ARROW FINANCIAL CORP
Form 10-Q
November 09, 2016

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

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

For the Quarterly Period Ended September 30, 2016

or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-12507

ARROW FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

New York	22-2448962
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

250 GLEN STREET, GLENS FALLS, NEW YORK 12801
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code: (518) 745-1000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes No

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

Large accelerated filer	Accelerated filer x	Non-accelerated filer	Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding as of October 31, 2016
Common Stock, par value $1.00 per share	13,467,310

ARROW FINANCIAL CORPORATION
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PART I - FINANCIAL INFORMATION

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share and Per Share Amounts)
(Unaudited)

	September 30, 2016	December 31, 2015	September 30, 2015
ASSETS			
Cash and Due From Banks	$ 66,556	$ 34,816	$ 43,870
Interest-Bearing Deposits at Banks	35,503	16,252	25,821
Investment Securities:			
Available-for-Sale	339,190	402,309	397,559
Held-to-Maturity (Approximate Fair Value of $347,441 at September 30, 2016; $325,930 at December 31, 2015; and $324,009 at September 30, 2015)	338,238	320,611	317,480
Federal Home Loan Bank and Federal Reserve Bank Stock	5,371	8,839	5,143
Loans	1,707,216	1,573,952	1,536,925
Allowance for Loan Losses	(16,975)	(16,038)	(15,774)
Net Loans	1,690,241	1,557,914	1,521,151
Premises and Equipment, Net	26,718	27,440	28,186
Goodwill	21,873	21,873	22,003
Other Intangible Assets, Net	2,802	3,107	3,263
Other Assets	53,993	53,027	55,075
Total Assets	$ 2,580,485	$ 2,446,188	$ 2,419,551
LIABILITIES			
Noninterest-Bearing Deposits	$ 381,760	$ 358,751	$ 347,963
NOW Accounts	993,221	887,317	971,252
Savings Deposits	629,201	594,538	568,022
Time Deposits of $100,000 or More	79,222	59,792	60,978
Other Time Deposits	129,783	130,025	133,836
Total Deposits	2,213,187	2,030,423	2,082,051
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	38,589	23,173	24,414
Federal Home Loan Bank Overnight Advances	—	82,000	—
Federal Home Loan Bank Term Advances	55,000	55,000	55,000
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	20,000
Other Liabilities	24,501	21,621	26,944
Total Liabilities	2,351,277	2,232,217	2,208,409
STOCKHOLDERS’ EQUITY			
Preferred Stock, $5 Par Value; 1,000,000 Shares Authorized	—	—	—
Common Stock, $1 Par Value; 20,000,000 Shares Authorized (17,943,201 Shares Issued at September 30, 2016; 17,420,776 at December 31, 2015 and 17,420,776 at September 30, 2015)	17,943	17,421	17,421
Additional Paid-in Capital	269,680	250,680	249,931
Retained Earnings	25,400	32,139	28,791
	(750)	(1,100)	(1,100)

Unallocated ESOP Shares (38,396 Shares at September 30, 2016; 55,275 Shares at December 31, 2015; and 55,185 Shares at September 30, 2015)			
Accumulated Other Comprehensive Loss	(5,442)	(7,972)	(6,520)
Treasury Stock, at Cost (4,479,257 Shares at September 30, 2016; 4,426,072 Shares at December 31, 2015; and 4,460,654 Shares at September 30, 2015)	(77,623)	(77,197)	(77,381)
Total Stockholders’ Equity	229,208	213,971	211,142
Total Liabilities and Stockholders’ Equity	$ 2,580,485	$ 2,446,188	$ 2,419,551

See Notes to Unaudited Interim Consolidated Financial Statements.

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
INTEREST AND DIVIDEND INCOME				
Interest and Fees on Loans	$15,833	$14,364	$46,565	$41,953
Interest on Deposits at Banks	34	13	100	60
Interest and Dividends on Investment Securities:				
Fully Taxable	1,889	1,979	5,994	5,936
Exempt from Federal Taxes	1,526	1,475	4,486	4,279
Total Interest and Dividend Income	19,282	17,831	57,145	52,228
INTEREST EXPENSE				
NOW Accounts	320	292	941	960
Savings Deposits	231	189	677	538
Time Deposits of $100,000 or More	128	89	313	267
Other Time Deposits	164	179	497	566
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	9	5	24	15
Federal Home Loan Bank Advances	390	353	1,013	804
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	163	146	487	432
Total Interest Expense	1,405	1,253	3,952	3,582
NET INTEREST INCOME	17,877	16,578	53,193	48,646
Provision for Loan Losses	480	537	1,550	882
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,397	16,041	51,643	47,764
NONINTEREST INCOME				
Income From Fiduciary Activities	1,923	1,923	5,854	5,907
Fees for Other Services to Customers	2,491	2,331	7,144	6,904
Insurance Commissions	2,127	2,343	6,468	6,849
Net Gain on Securities Transactions	—	—	144	106
Net Gain on Sales of Loans	310	236	649	488
Other Operating Income	263	304	925	1,183
Total Noninterest Income	7,114	7,137	21,184	21,437
NONINTEREST EXPENSE				
Salaries and Employee Benefits	8,693	8,699	25,223	24,577
Occupancy Expenses, Net	2,425	2,275	7,223	7,106
FDIC Assessments	217	297	844	873
Other Operating Expense	3,747	3,579	11,047	10,632
Total Noninterest Expense	15,082	14,850	44,337	43,188
INCOME BEFORE PROVISION FOR INCOME TAXES	9,429	8,328	28,490	26,013
Provision for Income Taxes	2,691	2,395	8,556	7,920
NET INCOME	$6,738	$5,933	$19,934	$18,093
Average Shares Outstanding:				
Basic	13,407	13,275	13,374	13,273

Diluted	13,497	13,317	13,439	13,314
Per Common Share:				
Basic Earnings	$0.50	$0.45	$1.49	$1.36
Diluted Earnings	0.50	0.45	1.48	1.36

Share and Per Share Amounts have been restated for the September 29, 2016 3% stock dividend.
See Notes to Unaudited Interim Consolidated Financial Statements.

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ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Income	$6,738	$5,933	$19,934	$18,093
Other Comprehensive Income, Net of Tax:				
Net Unrealized Securities Holding (Losses) Gains Arising During the Period	(810)	543	2,309	384
Reclassification Adjustments for Securities Gains Included in Net Income	—	—	(88)	(65)
Amortization of Net Retirement Plan Actuarial Loss	111	117	314	352
Accretion of Net Retirement Plan Prior Service Credit	(1)	(9)	(5)	(25)
Other Comprehensive Income Gain (Loss)	(700)	651	2,530	646
Comprehensive Income	$6,038	$6,584	$22,464	$18,739

See Notes to Unaudited Interim Consolidated Financial Statements.

