

To: All Media  
Date: April 24, 2006

### **Arrow Announces First Quarter Results**

Arrow Financial Corporation announced operating results for the quarter ended March 31, 2006. Net income for the quarter was \$4.059 million, or diluted earnings per share of \$.39, which compared with the diluted earnings per share amount of \$.41 earned in the first quarter of 2005, when net income was \$4.430 million. This represents a 4.9% decrease in earnings per share. The quarterly cash dividend paid to shareholders in the first quarter of 2006 was \$.24, or 7.5% higher than was paid in last year's first quarter.

Thomas L. Hoy, President and CEO stated, "Our operating results for the first quarter were again a reflection of a narrowing of the net interest margin. A continued increase in our funding costs, a result of policy decisions by the Federal Reserve Bank together with a flattened yield curve, which limits the increases in our long-term portfolio, were attributable. Arrow's net interest margin was 3.39% for the quarter ended March 31, 2006 as compared with 3.79% in the first quarter of 2005. Net interest income (tax equivalent) declined 2.4% to \$12.124 million for the quarter ended March 31, 2006 from \$12.417 million one year earlier."

Other factors influencing the earnings comparison include increases in other (non-interest) income, the provision for loan losses and other (non-interest) expense. For the quarter ended March 31, 2006, other (non-interest) income rose 13.1% to \$3.726 million from \$3.294 one year earlier. This change was led by a 17.7% increase in income from fiduciary and investment management services which rose to \$1.303 million from \$1.107 million in 2005. Assets under Trust administration and investment management were \$861 million at March 31, 2006, a new record and a 10.5% increase over the \$779 million balance one year earlier. The provision for loan losses increased \$41 thousand to \$273 thousand as net loan losses were up slightly from the prior year but remained at a very low level. Other (non-interest expense) was \$9.154 million for the first quarter of 2006, up 7.9% from \$8.485 million reported in the first quarter of 2005. The majority of the increase is attributable to the costs of operating three branches, which were acquired from HSBC Bank, NA in the second quarter of 2005.

At March 31, 2006, total assets were \$1.506 billion, up \$90 million or 6.3%, from \$1.416 billion at March 31, 2005. Total deposits rose \$105 million to \$1.170 billion from \$1.065 billion at March 31, 2005, a 9.8% increase. Loans outstanding at March 31, 2006 were \$997 million, up \$98 million or 10.9% from \$899 million one year earlier. Growth in the commercial and commercial real estate category continued to be the most significant, with balances increasing to \$263 million at March 31, 2006 from \$220 million one year earlier, a 19.3% change. Indirect consumer loans totaled \$340 million, or 8.5% above the \$313 million reported at March 31, 2005 but 3.5% below the December 31, 2005 balance of \$352 million. The year-over-year change reflected less aggressive pricing subsidies from the auto manufacturers while the interim change was influenced by seasonality and our decision to price on the higher end of the financing range. Residential mortgage credit totaled \$389 million at March 31, 2006, up 9.3% from \$356 million one year earlier. Attractive financing rates available throughout much of 2005 were attributable for this change, although recent increases in prevailing mortgage rates and seasonality resulted in a slight drop in outstandings from the year-end level.

Mr. Hoy further added, "Arrow's asset quality continued to be very high. Nonperforming assets were \$1.346 million at March 31, 2006, down 35.4% from \$2.084 million one year earlier. Nonperforming assets represented a very low .09% of March 31, 2006 period-end assets. Net loan losses were just .11% (annualized) of average loans outstanding during the 2006 first quarter."

Our 31st office opened January 3, 2006 in Wilton as a branch of the Saratoga National Bank and Trust Company. Customer response to date has been very good. We expect to complete the permitting process and begin construction of the third Glens Falls National Bank and Trust Company Plattsburgh office later in the second quarter. This office will be located in the PARC complex in the southern part of the city. We also expect that our recently chartered Community Development Corporation ("CDC") will soon acquire and begin renovation of its first residential property. Working in conjunction with local government, the CDC's mission is to promote affordable housing and community development. The North Country Funds, which are advised by our subsidiary, North Country Investment Advisors, Inc., reached another record period-end high - \$162 million.

Arrow Financial Corporation is a multi-bank holding company headquartered in Glens Falls, NY serving the financial needs of northeastern New York. Arrow is the parent of the Glens Falls National Bank and Trust Company and Saratoga National Bank and Trust Company.

The information contained in this News Release may contain statements that are not historical in nature but rather are based on management's beliefs, assumptions, expectations, estimates and projections about the future. Examples are management's statements about future economic conditions and anticipated business developments. 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, 2005.

