its subsidiary banks may elect to defer receipt of some or all of the cash fees otherwise payable to them in any year to a later date of their choosing, subject to certain limits set forth in such plan and applicable law. Under this unfunded plan, amounts deferred are credited to the plan account of the deferring Director. The deferred amounts earn interest from time to time at a rate equal to the highest rate being paid on individual retirement accounts by GFNB. Deferred amounts are ultimately distributable on a date or dates selected by the Director, subject to certain restrictions. Distributions under the plan are payable in cash, either in a lump-sum or in annual installments as the participant may choose. During 2014, one Director of the Company elected to defer fees under the plan. See the "2014 Director Compensation Table" later in this section for additional details.

#### Ü Stock Options

Under the Company's current long-term incentive plan, the Arrow Financial Corporation 2013 Long Term Incentive Plan (the "2013 LTIP"), the Board is authorized, in its discretion and after consultation with the Compensation Committee, to make annual grants of stock-based incentive awards to non-Management Directors of the Company as additional compensation for their service as Directors. The terms and conditions of awards granted to Directors are established by the Board itself, not by the Compensation Committee. The Board believes the grant of such awards, particularly in the form of stock options for the Company's common stock, serves an important purpose by further aligning our Directors' interests with those of our shareholders, because stock options only provide value to the holder if the Company's stock price increases.

In early 2014, the Board granted to each non-Management Director under the 2013 LTIP a standard annual incentive award for a fixed maximum number of stock options, subject to adjustment in each case to reflect the individual Director's attendance record for Board and Committee meetings during the prior year. Specifically, each non-Management Director received a number of options equal to 1,000, multiplied by the Director's "meeting attendance ratio" for the prior year, which consists of: (i) the number of meetings of the Board of the Company and its Committees on which the Director serves held during the prior year that the Director actually attended, divided by (ii) the total number of such meetings held during the prior year. All options granted to Directors in 2014 will vest ratably over a four-year period, reinforcing the long-term nature of the grant. Under the 2013 LTIP, the Board generally may



accelerate the vesting of unvested options held by Directors at the time they retire, resign or are not nominated for re-election. The exercise price for all stock options granted to Directors in 2014 was the fair market value of the Company's common stock on the date of grant, i.e., the reported closing price of the stock on such date. All Directors' stock options granted under the 2013 LTIP expire 10 years after the date of grant, or if the Director's service terminates earlier, upon the expiration of a designated time period following such termination of service, which may be extended by the Board at its discretion. The value of the stock options granted to each non-Management Director in 2014 is in accordance with FASB ASC TOPIC 718 and listed in the "2014 Director Compensation Table" later in this section.

### Ü Stock Ownership Guidelines

In order to better align the interests of our Directors with the interests of our shareholders, the Company has established individual stock ownership guidelines for our non-Management Directors. Under these guidelines, each non-Management Director of the Company is expected to achieve, within five years following his or her election or appointment to the Board, and thereafter to maintain as long as he or she serves as a Director, beneficial ownership of a number of shares of the Company's stock having a market value at least equal to five times the basic annual retainer fee of the Company payable from time to time to such Director. Under normal circumstances, if a non-Management Director does not meet this target level of beneficial ownership, restrictions are placed on the Director's ability to sell shares of the Company's common stock obtained through the exercise of stock option awards. The target ownership requirement for each non-Management Director is measured by the Compensation Committee each year, using holdings valued as of December 31 of the previous year. Common shares owned outright or held through Company plans (e.g., the Company's Automatic Dividend Reinvestment Plan) are currently counted toward the stock ownership requirement. Unexercised stock options do not count toward the stock ownership requirement. At December 31, 2014, all non-Management Directors owned the required minimum number of shares and were deemed to be in compliance with the target stock ownership guidelines. Management Directors are subject to a separate policy – for a description, see “Stock Ownership Guidelines” in the Compensation Discussion and Analysis section.

### Ü 2014 Director Compensation Table

The following Director Compensation Table summarizes all compensation paid by the Company and its subsidiaries to the non-Management Directors of the Company for the fiscal year ended December 31, 2014. Management Directors of the Company (who, in 2014, consisted solely of Mr. T. Murphy) do not receive any compensation for services rendered by them as Directors. Compensation received in 2014 by Mr. T. Murphy is reported in the “Summary Compensation Table” within the Executive Compensation section. Since Director Owens was appointed to our Board in January 2015, he did not receive any fees in 2014 and is not included in the following table:

Director	Fees Earned or Paid in Cash	Stock Awards (a)	Option Awards (b)	Change in Pension Value/ Nonqualified Deferred Compensation Earnings (c)	All Other Compensation	2014 Director Compensation Total
John J. Carusone, Jr.	\$29,600	\$15,500	\$6,043	—	—	\$51,143
Tenéé R. Casaccio	\$23,400	\$15,500	—	(c) —	—	\$38,900
Michael B. Clarke	\$33,000	\$15,500	\$6,043	—	—	\$54,543
Gary C. Dake	\$26,100	\$15,500	\$6,043	—	—	\$47,643
Thomas L. Hoy	\$39,550	\$15,500	\$6,043	—	\$48,000	(f) \$109,093
David G. Kruczlnicki	\$30,500	\$15,500	\$6,043	—	\$2,116	(g) \$54,159
Elizabeth O'Connor Little	\$24,850	\$15,500	\$5,662	—	—	\$46,012
David L. Moynehan	\$29,400	\$15,500	\$6,043	—	—	\$50,943
John J. Murphy	\$20,650	(d) \$12,750	(d) \$6,043	—	\$5,000	(f) \$44,443
Colin L. Read	\$25,550	\$15,500	\$6,043	—	—	\$47,093
Richard J. Reisman	\$25,400	(e) \$15,500	\$6,043	—	\$2,924	(g) \$49,867

(a) Represents that portion of each listed Director's total Directors' fees that were payable in shares of Company stock.

In 2014, this amount consisted of \$10,000 of each Director's basic annual retainer fee for serving as a Company Director and \$5,500 of each Director's basic annual retainer fee for serving as a Director of one the Company's subsidiary banks. For purposes of determining the number of shares distributable to Directors, the shares of the Company's common stock are valued at the market price of such shares on the date of distribution. Except, in part, for Mr. J. Murphy (see footnote "c" below), in 2014, each Director who received the basic annual retainer fee received approximately 597 shares in accordance with FASB ASC TOPIC 718. These shares were distributed in

two installments: approximately 298 shares at a per share price of \$26.04 on May 29, 2014, and approximately 299 shares at a per share price of \$25.93 on November 20, 2014.

Stock options are valued in accordance with FASB ASC TOPIC 718. The stock options were granted on January (b)29, 2014, at a per share exercise price of \$25.00, the closing price of our common stock on the date of grant. Options vest ratably over a period of four years following the date of grant.

Ms. Casaccio was appointed to the Board on December 31, 2013. Stock options are granted to Directors, as noted (c)in "Stock Options" earlier in this section, based on their prior-year Board and Committee attendance record. Since Ms. Casaccio was not a member of the Board in 2013, she did not receive any options on January 29, 2014.

Mr. J. Murphy retired from the Glens Falls National Bank Board effective December 31, 2014. Because payments (d)are made in advance of service, he was not entitled to the November 20, 2014,n payment of the basic annual cash and stock retainer.

- (e) Dr. Reisman deferred these fees under the Directors' Deferred Compensation Plan.
- (f) Represents consulting fees earned and paid to such Director under his consulting agreement. See "Mr. Hoy Consulting Agreement" and "Mr. J. Murphy Consulting Agreement."
- (g) Represents interest earned during 2014 on the principal balance of the Director's account under the Directors' Deferred Compensation Plan.

Ü Mr. Hoy Consulting Agreement

Mr. Hoy served for many years as our President and CEO prior to his retirement on December 31, 2012. At that time, the Company entered into a three-year consulting agreement with Mr. Hoy under which he renders advice and assistance to the Company with respect to the management and operation of the Company's business and affairs, as requested by the Company's CEO or Board. As compensation for these services, Mr. Hoy receives an annual payment of \$48,000, payable in equal monthly installments. He also receives office space, administrative support and equipment as agreed by the parties for the provision of the consulting services. Although the consulting agreement has an initial three-year term, it is generally terminable upon 30 days' prior written notice by either party to the other. The consulting agreement contains confidentiality and non-competition provisions in favor of the Company. During the period of consultancy under the consulting agreement, outstanding stock options granted to Mr. Hoy under the Company's long-term incentive plans before his retirement will continue to vest and to be exercisable in accordance with the underlying award agreement terms, and will continue to be exercisable by him while he continues to serve as a consultant (and for an additional three months after he ceases to serve as such), regardless of when his services as a Director of the Company may end.

Ü Mr. J. Murphy Consulting Agreement

Mr. J. Murphy served for many years as our Executive Vice President, Treasurer and CFO prior to his retirement in 2006. At that time, the Company entered into a three-year consulting agreement with Mr. J. Murphy, which was renewed for an additional year at the end of 2009 and replaced by a four-year consulting agreement that ended December 31, 2014, without further extension or replacement. Under the most recent consulting agreement, Mr. J. Murphy rendered advice on financial and general corporate matters, as requested of him by Management in exchange for an annual payment that decreased each year: \$20,000 for fiscal year 2011, \$15,000 for fiscal year 2012, \$10,000 for fiscal year 2013 and \$5,000 for fiscal year 2014. In addition, during the period of consultancy, any outstanding stock options granted to Mr. J. Murphy under the Company's long-term incentive plans while he was an employee of the Company continued to be exercisable by him.

Voting Item 2 – Ratification of Independent Registered Public Accounting Firm

---

Summary and Board Recommendation:

The Audit Committee of the Board has selected the independent registered public accounting firm, KPMG LLP ("KPMG"), as the Company's independent registered public accounting firm for our fiscal year ending December 31, 2015. The selection process included a thorough review of KPMG's performance in prior years, the quality and expertise of the KPMG management team, its understanding and expertise in the industries in which the Company operates, the appropriateness of the fees charged, and its familiarity with the Company's internal controls and accounting policies and practices.

Although our By-Laws do not require the selection of the independent registered public accounting firm be submitted to our shareholders for approval, the Board believes it is appropriate to give shareholders the opportunity to ratify the decision of the Audit Committee. Neither the Audit Committee nor the Board will be bound by the shareholders' vote at the Annual Meeting, but they may take the shareholders' vote into account in future determinations regarding the retention of the Company's independent registered public accounting firm.

Representatives of KPMG are expected to be present at the Annual Meeting. They will have an opportunity to make a statement, if they so desire, and are expected to be available to respond to appropriate questions from shareholders.

Ratification of the selection of KPMG will require the affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy at the Annual Meeting and voting on this proposal.

Vote Recommendation: Your Board recommends you vote "For" the ratification of the independent registered public accounting firm, KPMG LLP, as the independent auditor of the Company for the fiscal year ending December 31, 2015.

Independent Registered Public Accounting Firm Fees:

The following table sets forth the aggregate fees billed to the Company and its subsidiaries for the fiscal years ended December 31, 2013 and 2014, by the Company's independent registered public accounting firm, KPMG. The tax fees in this table represent fees paid to KPMG during the year for tax preparation and consulting purposes.

Categories of Service	2014	2013
Audit Fees	\$314,000	\$360,000
Audit-Related Fees	—	—
Tax Fees	\$96,290	\$95,220
All Other Fees	—	—
Total Fees	\$410,290	\$455,220

Audit Committee Report

---

Each member of the Audit Committee qualifies as independent both under the NASDAQ® standards for independent directors and under the Securities and Exchange Commission's (the "SEC") more rigorous standards for independent Audit Committee members. For more detail, see the Corporate Governance section. The Audit Committee assists the Board in fulfilling its oversight role relating to the Company's financial statements and the financial reporting process, including the system of disclosure controls and the Company's internal controls and procedures. Its duties include reviewing the independent registered public accounting firm's qualifications and independence, the performance of the independent registered public accounting firm, and the Company's internal audit function. The duties of the Audit Committee are set forth in the Audit Committee Charter, which the Board has adopted and reviews annually. A copy of the current charter of the Audit Committee is available on our website at [www.arrowfinancial.com](http://www.arrowfinancial.com) on the "Corporate Governance" page.

Management has the responsibility for preparing the Company's consolidated financial statements and for assessing the effectiveness of its internal controls over financial reporting. The Company's independent registered public accounting firm, KPMG, has the responsibility for auditing these consolidated financial statements. KPMG reports directly to the Audit Committee, and they meet on a regular basis. The Audit Committee has reviewed and discussed with Management and with KPMG the Company's audited consolidated financial statements as of and for the year ended December 31, 2014. The Audit Committee has also discussed with Management its assertion on the design and effectiveness of the Company's internal control over financial reporting as of December 31, 2014, and has discussed with KPMG the matters required to be discussed by professional standards. Based on the Audit Committee's review and discussions noted above, the Audit Committee recommended to the Board that the audited consolidated financial statements of the Company and its subsidiaries, and Management's assertion on the design and effectiveness of internal control over financial reporting of the Company and its subsidiaries, be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC.

The Audit Committee has approved the engagement of KPMG as the Company's independent registered public accounting firm for 2015 and the scope of its 2015 engagement. The Audit Committee has received from KPMG the written disclosures and the letter required by professional standards relating to auditor independence. The Audit Committee has discussed with KPMG the firm's independence and determined that the non-audit services provided to the Company by KPMG are compatible with their independence.