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ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands, Except Share and Per Share Amounts)
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unallo-cated ESOP Shares	Accumu-lated Other Com-prehensive Loss	Treasury Stock	Total
Balance at December 31, 2015	$17,421	$250,680	$32,139	$(1,100)	$(7,972)	$(77,197)	$213,971
Net Income	—	—	19,934	—	—	—	19,934
Other Comprehensive Income	—	—	—	—	2,530	—	2,530
3% Stock Dividend (522,425 Shares)	522	16,415	(16,937)	—	—	—	—
Cash Dividends Paid, $.728 per Share	—	—	(9,736)	—	—	—	(9,736)
Stock Options Exercised, Net (80,449 Shares)	—	980	—	—	—	795	1,775
Shares Issued Under the Directors' Stock Plan (3,522 Shares)	—	76	—	—	—	36	112
Shares Issued Under the Employee Stock Purchase Plan (13,041 Shares)	—	229	—	—	—	129	358
Shares Issued for Dividend Reinvestment Plans (44,448 Shares)	—	862	—	—	—	440	1,302
Stock-Based Compensation Expense	—	215	—	—	—	—	215
Tax Benefit from Exercise of Stock Options	—	63	—	—	—	—	63
Purchase of Treasury Stock (64,146 Shares)	—	—	—	—	—	(1,826)	(1,826)
Allocation of ESOP Stock (17,997 Shares)	—	160	—	350	—	—	510
Balance at September 30, 2016	$17,943	$269,680	$25,400	$(750)	$(5,442)	$(77,623)	$229,208
Balance at December 31, 2014	$17,079	$239,721	$29,458	$(1,450)	$(7,166)	$(76,716)	$200,926
Net Income	—	—	18,093	—	—	—	18,093
Other Comprehensive Income	—	—	—	—	646	—	646
2% Stock Dividend (341,400 Shares)	342	8,939	(9,281)	—	—	—	—
Cash Dividends Paid, $.714 per Share [1]	—	—	(9,479)	—	—	—	(9,479)
Stock Options Exercised, Net (24,554 Shares)	—	289	—	—	—	242	531
Shares Issued Under the Directors' Stock Plan (4,579 Shares)	—	73	—	—	—	45	118
Shares Issued Under the Employee Stock Purchase Plan (13,990 Shares)	—	222	—	—	—	137	359
Shares Issued for Dividend Reinvestment Plans (16,112 Shares)	—	281	—	—	—	158	439

Stock-Based Compensation Expense	—	233	—	—	—	—	233
Tax Benefit for Disposition of Stock Options	—	31	—	—	—	—	31
Purchase of Treasury Stock (46,403 Shares)	—	—	—	—	—	(1,247)	(1,247)
Allocation of ESOP Stock (17,645 Shares)	—	142	—	350	—	—	492
Balance at September 30, 2015	$ 17,421	$ 249,931	$ 28,791	$ (1,100)	$ (6,520)	$ (77,381)	$ 211,142

[1] Cash dividends paid per share have been adjusted for the September 29, 2016 3.0% stock dividend.
See Notes to Unaudited Interim Consolidated Financial Statements.

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ARROW FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30,	
Cash Flows from Operating Activities:	2016	2015
Net Income	$19,934	$18,093
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	1,550	882
Depreciation and Amortization	4,605	4,844
Allocation of ESOP Stock	510	492
Gains on the Sale of Securities Available-for-Sale	(144)	(106)
Loans Originated and Held-for-Sale	(20,025)	(15,733)
Proceeds from the Sale of Loans Held-for-Sale	19,557	15,615
Net Gains on the Sale of Loans	(649)	(488)
Net Losses on the Sale of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	120	136
Contributions to Retirement Benefit Plans	(534)	(574)
Deferred Income Tax (Benefit) Expense	(464)	1,242
Shares Issued Under the Directors' Stock Plan	112	118
Stock-Based Compensation Expense	215	233
Net Increase in Other Assets	(3,045)	(9,134)
Net Increase in Other Liabilities	3,427	4,393
Net Cash Provided By Operating Activities	25,169	20,013
Cash Flows from Investing Activities:		
Proceeds from the Sale of Securities Available-for-Sale	10,568	21,449
Proceeds from the Maturities and Calls of Securities Available-for-Sale	65,965	70,971
Purchases of Securities Available-for-Sale	(10,920)	(124,906)
Proceeds from the Maturities and Calls of Securities Held-to-Maturity	42,295	38,403
Purchases of Securities Held-to-Maturity	(60,786)	(54,796)
Net Increase in Loans	(133,616)	(125,942)
Proceeds from the Sales of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	1,743	997
Purchase of Premises and Equipment	(1,083)	(1,231)
Proceeds from the Sale of a Subsidiary, Net	72	—
Net Decrease (Increase) in Other Investments	3,468	(292)
Net Cash Used By Investing Activities	(82,294)	(175,347)
Cash Flows from Financing Activities:		
Net Increase in Deposits	182,764	179,103
Net Decrease in Short-Term Borrowings	(66,584)	(36,007)
Federal Home Loan Bank Advances	—	45,000
Purchase of Treasury Stock	(1,826)	(1,247)
Stock Options Exercised, Net	1,775	531
Shares Issued Under the Employee Stock Purchase Plan	358	359
Tax Benefit from Exercise of Stock Options	63	31
Shares Issued for Dividend Reinvestment Plans	1,302	439
Cash Dividends Paid	(9,736)	(9,479)
Net Cash Provided By Financing Activities	108,116	178,730

Net Increase in Cash and Cash Equivalents	50,991	23,396
Cash and Cash Equivalents at Beginning of Period	51,068	46,295
Cash and Cash Equivalents at End of Period	$102,059	$69,691
Supplemental Disclosures to Statements of Cash Flow Information:		
Interest on Deposits and Borrowings	$3,932	$3,548
Income Taxes	9,761	8,257
Non-cash Investing and Financing Activity:		
Transfer of Loans to Other Real Estate Owned and Repossessed Assets	856	2,213

See Notes to Unaudited Interim Consolidated Financial Statements.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. ACCOUNTING POLICIES

In the opinion of the management of Arrow Financial Corporation (Arrow), the accompanying unaudited consolidated interim financial statements contain all of the adjustments necessary to present fairly the financial position as of September 30, 2016, December 31, 2015 and September 30, 2015; the results of operations for the three-month period ended September 30, 2016; the consolidated statements of comprehensive income for the three- and nine-month periods ended September 30, 2016; the changes in stockholders' equity for the nine-month periods ended September 30, 2016 and 2015; and the cash flows for the nine-month periods ended September 30, 2016 and 2015. All such adjustments are of a normal recurring nature. Certain prior period amounts have been reclassified to conform to the current presentation. The preparation of financial statements requires the use of management estimates. The unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements of Arrow for the year ended December 31, 2015, included in Arrow's 2015 Form 10-K.