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

|   | Three Months<br>Ended March 31, |                 |
|---|---------------------------------|-----------------|
|   | <u>2006</u>                     | <u>2005</u>     |
| <b>Income Statement</b>                             |                                 |                 |
| Interest and Dividend Income                        | \$19,332                        | \$16,867        |
| Interest Expense                                    | <u>7,850</u>                    | <u>5,063</u>    |
| Net Interest Income                                 | 11,482                          | 11,804          |
| Provision for Loan Losses                           | <u>273</u>                      | <u>232</u>      |
| Net Interest Income After Provision for Loan Losses | <u>11,209</u>                   | <u>11,572</u>   |
| Net Gain on Securities Transactions                 | ---                             | 64              |
| Net Gain on Sales of Loans                          | 43                              | 5               |
| Income From Fiduciary Activities                    | 1,303                           | 1,107           |
| Fees for Other Services to Customers                | 1,804                           | 1,600           |
| Insurance Commissions                               | 422                             | 395             |
| Other Operating Income                              | <u>154</u>                      | <u>123</u>      |
| Total Other Income                                  | <u>3,726</u>                    | <u>3,294</u>    |
| Salaries and Employee Benefits                      | 5,471                           | 5,055           |
| Occupancy Expenses of Premises, Net                 | 805                             | 707             |
| Furniture and Equipment Expense                     | 757                             | 765             |
| Amortization of Intangible Assets                   | 117                             | 20              |
| Other Operating Expense                             | <u>2,004</u>                    | <u>1,938</u>    |
| Total Other Expense                                 | <u>9,154</u>                    | <u>8,485</u>    |
| Income Before Taxes                                 | 5,781                           | 6,381           |
| Provision for Income Taxes                          | <u>1,722</u>                    | <u>1,951</u>    |
| Net Income  | <u>\$ 4,059</u>                 | <u>\$ 4,430</u> |
| <b>Share and Per Share Data <sup>1</sup></b>        |                                 |                 |
| Period End Shares Outstanding                       | 10,344                          | 10,464          |
| Basic Average Shares Outstanding                    | 10,358                          | 10,494          |
| Diluted Average Shares Outstanding                  | 10,508                          | 10,706          |
| Basic Earnings Per Share                            | \$ 0.39                         | \$ 0.42         |
| Diluted Earnings Per Share                          | 0.39                            | 0.41            |
| Cash Dividends                                      | 0.24                            | 0.22            |
| Book Value  | 11.27                           | 11.06           |
| Tangible Book Value <sup>2</sup>                    | 9.59                            | 9.95            |
| <b>Key Earnings Ratios</b>                          |                                 |                 |
| Return on Average Assets                            | 1.08%                           | 1.29%           |
| Return on Average Equity                            | 14.02                           | 15.24           |
| Net Interest Margin <sup>3</sup>                    | 3.39                            | 3.79            |

<sup>1</sup> **Share and Per Share** amounts have been restated for the September 2005 3% stock dividend.

<sup>2</sup> **Tangible Book Value** excludes intangible assets from total equity.

<sup>3</sup> **Net Interest Margin** includes a tax equivalent upward adjustment of 18 basis points in 2006 and 19 basis points in 2005.

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(\$ in thousands)  
Unaudited