Michael B. Clarke, Chairman    David G. Kruczynski  
Colin L. Read                  Richard J. Reisman

## Corporate Governance

---

The Board has adopted Corporate Governance Guidelines to provide the framework within which the Company's Directors and Executive Officers manage the business and affairs of the Company. The Company's business is managed under the direction and oversight of the Board. The Board appoints the Company's CEO and approves other Executive Officers, who are responsible for the day-to-day operation of the Company's business. The Board's primary responsibilities are to oversee Management and to consider and make determinations regarding significant corporate transactions or material changes in the Company's core business. In exercising its business judgment, the Board acts in what it reasonably believes to be the best interests of the Company and its shareholders. At least once each year, the Board will review the Company's long-term strategic plans and key issues. The Board may elect a Lead Director from the independent Directors of the Company to serve as a liaison between the Chairman of the Board and the independent or non-Management Directors and to have such other duties and responsibilities as shall be determined by the Board, including chairing the Executive Sessions of the independent Directors.

The Governance Committee of the Board is responsible for reviewing with the full Board, on an annual basis, the requisite skills and characteristics of all Board members, as well as nominees for Director and the composition of the Board as a whole. This assessment will include whether individual Directors or nominees qualify as independent under applicable law and guidelines, as well as consideration of diversity, age, skills and experience of the Directors as a group in the context of the needs of the Board. The Board will consist of a majority of Directors who meet the criteria for general Board independence as required and defined by NASDAQ® and will meet all other applicable laws, rules and regulations.

The Board is divided into three classes, one of which is elected each year by the Company's shareholders to a term of three years. The Governance Committee will identify and recommend to the full Board suitable candidates for nomination for Director, including incumbent Directors. In making its recommendations, the Governance Committee will consider any proposals it properly receives from shareholders for Director nominees. Shareholders may propose a Director candidate for consideration by the Governance Committee by following the rules set forth in "Shareholder Submissions of Director Nominees" within the Additional Shareholder Information section. The Governance Committee's recommendations of candidates for nomination will be based on its determination as to the suitability of the particular individuals, and the slate as a whole, to serve as Directors of the Company, taking into account the criteria discussed above. When evaluating incumbent Directors who are nominated for reelection, the Governance Committee considers, in addition to past performance, each such Director's attendance record for meetings of the Boards and Committees of the Company and its subsidiaries on which the Director sits. See "Director Nomination Process" in the Voting Item 1 – Election of Directors section for a discussion of additional criteria considered in the selection of Directors for nomination.

The Board does not believe that Directors should be subject to term limits. While term limits may in some cases enhance the flow of fresh ideas and viewpoints in the boardroom, they may also result in the loss of knowledgeable and experienced Directors, whose insight into the Company and its operations typically expands and deepens over time. The Governance Committee will apply, however, the same general principles of suitability, character, experience and background to incumbent Directors who are up for reelection as it applies to new candidates for Director, with due consideration to their prior performance. Additionally, the Company's By-Laws provide that Directors will retire from the Board at the first Annual Meeting of Shareholders held on or after they attain the age of 75.

### Board Leadership Structure:

Our Board leadership structure has separate roles of Chair and CEO. Mr. Hoy, our former CEO, serves as Chairman due to his longstanding experience with our Company, along with his strong leadership capability and banking

expertise. Mr. T. Murphy, our President and CEO, is the only member of the Board who is also an employee of the Company. The Board continues to believe this structure is in the best interests of the Company.

The Company currently has a Board comprised largely of Directors who qualify as “independent” under the NASDAQ<sup>®</sup> general independence guidelines. Ten of 13 Directors currently are independent under these standards (see “Director Independence” later in this section). Our Lead Director must be independent under our Corporate Governance Guidelines. The Lead Director, who is periodically appointed by the independent Directors acting as a group, chairs the Board Executive Sessions, described in “Board Committees” next in this section. The Lead Director also serves as a liaison between the Chairman and the independent Directors. Mr. Kruczynski, who is also Chairman of the Compensation



Committee, was appointed our Lead Director in January 2014, succeeding Mr. Clarke in that role. We believe the oversight of the Lead Director, combined with the Company's overall corporate governance structure, policies and practices as outlined earlier, maximizes the effectiveness of our Board leadership. The Governance Committee and the independent Directors will continue to evaluate the Board's leadership structure as part of its regular review of corporate governance and succession planning to ensure that it remains best suited for our Company and our shareholders.

#### Board Committees:

The Board has three standing Committees: Audit, Compensation and Governance. The Board may from time to time establish or maintain additional Committees, as it deems necessary or appropriate. In that regard, the Board has also established an Executive Committee described later in this section.

The Governance Committee reviews Committee membership and makes recommendations for changes on an annual basis, with consideration given to the qualifications and preferences of individual Directors and the specific requirements, if any, of the SEC and NASDAQ<sup>®</sup> for service on such Committees. The Board gives consideration to periodically rotating Committee members, to the extent feasible under applicable laws and regulations governing the membership requirements of the Committees, but the Board does not believe rotation should be mandated as policy, nor that service by a Director on a Committee should be subject to term limits. All members of these Committees are comprised of independent Directors, as defined under applicable law, rules and regulation (see "Director Independence" later in this section for more detail). A table showing the members of each committee follows:

Director	Audit Committee	Compensation Committee	Governance Committee
John J. Carusone, Jr.			Chairman
Tenée R. Casaccio			X
Michael B. Clarke	Chairman	X	
Gary C. Dake		X	X
David G. Kruczynski	X	Chairman	
Elizabeth O'Connor Little		X	
David L. Moynehan			X
William L. Owens		X	X
Colin L. Read	X		X
Richard J. Reisman	X		

Each of the three Committees has its own charter that sets forth the purposes, goals and responsibilities of the Committee, as well as the qualifications for Committee membership, procedures for appointing Committee members, Committee structure and operations, and policies for Board oversight of the Committee. Each Committee has the power to hire, at the Company's expense, independent legal, financial, accounting, compensation or other consultants, as the members may deem necessary and appropriate, consistent with the overall authority to retain such advisors as set forth in the Committee's charter, including budgeting or professional conditions and limitations. Management approval will not be required for engagement of consultants, although Management normally will be advised and consulted prior to any such engagement to avoid, among other things, conflicts of interest.

A description of each committee follows:

#### • Audit Committee

Mr. Clarke is Chairman of the Audit Committee; he has served in this role since 2008. The Audit Committee's primary duties and responsibilities are to select and appoint the independent auditors each year; monitor the independence and performance of the Company's independent auditors and internal Audit Department; monitor the quality and integrity

of the Company's financial reporting process and systems of internal controls regarding financial, accounting and legal compliance; and provide a means of communication among the independent auditors, Management, the internal Audit Department and the Board. The Audit Committee also reviews business or financial transactions between the Company and related parties, such as any transactions with an individual Director or a company in which such Director has an interest. In accordance with applicable rules, the Audit Committee must specifically approve in advance all services performed by the independent auditor, including audit and audit-related services and non-audit

services. The Audit Committee met four times in 2014, and all Committee members attended each of these Committee meetings. For additional information, see the Audit Committee Report section.

#### Ü Compensation Committee

Mr. Kruczlnicki is Chairman of the Compensation Committee; he has served in this role since 2013. The Compensation Committee's principal responsibility is to review and approve, not less often than annually, all aspects of the compensation arrangements and benefit plans covering our Executive Officers, including the CEO, subject, where appropriate, to full Board approval. The Compensation Committee also periodically reviews the compensation of our Board and makes recommendations to the full Board with respect to the types and amounts of compensation payable to the Directors for service on the Board and its Committees of both the Company and the subsidiary banks. The Compensation Committee also consults with Management and provides general oversight of the compensation and benefit programs and policies for employees. The Compensation Committee met three times in 2014, and all Committee members attended each of these Committee meetings. For additional detail regarding executive compensation and the role of the Compensation Committee, see the Compensation Discussion and Analysis section.

#### Ü Governance Committee

Mr. Carusone is Chairman of the Governance Committee; he has served in this role since 2013. The Governance Committee is specifically charged with establishing procedures with respect to the Director nomination process; reviewing and considering Director nominees and making recommendations to the Board regarding nominees; reviewing and recommending practices and policies concerning corporate governance; reviewing annually and reporting to the Board regarding the independence of our Directors and satisfaction by the Board and Committee members of applicable requirements or qualifications; reviewing annually and reporting to the Board regarding the performance of our Board; reviewing periodically and making recommendations regarding Company codes of conduct and ethics policies for our Directors, Executive Officers and employees and with respect to our Committee charters; and reviewing Director training initiatives. The Governance Committee met three times during 2014 and all Committee members attended each meeting.

#### Ü Executive Committee

The main purpose of the Executive Committee, which unlike the Committees described earlier is not required under applicable securities or corporate law, is to act on matters that require immediate attention at a time when it is impractical or inconvenient to convene the entire Board. The Executive Committee has the full authority of the Board, subject to certain restrictions established by law or the Company's governing documents. For example, the Committee is not authorized pursuant to our By-Laws to make submissions to shareholders needing shareholder approval, fill vacancies on the Board or any of its Committees, fix compensation of the Board, make changes to our By-Laws, or repeal any prior resolution of the Board. Because the Board believes proper governance involves the entire Board in the Company's decision process, the Board strives to keep meetings of the Executive Committee to a minimum. The Executive Committee is currently comprised of the Chairman of the Board, each of the Board's Committee Chairs, and the Chairman of the GFNB Trust Committee, who is also a Director of the Company.

In addition to regular Board and Committee meetings, the members of the Board meeting the general independence test under NASDAQ® periodically meet in Executive Session to discuss any matters deemed relevant to the Company's operation and condition. No current or former members of Management are in attendance during these Executive Sessions. These sessions are chaired by Mr. Kruczlnicki, our Lead Director. The Lead Director will poll independent Directors at each Company Board meeting and, if there is a consensus to do so, an Executive Session will be held. The Board met in Executive Session once in 2014

In 2014, the Board had four regularly scheduled meetings, two special Board meetings and 10 separate Committee meetings. There was 100% attendance at these meetings, and 10 of our 12 Directors attended the 2014 Annual Meeting of Shareholders.

Complete copies of each of the current charters of the Audit Committee, the Compensation Committee and the Governance Committee, as well as a copy of the Corporate Governance Guidelines, the Business Code of Ethics and the Financial Code of Ethics are available at [www.arrowfinancial.com](http://www.arrowfinancial.com) on the “Corporate Governance” page.

Director Independence:

Under applicable law and regulation, it is the responsibility of the Board to review the independence and qualifications of each member of our Board and separately to review the independence of each Board member who serves on certain Committees under the somewhat more rigorous independence standards that apply to members of such Committees.

Under the NASDAQ<sup>®</sup> listing standards, a majority of the members of the full Board must meet a general independence requirement. The Board has determined that the following 10 Directors meet this requirement: Directors Carusone, Casaccio, Clarke, Dake, Kruczynski, Little, Moynehan, Owens, Read and Reisman. Mr. Hoy is not independent due to his prior service as an Executive Officer of the Company within the past three years and as a result of the continuing consulting services he provides to the Company. Although Mr. J. Murphy retired as an executive officer of the Company eight years ago, he served for the ensuing eight years under a consulting agreement with the Company which recently expired December 31, 2014. The Board determined that Mr. J. Murphy is not independent because of his former key management and consulting positions with the Company. See "Director Compensation" within the Voting Item 1 – Election of Directors section for further description of the Hoy and J. Murphy consulting agreements. Mr. T. Murphy is not independent due to his position as our President and CEO.

In making the independence determination for the individual Directors, the Board considers transactions and relationships between, on the one hand, the Company and its subsidiaries, and on the other hand, the Director and/or his or her immediate family or any businesses he or she controls. The Governance Committee considers the objective standards Directors must meet under the NASDAQ<sup>®</sup> listing standards, as well as a variety of subjective factors, including particular or unique relationships between the Company and the Director, even if such relationships do not exceed the specific dollar threshold that would disqualify the Director from being independent under applicable regulatory guidelines. In its review of Director independence at year-end 2014, the Governance Committee considered the following 2014 transactions between the Company and the following individual Directors:

Mr. Carusone is the principal attorney at the law firm of Carusone & Carusone. During 2014, the Company's subsidiary bank SNB made \$5,560 in payments to Carusone & Carusone as a retainer for legal services to be rendered by the firm to or on behalf of SNB. Additionally, Carusone & Carusone received payments from certain SNB loan customers in connection with its representation of SNB at loan closings. The Board determined that the total payments received by Carusone & Carusone from all sources in connection with the firm's representation of SNB in 2014 were well below the objective limits for general Director independence set forth in the NASDAQ<sup>®</sup> listing standards and the relationship did not compromise the independence of Mr. Carusone.

Mr. Dake is President of Stewart's Shops Corporation ("Stewart's"), a large, private company that owns and operates a regional chain of convenience stores. During 2014, our subsidiary banks made \$240,219 in payments to Stewart's for rent of leased space and other immaterial purchases. The Board determined that the Company's payments were below the objective limits for general Director independence set forth in the NASDAQ<sup>®</sup> listing standards and the relationship did not compromise the independence of Mr. Dake. See "Related Party Transactions" later in this section for further information on these transactions.

Ms. Casaccio is President and part-owner of JMZ Architects and Planners, PC ("JMZ"), an architectural firm located in Glens Falls, New York. From 2011 through 2013, GFNB engaged JMZ to provide architectural services in connection with the construction of a new GFNB building at its downtown Glens Falls headquarters. Payments under the contract were completed in October 2013. The Company made no payments to JMZ in 2014. The Board determined that the Company's past payments to JMZ for its services were below the objective limits for general Director independence set forth in the NASDAQ<sup>®</sup> listing standards and, given the completion of these services in 2013, that Ms. Casaccio's independence was not compromised.

There were no “Compensation Committee interlocks,” as defined under the SEC rules, in existence during fiscal year 2014. No member of the Compensation Committee is a current or former employee of the Company or any of its subsidiaries. No member of the Compensation Committee is party to any related party transactions with the Company requiring disclosure by us hereunder except for Director Dake. For a description of that transaction, see “Related Party Transactions” later in this section.