New Accounting Standards Updates (ASU): During 2016, through the date of this report, the FASB issued 15 accounting standards updates. Some of the standards listed below did not have an immediate impact on Arrow, but could in the future.
ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" will significantly change the income statement impact of equity investments. For Arrow, the standard is effective for the first quarter of 2018, and will require that equity investments be measured at fair value, with changes in fair value measured in net income. As of September 30, 2016 , we hold a $1.1 million cost basis in a small portfolio of equity investments and we do not expect that the adoption of this change in accounting for equity investments will have a material impact on our financial position or the results of operations in periods subsequent to its adoption.
ASU 2016-02 "Leases" will require the recognition of operating leases. For Arrow, the standard becomes effective in the first quarter of 2019. We do not expect that the adoption of this change in accounting for operating leases will have a material impact on our financial position or the results of operations in periods subsequent to its adoption. As of September 30, 2016, we have less than $3.0 million in operating leases.
ASU 2016-09 "Compensation - Stock Compensation" simplifies certain aspects of accounting for share-based payment transactions, including the tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For Arrow, the standard becomes effective in the first quarter of 2017. We do not expect that the adoption of this change in accounting for stock-based compensation will have a material impact on our financial position or the results of operations in periods subsequent to its adoption.
ASU 2016-13 "Financial Instruments - Credit Losses" will change the way we and other financial entities recognize losses on assets measured at amortized costs and change the method for recognizing credit losses on securities available-for-sale. Currently, loan losses are recognized using an "incurred loss" methodology. Under ASU 2016-13, the methodology will change to a current expected loss over the life of the loan. Currently, credit losses on available-for-sale securities reduce the carrying value of the instrument and cannot be reversed. Under ASU 2016-13, the amount of the credit loss is carried as a valuation allowance and can be reversed. For Arrow, the standard is effective for the first quarter of 2020 and early adoption is allowed in 2019. The Company is currently evaluating the impact of the pending adoption of the ASU on its consolidated financial statements. The initial adjustment will not be reported in earnings, but as the cumulative effect of a change in accounting principle.
ASU 2016-15 "Statement of Cash Flows" provides guidance on the classification of eight specific cash flow issues in order to increase consistency in reporting. Currently, GAAP is either unclear or does not include specific guidance on the cash flow issues addressed in this Update. Arrow currently reports the specifically identified cash flow transactions using the appropriate classification as outlined in the Update. For Arrow, the standard becomes effective in the first quarter of 2017. We do not expect that the adoption of this change in classification for financial reporting

will have a material impact on our financial position or the results of operations in periods subsequent to its adoption.

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Note 2. INVESTMENT SECURITIES (In Thousands)

The following table is the schedule of Available-For-Sale Securities at September 30, 2016, December 31, 2015 and September 30, 2015:
Available-For-Sale Securities

	U.S. Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Mutual Funds and Equity Securities	Total Available-For-Sale Securities
September 30, 2016						
Available-For-Sale Securities, at Amortized Cost	$ 152,511	$ 31,562	$ 144,598	$ 4,500	$ 1,120	$ 334,291
Available-For-Sale Securities, at Fair Value	153,926	31,628	148,087	4,299	1,250	339,190
Gross Unrealized Gains	1,415	69	3,489	—	130	5,103
Gross Unrealized Losses	—	3	—	201	—	204
Available-For-Sale Securities, Pledged as Collateral						277,832
Maturities of Debt Securities, at Amortized Cost:						
Within One Year	$ —	$ 19,303	$ 10,214	$ 2,000	$ —	$ 31,517
From 1 - 5 Years	152,511	11,191	129,956	1,500	—	295,158
From 5 - 10 Years	—	508	4,370	—	—	4,878
Over 10 Years	—	560	58	1,000	—	1,618
Maturities of Debt Securities, at Fair Value:						
Within One Year	$ —	$ 19,304	$ 10,294	$ 1,999	$ —	$ 31,597
From 1 - 5 Years	153,926	11,256	132,916	1,500	—	299,598
From 5 - 10 Years	—	508	4,814	—	—	5,322
Over 10 Years	—	560	63	800	—	1,423
Securities in a Continuous Loss Position, at Fair Value:						
Less than 12 Months	$ —	$ 9,237	$ —	$ 1,022	$ —	$ 10,259
12 Months or Longer	—	—	—	1,800	—	1,800
Total	$ —	$ 9,237	$ —	$ 2,822	$ —	$ 12,059
Number of Securities in a Continuous Loss Position	—	1	2	3	—	6
Unrealized Losses on Securities in a Continuous Loss Position:						
Less than 12 Months	$ —	$ 3	$ —	$ 1	$ —	$ 4
12 Months or Longer	—	—	—	200	—	200
Total	$ —	$ 3	$ —	$ 201	$ —	$ 204

December 31, 2015						
Available-For-Sale Securities, at Amortized Cost	$ 155,932	$ 52,306	$ 177,376	$ 14,544	$ 1,120	$ 401,278
Available-For-Sale Securities, at Fair Value	155,782	52,408	178,588	14,299	1,232	402,309
Gross Unrealized Gains	264	105	2,236	—	112	2,717
Gross Unrealized Losses	414	3	1,024	245	—	1,686
Available-For-Sale Securities, Pledged as Collateral						310,857

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Available-For-Sale Securities

	U.S. Agency Obligations	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Mutual Funds and Equity Securities	Total Available-For-Sale Securities
Securities in a Continuous Loss Position, at Fair Value:						
Less than 12 Months	$ 76,802	$ 4,289	$ 99,569	$ 3,616	$ —	$ 184,276
12 Months or Longer	—	1,443	903	10,671	—	13,017
Total	$ 76,802	$ 5,732	$ 100,472	$ 14,287	$ —	$ 197,293
Number of Securities in a Continuous Loss Position	21	19	30	19	—	89
Unrealized Losses on Securities in a Continuous Loss Position:						
Less than 12 Months	$ 413	$ 2	$ 1,023	$ 2	$ —	$ 1,440
12 Months or Longer	1	1	1	243	—	246
Total	$ 414	$ 3	$ 1,024	$ 245	$ —	$ 1,686
September 30, 2015						
Available-For-Sale Securities, at Amortized Cost	$ 161,253	$ 55,263	$ 158,351	$ 16,871	$ 1,120	$ 392,858
Available-For-Sale Securities, at Fair Value	162,518	55,486	161,637	16,672	1,246	397,559
Gross Unrealized Gains	1,269	223	3,292	12	125	4,921
Gross Unrealized Losses	4	—	6	211	—	221
Available-For-Sale Securities, Pledged as Collateral						348,115
Securities in a Continuous Loss Position, at Fair Value:						
Less than 12 Months	$ —	$ —	$ —	$ —	$ —	$ —
12 Months or Longer	12,996	406	4,775	7,162	—	25,339
Total	$ 12,996	$ 406	$ 4,775	$ 7,162	$ —	$ 25,339
Number of Securities in a Continuous Loss Position	3	1	1	11	—	16
Unrealized Losses on Securities in a Continuous Loss Position:						
Less than 12 Months	$ —	$ —	$ —	$ —	$ —	$ —
12 Months or Longer	4	—	6	211	—	221
Total	$ 4	$ —	$ 6	$ 211	$ —	$ 221