|   | <u>March 31, 2006</u> |                    | <u>March 31, 2005</u> |                    |
|---|-----------------------|--------------------|-----------------------|--------------------|
|   | Period                | First              | Period                | First              |
|   | <u>End</u>            | <u>Quarter</u>     | <u>End</u>            | <u>Quarter</u>     |
|   |                       | <u>Average</u>     |                       | <u>Average</u>     |
| <b>Balance Sheet</b>  |                       |                    |                       |                    |
| Cash and Due From Banks                                     | \$ 27,177             | \$ 33,841          | \$ 34,587             | \$ 35,292          |
| Federal Funds Sold  | 5,500                 | 2,733              | ---                   | 1,578              |
| Securities Available-for-Sale                               | 319,901               | 332,183            | 333,756               | 333,884            |
| Securities Held-to-Maturity                                 | 111,010               | 114,744            | 113,357               | 109,963            |
| Loans   | 996,922               | 999,560            | 898,792               | 882,681            |
| Allowance for Loan Losses                                   | <u>(12,253)</u>       | <u>(12,229)</u>    | <u>(12,084)</u>       | <u>(12,048)</u>    |
| Net Loans   | <u>984,669</u>        | <u>987,331</u>     | <u>886,708</u>        | <u>870,633</u>     |
| Premises and Equipment, Net                                 | 15,949                | 15,957             | 14,905                | 14,835             |
| Goodwill and Intangible Assets, Net                         | 17,231                | 17,288             | 11,682                | 11,717             |
| Other Assets  | <u>24,417</u>         | <u>15,733</u>      | <u>20,972</u>         | <u>18,818</u>      |
| Total Assets  | <u>\$1,505,584</u>    | <u>\$1,519,810</u> | <u>\$1,415,967</u>    | <u>\$1,396,720</u> |
| Demand Deposits   | \$ 177,747            | \$ 177,398         | \$ 164,405            | \$ 159,903         |
| Nonmaturity Interest-Bearing Deposits                       | 603,710               | 592,400            | 602,273               | 592,258            |
| Time Deposits of \$100,000 or More                          | 148,060               | 153,730            | 122,805               | 109,080            |
| Other Time Deposits   | <u>240,069</u>        | <u>233,807</u>     | <u>175,558</u>        | <u>174,722</u>     |
| Total Deposits  | 1,169,586             | 1,157,335          | 1,065,041             | 1,035,963          |
| Short-Term Borrowings                                       | 38,619                | 38,848             | 71,548                | 49,216             |
| Federal Home Loan Bank Advances                             | 145,000               | 167,168            | 130,000               | 158,000            |
| Other Long-Term Debt  | 20,000                | 20,000             | 20,000                | 20,000             |
| Other Liabilities   | <u>16,066</u>         | <u>19,020</u>      | <u>13,605</u>         | <u>15,687</u>      |
| Total Liabilities   | <u>1,389,271</u>      | <u>1,402,371</u>   | <u>1,300,194</u>      | <u>1,278,866</u>   |
| Common Stock  | 13,883                | 13,883             | 13,479                | 13,479             |
| Surplus   | 139,794               | 139,732            | 127,902               | 127,753            |
| Undivided Profits   | 22,981                | 22,118             | 25,447                | 24,291             |
| Unallocated ESOP Shares                                     | (862)                 | (869)              | (1,182)               | (1,186)            |
| Accumulated Other Comprehensive Income                      | (6,346)               | (5,016)            | (2,519)               | (447)              |
| Treasury Stock  | <u>(52,867)</u>       | <u>(52,409)</u>    | <u>(47,354)</u>       | <u>(46,036)</u>    |
| Total Shareholders' Equity                                  | <u>116,583</u>        | <u>117,439</u>     | <u>115,773</u>        | <u>117,854</u>     |
| Total Liabilities and Shareholders' Equity                  | <u>\$1,505,854</u>    | <u>\$1,519,810</u> | <u>\$1,415,967</u>    | <u>\$1,396,720</u> |
| Assets Under Trust Administration and Investment Management | \$860,904             |                    | \$779,320             |                    |
| <b>Capital Ratios</b>                                       |                       |                    |                       |                    |
| Leverage Ratio  | 8.39%                 |                    | 9.07%                 |                    |
| Tier 1 Risk-Based Capital Ratio                             | 12.65                 |                    | 14.31                 |                    |
| Total Risk-Based Capital Ratio                              | 13.87                 |                    | 15.56                 |                    |

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(\$ in thousands)  
Unaudited

|  | March 31,        |                  |
|--|------------------|------------------|
|  | <u>2006</u>      | <u>2005</u>      |
| <b>Loan Portfolio</b>  |                  |                  |
| Commercial, Financial and Agricultural                               | \$ 86,210        | \$ 81,126        |
| Real Estate – Commercial   | 176,370          | 139,059          |
| Real Estate – Residential  | 380,378          | 349,131          |
| Real Estate – Construction   | 8,594            | 6,653            |
| Indirect Consumer Loans  | 339,637          | 312,942          |
| Other Loans to Individuals   | 5,733            | 9,881            |
| Total Loans  | <u>\$996,922</u> | <u>\$898,792</u> |
| <b>Allowance for Loan Losses, First Quarter</b>                      |                  |                  |
| Allowance for Loan Losses, Beginning of Period                       | \$12,241         | \$12,046         |
| Loans Charged-off  | (360)            | (247)            |
| Recoveries of Loans Previously Charged-off                           | 99               | 53               |
| Net Loans Charged-off  | <u>(261)</u>     | <u>(194)</u>     |
| Provision for Loan Losses  | 273              | 232              |
| Allowance for Loan Losses, End of Period                             | <u>\$12,253</u>  | <u>\$12,084</u>  |
| <b>Nonperforming Assets</b>  |                  |                  |
| Nonaccrual Loans   | \$1,232          | \$1,853          |
| Loans Past Due 90 or More Days and Accruing                          | 7                | ---              |
| Restructured Loans   | ---              | ---              |
| Total Nonperforming Loans  | 1,239            | 1,853            |
| Reposessed Assets  | 107              | 126              |
| Other Real Estate Owned  | ---              | 105              |
| Total Nonperforming Assets   | <u>\$1,346</u>   | <u>\$2,084</u>   |
| <b>Key Asset Quality Ratios</b>                                      |                  |                  |
| Net Loans Charged-off to Average Loans, First Quarter Annualized     | 0.11%            | 0.09%            |
| Provision for Loan Losses to Average Loans, First Quarter Annualized | 0.11             | 0.11             |
| Allowance for Loan Losses to Period-End Loans                        | 1.23             | 1.34             |
| Allowance for Loan Losses to Nonperforming Loans                     | 988.94           | 652.13           |
| Nonperforming Loans to Period-End Loans                              | 0.12             | 0.21             |
| Nonperforming Assets to Period-End Assets                            | 0.09             | 0.15             |