In addition to meeting the general independence standards for Directors set forth in the NASDAQ® listing standards, the Directors who serve on certain Committees (i.e., Audit and Compensation), must meet additional regulatory requirements,

including more rigorous independence requirements. The Board has determined that Directors Clarke, Kruczlnicki, Read and Reisman, who constitute the Audit Committee, all meet the SEC's more stringent independence requirements for Audit Committee members. The Board has also determined that Directors Clarke, Kruczlnicki and Read each qualify as an "Audit Committee Financial Expert," as defined by the SEC rules (not all Audit Committee members need to be financial experts). Further, the Board has determined that Directors Clarke, Dake, Kruczlnicki, Little and Owens, who constitute the Compensation Committee, all meet the more rigorous independence requirements of the SEC and NASDAQ for Compensation Committee members.

No family relationship exists between any two or more of the nominees, Directors or Executive Officers of the Company or its subsidiaries, except that the wives of Directors Moynehan and J. Murphy are sisters.

#### Related Party Transactions:

Under the Company's Statement of Policy with respect to Related Party Transactions, the Audit Committee or the Board itself must approve transactions or relationships between the Company and its related parties, including Directors and Executive Officers, if such transactions or relationships will involve an aggregate dollar amount of goods, services or payments in excess of \$120,000. Loans from our subsidiary banks to our Directors and Executive Officers, their families and controlled businesses, and other related parties, are generally exempt from this preapproval policy, as most such loans are subject to Board preapproval under a separate federal banking law, Regulation O. "Related Parties" of Directors and Executive Officers includes members of their immediate families and the corporations, organizations, trusts and estates with which these individuals are associated.

#### Ü 2014 Transactions with Related Parties

During 2014, several of our Directors and Executive Officers and/or their affiliates had outstanding loans from one or both of our subsidiary banks in amounts of \$120,000 or more. All of these loans were made in the ordinary course of business of the bank, on the bank's standard terms and conditions, and did not involve more than normal risk of collectability or present any other preferential features. As of December 31, 2014, none of these loans were classified by the Company as a non-accrual, past due, restructured or potential problem loan.

Other transactions between the Company and related parties occurring in 2014 in excess of \$120,000 were as follows:

During 2014, the Company's subsidiary banks leased space from Stewart's, a private company that owns and operates a regional chain of convenience stores. Director Dake is the President of Stewart's. The Company has established five bank offices (two for SNB and three for GFNB) in five different Stewart's convenience stores under multi-year leases with Stewart's. The Company paid rent and incidental expenses to Stewart's on the five offices in the total amount of \$240,219 during 2014. The first GFNB lease has an original duration of 20 years, expiring in 2019, with a renewal option for two additional 10-year terms. The second GFNB lease has an original duration of 10 years, expiring in 2020, with a renewal option for three additional five-year terms. The third GFNB lease has an original duration of 10 years, expiring in 2023, with a renewal option for three additional five-year terms. The leases for the two SNB offices each have an original duration of 10 years; expire in 2015 and 2017, respectively; and have renewal options for two additional five-year terms. These five bank offices are in high-traffic locations. In connection with its approval of the leases, the Board determined that the terms of the leases were, in its opinion, no less favorable from the Company's perspective than could be obtained from a non-related party in an arms-length transaction.

#### Board Risk Oversight:

Our Board has responsibility for the oversight of risk management within our Company. Our Board and its Committees regularly discuss and review with Management the areas of material risk exposure, the potential impact of such risks on the Company, the steps taken to monitor our exposure to these risks and the controls adopted to mitigate such risk exposure. Our Committees assist the Board in fulfilling its oversight responsibilities throughout the year, as

follows:

The Audit Committee reviews financial risk exposures by monitoring the independence and performance of the Company's internal and external auditors, and the quality and integrity of the Company's financial reporting process and systems of internal controls.

15

---



The Governance Committee focuses on the management of risks associated with Board organization, membership and structure, through its nomination process and Director independence assessment, its review of the organizational and governance structure of the Company, and its periodic review of Board practices and policies concerning corporate governance and the Board's performance.

The Compensation Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs through its review of all aspects of the compensation paid to Executive Officers, Directors and employees in general. The Committee assesses the ways, if any, in which this compensation may, as an unintended consequence, incentivize action or activities that expose the Company to inappropriate risks, and it recommends to the Board ways to modify those compensation practices appropriately.

In addition to these Committees, the Company has an Enterprise Risk Management ("ERM") Committee at the Management level to assist the Board by providing reasonable assurance regarding the achievement of the Company's strategic objectives and to enhance the long-term value of the Company. The ERM Committee uses a Board-approved program that is applied both strategically and tactically, and is designed to identify, and manage on a holistic basis, potential and actual risks that may affect the Company. Our ERM Program is based on principles in the "Enterprise Risk Management – Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Directors receive periodic reports from the ERM Committee, which is chaired by our Chief Risk Officer and includes senior and other designated managers as appropriate. The Chief Risk Officer's primary function is to oversee risk management as well as regulatory and compliance requirements. The Chief Risk Officer reports directly to our President and CEO.

#### Shareholder Communications with the Board of Directors:

Any shareholder communication that is sent generally to the Company or our Board is directed to the Corporate Secretary, who will review it and advise the Board of the communication. Any shareholder communication that is directed to a particular Director or Committee of the Board will be forwarded by the Corporate Secretary to such Director or Committee. The Corporate Secretary will retain and make available all such communications for the Directors' review and will periodically summarize and report all such shareholder communications to the Board. Shareholders may communicate to our Board, to an individual Director or Directors, or to a particular Committee of the Board by sending or directing such communication by emailing [corporatesecretary@arrowbank.com](mailto:corporatesecretary@arrowbank.com) or in writing to: Board of Directors – Shareholder Communications, c/o Corporate Secretary, Arrow Financial Corporation, 250 Glen Street, Glens Falls, New York 12801.

## Named Executive Officers (NEOs)

Our NEOs for 2014 were Mr. T. Murphy, our President and CEO; Mr. Goodemote, our Executive Vice President, Treasurer and CFO; and Mr. DeMarco, a Senior Vice President of the Company and President and CEO of SNB.

## Stock Ownership Information

## Directors and Executive Officers:

The following table sets forth the beneficial ownership of the Company's common stock, as defined under SEC rules, as of March 9, 2015, our record date, for each Director, Director nominee and NEO of the Company, as well as for all Directors and Executive Officers as a group.

Beneficial ownership includes all shares of common stock for which the individual has sole or shared voting power or investment power and all shares that the individual has the right to acquire within 60 days of our record date through the exercise of any option, warrant or right. There were 12,698,632 shares of our common stock outstanding on March 9, 2015.

Name	Number of Shares Owned		Options Exercisable Within 60 Days	Total Beneficial Ownership of Company Common Stock	Percent of Shares Outstanding (a)
John J. Carusone, Jr.	7,839	(b)	4,949	12,788	*
Tenée R. Casaccio	5,045		—	5,045	*
Michael B. Clarke	17,678	(c)	4,949	22,627	*
Gary C. Dake	27,237		4,765	32,002	*
David S. DeMarco	19,069		16,006	35,075	*
Terry R. Goodemote	14,156	(d)	24,719	38,875	*
Thomas L. Hoy	179,619	(e)	60,055	239,674	1.88%
David G. Kruczlnicki	25,120		4,903	30,023	*
Elizabeth O'C. Little	16,710		4,933	21,643	*
David L. Moynehan	29,649		4,949	34,598	*
John J. Murphy	40,678	(f)	4,949	45,627	*
Thomas J. Murphy	29,762		13,243	43,005	*
William L. Owens	1,055		—	1,055	*
Colin L. Read	5,933		255	6,188	*
Richard J. Reisman	13,620	(g)	4,825	18,445	*
Total Shares of Directors and Executive Officers as a Group (16 persons)	438,170		170,460	608,630	4.73%

(a) The use of an asterisk (“\*”) denotes a percentage ownership of less than 1%.

(b) Includes 5,241 shares pledged for a loan arrangement.

(c) Includes 16,000 shares held directly by Mr. Clarke's wife in a revocable trust.

(d) Includes 81 shares held as custodian for Mr. Goodemote's child.

(e) Includes 5,095 shares held directly by Mr. Hoy's wife, 2,559 shares held by Mr. Hoy's wife in an individual

retirement account and 3,480 shares held in a Hoy family irrevocable trust for which Mr. Hoy is grantor.

(f) Includes 26,335 shares held jointly by Mr. J. Murphy with his wife.

(g) Includes 563 shares held directly by Dr. Reisman's wife.

## 5% Shareholders:

The following table sets forth the beneficial ownership of the Company's common stock as of March 9, 2015, by the one holder known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock. Beneficial ownership includes all shares of common stock for which the person has sole or shared voting power or investment power.

Name	Shares Owned		Percent	
BlackRock, Inc. 55 East 52 <sup>nd</sup> Street New York, NY 10022	841,341	(a)	6.63	% <sup>(b)</sup>

The listed number of our shares and percentage ownership of the Company's common stock by BlackRock, Inc.

("BlackRock") is based solely upon a Schedule 13G, Amendment No. 5, filed by BlackRock on January 29, 2015, (a) with the SEC. In that amendment, BlackRock reported that as of December 31, 2014, it had sole dispositive power over all of these shares and the sole voting power with respect to 810,395 shares. BlackRock is an asset management company that provides asset management services to numerous mutual funds.

(b) Percentage based on 12,698,632 shares of our common stock outstanding on March 9, 2015.

Our subsidiary banks, GFNB and SNB, in their capacity as fiduciary of numerous accounts in their respective Trust Departments, including, in the case of GFNB, as trustee of our Employee Stock Ownership Plan ("ESOP"), held 1,660,225 shares of our common stock, or 13.1% of the total shares outstanding and entitled to vote on March 9, 2015, our record date. However, GFNB and SNB were the beneficial owners of only a relatively small number of these shares. Other persons, such as the individual ESOP participants, had the sole power to vote and/or direct the disposition of most of these shares. As a result, neither GFNB nor SNB were the beneficial owners of more than 5% of the shares of our common stock outstanding and entitled to vote on March 9, 2015.

## Compensation Discussion and Analysis

---

### Executive Summary:

The Compensation Discussion and Analysis section of our Proxy Statement provides our shareholders with an explanation of our NEO compensation philosophy, programs, policies and decisions, all within the context of our business environment and performance. Our goal is to present a clear and concise overview of our executive compensation practices and describe key changes from last year.

### 2014 Business Performance

The Company's subsidiary banks, GFNB and SNB, operate and compete in a mature banking market that is characterized by intense and growing competition and high consumer expectations regarding the pricing and delivery of financial products. Since 2010, we have increased our investment in the property and casualty insurance line of business by acquiring three agencies, all of which are located in and serving the same geographic area as many of our current bank offices.

Increasing regulation and a prolonged low-interest-rate environment were ongoing challenges in 2014. The Company, however, delivered a solid performance by adhering to a conservative business model that emphasizes a strong capital position, high loan quality, knowledge of our market and responsiveness to our customers. Results for the fiscal year ended December 31, 2014, included:

Shareholder Return	Growth	Asset Quality
A 2% stock dividend was distributed to our shareholders during 2014.	Total assets increased 2.5% to a record high of \$2.22 billion.	
Cash dividends paid effectively increased 2%.	The loan portfolio increased 11.6% to a record high of \$1.41 billion.	Nonperforming assets were only 0.37% of total assets as of December 31, 2014.
Stockholders' equity reached a record high of \$200.93 million at year-end, up 4.6% from year-end 2013.	Assets under trust administration and investment management rose 4.5% to a record high of \$1.23 billion.	Net loan charge-offs represented just 0.05% of average loans outstanding for the year.
Tangible book value per share increased 5.5% to \$13.89.	Insurance income increased 6.3%.	

Please refer to our 2014 Annual Report on Form 10-K for five- and 10-year comparisons of the total cumulative return (assuming reinvestment of dividends) for our common stock, as compared to the Russell 2000 Index, the NASDAQ® Banks Index and the Zacks \$1B-\$5B Bank Assets Index.

### Key Compensation Decisions and Actions

The business climate and our performance impacted various compensation decisions. The following is a summary of key actions taken by the Compensation Committee on executive compensation in 2014 and thus far in 2015, which are detailed later in this section.

**Additional Retirement Benefit:** The Compensation Committee approved an enhanced retirement benefit under the qualified retirement plan for Mr. T. Murphy, which is further described under "Executive Benefits" later in this section.

Short-Term Incentive Plan Awards: In January of 2014 and 2015, bonus awards for NEOs were made in accordance with the Short-Term Incentive Plan (“STIP”) based, in each case, on the achievement in the prior calendar year of specified performance results of the Company and the individual NEOs, respectively.

Long-Term Incentive Plan Awards: In January of 2014 and 2015, grants of stock options were made to the NEOs under the 2013 LTIP. These awards were made, in each case, in light of personal and corporate accomplishments in the prior year, as well as to incentivize accomplishments in the upcoming years. Generally, LTIP awards are provided to align NEOs’ interests with those of our shareholders and foster a long-term performance mindset among our Management team.

### Ü Executive Compensation Program Highlights

The Compensation Committee and Management strive to have an effective compensation program and strong governance with shareholder-friendly features. Some of these features are summarized below:

**Hedging and Pledging Policies:** All NEOs are prohibited from engaging in any speculative transaction designed to hedge or offset any decrease in market value of the Company's securities, including hedging of the Company's common stock. The Company requires Board approval prior to the pledging of any Company stock by a NEO.