The following table is the schedule of Held-To-Maturity Securities at September 30, 2016, December 31, 2015 and September 30, 2015:

Held-To-Maturity Securities

State and Mortgage- Corporate Total

	Municipal Obligations	Backed Securities - Residential	and Other Debt Securities	Held-To Maturity Securities
September 30, 2016				
Held-To-Maturity Securities, at Amortized Cost	$ 257,255	$ 79,983	$ 1,000	$ 338,238
Held-To-Maturity Securities, at Fair Value	263,897	82,544	1,000	347,441
Gross Unrealized Gains	6,712	2,561	—	9,273
Gross Unrealized Losses	70	—	—	70
Held-To-Maturity Securities, Pledged as Collateral				320,774

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Held-To-Maturity Securities

	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Total Held-To Maturity Securities
Maturities of Debt Securities, at Amortized Cost:				
Within One Year	$ 35,911	$ —	$ —	$ 35,911
From 1 - 5 Years	87,464	72,422	—	159,886
From 5 - 10 Years	129,891	7,561	—	137,452
Over 10 Years	3,989	—	1,000	4,989
Maturities of Debt Securities, at Fair Value:				
Within One Year	$ 35,966	$ —	$ —	$ 35,966
From 1 - 5 Years	89,979	74,680	—	164,659
From 5 - 10 Years	133,817	7,864	—	141,681
Over 10 Years	4,135	—	1,000	5,135
Securities in a Continuous Loss Position, at Fair Value:				
Less than 12 Months	$ 11,891	$ —	$ —	$ 11,891
12 Months or Longer	1,172	—	—	1,172
Total	$ 13,063	$ —	$ —	$ 13,063
Number of Securities in a Continuous Loss Position	3	—	—	3
Unrealized Losses on Securities in a Continuous Loss Position:				
Less than 12 Months	$ 68	$ —	$ —	$ 68
12 Months or Longer	2	—	—	2
Total	$ 70	$ —	$ —	$ 70
December 31, 2015				
Held-To-Maturity Securities, at Amortized Cost	$ 226,053	$ 93,558	$ 1,000	$ 320,611
Held-To-Maturity Securities, at Fair Value	230,621	94,309	1,000	325,930
Gross Unrealized Gains	4,619	868	—	5,487
Gross Unrealized Losses	51	117	—	168
Held-To-Maturity Securities, Pledged as Collateral				299,767
Securities in a Continuous Loss Position, at Fair Value:				
Less than 12 Months	$ 2,302	$ 6,000	$ —	$ 8,302
12 Months or Longer	11,764	4,154	—	15,918
Total	$ 14,066	$ 10,154	$ —	$ 24,220

Number of Securities in a Continuous Loss Position	54	8	—	62
Unrealized Losses on Securities in a Continuous Loss Position:				
Less than 12 Months	$ 11	$ 93	$ —	$ 104
12 Months or Longer	40	24	—	64
Total	$ 51	$ 117	$ —	$ 168

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Held-To-Maturity Securities

	State and Municipal Obligations	Mortgage-Backed Securities - Residential	Corporate and Other Debt Securities	Total Held-To Maturity Securities
September 30, 2015				
Held-To-Maturity Securities, at Amortized Cost	$ 218,502	$ 97,978	$ 1,000	$ 317,480
Held-To-Maturity Securities, at Fair Value	223,050	99,959	1,000	324,009
Gross Unrealized Gains	4,633	1,981	—	6,614
Gross Unrealized Losses	85	—	—	85
Held-To-Maturity Securities, Pledged as Collateral				296,921
Securities in a Continuous Loss Position, at Fair Value:				
Less than 12 Months	$ —	$ —	$ —	$ —
12 Months or Longer	14,896	—	—	14,896
Total	$ 14,896	$ —	$ —	$ 14,896
Number of Securities in a Continuous Loss Position	51	—	—	51
Unrealized Losses on Securities in a Continuous Loss Position:				
Less than 12 Months	$ —	$ —	$ —	$ —
12 Months or Longer	85	—	—	85
Total	$ 85	$ —	$ —	$ 85

In the tables above, maturities of mortgage-backed-securities - residential are included based on their expected average lives. Actual maturities will differ from the table above because issuers may have the right to call or prepay obligations with, or without, prepayment penalties.

In the available-for-sale category at September 30, 2016, U.S. agency obligations consisted solely of U.S. Government Agency securities with an amortized cost of $152.5 million and a fair value of $153.9 million. Mortgage-backed securities - residential consisted of U.S. Government Agency securities with an amortized cost of $10.8 million and a fair value of $11.0 million and government sponsored entity (GSE) securities with an amortized cost of $133.7 million and a fair value of $137.1 million. In the held-to-maturity category at September 30, 2016, mortgage-backed securities-residential consisted of U.S Government Agency securities with an amortized cost of $3.5 million and a fair value of $3.6 million and GSE securities with an amortized cost of $76.5 million and a fair value of $78.9 million.

In the available-for-sale category at December 31, 2015, U.S. agency obligations consisted solely of U.S. Government Agency securities with an amortized cost of $155.9 million and a fair value of $155.8 million. Mortgage-backed securities - residential consisted of U.S. Government Agency securities with an amortized cost of $15.7 million and a fair value of $15.8 million and GSE securities with an amortized cost of $161.7 million and a fair value of $162.7 million. In the held-to-maturity category at December 31, 2015, mortgage-backed securities-residential consisted of U.S. Government Agency securities with an amortized cost of $3.8 million and a fair value of $3.9 million and GSE securities with an amortized cost of $89.8 million and a fair value of $90.5 million.

In the available-for-sale category at September 30, 2015, U.S. agency obligations consisted solely of U.S. Government Agency securities with an amortized cost of $161.3 million and a fair value of $162.5 million. Mortgage-backed securities - residential consisted of US Government Agency securities with an amortized cost of $27.5 million and a fair value of $28.1 million and GSE securities with an amortized cost of $130.8 million and a fair value of $133.5 million. In the held-to-maturity category at September 30, 2015, mortgage-backed securities-residential consisted of U.S. Government Agency securities with an amortized cost of $27.8 million and a fair value of $28.4 million and GSE securities with an amortized cost of $70.2 million and a fair value of $71.5 million.

