

To: All Media  
Date: July 22, 2005

### **Arrow Announces Second Quarter Results**

Arrow Financial Corporation announced operating results for the three and six-month periods ended June 30, 2005. Net income for the second quarters of 2005 and 2004 each equaled \$4.7 million representing diluted earnings per share of \$.45 for both periods. Diluted earnings per share for the first six months of 2005 were \$.88 with net income totaling \$9.1 million which compared with diluted earnings per share of \$.92 and net income of \$9.6 million in the 2004 period. Cash dividends paid to shareholders in 2005 totaled \$.46 and represented a 5.5% increase over the amount paid last year.

Thomas L. Hoy, President and CEO stated, "Our second quarter results reflect the very challenging interest rate environment in which shorter term rates have continued to increase while intermediate and longer term rates have not similarly responded. Although this has led to some additional narrowing of the net interest margin, the benefit from growth in the average balance of interest earning assets offset the effect of the margin decline, resulting in a comparable level of net interest income for the respective quarters. Average earning asset growth was concentrated in the loan portfolio, as average loan outstandings increased 7.8% to \$927 million. The period-end balance of loans reached \$953 million, up \$87 million, or 10.0%, from the June 30, 2004 balance of \$866 million."

Mr. Hoy also stated, "Much of the earning asset growth resulted from the early April acquisition of three branch offices of HSBC Bank USA, N.A., which included approximately \$62 million in deposits. We are very pleased with the smooth transition of these offices into our branch network. Average earning assets were \$1.379 billion in the second quarter of 2005 as compared with \$1.329 billion in the same quarter last year, an increase of 3.7%. Net interest margin was 3.72% in this year's second quarter versus 3.86% for the second quarter of 2004. For the six months ended June 30, net interest margin was 3.75% for 2005, which compares with 3.92% for the prior year.

"Other notable items impacting the six-month earnings results include a 12.8% increase in other (non-interest) income, rising from \$6.4 million in 2004 to \$7.2 million in 2005. This essentially reflected insurance commission income generated by our new subsidiary, the Capital Financial Group, Inc., which we acquired in November 2004. Income from fiduciary services also increased over the prior year's level, reaching \$2.3 million in 2005 versus \$2.1 million for 2004. Assets under trust administration and investment management were \$806 million at June 20, 2005, also a record total. Included in this balance are The North Country Funds, which our subsidiary, North Country Investment Advisors, Inc. serves as exclusive investment advisor. The North Country funds totaled a combined \$150 million at June 30, 2005.

"Also significantly influencing the earnings comparison was the change in other (non-interest) expense. For the six-month periods ending June 30, other expense was \$17.7 million in 2005 as compared with \$16.3 million in 2004, or an increase of 8.4%. Much of the increase is attributable to recurring operating expenses incurred by the newly-acquired business operations, i.e. the Capital Financial Group insurance agency and the branches acquired from HSBC, which were not included in 2004 results together with intangible asset amortization and startup costs of approximately \$100,000 were associated with the branch acquisition.

"Total assets at June 30, 2005 were \$1.454 billion, or 5.4% above \$1.380 billion reported one year earlier. Deposits rose 6.5% to \$1.105 billion, which compares with \$1.038 billion at June 30, 2004. Both comparisons were strongly influenced by the branch acquisitions. The record period-end loan balance of \$953 million noted above included significant growth in small business loans, which totaled \$232 million, up 11.1% from the June 30, 2004 level of \$208 million. The indirect consumer loan category of Arrow's loan portfolio also experienced significant growth, as the auto manufacturers began to retreat from highly subsidized financing programs. Indirect loan originations in the three-month period ending June 30, 2005 totaled \$62 million, which represented a new quarterly record."