**Clawback Policy:** The Company shall seek to recover any incentives paid or payable to an Executive Officer on the achievement of financial or operational goals that subsequently are deemed by the Company to be inaccurate, misstated or misleading.

**Stock Ownership Guidelines:** The Company has stock ownership guidelines for NEOs.

**No Tax Gross-Ups:** The Company does not pay any taxes that are owed by its Executive Officers.

**Double-Trigger Mechanism:** Employment agreements for all NEOs include a "double-trigger" mechanism for change-of-control payments. In addition to a change-of-control event, the NEO must also be terminated without cause or terminate his own employment for good reason in order to receive special cash payments under the agreement. If terminated for cause, the NEO would not receive any cash severance payment or enhanced retirement benefits beyond the benefits described in "Potential Payments Upon Termination or Change of Control" within the Agreements with Executive Officers section.

**No Stock Option Repricing:** The Company has never repriced stock options. The 2013 LTIP prohibits repricing without shareholder approval.

**Independent Consultants:** The Compensation Committee has periodically engaged an independent compensation consultant to perform a comprehensive review of our executive compensation program and, in between such comprehensive reviews, to provide advice to the Compensation Committee on select compensation issues.

**Risk Assessment:** The Company implements a robust risk oversight and assessment framework to monitor our compensation programs for excessive risk to the Company or its shareholders.

### 2014 Compensation Philosophy and Program:

The purpose and goal of our executive compensation program is to attract and retain key executives and to motivate our executives to improve the Company's long-term profitability within acceptable risk parameters. Annual determinations regarding executive compensation are based on corporate and individual performance, taking into account compensation paid to executives at comparably sized banks in our geographic area or similar areas.

Our executive compensation program consists of base salary, annual incentives, long-term incentives, ownership guidelines and executive benefits. The following is a discussion of the primary purpose of each element.

#### Ü Base Salary

Base salaries are set to recognize the responsibilities associated with the position and expectations with respect to the individual's contribution to the Company. In setting or adjusting base salary levels for our NEOs, the Company considers the following factors: the executive's position, individual performance, contribution to the Company, market salaries for similar positions, experience in that position, industry merit budgets, the Company's overall financial performance and the individual's role in that performance. Base salaries for the NEOs are reviewed and approved annually by the Compensation Committee, usually in January so the Compensation Committee can take into account

results from the prior fiscal year-end performance. Other factors considered by the Compensation Committee include leadership and professional standing in the field of banking and financial services, commitment to the community and current market pay position relative to market benchmarking. Under the employment agreements that the Company enters into with individual NEOs, the Company's ability to decrease the base annual salary of the NEO during the term of the agreement may be limited. See the Agreements with Executive Officers section later in this Proxy Statement.



## Ü Annual Incentives

All short-term incentive bonus awards under our STIP are designed to reward Company and individual performance relative to our annual performance goals. Our STIP is based on a comprehensive quantitative and qualitative assessment of both Company and individual performance. In setting goals under the STIP, the Compensation Committee considers multiple inputs, including but not limited to: specific financial goals, relative performance to our industry and individual performance. If circumstances arise such as major corporate transactions, unforeseen significant changes in the economy or industry-wide developments of an unexpected nature, the Compensation Committee may review and revise pre-established performance targets. The Compensation Committee, in its sole discretion, will determine on a case-by-case basis whether a NEO will receive a bonus award for the year and, if so, the amount of this bonus. As a discretionary bonus program, no NEO has a contractual right to a bonus award under the STIP.

Each year, the Compensation Committee sets goals that will result in bonus awards only in years of successful financial performance by the Company. The target bonus award for any NEO is defined as a percentage of that NEO's base salary. For 2014, the bonus target awards for our NEOs were 40% of base salary for Mr. T. Murphy and 30% of base salary for Messrs. Goodemote and DeMarco.

The pool for the annual short-term incentive bonus awards to all eligible officers and employees of the Company is generally determined based on the total target awards for all participants for that year. Individual STIP awards may be adjusted above or below the target amount for the participant by the Compensation Committee based not only on the individual's performance but also on Company performance, with the following limitations: (i) there will be no bonus awards to NEOs if the Company's performance is less than 90% of target performance, and (ii) if the Company's performance is greater than 110% of the target performance, the bonus awards are capped at 150% of the target payment.

The determination of the amount of the annual short-term incentive bonus awards for the individual NEO consists of the following three-part process:

Company Performance: The Company's performance is assessed on a weighted combination of five financial performance measures, which the Compensation Committee believes provide an appropriate portfolio of performance goals and a balanced perspective while ensuring sound risk management. The following table shows the performance measure and goal-weighting for 2014:

Company Performance Measure	Weighting for Goals (CEO)	Weighting for Goals (Other NEOs)
Net Operating Earnings using Internal NOE	60%	80%
ROE using Internal NOE	10%	5%
Efficiency Ratio	10%	5%
Non-Performing Loans	10%	5%
Net Charge-Offs	10%	5%

In measuring net income for the purpose of paying short-term incentive bonus awards, the Compensation Committee uses Internal Net Operating Earnings ("Internal NOE"), which is different from U.S. Generally Accepted Accounting Principles ("GAAP") in that it represents the net income of the Company before taking into account significant nonrecurring items, net of tax. The significant nonrecurring items are reviewed by the Compensation Committee on a case-by-case basis to determine if the item would have a significant impact on the Company's performance and, therefore, have an impact on the annual short-term incentive bonus awards made to our NEOs under the STIP. The Compensation Committee endeavors to align bonus awards with performance. Items are included to the extent that they are relevant and deemed to be in the normal course of business operations.

Individual Performance: The Compensation Committee performs an overall assessment of the NEO's performance  
2. based on subjective and objective criteria weighted toward Company and team-oriented goals. The Compensation Committee relies on input from the CEO for assessment of the other NEOs.

Relative Weighting of Corporate and Individual Performance: The third and final step in assessing a NEO's ultimate performance for purposes of the short-term incentive bonus awards is the determination by the Compensation  
3. Committee of the relative weighting to be assigned to Company performance versus individual performance for that particular NEO. Typically, the relative weighting for NEOs is based on their particular position

with the Company. For 2014, Mr. T. Murphy was evaluated exclusively, or 100%, on the Company's performance, and Messrs. Goodemote and DeMarco were evaluated 50% on the Company's performance and 50% on individual performance.

Historically, the Compensation Committee meets at the beginning of each year to determine short-term incentive bonus awards for the previous year, when the Company's final year-end performance is known and can be accurately measured. At this same meeting, the Compensation Committee typically sets the STIP goals for the current year as well.

Although there is a formula for determining the dollar amount of the annual short-term incentive bonus awards under the STIP, the Compensation Committee retains full discretion for making these awards to all our NEOs, and simply meeting pre-established performance thresholds does not require payment of any award. There have been years in which awards could have been paid based on the formula but, in fact, were not paid because the Compensation Committee did not deem awards to be appropriate based on a more holistic evaluation of both relative and absolute performance.

#### Ü Long-Term Incentives

The long-term incentive plan is designed to align the goals of our NEOs with the goals of our shareholders. Long-term incentive compensation is provided through the Company's 2013 LTIP, which authorized the issuance of a maximum 450,000 shares of Company common stock.

The 2013 LTIP allows for multiple equity forms, such as restricted stock and stock options. Historically, the Company has provided long-term incentive compensation only in the form of stock options, which only provide value to our NEOs or any eligible recipients if the Company's stock price increases. The long-term incentive component of our executive compensation program is intended to recognize Management collaboration and drive shareholder value creation, which encourages alignment of our NEOs' interests with those of our shareholders. Equity awards are discretionary and when awarded by the Compensation Committee typically reflect to some degree the Company's and the individual's prior-year performance. Stock options granted under our long-term incentive plan normally vest 25% per year over a four-year period, which reinforces the long-term nature of the grant and promotes retention of our top performers. The exercise price for stock option awards is set at 100% of the market closing price of the stock on the date of grant. The Company's annual stock option awards are generally granted at the same time each year, in the month of January shortly after the close of the Company's fiscal year. Furthermore, the provisions of our long-term incentive plan do not allow "backdating" or "reloading" of option grants. Repricing of our stock option grants is only permitted with shareholder approval.

#### Ü Stock Ownership Guidelines

In order to better align the interests of the NEOs with those of our shareholders, the Company adopted stock ownership requirements for our NEOs in January 2011. Under our Stock Ownership Guidelines, the NEOs are required to own a number of shares of the Company's common stock equal to three times base salary for the CEO and one time base salary for other NEOs. Until the required ownership is attained, this policy restricts the NEO's ability to sell shares of the Company's common stock obtained through the LTIP. These stock ownership requirements are measured by the Compensation Committee each year, using data as of December 31 of the previous year. Common shares owned outright or vested shares held through benefit plans are currently counted toward the stock ownership requirement. Conversely, unexercised stock options do not count toward the stock ownership requirement. Individuals have five years from appointment or promotion as a NEO to meet these requirements. The independent members of the Board have the discretion to address and approve "hardship" exceptions on a case-by-case basis.

#### Ü Executive Benefits

The executive benefit program is intended to provide appropriate security and benefits for our NEOs, allowing them to focus on managing the business. Generally, NEOs are eligible for the benefits package we offer to our full-time

employees, which includes medical, dental, life and long-term disability insurance, and qualified retirement plans. In addition, our executive compensation program includes other select benefits summarized below. These benefits are provided in furtherance of the goal of providing NEOs with a comprehensive and competitive compensation package, taking into consideration both market and best practices. All forms of executive benefits are reviewed and approved by the Compensation Committee.

**Broad-based and Select Executive Retirement Plans:** The Company provides a qualified retirement plan (with a non-matching 401(k) feature) as well as an ESOP to all eligible full-time employees, including NEOs. The Company may provide additional retirement benefits to NEOs on a case-by-case basis, either through the Company's non-qualified Supplemental Executive Retirement Plan ("SERP") or through individual awards to NEOs of additional retirement benefits under some other tax-qualified or nonqualified plan or program. There are two types of awards under the SERP, each of which may be granted at the Compensation Committee's discretion: (i) a "makeup" benefit

that is designed to provide the recipients with a level of benefit that they would have received under the Retirement Plan if there were no limitations on eligible compensation in the Internal Revenue Code, and (ii) an additional award of special retirement benefits to any NEO or other senior executive prior to his or her retirement to reward special service and contribution to the Company. As of 2014, all three of our NEOs had been designated to participate in the makeup benefit feature under the first part of the SERP.

In October 2014, with the recommendation of the Compensation Committee, the Board approved an amendment to the Company's qualified retirement plan, to be effective January 1, 2014 (the "2014 Amendment"), which provided Mr. T. Murphy with an enhanced retirement benefit under the plan in that the annual pay-based service credits for Mr. T. Murphy were effectively increased from 6% to 12% as long as he remains employed by the Company. Because Mr. T. Murphy participates in the "makeup" portion of the SERP, to the extent in any given year that his retirement plan benefit, as thus increased, exceeds the level of benefit that is permissible under the limitations on eligible compensation provided for by the Code, the excess benefit, including the increased amount, will be provided to him under the SERP. The Company's retirement plan and SERP are discussed further in "Pension Benefits Table" within the Executive Compensation section.

**Deferred Compensation Plan:** The Company maintains a nonqualified deferred compensation plan for NEOs, under which they may elect to defer some or all of their salary and bonus until retirement. The deferred amounts accumulate interest at a rate equal to the highest rate currently being paid on individual retirement accounts by GFNB. Although all of the NEOs were eligible to participate, none did in 2014. This deferral plan is further discussed in "Nonqualified Deferred Compensation" within the Executive Compensation section.

**Executive Perquisites:** The Company provides very limited perquisites to its NEOs. In 2014, Messrs. T. Murphy, Goodemote and DeMarco each received the personal use of a company automobile and reimbursement of country club dues. No other perquisites were provided.

**Employment Agreements with Named Executive Officers:** Historically, the Company has entered into employment agreements or limited change-of-control agreements with its NEOs. The Company currently has three-year employment agreements with Messrs. T. Murphy and Goodemote and a two-year agreement with Mr. DeMarco. In January of each year, the Compensation Committee reviews the key terms of each NEO employment agreement and determines whether to offer the NEO a replacement agreement of at least the same duration and is otherwise at least as favorable to the NEO as his current agreement. At its January 2015 meeting, the Committee recommended and the Board approved replacement agreements meeting these terms for all NEOs, effective February 1, 2015.

The replacement employment agreements entered into with each of the NEOs contain standard terms relating to salary, position, duties and benefits, as well as special cash payments following a change of control of the Company accompanied or followed by a termination of the NEO's employment by the Company without cause or by the NEO himself for good reason, that is, a "double trigger." These agreements do not provide any right to receive a payment under the STIP, to receive stock awards under the LTIP, or to receive any additional retirement benefits under our retirement plan or SERP. The Compensation Committee and our Board will continue to review the appropriateness of employment agreements on a case-by-case basis. These employment agreements are described in more detail in the Agreements with Executive Officers section.

The Company from time to time enters into consulting agreements with retiring NEOs to ensure a smooth transition of an operating function from the retiree to his or her successor and/or to ensure the Company has access to the retiree's expertise for a period of time. Mr. Hoy, the Company's former CEO, and Mr. J. Murphy, the Company's former CFO, each served under such post-retirement consulting arrangements in 2014. Mr. Hoy will continue to do so during 2015. Mr. J. Murphy's consulting agreement expired as of December 31, 2014. These arrangements are further described in "Mr. Hoy Consulting Agreement" and "Mr. J. Murphy Consulting Agreement," respectively, within the Voting Item 1 – Election of Directors section.