Securities in a continuous loss position, in the tables above for September 30, 2016, December 31, 2015 and September 30, 2015, do not reflect any deterioration of the credit worthiness of the issuing entities. U.S. Agency issues, including agency-backed collateralized mortgage obligations and mortgage-backed securities, are all rated at least Aaa by Moody's or AA+ by Standard and Poor's. The state and municipal obligations are general obligations supported by the general taxing authority of the issuer, and in some cases are insured. Obligations issued by school districts are supported by state aid. For any non-rated municipal securities, credit analysis is performed in-house based upon data that has been submitted by the issuers to the NY State Comptroller. That analysis reflects satisfactory credit worthiness of the municipalities. Corporate and other debt securities continue to be rated above investment grade according to Moody's and Standard and Poor's. Subsequent to September 30, 2016, and through the date of filing this report, there were no securities downgraded below investment grade.

The unrealized losses on these temporarily impaired securities are primarily the result of changes in interest rates for fixed rate securities where the interest rate received is less than the current rate available for new offerings of similar securities, changes in market spreads as a result of shifts in supply and demand, and/or changes in the level of prepayments for mortgage related securities. Because we do not currently intend to sell any of our temporarily impaired securities, and because it is not more likely-than-not that we would be required to sell the securities prior to recovery, the impairment is considered temporary.

Note 3. LOANS (In Thousands)

Loan Categories and Past Due Loans

The following table presents loan balances outstanding as of September 30, 2016, December 31, 2015 and September 30, 2015 and an analysis of the recorded investment in loans that are past due at these dates. Generally, Arrow considers an amortizing loan past due 30 or more days when the borrower is two payments past due. Loans held-for-sale of $1,414, $298 and $1,004 as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively, are included in the residential real estate balances for current loans.

	Commercial	Commercial Real Estate	Consumer	Residential	Total
September 30, 2016					
Loans Past Due 30-59 Days	$ 38	$ —	$ 3,793	$ 271	$ 4,102
Loans Past Due 60-89 Days	67	—	1,412	1,450	2,929
Loans Past Due 90 or more Days	160	1,106	343	1,467	3,076
Total Loans Past Due	265	1,106	5,548	3,188	10,107
Current Loans	102,789	427,905	518,155	648,260	1,697,109
Total Loans	$ 103,054	$ 429,011	$ 523,703	$ 651,448	$ 1,707,216
Loans 90 or More Days Past Due and Still Accruing Interest	$ —	$ —	$—	$ 548	$ 548
Nonaccrual Loans	160	3,689	532	1,726	6,107
December 31, 2015					
Loans Past Due 30-59 Days	$ 98	$ —	$ 4,598	$ 955	$ 5,651
Loans Past Due 60-89 Days	186	—	1,647	1,370	3,203
Loans Past Due 90 or more Days	203	1,469	295	2,184	4,151
Total Loans Past Due	487	1,469	6,540	4,509	13,005
Current Loans	102,100	383,470	457,983	617,394	1,560,947
Total Loans	$ 102,587	$ 384,939	$ 464,523	$ 621,903	$ 1,573,952
Loans 90 or More Days Past Due and Still Accruing Interest	$ —	$ —	$—	$ 187	$ 187
Nonaccrual Loans	387	2,401	450	3,195	6,433
September 30, 2015					
Loans Past Due 30-59 Days	$ 47	$ —	$ 4,258	$ 427	$ 4,732
Loans Past Due 60-89 Days	68	—	1,234	658	1,960
Loans Past Due 90 or more Days	371	1,817	350	2,909	5,447
Total Loans Past Due	486	1,817	5,842	3,994	12,139
Current Loans	102,403	371,855	453,078	597,450	1,524,786
Total Loans	$ 102,889	$ 373,672	$ 458,920	$ 601,444	$ 1,536,925
Loans 90 or More Days Past Due and Still Accruing Interest	$ —	$ —	$ 1	$ 962	$ 963
Nonaccrual Loans	466	2,752	439	4,134	7,791

The Company disaggregates its loan portfolio into the following four categories:

Commercial - The Company offers a variety of loan options to meet the specific needs of our commercial customers including term loans, time notes and lines of credit. Such loans are made available to businesses for working capital needs such as inventory and receivables, business expansion and equipment purchases. Generally, a collateral lien is placed on equipment or other assets owned by the borrower. These loans carry a higher risk than commercial real estate loans due to the nature of the underlying collateral, which can be business assets such as equipment and accounts receivable and generally have a lower liquidation value than real estate. In the event of default by the borrower, the Company may be required to liquidate collateral at deeply discounted values. To reduce the risk, management usually obtains personal guarantees of the borrowers.

Commercial Real Estate - The Company offers commercial real estate loans to finance real estate purchases, refinancings, expansions and improvements to commercial properties. Commercial real estate loans are made to finance the purchases of real property which generally consists of real estate with completed structures. These commercial real estate loans are secured by first liens on the real estate, which may include apartments, commercial structures, housing businesses, healthcare facilities, and both owner- and non owner-occupied facilities. These loans are typically less risky than commercial loans, since they are secured by real estate and buildings, and are generally originated in amounts of no more than 80% of the appraised value of the property. However, the Company also offers commercial construction and land development loans to finance projects, primarily within the communities that we serve. Many projects will ultimately be used by the borrowers' businesses, while others are developed for resale. These real estate loans are also secured by first liens on the real estate, which may include apartments, commercial structures, housing business, healthcare facilities and both owner-occupied and non-owner-occupied facilities. There is enhanced risk during the construction period, since the loan is secured by an incomplete project.

Consumer Loans - The Company offers a variety of consumer installment loans to finance personal expenditures. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from one to five years, based upon the nature of the collateral and the size of the loan. In addition to installment loans, the Company also offers personal lines of credit and overdraft protection. Several loans are unsecured, which carry a higher risk of loss. Also included in this category are automobile loans. The Company primarily finances the purchases of automobiles indirectly through dealer relationships located throughout upstate New York and Vermont. Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from three to seven years. Indirect consumer loans are underwritten on a secured basis using the underlying collateral being financed.