Mr. Hoy added, "Credit quality remains very high. Nonperforming loans were \$2.0 million at June 30, 2005, down 22.9% from the \$2.5 million balance at June 30, 2004. At June 30, 2005, nonperforming loans represented just .21% of period-end loans. Our allowance for loan losses was \$12.2 million at June 30, 2005 and equaled 1.28% of period-end loans. Net loan losses were a very low .06% (annualized) of average loans outstanding for the six-month period ending June 30, 2005 as compared with .09% for the comparable six-month period in 2004."

Arrow Financial Corporation is a multi-bank holding company headquartered in Glens Falls, NY with 30 banking locations in Upstate New York. Arrow is the parent of Glens Falls National Bank and Trust Company and Saratoga National Bank and Trust Company.

The information contained in this News Release may contain statements, such as the statement about auto manufacturers' subsidy financing, that are not entirely historical in nature but rather are based in the whole or in part on management's beliefs, assumptions, expectations, estimates and projections about the future. These statements are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and involve a degree of uncertainty and attendant risk. In the case of all forward-looking statements, actual outcomes and results may differ materially from what the statements predict or forecast. The Company undertakes no obligation to revise or update these forward-looking statements to reflect the occurrence of unanticipated events. This News Release should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

**Arrow Financial Corporation**  
**Consolidated Financial Information**  
(\$ in thousands, except per share amounts)  
Unaudited

|   | Three Months<br>Ended June 30, |                 | Six Months<br>Ended June 30, |                 |
|---|--------------------------------|-----------------|------------------------------|-----------------|
|   | <u>2005</u>                    | <u>2004</u>     | <u>2005</u>                  | <u>2004</u>     |
| <b>Income Statement</b>                             |                                |                 |                              |                 |
| Interest and Dividend Income                        | \$17,776                       | \$17,062        | \$34,643                     | \$34,364        |
| Interest Expense                                    | <u>5,621</u>                   | <u>4,951</u>    | <u>10,684</u>                | <u>9,949</u>    |
| Net Interest Income                                 | 12,155                         | 12,111          | 23,959                       | 24,415          |
| Provision for Loan Losses                           | <u>176</u>                     | <u>254</u>      | <u>408</u>                   | <u>539</u>      |
| Net Interest Income After Provision for Loan Losses | <u>11,979</u>                  | <u>11,857</u>   | <u>23,551</u>                | <u>23,876</u>   |
| Net Gain on Securities Transactions                 | 125                            | ---             | 189                          | 210             |
| Net Gain on Sales of Loans                          | 22                             | 26              | 27                           | 112             |
| Recovery Related to Former Vermont Operations       | ---                            | ---             | ---                          | 77              |
| Net Gains on the Sales of Other Real Estate Owned   | 8                              | ---             | 8                            | ---             |
| Income From Fiduciary Activities                    | 1,181                          | 1,060           | 2,288                        | 2,116           |
| Fees for Other Services to Customers                | 1,948                          | 1,904           | 3,548                        | 3,584           |
| Insurance Commissions                               | 488                            | 6               | 883                          | 11              |
| Other Operating Income                              | <u>110</u>                     | <u>139</u>      | <u>233</u>                   | <u>249</u>      |
| Total Other Income                                  | <u>3,882</u>                   | <u>3,135</u>    | <u>7,176</u>                 | <u>6,359</u>    |
| Salaries and Employee Benefits                      | 5,288                          | 4,778           | 10,343                       | 9,583           |
| Occupancy Expenses of Premises, Net                 | 757                            | 699             | 1,464                        | 1,394           |
| Furniture and Equipment Expense                     | 746                            | 695             | 1,511                        | 1,389           |
| Amortization of Intangible Assets                   | 122                            | 9               | 142                          | 18              |
| Foreclosed Property Expense                         | ---                            | ---             | ---                          | ---             |
| Other Operating Expense                             | <u>2,262</u>                   | <u>1,992</u>    | <u>4,200</u>                 | <u>3,915</u>    |
| Total Other Expense                                 | <u>9,175</u>                   | <u>8,173</u>    | <u>17,660</u>                | <u>16,299</u>   |
| Income Before Taxes                                 | 6,686                          | 6,819           | 13,067                       | 13,936          |
| Provision for Income Taxes                          | <u>2,006</u>                   | <u>2,121</u>    | <u>3,957</u>                 | <u>4,373</u>    |
| Net Income  | <u>\$ 4,680</u>                | <u>\$ 4,698</u> | <u>\$ 9,110</u>              | <u>\$ 9,563</u> |
| <b>Share and Per Share Data <sup>1</sup></b>        |                                |                 |                              |                 |
| Period End Shares Outstanding                       | 10,123                         | 10,120          | 10,123                       | 10,120          |
| Basic Average Shares Outstanding                    | 10,131                         | 10,123          | 10,160                       | 10,120          |
| Diluted Average Shares Outstanding                  | 10,304                         | 10,358          | 10,348                       | 10,358          |
| Basic Earnings Per Share                            | \$ 0.46                        | \$ 0.46         | \$ 0.90                      | \$ 0.94         |
| Diluted Earnings Per Share                          | 0.45                           | 0.45            | 0.88                         | 0.92            |
| Cash Dividends                                      | 0.23                           | 0.22            | 0.46                         | 0.44            |
| Book Value  | 11.64                          | 10.70           | 11.64                        | 10.70           |
| Tangible Book Value <sup>2</sup>                    | 9.92                           | 9.76            | 9.92                         | 9.76            |
| <b>Key Earnings Ratios</b>                          |                                |                 |                              |                 |
| Return on Average Assets                            | 1.29%                          | 1.35%           | 1.29%                        | 1.39%           |
| Return on Average Equity                            | 16.06                          | 17.27           | 15.65                        | 17.62           |
| Net Interest Margin <sup>3</sup>                    | 3.72                           | 3.86            | 3.75                         | 3.92            |