The Company believes these five components – base salary, annual incentives, long-term incentives, ownership guidelines and executive benefits – comprise a total compensation program that both aligns pay and performance and supports a total rewards approach to executive compensation. Our executive compensation program is reviewed at least annually by the Compensation Committee to ensure that various considerations such as security versus performance, fixed versus variable, short-term versus long-term, cash versus equity-based compensation, and benefits provided are and remain appropriate in light of market trends and the Company’s primary business objectives. Our policy and practice is to consider the Company’s performance compared to peer and industry performance, as well as market compensation

levels, when making our short- and long-term compensation decisions to ensure our compensation package effectively reflects performance.

#### 2014 Process for Determining Executive Compensation:

##### Ü Role of the Compensation Committee, Independent Consultants and Management

The Compensation Committee oversees our executive compensation policies and process, is responsible for the final decisions on many components of executive compensation for the CEO and the other NEOs, and makes recommendations to the full Board on other components such as employment agreements. The Compensation Committee is responsible for reviewing and approving all aspects of compensation of our CEO and other NEOs, and it receives input from the CEO and the full Board on key compensation policy issues. Each of the five Directors who serve on the Compensation Committee meet the general independence test for directors, as well as the particular independence qualifications for Compensation Committee members under the NASDAQ® listing requirements. The Compensation Committee met three times during 2014, and its Chair provides regular reports to the Board.

The Compensation Committee is authorized to seek the assistance of independent compensation consultants. These consultants are paid by the Company, but are hired by, directed by and report directly to the Compensation Committee. During 2014, the Compensation Committee retained the services of Pearl Meyer & Partners, LLC (“PM&P”), an independent outside consulting firm specializing in executive and board compensation, to provide assistance regarding executive compensation and support with compensation policies and proxy disclosure. PM&P provides no other consulting services for the Company.

Our CEO provides the Compensation Committee with an annual review of his own goals for the Company, including broad performance and personal goals, as well as a performance assessment for the other NEOs. Management also provides information and data on Company and individual performance and executive compensation to the Compensation Committee. Although our CEO provides insight and recommendations regarding NEO compensation, it is the Compensation Committee that votes on decisions regarding NEO compensation. Where appropriate, the Board will also make recommendations or determinations or give its approval regarding NEO compensation. Although the Compensation Committee meets with our CEO to obtain his views, goals and assessments regarding compensation matters, as discussed above, the decisions regarding his compensation package are made solely by the Compensation Committee without the CEO or other NEOs present.

##### Ü Benchmarking

In setting program targets and making compensation decisions, the Compensation Committee sources a variety of data and information related to market practices for bank holding companies similar to the Company and may engage independent compensation consultants on a periodic basis to conduct comprehensive competitive reviews.

The Compensation Committee relies on three key reports, as summarized below, to ascertain market-competitive guidelines for base salary, short- and long-term incentive targets, and estimated total direct compensation, with ranges for performance. The guidelines allow the Compensation Committee to see the potential pay and range of pay for each executive role and provide a framework for consideration by the Compensation Committee in setting targeted pay levels going forward.

Each year, the Compensation Committee reviews peer group data – from the Executive Compensation Review for Banks and Thrifts prepared annually by SNL Financial (“SNL”) – to obtain executive compensation and performance data relative to a peer group. Further, the Compensation Committee reviews annually a survey compiled by Management of the executive compensation paid by regional and local financial institutions based on the most recent proxy statements filed by those institutions with the SEC. Both the SNL and Management surveys are updated annually.

In addition, the Compensation Committee periodically commissions an independent outside consulting firm to conduct a comprehensive review of the Company's executive compensation program. In 2012, PM&P was hired to revise and update the comprehensive review it previously prepared in 2009. The purpose of the 2012 PM&P report (the "PM&P Report") was to provide an independent and objective analysis of all elements of compensation, individually and in aggregate, relative to market and peer group practices. Pay mix and an assessment of the pay-for-performance relationship were also presented to the Compensation Committee to provide foundational information to support compensation decisions for Management.



A primary data source used in the PM&P report for determining the competitive market for the compensation of our NEOs was the information publicly disclosed by a peer group of other publicly traded banks. This peer group, which is somewhat larger than the peer group that Management has used in its recent annual reviews for the Committee of the executive compensation being paid by our peers, was developed by PM&P using objective parameters that reflect bank holding companies of similar asset size located in our general geographic region. In future comprehensive reviews by outside consultants of our executive compensation practices, this regional peer group will be reviewed and updated to ensure an appropriate comparison based on size and business focus.

The 2012 peer group contained in the PM&P Report, which is listed below, consisted of 20 bank holding companies in Pennsylvania, Massachusetts, New Jersey, New York, Rhode Island and Vermont that ranged from approximately \$1.3 to \$4.5 billion in assets, positioning the Company at approximately the median for size (\$1.9 billion in assets):

Alliance Financial Corporation	ESB Financial Corporation	Peapack-Gladstone Financial Corporation
Berkshire Hills Bancorp, Inc.	Financial Institutions, Inc.	
Brookline Bancorp, Inc.	Lakeland Bancorp, Inc.	Tompkins Financial Corporation
Bryn Mawr Bank Corporation	Merchants Bancshares, Inc.	United Financial Bancorp, Inc.
Citizens & Northern Corporation	Metro Bancorp, Inc.	Univest Corporation of Pennsylvania
CNB Financial Corporation, Inc.	OceanFirst Financial Corporation	Washington Trust Bancorp, Inc.
Enterprise Bancorp, Inc.	Orrstown Financial Services, Inc.	Westfield Financial, Inc.

In addition to the regional peer group data, the PM&P Report used data from other banking industry surveys that reviewed bank holding companies of similar asset size and regions to that of the Company.

#### Ü Performance Analysis

In addition to benchmarking, the Compensation Committee and Board also review the Company’s performance relative to other bank holding companies in a broader peer group as defined in the Federal Reserve Bank’s “Bank Holding Company Performance Report,” which contains data from a peer group consisting of all U.S. bank holding companies with between \$1.0 and \$3.0 billion in total assets (the “Fed Peer Group”).

Set forth below is a comparison between the Company’s financial performance across several key performance metrics for the 12-month period ending December 31, 2014, and the performance across these same metrics for the nine-month period ending September 30, 2014, by the Fed Peer Group – the most recent information available at the time the Compensation Committee met in January to review performance.

This comparison shows that the Company continued to be among the top performers and that our operating results and asset quality ratios withstood the ongoing stresses of the financial sector, including the historically low interest rate environment that continued in 2014 better than many of our competitors in this national peer group.

Key Performance Metric	Arrow Financial Corporation 12/31/2014	Federal Reserve Bank Peer Data 09/30/2014
Profitability Ratios (Higher is Better)		
ROA – Return on Average Assets	1.07%	0.90%
ROE – Return on Average Equity	11.79%	8.44%
Asset Quality (Lower is Better)		
Net Loans Charged-Off as a Percentage of Average Loans	0.05%	0.15%
Nonperforming Loans as a Percentage of Period-end Loans	0.55%	1.14%
Efficiency Ratio (Lower is Better)	57.21%	69.73%



## Executive Compensation Decisions:

## Ü January 2014 Base Salary Decisions

The Compensation Committee met in January 2014 to review corporate and individual executive performance for 2013. Please see our 2014 Proxy Statement and our 2013 Annual Report on Form 10-K for a detailed review of the Company's 2013 financial performance.

Based on this performance, noting the Company's record earnings and strong asset quality, as well as a review of the NEOs' individual performance, the Compensation Committee approved the base salaries below for the NEOs effective January 1, 2014. In addition to merit, Mr. DeMarco's 2014 salary increase included the first of a two-part market adjustment.

Named Executive Officer	2013	January 2014 Raise		2014
	Salary	% of Base Salary	Amount	Salary
Mr. T. Murphy	\$300,000	2.0%	\$6,000	\$306,000
Mr. Goodemote	\$230,000	2.2%	\$5,000	\$235,000
Mr. DeMarco	\$210,000	7.1%	\$15,000	\$225,000

## Ü January 2015 Base Salary Decisions

The Compensation Committee met in January 2015 to review corporate and individual executive performance for 2014. Please see "2014 Business Performance" earlier in this section and our 2014 Annual Report on Form 10-K for a detailed review of the Company's 2014 financial performance.

Based on the performance of the Company and the individuals, the Compensation Committee approved the base salaries below for the NEOs effective January 1, 2015. In addition to merit, Mr. DeMarco's 2015 salary increase included the second in a two-part market adjustment.

Named Executive Officer	2014	January 2015 Raise		2015
	Salary	% of Base Salary	Amount	Salary
Mr. T. Murphy	\$306,000	4.6%	\$14,000	\$320,000
Mr. Goodemote	\$235,000	—	—	\$235,000
Mr. DeMarco	\$225,000	7.6%	\$17,000	\$242,000

## Ü Short-Term Incentive Award Decisions

In determining the short-term incentive bonus awards for NEOs at any year-end, the Compensation Committee carefully considers the recent financial performance of the Company, strategic results such as product and market expansion, as well as individual performance factors such as leadership and commitment to the community. The amounts of such awards are principally determined based on the achievement of pre-established Company performance targets, as well as an overall individual assessment. See "Annual Incentives" earlier in this section for further detail.

At a meeting in January 2015, the Compensation Committee reviewed the parameters and results of the 2014 short-term incentive bonus award goals for all of its NEOs. Based on the final results of the Company's performance, the amounts of the short-term incentive bonus awards to be paid under the STIP were determined for Messrs T. Murphy, Goodemote and DeMarco. As noted earlier in this section, the Compensation Committee uses an Internal NOE calculation to measure its performance goals. Internal NOE is calculated on a basis other than GAAP, in that Internal NOE represents the net income of the Company before significant nonrecurring items, net of tax. The decision by the Compensation Committee to eliminate significant nonrecurring items from the award review process could result in an Internal NOE that is higher or lower than net income reported in conformity with GAAP.

In 2014, the Internal NOE was lower than GAAP net income (i.e., GAAP net income was \$23.360 million while the Internal NOE used to calculate the short-term incentive bonus awards was \$23.293 million, or approximately \$67,000 less). This was the result of the exclusion of net gains recognized by the Company on the sale of long-term investments. The Compensation Committee determined that exclusion of this item was appropriate for purposes of determining the annual

STIP bonus awards and resulted in lower annual awards to the NEOs than would have been the case without the exclusion.

The following table provides a comparison of the Company's 2014 target performance goals, the 2014 actual results and 2014 peer data (through September 30, 2014) drawn from the Federal Reserve Bank's Bank Holding Company Performance Report. The weighting used by the Compensation Committee in determining annual awards is described earlier in this section. The Federal Reserve Bank Peer Group Data provided in this table consisted of all U.S. Bank Holding Companies having between \$1.0 and \$3.0 billion in total assets. The September 30, 2014, peer group data was the most recent available to the Compensation Committee during its review at the January 2015 meeting.

Performance Measure	2014 Goal	2014 Actual	Federal Reserve Bank Peer Data 09/30/14
Net Operating Earnings "Internal NOE"	\$22.750 million	\$23.293 million	N/A
ROE using Internal NOE (Higher is Better)	> 12.00%	11.75%	8.44%
Efficiency Ratio (Lower is Better)	< 58.00%	57.21%	69.73%
Non-Performing Loans (Lower is Better)	< 0.50%	0.55%	1.14%
Net Charge-Offs (Lower is Better)	< 0.15%	0.05%	0.15%

The Company's financial performance for 2014 was generally above the established target levels when considered as a whole and also greatly exceeded peer group performance across these metrics, based on the performance of the Fed Peer Group through September 30, 2014. The amounts of the STIP awards for each individual NEO were based upon these corporate considerations, as well as individual performance toward the established 2014 goals. The Compensation Committee approved the following 2014 STIP awards at its January 2015 meeting:

Named Executive Officer	2014 Annual Incentive		2014 Annual Incentive Actual Awards	
	Amount	% of Base Salary	Amount	% of Base Salary
Mr. T. Murphy	\$122,400	40%	\$137,000	44.8%
Mr. Goodemote	\$70,500	30%	\$69,000	29.4%
Mr. DeMarco	\$67,500	30%	\$75,500	33.6%

#### January 2014 Long-Term Incentive Award Decisions

The Compensation Committee considers and determines grants of long-term incentive awards to NEOs (typically stock options) in January of each year to better reflect performance of the prior year and ensure greater alignment between pay and performance on a prospective basis. The following stock option awards were granted by the Compensation Committee at its January 2014 meeting at an exercise price of \$25.00, the closing price of our common stock on the date of grant:

Named Executive Officer	Stock Option Grants in January 2014 (# shares)	Grant Date Fair Value of January 2014 Option Awards
Mr. T. Murphy	10,000	\$60,432
Mr. Goodemote	5,000	\$30,216
Mr. DeMarco	5,000	\$30,216

### Ü January 2015 Long-Term Incentive Award Decisions

At its January 2015 meeting, the Compensation Committee decided to make stock option awards consistent with the grants of January 2014. The following stock option awards were granted at an exercise price of \$25.86, the closing price of our common stock on the date of grant:

Named Executive Officer	Stock Option Grants in January 2015 (# shares)	Grant Date Fair Value of January 2015 Option Awards
Mr. T. Murphy	10,000	\$57,827
Mr. Goodemote	5,000	\$28,913
Mr. DeMarco	5,000	\$28,913

### Other Compensation-Related Matters:

#### Ü Risk Oversight

The Company carefully monitors its compensation levels to ensure they reflect an appropriate balance of pay-for-performance within acceptable risk parameters. We believe incentive compensation awards should be aligned with the institution’s overall business strategy and support its desired risk profile. To that end, each year Management conducts an internal compensation risk assessment to understand the various elements of its overall compensation program, including all incentives. As part of the exercise, in 2014, Management completed an inventory of our existing compensation programs, including incentives; evaluated the plans; determined the existence of Management and Committee oversight; considered appropriate risk mitigants; and assigned a risk rating based on documentation to support these controls. The Company recognizes that an effective incentive program should encourage and reward appropriate performance and requires an element of risk-taking, which is in the long-term benefit of the Company and shareholders. Based on our evaluation, the Company has determined its compensation programs and policies do not create excessive and unnecessary risk taking. Our determination is supported by the following key attributes:

- Our compensation program contains an appropriate balance of fixed and variable compensation.
- The Company offers incentive compensation in multiple forms, including, historically, the award of stock options that are tied to multi-year performance.
- Our STIP contains both a threshold and maximum payment, protecting the Company from the extreme levels of risk that accompany unlimited upside incentive compensation programs and inappropriate pay and performance alignment. Although there is a formula for determining the dollar amount of the annual STIP bonus awards, the Compensation Committee retains full discretion for making STIP bonus awards to all our NEOs. There have been years in which these awards could have been made based on the formula but were not given to the NEOs.
- The Company has share ownership guidelines that further promote long-term thinking and “skin in the game.”
- Our benefits programs are competitive with the market and provide for reasonable base line levels of health, welfare and security, further enhancing the risk-mitigating aspects of our overall program.
- We have adopted a “clawback” policy that will allow us to seek to recover any incentive paid or payable to an Executive Officer on the achievement of financial or operational goals that subsequently are deemed by the Company to be inaccurate, misstated or misleading.