Residential Real Estate Mortgages - Residential real estate loans consist primarily of loans secured by first or second mortgages on primary residences. We originate adjustable-rate and fixed-rate one-to-four-family residential real estate loans for the construction, purchase or refinancing of an existing mortgage. These loans are collateralized primarily by owner-occupied properties generally located in the Company’s market area. Loans on one-to-four-family residential real estate are generally originated in amounts of no more than 85% of the purchase price or appraised value (whichever is lower), or have private mortgage insurance. The Company’s underwriting analysis for residential mortgage loans typically includes credit verification, independent appraisals, and a review of the borrower’s financial condition. Mortgage title insurance and hazard insurance are normally required. It is our general practice to underwrite our residential real estate loans to secondary market standards. Construction loans have a unique risk, because they are secured by an incomplete dwelling. This risk is reduced through periodic site inspections, including one at each loan draw period. In addition, the Company offers fixed home equity loans as well as home equity lines of credit to consumers to finance home improvements, debt consolidation, education and other uses. Our policy allows for a maximum loan to value ratio of 80%, although periodically higher advances are allowed. The Company originates home equity lines of credit and second mortgage loans (loans secured by a second junior lien position on one-to-four-family residential real estate). Risk is generally reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate.

Allowance for Loan Losses

The following table presents a roll-forward of the allowance for loan losses and other information pertaining to the allowance for loan losses:

Allowance for Loan Losses

	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Roll-forward of the Allowance for Loan Losses for the Quarterly Periods:						

June 30, 2016	$ 1,128	$ 5,816	$ 5,742	$ 4,026	$ 86	$16,798
Charge-offs	(34)	—	(243)	(90)	—	(367)
Recoveries	5	—	59	—	—	64
Provision	(76)	(75)	513	166	(48)	480
September 30, 2016	$ 1,023	$ 5,741	$ 6,071	$ 4,102	$ 38	$16,975
June 30, 2015	$ 1,815	$ 3,932	$ 5,416	$ 3,699	$ 712	$15,574
Charge-offs	(15)	—	(150)	(215)	—	(380)
Recoveries	5	—	38	—	—	43
Provision	16	100	225	311	(115)	537
September 30, 2015	$ 1,821	$ 4,032	$ 5,529	$ 3,795	$ 597	$15,774

Allowance for Loan Losses

	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Roll-forward of the Allowance for Loan Losses for the Year-to-Date Periods:						
December 31, 2015	$ 1,827	$ 4,520	$ 5,554	$ 3,790	$ 347	$ 16,038
Charge-offs	(86)	—	(591)	(107)	—	(784)
Recoveries	20	—	150	1	—	171
Provision	(738)	1,221	958	418	(309)	1,550
September 30, 2016	$ 1,023	$ 5,741	$ 6,071	$ 4,102	$ 38	$ 16,975
December 31, 2014	$ 2,100	$ 4,128	$ 5,210	$ 3,369	$ 763	$ 15,570
Charge-offs	(46)	—	(483)	(306)	—	(835)
Recoveries	23	—	134	—	—	157
Provision	(256)	(96)	668	732	(166)	882
September 30, 2015	$ 1,821	$ 4,032	$ 5,529	$ 3,795	$ 597	$ 15,774
September 30, 2016						
Allowance for loan losses - Loans Individually Evaluated for Impairment	$—	$ 240	$—	$—	$ —	$ 240
Allowance for loan losses - Loans Collectively Evaluated for Impairment	1,023	5,501	6,071	4,102	38	16,735
Ending Loan Balance - Individually Evaluated for Impairment	—	3,538	90	317	—	3,945
Ending Loan Balance - Collectively Evaluated for Impairment	$ 103,054	$ 425,473	$ 523,613	$ 651,131	$ —	$ 1,703,271
December 31, 2015				—		
Allowance for loan losses - Loans Individually Evaluated for Impairment	$—	$—	$—	$—	$ —	$—
Allowance for loan losses - Loans Collectively Evaluated for Impairment	1,827	4,520	5,554	3,790	347	16,038
Ending Loan Balance - Individually Evaluated for Impairment	155	2,372	114	645	—	3,286
Ending Loan Balance - Collectively Evaluated for Impairment	$ 102,432	$ 382,567	$ 464,409	$ 621,258	$ —	$ 1,570,666
September 30, 2015						
Allowance for loan losses - Loans Individually Evaluated for Impairment	$—	$—	$—	$ 135	$ —	$ 135
Allowance for loan losses - Loans Collectively Evaluated for Impairment	1,821	4,032	5,529	3,660	597	15,639
Ending Loan Balance - Individually Evaluated for Impairment	164	2,371	130	1,511	—	4,176
Ending Loan Balance - Collectively Evaluated for Impairment	$ 102,725	$ 371,301	$ 458,790	$ 599,933	$ —	$ 1,532,749

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Through the provision for loan losses, an allowance for loan losses is maintained that reflects our best estimate of the inherent risk of loss in the Company's loan portfolio as of the balance sheet date. Additions are made to the allowance for loan losses through a periodic provision for loan losses. Actual loan losses are charged against the allowance for loan losses when loans are deemed uncollectible and recoveries of amounts previously charged off are recorded as credits to the allowance for loan losses.

Our loan officers and risk managers meet at least quarterly to discuss and review the conditions and risks associated with certain criticized and classified commercial-related relationships. In addition, our independent internal loan review department performs periodic reviews of the risk ratings on individual loans in our commercial loan portfolio.

We use a two-step process to determine the provision for loan losses and the amount of the allowance for loan losses. We measure impairment on our impaired loans on a quarterly basis. Our impaired loans are generally nonaccrual loans over $250 thousand and all troubled debt restructured loans. Our impaired loans are generally considered to be collateral dependent with the specific reserve, if any, determined based on the value of the collateral less estimated costs to sell.

The remainder of the portfolio is evaluated on a pooled basis. For each homogeneous loan pool, we estimate a total loss factor based on the historical net loss rates adjusted for applicable qualitative factors. We update the total loss factors assigned to each loan category on a quarterly basis. For the commercial and commercial real estate categories, we further segregate the loan categories by credit risk profile (pools of loans graded satisfactory, special mention and substandard). Additional description of the credit risk classifications is detailed in the Credit Quality Indicators section of this note.

We determine the annualized historical net loss rate for each loan category using a trailing three-year net charge-off average. While historical net loss experience provides a reasonable starting point for our analysis, historical net losses, or even recent trends in net losses, do not by themselves form a sufficient basis to determine the appropriate level of the allowance for loan losses. Therefore, we also consider and adjust historical net loss factors for qualitative factors that impact the inherent risk of loss associated with our loan categories within our total loan portfolio. These include:

- Changes in the volume and severity of past due, nonaccrual and adversely classified loans
- Changes in the nature and volume of the portfolio and in the terms of loans
- Changes in the value of the underlying collateral for collateral dependent loans
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses
- Changes in the quality of the loan review system
- Changes in the experience, ability, and depth of lending management and other relevant staff
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of the portfolio
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio or pool

Further, due to the imprecise nature of the loan loss estimation process, the risk attributes of our loan portfolio may not be fully captured in data related to the determination of loss factors used to determine our analysis of the adequacy of the allowance for loan losses. Management, therefore, has established an unallocated portion within the allowance for loan losses reflecting the imprecision that naturally exists in the allowance for loan loss estimation process. The unallocated allowance for loan losses is not considered a significant component of the overall allowance for loan loss estimation process and has been declining steady over the past few quarters.