<sup>1</sup> **Share and Per Share** amounts have been restated for the September 2004 3% stock dividend.

<sup>2</sup> **Tangible Book Value** is the ratio of Total Equity less Intangible Assets to Period End Shares Outstanding.

<sup>3</sup> **Net Interest Margin** includes a tax equivalent upward adjustment of 18 basis points in 2005 and 20 basis points in 2004 for the three month periods and an upward adjustment of 18 basis points in 2005 and 20 basis points in 2004 for the six month periods.

**Arrow Financial Corporation**  
**Consolidated Financial Information**  
(\$ in thousands)  
Unaudited

|  | June 30, 2005      |                              |                             | June 30, 2004      |                              |                             |
|--|--------------------|------------------------------|-----------------------------|--------------------|------------------------------|-----------------------------|
|  | Period<br>End      | Second<br>Quarter<br>Average | Year-to-<br>Date<br>Average | Period<br>End      | Second<br>Quarter<br>Average | Year-to-<br>Date<br>Average |
| <b>Balance Sheet</b>   |                    |                              |                             |                    |                              |                             |
| Cash and Due From Banks  | \$ 33,541          | \$ 35,705                    | \$ 35,500                   | \$ 28,641          | \$ 35,209                    | \$ 34,642                   |
| Federal Funds Sold   | ---                | 5,082                        | 3,340                       | ---                | 18,516                       | 13,634                      |
| Securities Available-for-Sale                                      | 321,101            | 334,413                      | 334,150                     | 343,374            | 344,991                      | 342,160                     |
| Securities Held-to-Maturity  | 106,478            | 112,103                      | 111,039                     | 108,047            | 105,736                      | 105,969                     |
| Loans  | 952,938            | 927,224                      | 905,075                     | 866,127            | 859,902                      | 858,195                     |
| Allowance for Loan Losses  | (12,168)           | (12,102)                     | (12,074)                    | (11,984)           | (11,933)                     | (11,898)                    |
| Net Loans  | <u>940,770</u>     | <u>915,122</u>               | <u>893,001</u>              | <u>854,143</u>     | <u>847,969</u>               | <u>846,297</u>              |
| Premises and Equipment, Net  | 15,422             | 15,301                       | 15,070                      | 14,561             | 14,395                       | 14,284                      |
| Goodwill and Intangible Assets, Net                                | 17,461             | 17,045                       | 14,396                      | 9,476              | 9,481                        | 9,475                       |
| Other Assets   | <u>19,532</u>      | <u>15,466</u>                | <u>17,130</u>               | <u>21,897</u>      | <u>20,381</u>                | <u>21,254</u>               |
| Total Assets   | <u>\$1,454,305</u> | <u>\$1,450,237</u>           | <u>\$1,423,626</u>          | <u>\$1,380,139</u> | <u>\$1,396,678</u>           | <u>\$1,387,715</u>          |
| Demand Deposits  | \$ 178,708         | \$ 173,194                   | \$ 166,585                  | \$ 167,768         | \$ 160,184                   | \$ 156,373                  |
| Nonmaturity Interest-Bearing Deposits                              | 612,543            | 623,112                      | 607,769                     | 634,195            | 661,812                      | 655,802                     |
| Time Deposits of \$100,000 or More                                 | 113,062            | 137,875                      | 123,557                     | 64,177             | 65,411                       | 66,161                      |