The Company and its Board, including the Compensation Committee, will continue to ensure that proper policies are maintained to monitor ongoing risk management and assessment of compensation practices.

#### Ü Hedging and Pledging Policies

In 2013, the Board approved hedging and pledging policies for its Directors and Executive Officers who are subject to the SEC’s Section 16 reporting requirements. The policy prohibits Directors and Section 16 Officers from entering into financial transactions designed to hedge or offset any decrease in market value of Company common stock. In addition, Directors and Section 16 Officers must obtain Board approval prior to entering into any agreement involving

the pledge or other use of Company stock as collateral in a financial arrangement.

Ü Impact of Accounting and Tax on the Form of Compensation

The Compensation Committee and Management consider the accounting and individual and corporate tax consequences of the compensation plans prior to making changes. The Compensation Committee has considered the impact of the expense, which will be recognized by the Company in accordance with FASB ASC TOPIC 718, on the Company's use of equity incentives.

Section 162(m) of the Internal Revenue Code limits deductibility by the Company of non-exempt taxable compensation paid to NEOs to a maximum of \$1 million per annum. Taxable compensation is exempt from this limit on deductibility if it is “performance-based.” In the Company’s case, neither base salary nor STIP payments are considered performance-based, hence neither would be exempt from “compensation” for purposes of measuring an NEO’s compensation in any year against the \$1 million deductible limit. Conversely, compensation income realized by NEOs upon exercise of stock options granted under our LTIP is deductible from the definition of “compensation.” Based on the current salaries being paid to our NEOs and the expected range of possible future performance awards that might be paid to our NEOs in upcoming years, the Company does not believe that the non-deductibility for tax purposes of any component of the compensation payable to its NEOs under Section 162(m) is a likely concern but will continue to evaluate this issue in future years.

Compensation Committee Report:

The Compensation Committee of the Board has reviewed and discussed with Management the Compensation Discussion and Analysis section, as required by Item 402(b) of the SEC’s Regulation S-K and the Compensation Committee’s Charter. Based on its review and discussion, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

David G. Kruczynski, Chairman      Michael B. Clarke  
Gary C. Dake                      Elizabeth O’Connor Little  
William L. Owens



## Executive Compensation

This Executive Compensation section includes several tables with details of the compensation actually paid and/or awarded to certain Executive Officers of the Company (the NEOs) for each of the last three fiscal years. Tables included in this section are:

- Summary Compensation
- Grants of Plan-Based Awards
- Outstanding Equity Awards at Fiscal Year-End
- Option Exercises and Stock Vested
- Pension Benefits

## Summary Compensation Table:

The following table sets forth information concerning total compensation paid to and compensatory awards received by the NEOs in each of the relevant years:

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards (b)	Non-Equity Incentive Plan Compensation (c)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (d)	All Other Compensation (e)	Total
Thomas J. Murphy	2014	\$306,000	—	—	\$60,432	\$137,000	\$42,133	\$11,455	\$557,020
President and CEO	2013	\$300,000	—	—	—	\$100,000	\$17,299	\$9,154	\$426,453
Terry R. Goodemote	2012	\$200,000	—	—	\$61,313	\$58,972	\$17,790	\$7,770	\$345,845
Executive Vice President, Treasurer and CFO	2014	\$235,000	—	—	\$30,216	\$69,000	\$41,663	\$10,255	\$386,134
David S. DeMarco	2013	\$230,000	—	—	—	\$56,500	\$17,369	\$8,057	\$311,926
Senior Vice President	2012	\$188,700	—	—	\$30,656	\$46,771	\$31,486	\$6,819	\$304,432
	2014	\$225,000	—	—	\$30,216	\$75,500	\$36,415	\$10,350	\$377,481
	2013	\$210,000	—	—	—	\$53,000	\$24,318	\$7,962	\$295,280
	2012	\$178,500	\$75,000 <sup>(a)</sup>	—	\$21,460	\$44,243	\$41,542	\$7,430	\$368,175

(a) Represents a one-time cash bonus payment for Mr. DeMarco in connection with his promotion to CEO of SNB on December 31, 2012.

(b) This column sets forth the dollar value of option awards granted under the Company's compensatory stock plans for each of the listed years, calculated in accordance with FASB ASC TOPIC 718. The estimated value of each stock option granted in 2012 was \$6.13 per option share (all grants made on January 25, 2012, under the 2008 LTIP), and the estimated value of each stock option granted in 2014 was \$6.04 per option share (all grants made on January 29, 2014, under the 2013 LTIP), in each case using the Black-Scholes model to estimate fair value. All such stock options vest ratably in equal installments over the first four anniversaries following the date of grant. No stock

options were granted to NEOs or other employees in 2013.

(c) This column sets forth the short-term incentive bonus payments made under the Company's STIP for each of the listed years, based on the financial performance of the Company, strategic Company results and individual performance factors during that year. STIP amounts payable for a given year are generally paid in January of the succeeding year.

(d) This column sets forth the actuarial increase during each of the listed years in the present value of the retirement benefits under qualified pension plans and nonqualified deferred compensation plans established by the Company that cover such NEO, determined using interest rate, mortality rate and other assumptions consistent with those used in the Company's financial statements. The increase in present value of retirement benefits reported for each of the NEOs for 2014 includes, (i) under the Company's Employees' Pension Plan ("Pension Plan"), \$20,813 for Mr. T. Murphy, \$34,892 for Mr. Goodemote and \$41,084 for Mr. DeMarco, and (ii) under the Company's SERP, \$21,320 for Mr. T. Murphy, \$6,771 for Mr. Goodemote and (\$4,669) for Mr. DeMarco.

(e) All Other Compensation includes the following components for 2014:

Name	Company Contribution to ESOP	Life Insurance Premiums Paid by Company for Benefit of NEO	Dollar Value of Discount in Share Price for Company Common Stock Purchased Under Employees' Stock Purchase Plan	Total Other Compensation
Thomas J. Murphy	\$9,807	\$385	\$1,263	\$11,455
Terry R. Goodemote	\$9,807	\$385	\$63	\$10,255
David S. DeMarco	\$9,807	\$385	\$158	\$10,350

Grants of Plan-Based Awards Table:

As noted in the Compensation Discussion and Analysis, the Company provides officers and key employees with both an annual incentive plan (STIP) and a long-term incentive plan (LTIP) to attract and retain such officers and employees and to motivate them to improve the Company's short- and long-term performance.

The STIP bonus payable to covered individuals, including Executive Officers, is based on a comprehensive quantitative and qualitative assessment of both Company and individual performance. The target incentive awards, if awards are made for the year, are defined as a percentage of the covered person's base salary. For 2014, the STIP bonus target incentive awards were 40% of base salary for Mr. T. Murphy and 30% of base salary for Messrs. Goodemote and DeMarco. The amounts listed in the table below represent each NEO's 2014 target payment, as well as his threshold payment (50% of target) and maximum payment (150% of target). The Compensation Committee, in its sole discretion, will determine on a case-by-case basis whether an Executive Officer will receive a STIP bonus for the year and, if so, the amount of this bonus, which typically falls within the limits set forth above. Because a STIP bonus is discretionary, no NEO has a contractual right to a bonus under the STIP, even if the pre-established quantitative performance standards for the Company or the Company function for which the Executive is responsible have been met, or the NEO's individual performance standards have been met. There have been years in which the Company and the NEOs have satisfied their quantitative or individual performance targets but no STIP bonuses have been declared or paid, as determined by the Compensation Committee.

Historically, the Company has limited its grants of stock-based awards to stock options. The Company's 2013 LTIP and its predecessor plans allow for the granting of stock-based awards as a long-term incentive component within our overall compensation program.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Awards: Number of Shares or Units	All Other Option Awards: Number of Securities Underlying (\$/Shares)	Grant Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
		Threshold (a)	Target	Maximum	Threshold	Target	Maximum				
Thomas J. Murphy	1/29/14	\$61,200	\$122,400	\$183,600	—	—	—	—	—	—	—
Terry R. Goodemote	1/29/14	\$35,250	\$70,500	\$105,750	—	—	—	—	—	—	—
David S. DeMarco	1/29/14	\$33,750	\$67,500	\$101,250	—	—	—	—	—	—	—

The threshold award under the STIP is not the minimum short-term incentive bonus payment. The Compensation (a) Committee may choose not to pay a short-term incentive bonus award under the STIP to any covered person, including an NEO, even if applicable performance thresholds or targets have been met for the year in question.

Outstanding Equity Awards at Fiscal Year-End Table:

The following table shows all outstanding stock-based awards held by each NEO as of December 31, 2014. All such awards consist of stock options to acquire the Company's common stock granted under the Company's 2013 LTIP or its predecessor plans. The number of shares and exercise prices on this table have been adjusted for the 2% stock dividend distributed on September 29, 2014.

Name	Securities Underlying Unexercised Options (Exercisable)	Securities Underlying Unexercised Options (Unexercisable) <sup>(a)</sup>	Equity Incentive Plan Awards: Securities Underlying Unexercised Options	Option Exercise Price	Option Expiration Date	Shares or Units of Stock Not Vested	Equity Incentive Plan Awards: Market Value of Units or Shares, Other Rights Not Vested		
							Equity Incentive Plan Awards: Market Value of Units or Shares, Other Rights Not Vested	Equity Incentive Plan Awards: Number of Unearned Units or Shares, Other Rights Not Vested	Equity Incentive Plan Awards: Value of Unearned Shares, Other Rights Not Vested
Thomas J. Murphy	2,050	684	—	\$23.30	1/26/2021	—	—	—	—
	5,306	5,306	—	\$23.95	1/25/2022	—	—	—	—
	—	10,200	—	\$24.51	1/29/2024	—	—	—	—
	3,583	—	—	\$20.82	11/29/2016	—	—	—	—
	4,058	—	—	\$18.71	11/28/2017	—	—	—	—
Terry R. Goodemote	4,058	—	—	\$19.48	1/21/2019	—	—	—	—
	3,940	—	—	\$21.83	1/27/2020	—	—	—	—
	2,869	957	—	\$23.30	1/26/2021	—	—	—	—
	2,653	2,653	—	\$23.95	1/25/2022	—	—	—	—
	—	5,100	—	\$24.51	1/29/2024	—	—	—	—
	4,180	—	—	\$20.82	11/29/2016	—	—	—	—
David S. DeMarco	3,940	—	—	\$21.83	1/27/2020	—	—	—	—
	2,869	957	—	\$23.30	1/26/2021	—	—	—	—
	1,857	1,857	—	\$23.95	1/25/2022	—	—	—	—
	—	5,100	—	\$24.51	1/29/2024	—	—	—	—

<sup>(a)</sup> All stock options granted after December 21, 2005, vest in equal installments over the first four anniversary dates after the grant date.

Option Exercises and Stock Vested Table:

The following table sets forth information regarding the stock options that were exercised by each NEO during 2014:

Name	Option Awards		Stock Awards	
	Number Shares Acquired on Exercise	Value Realized on Exercise	Number Shares Acquired on Vesting	Value Realized on Vesting
Thomas J. Murphy	<sup>(a)</sup> 6,957	\$39,805	—	—

Edgar Filing: ARROW FINANCIAL CORP - Form DEF 14A

Terry R. Goodemote	1,243	\$1,859	—	—
David S. DeMarco	3,978	\$21,959	—	—

(a) Represents the total number of shares subject to stock options that the NEO exercised during the year.

Represents the “spread” of options on the date of exercise, i.e., the difference between the dollar value of the shares

(b) of common stock for which options were exercised, based on the market price of our common stock on the date of exercise, and the exercise price (purchase price) of such shares under the options.

## Pension Benefits Table:

The Company maintains a qualified retirement plan for eligible employees who have attained the age of 18, completed one year of service and work a minimum of 1,000 hours per calendar year. Eligible compensation under the retirement plan includes salary, overtime, sick pay, bonuses and other cash and non-cash benefits.

Participants in the retirement plan with 25 years of service may retire at any age, participants with 10 years of service may retire at or after age 55, and participants with five years of service may retire at or after age 65. For early retirement prior to age 65, annuity payments, if elected, would be reduced by 0.25% for each month the participant elects to retire before age 65. Participants who are eligible to retire may not commence receipt of their benefit prior to age 55.