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Credit Quality Indicators

The following table presents the credit quality indicators by loan category at September 30, 2016, December 31, 2015 and September 30, 2015:

Loan Credit Quality Indicators

	Commercial	Commercial Real Estate	Consumer	Residential	Total
September 30, 2016					
Credit Risk Profile by Creditworthiness Category:					
Satisfactory	$ 93,903	$ 392,697			$486,600
Special Mention	1,274	10,472			11,746
Substandard	7,877	25,842			33,719
Doubtful	—	—			—
Credit Risk Profile Based on Payment Activity:					
Performing			$523,171	$ 649,093	$1,172,264
Nonperforming			532	2,355	2,887
December 31, 2015					
Credit Risk Profile by Creditworthiness Category:					
Satisfactory	$ 93,607	$ 360,654			$454,261
Special Mention	1,070	4,901			5,971
Substandard	7,910	19,384			27,294
Doubtful	—	—			—
Credit Risk Profile Based on Payment Activity:					
Performing			$464,074	$ 618,521	$1,082,595
Nonperforming			449	3,382	3,831
September 30, 2015					
Credit Risk Profile by Creditworthiness Category:					
Satisfactory	$ 92,896	$ 350,070			$442,966
Special Mention	1,157	5,170			6,327
Substandard	8,836	18,432			27,268
Doubtful	—	—			—
Credit Risk Profile Based on Payment Activity:					
Performing			$458,479	$ 596,348	$1,054,827
Nonperforming			441	5,096	5,537

We use an internally developed system of five credit quality indicators to rate the credit worthiness of each commercial loan defined as follows: 1) Satisfactory - "Satisfactory" borrowers have acceptable financial condition with satisfactory record of earnings and sufficient historical and projected cash flow to service the debt. Borrowers have satisfactory repayment histories and primary and secondary sources of repayment can be clearly identified; 2) Special Mention - Loans in this category have potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date. "Special mention" assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Loans which might be assigned this risk rating include loans to borrowers with deteriorating financial strength and/or earnings record and loans with potential for problems due to weakening economic or market conditions; 3) Substandard - Loans classified as “substandard” are inadequately protected by the current sound net worth or paying capacity of the borrower or the collateral pledged, if any. Loans in this category have well defined weaknesses that jeopardize the repayment. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. "Substandard" loans may include loans which are likely to require liquidation of collateral to effect repayment, and other loans where character or ability to repay has become suspect. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard; 4) Doubtful - Loans classified as "doubtful" have all of the weaknesses inherent in those classified as "substandard" with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values highly questionable and improbable. Although possibility of loss is extremely high, classification of these loans as "loss" has been deferred due to specific pending factors or events which may strengthen the value (i.e. possibility of additional collateral, injection of capital, collateral liquidation, debt restructure, economic recovery, etc). Loans classified as "doubtful" need to be placed on

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non-accrual; and 5) Loss - Loans classified as “loss” are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. As of the date of the balance sheet, all loans in this category have been charged-off to the allowance for loan losses. Large commercial loans are evaluated on an annual basis, unless the credit quality indicator falls to a level of "special mention" or below, when the loan is evaluated quarterly. The credit quality indicator is one of the factors used to determine any loss, as further described in this footnote.
For the purposes of the table above, nonperforming consumer and residential loans are those loans on nonaccrual status or are 90 days or more past due and still accruing interest.

Impaired Loans

The following table presents information on impaired loans based on whether the impaired loan has a recorded related allowance or has no recorded related allowance:

Impaired Loans

	Commercial	Commercial Real Estate	Consumer	Residential	Total
September 30, 2016					
Recorded Investment:					
With No Related Allowance	$ —	$ 898	$ 90	$ 317	$1,305
With a Related Allowance	—	2,640	—	—	2,640
Unpaid Principal Balance:					
With No Related Allowance	—	898	90	317	1,305
With a Related Allowance	—	2,640	—	—	2,640
December 31, 2015					
Recorded Investment:					
With No Related Allowance	$ 155	$ 2,372	$ 114	$ 645	$3,286
With a Related Allowance	—	—	—	—	—
Unpaid Principal Balance:					
With No Related Allowance	155	2,372	144	645	3,316
With a Related Allowance	—	—	—	—	—
September 30, 2015					
Recorded Investment:					
With No Related Allowance	$ 164	$ 2,371	$ 130	$ 926	$3,591
With a Related Allowance	—	—	—	585	585
Unpaid Principal Balance:					
With No Related Allowance	164	2,371	130	926	$3,591
With a Related Allowance	—	—	—	585	585
For the Quarter Ended:					
September 30, 2016					
Average Recorded Balance:					
With No Related Allowance	$ —	$ 1,374	$ 92	$ 479	$1,945
With a Related Allowance	—	2,166	—	—	2,166
Interest Income Recognized:					
With No Related Allowance	—	3	2	—	5
With a Related Allowance	—	—	—	—	—
Cash Basis Income:					
With No Related Allowance	—	—	—	—	—

With a Related Allowance	—	—	—	—	—
September 30, 2015					
Average Recorded Balance:					
With No Related Allowance	$ 313	$ 1,931	$ 112	$ 1,312	$3,668
With a Related Allowance	—	—	—	590	590
Interest Income Recognized:					
With No Related Allowance	2	—	2	1	5
With a Related Allowance	—	—	—	—	—
Cash Basis Income:					
With No Related Allowance	—	—	—	—	—
With a Related Allowance	—	—	—	—	—

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Impaired Loans

	Commercial	Commercial Real Estate	Consumer	Residential	Total
For the Year-To-Date Period Ended:					
September 30, 2016					
Average Recorded Balance:					
With No Related Allowance	$ 78	$ 1,635	$ 102	$ 481	$2,296
With a Related Allowance	—	1,320	—	—	1,320
Interest Income Recognized:					
With No Related Allowance	—	14	4	—	18
With a Related Allowance	—	—	—	—	—
Cash Basis Income:					
With No Related Allowance	—	—	—	—	—
With a Related Allowance	—	—	—	—	—
September 30, 2015					
Average Recorded Balance:					
With No Related Allowance	$ 329	$ 1,932	$ 124	$ 1,302	$3,687
With a Related Allowance	—	—	—	572	572
Interest Income Recognized:					
With No Related Allowance	6	—	4	2	12
With a Related Allowance	—	—	—	—	—
Cash Basis Income:					
With No Related Allowance	—	—	—	—	—
With a Related Allowance	—	—	—	—	—

At September 30, 2016, December 31, 2015 and September 30, 2015, all impaired loans were considered to be collateral dependent and were therefore evaluated for impairment based on the fair value of collateral less estimated cost to sell. Interest income recognized in the table above, represents income earned after the loans became impaired and includes restructured loans in compliance with their modified terms and nonaccrual loans where we have recognized interest income on a cash basis.