| Other Time Deposits  | <u>200,925</u>     | <u>194,692</u>               | <u>184,763</u>              | <u>171,527</u>     | <u>176,405</u>               | <u>178,805</u>              |
| Total Deposits   | <u>1,105,238</u>   | <u>1,128,873</u>             | <u>1,082,674</u>            | <u>1,037,667</u>   | <u>1,063,812</u>             | <u>1,057,141</u>            |
| Short-Term Borrowings  | 50,919             | 34,557                       | 41,846                      | 47,467             | 42,696                       | 40,166                      |
| Federal Home Loan Bank Advances                                    | 145,000            | 134,341                      | 146,105                     | 157,500            | 150,220                      | 150,110                     |
| Other Long-Term Debt   | 20,000             | 20,000                       | 20,000                      | 15,000             | 15,000                       | 15,000                      |
| Other Liabilities  | <u>15,281</u>      | <u>15,586</u>                | <u>15,637</u>               | <u>14,265</u>      | <u>15,534</u>                | <u>16,151</u>               |
| Total Liabilities  | <u>1,336,438</u>   | <u>1,333,357</u>             | <u>1,306,262</u>            | <u>1,271,899</u>   | <u>1,287,262</u>             | <u>1,278,568</u>            |
| Common Stock   | 13,479             | 13,479                       | 13,479                      | 13,086             | 13,086                       | 13,086                      |
| Surplus  | 128,266            | 128,024                      | 127,889                     | 114,088            | 113,939                      | 113,809                     |
| Undivided Profits  | 27,799             | 26,570                       | 25,437                      | 29,454             | 28,212                       | 27,012                      |
| Unallocated ESOP Shares  | (1,182)            | (1,182)                      | (1,184)                     | (1,502)            | (1,502)                      | (1,503)                     |
| Accumulated Other Comprehensive Income                             | (1,540)            | (1,767)                      | (1,111)                     | (2,026)            | 247                          | 1,137                       |
| Treasury Stock   | <u>(48,955)</u>    | <u>(48,244)</u>              | <u>(47,146)</u>             | <u>(44,860)</u>    | <u>(44,566)</u>              | <u>(44,394)</u>             |
| Total Shareholders' Equity   | <u>117,867</u>     | <u>116,880</u>               | <u>117,364</u>              | <u>108,240</u>     | <u>109,416</u>               | <u>109,147</u>              |
| Total Liabilities and Shareholders' Equity                         | <u>\$1,454,305</u> | <u>\$1,450,237</u>           | <u>\$1,423,626</u>          | <u>\$1,380,139</u> | <u>\$1,396,678</u>           | <u>\$1,387,715</u>          |
| <b>Assets Under Trust Administration and Investment Management</b> |                    |                              |                             |                    |                              |                             |
|  | \$805,964          |                              |                             | \$783,248          |                              |                             |
| <b>Capital Ratios</b>  |                    |                              |                             |                    |                              |                             |
| Leverage Ratio   | 8.54%              |                              |                             | 8.40%              |                              |                             |
| Tier 1 Risk-Based Capital Ratio                                    | 12.87              |                              |                             | 13.35              |                              |                             |
| Total Risk-Based Capital Ratio                                     | 14.13              |                              |                             | 14.60              |                              |                             |