The Company maintains an unfunded, non-qualified SERP, in part for the benefit of NEOs, as determined by the Compensation Committee on a case-by-case basis. The SERP contains both a qualified retirement plan “makeup” benefit feature and an additional SERP benefit feature. For those NEOs who are selected to receive the “makeup” benefit feature, it provides enhanced installment payments post-retirement that are designed to give the NEO the overall level of retirement payments he would have received under the retirement plan if there were no limitations on eligible compensation to high-paid personnel in the Internal Revenue Code. Under the additional SERP benefit feature, the Company is authorized to grant to selected NEOs additional payments upon their retirement, typically structured as post-retirement installment payments, the amounts of which are determined on a case-by-case basis by the Compensation Committee at or before the time of retirement. At this time, no NEOs participate in the additional SERP benefit feature.

The following table sets forth the present value of accumulated benefits under qualified and non-qualified retirement plans of the Company payable to each NEO as of December 31, 2014, and the number of years of service credited to them under the plans. The present value was determined using interest rate and mortality rate assumptions consistent with those described in Note 13 in Item 8 of the Company’s consolidated financial statements as of and for the fiscal year ended December 31, 2014, as included in the Company’s Annual Report on Form 10-K.

Name	Plan Name	Years of Credited Service	Value of Accumulated Benefit as of 12/31/14	Payments During Last Fiscal Year
Thomas J. Murphy	Retirement Plan	9.00	\$107,877	—
	SERP	2.00	\$21,264	—
Terry R. Goodemote	Retirement Plan	22.08	\$226,153	—
	SERP	2.00	\$6,771	—
David S. DeMarco	Retirement Plan	27.08	\$337,195	—
	SERP	2.00	\$218	—

## Nonqualified Deferred Compensation:

The Company has an Executive Officer Deferred Compensation Plan (“Officers’ Deferral Plan”) under which an Executive Officer may elect on a year-to-year basis to defer until retirement all or a portion of his salary or bonus payments otherwise payable to him during and for such year. Amounts deferred earn interest at a rate equal to the highest rate currently being paid on individual retirement accounts by the Company’s principal subsidiary, GFNB. None of the NEOs elected to defer salary or bonus payments under the plan in 2014 or in previous years.





Agreements with Executive Officers

---

Employment Agreements:

The Company has employment agreements with Messrs. T. Murphy, Goodemote and DeMarco. Mr. T. Murphy serves as our President and CEO; Mr. Goodemote serves as our Executive Vice President, Treasurer and CFO; and Mr. DeMarco serves as a Senior Vice President of the Company and President and CEO of SNB. Effective February 1, 2015, each of these NEOs entered into new employment agreements with the Company, which replaced their prior employment agreements. The new agreements were approved by the Compensation Committee and the Board in January 2015. The agreements of Messrs. T. Murphy and Goodemote are each for a three-year term and the agreement of Mr. DeMarco is for a two-year term. At the beginning of each calendar year, the Compensation Committee and the Board are required under these agreements to consider and vote upon a proposal to replace each of the agreements with new, comparable agreements having similar terms, conditions and benefits.

Under each agreement, the NEO is guaranteed his current base annual salary and certain other benefits for the duration of the agreement. Also under each agreement, the NEO is entitled to participate in certain other benefit plans, including medical, dental and life insurance plans; is eligible (although not entitled to receive) cash awards under the short-term annual incentive bonus plan and equity-based awards under the long-term incentive plan; and is also eligible to participate in various retirement and supplemental retirement plans. In the event the NEO is terminated without cause or terminates his own employment for good reason, the NEO will receive a lump-sum payment equal to the greater of (i) his base salary payable during the remaining term of the agreement or (ii) one year's base salary.

Additionally, under the agreements, if there is a change of control of the Company and, within 12 months after such change of control, either (i) the Company terminates the employment of the NEO for any reason (other than a termination of employment for cause) or (ii) such NEO terminates his own employment with the Company for good reason, the NEO will be entitled to receive a lump-sum cash payment equal to a designated multiple of his average annual taxable compensation for the five years preceding such change of control. In the cases of Messrs. T. Murphy and Goodemote, the multiple is 2.99 times such five-year average annual taxable compensation, and in the case of Mr. DeMarco, 1.99 times such five-year average, subject, in each case, to downward adjustment to reflect the value of any other "change-of-control" payment or benefits the NEO might receive under other compensatory arrangements then in effect. In such circumstances, the NEO is also eligible to receive medical, dental and life insurance coverage that is generally equivalent to the coverage then held, subject to employee cost-sharing, for a period of two years following the change of control. Under each agreement, the NEO will not receive any payment following a change of control to the extent such payment constitutes an "excess parachute payment" under the Internal Revenue Code.

The employment agreements for Messrs. T. Murphy, Goodemote and DeMarco also contain non-compete and non-solicitation provisions. For a period of two years following the termination of the NEO's employment, for any reason, he is generally precluded from being employed by, an owner of, or adviser to any bank or insured financial institution located in any New York county in which the Company or its subsidiaries provide financial services, maintain a branch or office or have acted to establish a branch or office. Under the non-solicitation provision, for a period of two years following the NEO's termination of employment for any reason, he is generally precluded from soliciting customers or clients of the Company or its subsidiaries on behalf of any other financial institution that provides financial services. The NEO is also precluded from employing or soliciting employees of the Company or its subsidiaries on behalf of another corporation or entity. The agreements also contain confidentiality and non-disparagement covenants in favor of the Company.

Potential Payments Upon Termination or Change of Control:

Ü Termination for Cause

In the event of a termination of any NEO for cause, the NEO in question would not receive any cash severance payment or enhanced retirement benefits beyond the benefits described in “Pension Benefits Table” within the Executive Compensation section. Eligibility for regular Company severance or retirement payments is determined in a manner consistent with all employees of the Company under applicable Company plans and policies.

#### Ü Termination by the Company Other Than for Cause

If there is a termination of any of the NEOs by the Company other than for cause, the NEO is entitled under his current employment agreement with the Company to receive a lump-sum payment in an amount equal to the greater of (i) his base salary payable during the remaining term of the agreement or (ii) one year's base salary. The table later in this section shows the estimated payout for Messrs. T. Murphy, Goodemote and DeMarco, had they been terminated by the Company other than for cause as of December 31, 2014. The Company does not have a formal written severance plan or policy that generally covers employees or executives who are terminated by the Company other than for cause; therefore, none of the NEOs would be entitled to any additional severance payments under any such policy or plan if terminated by the Company other than for cause. The Company also has a SERP, under which the Board from time to time may elect to extend special retirement benefits to senior executives, on a case-by-case basis. To date, none of the current NEOs have been given special SERP benefits, although Mr. T. Murphy was given a special retirement award under the Company's qualified retirement plan – for a description, see “Executive Benefits” in the Compensation Discussion and Analysis section. In the past, the Company has, from time to time at the discretion of the Board or its Compensation Committee, awarded severance payments to NEOs in differing amounts, determined on a case-by-case basis, even in cases where such payments were not required under the SERP or under the terms of any employment agreement between the Company and such officer. (The foregoing discussion assumes that the hypothetical termination of an NEO by the Company other than for cause is not preceded by a change of control. Any such termination following a change of control may result in a greater payment to the NEO, as discussed later in this section.)

#### Ü Termination for Good Reason

Each of the current NEO employment agreements provides for payments to the NEO during the terms of the agreement if he were to voluntarily terminate his employment for “good reason.” Good reason is defined as a (i) failure by the Company to offer the NEO an annual replacement agreement on terms, conditions and benefits comparable to his existing employment agreement; (ii) material diminution in his title, authority, duties or responsibilities; (iii) required relocation of the NEO more than 100 miles from his existing base location of employment; or (iv) material breach by the Company of the NEO's employment agreement. Under each NEO's agreement, the amount due to the NEO if he were to terminate his employment with good reason during the term of the agreement, absent a change of control, is a lump-sum payment equal to the greater of the amount of (i) his base salary payable during the remaining term of the agreement or (ii) one year's base salary. (The foregoing discussion assumes that the hypothetical termination of the NEO by the Company other than for cause is not preceded by a change of control. Any such termination following a change of control may result in a greater payment to the NEO, as discussed later in this section.)

#### Ü Termination in Connection with a Change of Control

The Company has entered into employment agreements with each of its NEOs under which certain payments are to be made by the Company to the NEO if, following a change of control of the Company, his employment is terminated without cause or he voluntarily terminates his employment for good reason. For the NEOs, the amounts that would have been payable to each had his employment been terminated as of December 31, 2014, by the Company or by such officer himself for good reason following a change of control are identified in tables later in this section. In addition, all of the outstanding stock options granted to these NEOs, to the extent not fully vested, would under the terms of such options vest immediately upon a change of control, regardless of whether the employment of such person is terminated or terminates on or after such change of control. Otherwise, termination of any of these NEOs following a change of control would generally not result in enhanced retirement benefits beyond the benefits described in “Pension Benefits Table” in the Executive Compensation section. Eligibility for other payments would be determined in a manner consistent with all Company employees under applicable plans and policies.

A “change of control” of the Company is defined in the employment agreements with NEOs as follows: (i) the acquisition by one person, or more than one person acting as a group, of ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total

voting power of the stock of the Company; (ii) the acquisition by one person, or more than one person acting as a group, of ownership of stock of the Company that, together with stock of the Company acquired during the 12-month period ending on the date of the most recent acquisition by such person or group, constitutes 30% or more of the total voting power of the stock of the Company; (iii) a majority of the members of the Board are replaced during any 12-month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; or (iv) one person, or more than one person acting as a group, acquires, or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group, assets from the Company that have a total gross fair market value, determined without regard to any

liabilities associated with such assets, equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately before such acquisition(s).

#### Ü Voluntary Termination or Early Retirement

The early retirement or voluntary termination of employment by any NEO would generally not result in any enhanced retirement benefits beyond the benefits described in "Pension Benefits Table" in the Executive Compensation section (although following a change in control, a voluntary termination of employment by a NEO may trigger enhanced retirement benefits, if such termination is for good reason). To the extent that any NEO may hold unvested stock options as of the date of his self-termination or early retirement, the Board might choose to accelerate the vesting of such options as of the date of such termination or early retirement. Eligibility for regular Company severance or retirement payments by a NEO is determined in a manner consistent with all Company employees under applicable plans and policies. Eligibility for SERP payments, including in the event of early retirement, is limited to select Executive Officers, as determined from time to time by the Board acting in its sole discretion. Messrs. T. Murphy and DeMarco are currently eligible for SERP payments upon their termination of employment or early retirement.

#### Ü Death or Disability

In the event of death or disability, the NEO would generally not receive any cash severance payment or enhanced retirement benefits beyond those described in "Pension Benefits Table" within the Executive Compensation section. Eligibility for regular Company severance or retirement payments is determined in a manner consistent with all employees of the Company under applicable plans and policies. However, under our standard stock option award agreements applicable to all option recipients, including NEOs, upon the death or permanent disability of a recipient who holds unvested stock option awards, any such awards will be subject to accelerated vesting as of such date.

#### Potential Payments Table:

The table below shows the estimated payouts to each of the NEOs upon various "termination of employment" scenarios, assuming, in each case, that the NEO's employment terminated as of December 31, 2014; the value of the Company's common stock was \$27.49, the closing price of our common stock on that day; and in the case of a post change-in-control termination, the triggering change-in-control event occurred in 2014. The table illustrates the potential payments and benefits to be paid to Messrs. T. Murphy, Goodemote and DeMarco under the termination events noted:

Name and Principal Position	Type of Payment	Involuntary Termination Without Cause or Voluntary Termination with Good Reason	Change of Control (e)	Retirement	Death or Disability
Thomas J. Murphy President and CEO	Cash Compensation (a)	\$637,500	\$775,390	—	—
	Stock Options (b)	—	\$52,045	—	\$52,045
	SERP – Pension & ESOP(c)	\$31,576	\$31,576	\$31,576	\$31,576
	Health and Welfare Benefits (d)	—	\$28,381	—	—
	Total	\$669,076	\$887,392	\$31,576	\$83,621
Terry R. Goodemote Executive Vice President, Treasurer and CFO	Cash Compensation (a)	\$489,583	\$731,474	—	—
	Stock Options (b)	—	\$28,600	—	\$28,600
	SERP – Pension & ESOP(c)	\$9,138	\$9,138	\$9,138	\$9,138
	Health and Welfare Benefits (d)	—	\$28,478	—	—
	Total	\$498,721	\$797,690	\$9,138	\$37,738
David S. DeMarco	Cash Compensation (a)	\$243,750	\$476,191	—	—

Edgar Filing: ARROW FINANCIAL CORP - Form DEF 14A

Senior Vice President Stock Options <sup>(b)</sup>	—	\$25,782	—	\$25,782
SERP – Pension & ESOP <sup>(c)</sup>	\$1,127	\$1,127	\$1,127	\$1,127
Health and Welfare Benefits <sup>(d)</sup>	—	\$28,478	—	—
Total	\$244,877	\$531,578	\$1,127	\$26,909

(a) Messrs. T. Murphy, DeMarco and Goodemote will each receive a lump-sum payment equal to the greater of the amount of (i) their base salary payable during the remaining term of the agreement or (ii) one year's base salary.

(b) Reflects accelerated vesting of stock options.

Represents \$21,624 for benefits under the pension plan and \$9,952 for ESOP account value for Mr. T. Murphy, \$6,771 for benefits under the pension plan and \$2,367 for ESOP account value for Mr. Goodemote and \$218 for (c) benefits under the pension plan and \$909 for ESOP account value for Mr. DeMarco. Pension plan benefits are payable in the form of an annuity and ESOP account values are payable in a lump sum.

Represents the projected cost for 24 months of medical and dental insurance coverage under the Company's fully (d) insured medical and self-insured dental plans, assuming continued cost-sharing by the NEO, plus continued premium payments for 24 months of term life insurance and split-dollar insurance policies.