**Arrow Financial Corporation**  
**Consolidated Financial Information**  
(\$ in thousands)  
Unaudited

|   | June 30,         |                  |
|---|------------------|------------------|
|   | <u>2005</u>      | <u>2004</u>      |
| <b>Loan Portfolio</b>   |                  |                  |
| Commercial, Financial and Agricultural                                  | \$ 87,663        | \$ 81,324        |
| Real Estate – Commercial  | 144,769          | 126,840          |
| Real Estate – Residential   | 363,345          | 340,667          |
| Real Estate – Construction  | 7,805            | 8,684            |
| Indirect Consumer Loans   | 339,766          | 298,177          |
| Other Loans to Individuals  | 9,590            | 10,435           |
| Total Loans   | <u>\$952,938</u> | <u>\$866,127</u> |
| <b>Allowance for Loan Losses, Second Quarter</b>                        |                  |                  |
| Allowance for Loan Losses, Beginning of Period                          | \$12,091         | \$11,923         |
| Loans Charged-off   | (203)            | (272)            |
| Recoveries of Loans Previously Charged-off                              | 104              | 79               |
| Net Loans Charged-off   | <u>(99)</u>      | <u>(193)</u>     |
| Provision for Loan Losses   | 176              | 254              |
| Allowance for Loan Losses, End of Period                                | <u>\$12,168</u>  | <u>\$11,984</u>  |
| <b>Allowance for Loan Losses, First Six Months</b>                      |                  |                  |
| Allowance for Loan Losses, Beginning of Period                          | \$12,046         | \$11,842         |
| Loans Charged-off   | (450)            | (531)            |
| Recoveries of Loans Previously Charged-off                              | 164              | 134              |
| Net Loans Charged-off   | <u>(286)</u>     | <u>(397)</u>     |
| Provision for Loan Losses   | 408              | 539              |
| Allowance for Loan Losses, End of Period                                | <u>\$12,168</u>  | <u>\$11,984</u>  |
| <b>Nonperforming Assets</b>   |                  |                  |
| Nonaccrual Loans  | \$1,761          | \$2,113          |
| Loans Past Due 90 or More Days and Accruing                             | 199              | 430              |
| Restructured Loans  | ---              | ---              |
| Total Nonperforming Loans   | 1,960            | 2,543            |
| Reposessed Assets   | 10               | 207              |
| Other Real Estate Owned   | 19               | ---              |
| Total Nonperforming Assets  | <u>\$1,989</u>   | <u>\$2,750</u>   |
| <b>Key Asset Quality Ratios</b>   |                  |                  |
| Net Loans Charged-off to Average Loans, Second Quarter Annualized       | 0.04%            | 0.09%            |
| Net Loans Charged-off to Average Loans, First Six Months Annualized     | 0.06             | 0.09             |
| Provision for Loan Losses to Average Loans, Second Quarter Annualized   | 0.08             | 0.12             |
| Provision for Loan Losses to Average Loans, First Six Months Annualized | 0.09             | 0.13             |
| Allowance for Loan Losses to Period-End Loans                           | 1.28             | 1.38             |
| Allowance for Loan Losses to Nonperforming Loans                        | 620.79           | 471.22           |
| Nonperforming Loans to Period-End Loans                                 | 0.21             | 0.29             |
| Nonperforming Assets to Period-End Assets                               | 0.14             | 0.20             |