Messrs. T. Murphy, DeMarco and Goodemote will each receive an amount payable in installments or, in the event of unforeseeable emergency, in a lump-sum equal to, for Messrs. T. Murphy and Goodemote, 2.99 times their average annual taxable compensation for the five years preceding the event, and in the case of Mr. DeMarco, 1.99 times such five-year average, adjusted downward in each case to reflect any other change-of-control payment or benefits they might receive under other compensatory arrangements then in effect, such as the value they might receive from accelerated vesting of stock options. For Mr. T. Murphy, the lump-sum amount (i.e., \$827,435) is (e) reflective of a downward adjustment (i.e., \$52,045) as a result of accelerated vesting of their stock options. For Mr. Goodemote, the lump-sum amount (i.e., \$760,074) is reflective of a downward adjustment (i.e., \$28,600) as a result of accelerated vesting of stock options. For Mr. DeMarco, the lump-sum amount (i.e., \$501,973) is reflective of a downward adjustment (i.e., \$25,782) as a result of accelerated vesting of stock options. Their agreements further provide that under no circumstances will Messrs. T. Murphy, DeMarco and Goodemote receive any payments under the employment agreement if such payments would constitute an "excess parachute payment" under the tax laws.

#### Section 16(a) Beneficial Ownership Reporting

---

The Company's Executive Officers and Directors, as well as any 10% shareholders of the Company, are required by Section 16(a) of the Securities Exchange Act of 1934 to file reports with the SEC regarding their ownership of our stock, including changes in their stock ownership. The Company has received and reviewed copies of these reports filed by the Company's Directors and Executive Officers during 2014, along with written statements received from the Directors and Executive Officers stating they were not required to file any additional reports. Based solely on our review of the 2014 reports and statements, all of the Section 16(a) reports required to be filed by our Directors and Executive Officers during 2014 were timely filed.

#### Additional Voting Information

---

##### Frequently Asked Questions:

Ü Who is entitled to vote?

The Company has one class of stock outstanding, common stock, \$1 par value per share. At the close of business on our record date of March 9, 2015, there were 12,698,632 shares outstanding. The holders of these shares are our shareholders of record and will be entitled to vote at the Annual Meeting or any adjournment or postponement thereof. Each of these shareholders will receive notice of the Annual Meeting and instructions on how to vote their shares. Each share outstanding on the record date is entitled to one vote. Shares held in treasury by the Company are not eligible to vote and do not count toward a quorum.

Ü What are "broker non-votes" and how are they voted at the Annual Meeting?

Shares of our common stock can be held in (i) certificate form; (ii) by “book entry” at our transfer agent, American Stock Transfer & Trust Company, LLC; or (iii) in “street name” at a broker. When shares owned by you are held in street name, the broker will solicit your vote and provide us with the results of the vote for all of the Company shares it holds in your account. On “routine” matters, if you as the owner of the shares do not provide the broker with voting instructions, the broker has the right to vote these shares in its own discretion. However, a broker is not allowed to exercise its discretion on voting shares held in street name on any “non-routine” matter. On such matters, these shares may only be voted by the broker in accordance with express voting instructions received by it from you, the owner of the shares. The votes attaching to such shares, that is, shares that may not be voted by a broker except in accordance with the owner’s voting instructions, are referred to as “broker non-votes.”

This year, the only matter that will be considered a routine matter is Item 2, the ratification of the Company’s independent registered public accounting firm. Item 1, the election of Directors, is a non-routine matter; therefore,



shares held by a broker in street name cannot be voted on by the broker at his or her discretion for those items. If your shares are held at a broker, the Company urges you to provide voting instructions to your broker so that your vote may be counted.

Ü How are Dividend Reinvestment Plan and other plan shares voted?

Shares owned by you in the Arrow Financial Corporation Automatic Dividend Reinvestment Plan (“DRIP”) on our record date will be combined with all other shares owned by you directly on that date and presented to you with voting instructions. Shares owned by Company employees, Directors and other participants in the Company’s 2011 Employee Stock Purchase Plan on the March 9, 2015, record date will be presented to the participants for voting on a separate voting form and will be voted in accordance with their instructions.

Shares owned by Company employees in the ESOP on the March 9, 2015, record date on a fully vested basis will be voted by the ESOP Trustee on behalf of such employees in accordance with any voting instructions received from the employees. Participants will receive a separate voting form from the ESOP’s plan administrator for this purpose. If a participant does not provide the Trustee with voting instructions for his or her ESOP shares, the Trustee will vote the participant’s shares in accordance with the “mirror voting” provisions of the ESOP. Under the “mirror voting” provisions, all such shares will be voted in a pro rata manner calculated to most accurately reflect the instructions received from those account holders who did provide voting instructions to the Trustee.

Ü What constitutes a quorum at the meeting?

There will be a quorum at the Annual Meeting if one-third of the total number of outstanding shares of our common stock are present, either in person or represented by proxy. Consistent with applicable state law and our Certificate of Incorporation and By-Laws, the Company will treat all shares present in person or represented by proxy at the Annual Meeting, including so-called “broker non-votes,” as shares present or represented by proxy for purposes of determining the meeting quorum. Shares held in treasury by the Company are not deemed outstanding and thus are ignored for purposes of calculating the quorum.

Ü How many votes are required for approval of Item 1?

The first item on the agenda is the election of four Class B Directors and one Class A Director. The affirmative vote of the holders of a plurality of the shares of common stock present in person or represented by proxy at the Annual Meeting and eligible to vote on such matter is required for the election of each Director. A “plurality” means receiving a higher number of votes for such position than any other candidate, up to the maximum number of Directors to be chosen at the Annual Meeting. Because, at this year’s meeting, there are as many nominees (five) as there are Directors to be elected (five), a Director nominee is assured of being elected if he or she receives any “For” votes, regardless of how many negative votes (“Withhold Authority”) are cast for that Director. Broker non-votes are ineligible to vote on Item 1.

The Company’s Majority Voting Policy states that if an election of Directors is uncontested, as is the case this year, and a nominee’s negative votes (“Withhold Authority”) exceed 50% of the total number of shares outstanding and entitled to vote at the Annual Meeting with respect to the election of Directors, that Director must tender his or her resignation to the Company following the meeting. The Governance Committee of the Board is then required to evaluate the tendered resignation and make a recommendation to the full Board on appropriate action, which may or may not include the acceptance of such resignation. In determining the appropriate action to be taken by the Company, the Board will take into account the best interests of the Company and its shareholders.

Ü What is the impact of a vote to “Withhold Authority” on Item 1?

A proxy or ballot marked “Withhold Authority” will be the equivalent of an abstention from voting on Item 1. As discussed in the preceding section, if each of the nominees receives any votes in favor of their election, each will be elected and a ballot marked “Withhold Authority,” like an abstention from voting, will not affect the outcome of this election. However, a ballot marked “Withhold Authority,” like an abstention from voting, may nevertheless have a

negative impact under our Majority Voting Policy because a “Withhold Authority” vote, like an “Against” vote, will be treated as a negative vote, and will make it somewhat more likely that the nominee will be required to submit his or her resignation under that policy, even though such person may in fact have been elected. (See the description of the Majority Voting Policy in the preceding paragraph.)

Ü How many votes are required for approval of Item 2?

The second item on the agenda is ratification of our independent registered public accounting firm, KPMG LLP. The affirmative vote of a majority of the shares of common stock present in person or represented by proxy at the Annual Meeting and voting on these proposals is required for approval or ratification, as the case may be. Broker non-votes will be eligible to vote on Item 2.

Ü What is the impact of a vote to “Abstain” on Item 2?

In order for Item 2 to be approved or ratified by the shareholders, as the case may be, it must receive the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and voting on the proposal. A proxy or ballot marked “Abstain” on Item 2 will not have the same effect as a vote “Against” such item. A proxy or ballot marked “Against” on Item 2 is an actual vote (and counts in the total number of votes on the item) whereas a vote to “Abstain” on Item 2 is not an actual vote (and does not get counted in the total votes on the item). Therefore, a vote “Against” Item 2 makes it more difficult to achieve shareholder approval or ratification than a vote to “Abstain.”

Ü How do I submit my proxy?

Shareholders of record as of the close of business on March 9, 2015, will be entitled to vote at the Annual Meeting, or any adjournment or postponement thereof. You can ensure that your shares are voted properly at the Annual Meeting by submitting your proxy by telephone, online or by completing, signing and dating the proxy card that will be provided to you upon request. Shareholders of record should receive a notice with voting instructions and the ability to request Proxy Materials, except those shareholders who have previously requested printed or electronic copies of our Proxy Materials will receive a printed or electronic copy, as applicable. If your shares are held by a broker or bank, you must follow the voting instructions on the form you receive from your broker or bank.

Ü May I revoke my proxy?

A proxy may be revoked at any time prior to the Annual Meeting by submitting a later vote of your shares either by Internet or by telephone prior to the Annual Meeting or by attending and voting your shares in person at the Annual Meeting. You may also revoke your proxy by delivering a written notice of revocation of proxy prior to the Annual Meeting to: Corporate Secretary, Arrow Financial Corporation, 250 Glen Street, Glens Falls, New York 12801.

Ü How are proxies being solicited?

Proxies are being solicited electronically, by telephone and by mail. Proxies may also be solicited without additional compensation by our Directors, Officers and other employees personally, by telephone or other means. The Company will bear all costs of proxy solicitation. If the Company utilizes the services of other financial institutions, brokerage houses, custodians, nominees or fiduciaries to solicit proxies, the Company will reimburse them for their out-of-pocket expenses.

Householding of Notices to Shareholders:

In some instances, only one copy of the Notice of Internet Availability of Proxy Materials concerning this Proxy Statement is being delivered for shareholder accounts that contain the same primary Social Security number, unless the Company has received instructions from one or more of the shareholders to continue to deliver multiple copies. The Company will deliver a copy of the Notice of Internet Availability of Proxy Materials to any shareholder upon request by email to [corporatesecretary@arrowbank.com](mailto:corporatesecretary@arrowbank.com) or in writing to: Householding of Notice, c/o Corporate Secretary, Arrow Financial Corporation, 250 Glen Street, Glens Falls, New York 12801.

Additional Matters for Consideration at the Annual Meeting:

Please note the deadline for submission of proposals by shareholders for consideration at the Annual Meeting has passed. This applies to proposals that shareholders would wish to include in the Company’s Proxy Statement for the

Annual Meeting (this Proxy Statement) as well as in their own Proxy Materials, which they would prepare, file with the SEC and disseminate to shareholders. Therefore, no additional matters may be proposed by any shareholder for submission to the shareholders generally at the Annual Meeting, other than procedural issues such as adjournment, postponement or continuation. On such procedural issues, all shares represented at the Annual Meeting by proxy may be voted at the discretion of the attorneys-in-fact named in the proxies, to the extent permitted by law.

Proxy Cards Returned Without Specific Voting Instructions:

If you return a proxy card without specific voting instructions for any or all items, your shares will be voted on Item 1 “For” each of the Board’s four Class B nominees and one Class A nominee, and on Item 2 “For” ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2015, and on any other procedural matter properly submitted for shareholder consideration, in such manner as the shareholders’ attorneys-in-fact may determine, in their discretion, to be appropriate and in the best interests of shareholders generally.

Additional Shareholder Information

---

Shareholder Submissions of Director Nominees:

Any shareholder submission of a candidate for the Board to consider as one of its nominees for Director at the 2016 Annual Meeting of Shareholders must be in writing and contain certain information about the candidate and comply with certain procedures, which are described in detail in the Company’s By-Laws. All candidates who are properly submitted by shareholders will first be considered by the Governance Committee of the Board at the time of its normal Director nomination review, and if the Governance Committee recommends such candidate, he or she will subsequently be considered by the full Board. Such submissions must be in writing and addressed to: Board of Director Candidates, c/o Corporate Secretary, Arrow Financial Corporation, 250 Glen Street, Glens Falls, New York 12801.

A shareholder may act directly to nominate his or her own Director candidates at our 2016 Annual Meeting of Shareholders by following the procedures set forth in the subsection below titled “Shareholder Proposals for Presentation at the 2016 Annual Meeting.” Such direct nominations by shareholders not involving the Board’s nomination are subject to the deadlines and procedures described and set forth in our By-Laws and applicable rules of the SEC, including minimum advance notice to the Board.

Annual Meeting Shareholder Proposal Process:

Ü Shareholder Proposals for Inclusion in the 2016 Proxy Statement

To be considered for inclusion in our 2016 Proxy Statement next year, shareholder proposals must be submitted in accordance with SEC’s Rule 14a-8 and must be received by our Corporate Secretary, Arrow Financial Corporation, 250 Glen Street, Glens Falls, New York 12801, no later than November 27, 2015. Additionally, our Company By-Laws require the name and address of record of the proposing shareholder, appropriate information regarding the matter sought to be presented or person to be nominated, as well as the number of shares of our common stock that are owned by the proposing shareholder.

Ü Shareholder Proposals for Presentation at the 2016 Annual Meeting

If a shareholder wishes to have a proposal presented at our 2016 Annual Meeting but not included in the Company’s 2016 Proxy Statement, including a nomination for the Board of Directors, the shareholder must satisfy the requirements established under our Company By-Laws. The shareholder must give notice to the Corporate Secretary of the Company of any such proposal for next year’s Annual Meeting not later than January 7, 2016, and the notice provided by the shareholder must contain information required by our By-Laws including the name and address of record of the proposing shareholder, appropriate information regarding the matter sought to be presented or the proposed nominee, as well as the number of shares of our common stock that are owned by the proposing shareholder.

\*\*\*\*\*

Your Vote is Very Important

\*\*\*\*\*

40

---