Loans Modified in Trouble Debt Restructurings

The following table presents information on loans modified in trouble debt restructurings during the periods indicated. All loans were modified under Arrow's own programs. The principal modification, for all the modifications in the table below, involved payment deferrals.

Loans Modified in Trouble Debt Restructurings During the Period

	Commercial	Commercial Real Estate	Consumer	Residential	Total
For the Quarter Ended:					
September 30, 2016					
Number of Loans	—	—	1	—	1
Pre-Modification Outstanding Recorded Investment	$ —	$ —	$ 15	$ —	$15
Post-Modification Outstanding Recorded Investment	—	—	15	—	15
Subsequent Default, Number of Contracts	—	—	—	—	—
Subsequent Default, Recorded Investment	—	—	—	—	—
September 30, 2015					
Number of Loans	—	1	3	—	4
Pre-Modification Outstanding Recorded Investment	$ —	$ 883	$ 49	$ —	$932
Post-Modification Outstanding Recorded Investment	—	883	49	—	932
Subsequent Default, Number of Contracts	—	—	—	—	—
Subsequent Default, Recorded Investment	—	—	—	—	—
For the Year-To-Date Period Ended:					
September 30, 2016					
Number of Loans	—	—	2	—	2
Pre-Modification Outstanding Recorded Investment	$ —	$ —	$ 23	$ —	$23
Post-Modification Outstanding Recorded Investment	—	—	23	—	23
Subsequent Default, Number of Contracts	—	—	—	—	—
Subsequent Default, Recorded Investment	—	—	—	—	—
September 30, 2015					
Number of Loans	—	1	4	—	5
Pre-Modification Outstanding Recorded Investment	$ —	$ 883	$ 51	$ —	$934
Post-Modification Outstanding Recorded Investment	—	883	51	—	934
Subsequent Default, Number of Contracts	—	—	—	—	—
Subsequent Default, Recorded Investment	—	—	—	—	—

In general, loans requiring modification are restructured to accommodate the projected cashflows of the borrower. No loans modified during the preceding twelve months subsequently defaulted as of September 30, 2016.

Note 4. GUARANTEES (In Thousands)

The following table presents the balance for standby letters of credit for the periods ended September 30, 2016, December 31, 2015 and September 30, 2015:

Loan Commitments and Letters of Credit

	September 30, 2016	December 31, 2015	September 30, 2015
Notional Amount:			
Commitments to Extend Credit	$ 300,439	$ 278,623	$ 293,728
Standby Letters of Credit	3,483	3,065	3,201
Fair Value:			
Commitments to Extend Credit	$ —	$ —	$ —
Standby Letters of Credit	31	2	10

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Arrow evaluates each customer's creditworthiness on a case-by-case basis. Home equity lines of credit are secured by residential real estate. Construction commitments are secured by underlying real estate. For other lines of credit, the amount of collateral obtained, if deemed necessary by Arrow upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. Most of the commitments are variable rate instruments.

Arrow has issued conditional commitments in the form of standby letters of credit to guarantee payment on behalf of a customer and guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit at September 30, 2016, December 31, 2015 and September 30, 2015 represent the maximum potential future payments Arrow could be required to make. Typically, these instruments have terms of 12 months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance sheet instruments. Company policies governing loan collateral apply to standby letters of credit at the time of credit extension. Loan-to-value ratios generally range from 50% for movable assets, such as inventory, to 100% for liquid assets, such as bank CD's. Fees for standby letters of credit typically range from 1% to 3% of the notional amount. Fees are collected upfront and are amortized over the life of the commitment. The fair values of Arrow's standby letters of credit at September 30, 2016, December 31, 2015 and September 30, 2015, in the table above, were the same

as the carrying amounts. The fair value of standby letters of credit is based on the fees currently charged for similar agreements or the cost to terminate the arrangement with the counterparties.
The fair value of commitments to extend credit is determined by estimating the fees to enter into similar agreements, taking into account the remaining terms and present creditworthiness of the counterparties, and for fixed rate loan commitments, the difference between the current and committed interest rates. Arrow provides several types of commercial lines of credit and standby letters of credit to its commercial customers. The pricing of these services is not isolated, as Arrow considers the customer's complete deposit and borrowing relationship in pricing individual products and services. The commitments to extend credit also include commitments under home equity lines of credit, for which Arrow charges no fee. The carrying value and fair value of commitments to extend credit are not material and Arrow does not expect to incur any material loss as a result of these commitments.

Note 5. COMPREHENSIVE INCOME (In Thousands)

The following table presents the components of other comprehensive income for the three- and nine-month periods ended September 30, 2016 and 2015:

Schedule of Comprehensive Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
2016						
Net Unrealized Securities Holding (Losses) Gains Arising During the Period	$(1,264)	$ 454	$ (810)	$3,868	$(1,559)	$ 2,309
Reclassification Adjustment for Securities Gains Included in Net Income	—	—	—	(144)	56	(88)
Amortization of Net Retirement Plan Actuarial Loss	181	(70)	111	503	(189)	314
Accretion of Net Retirement Plan Prior Service Credit	(3)	2	(1)	(7)	2	(5)
Other Comprehensive Income	$(1,086)	$ 386	$ (700)	$4,220	$(1,690)	$ 2,530
2015						
Net Unrealized Securities Holding Gains Arising During the Period	$892	$ (349)	$ 543	$631	$(247)	$ 384
Reclassification Adjustment for Securities Losses Included in Net Income	—	—	—	(106)	41	(65)
Amortization of Net Retirement Plan Actuarial Loss	192	(75)	117	579	(227)	352
Accretion of Net Retirement Plan Prior Service Credit	(13)	4	(9)	(41)	16	(25)
Other Comprehensive Income	$1,071	$ (420)	$ 651	$1,063	$(417)	$ 646

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The following table presents the changes in accumulated other comprehensive income by component:
Changes in Accumulated Other Comprehensive Income (Loss) by Component [1]

	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Plan Items		
		Net Gain (Loss)	Net Prior Service (Cost) Credit	Total
For the Quarter-To-Date periods ended:				
June 30, 2016	$ 3,660	$(7,690)	$(712)	$(4,742)
Other comprehensive income or loss before reclassifications	(810)	—	—	(810)
Amounts reclassified from accumulated other comprehensive income	—	111	(1)	110
Net current-period other comprehensive income	(810)	111	(1)	(700)
September 30, 2016	$ 2,850	$(7,579)	$(713)	$(5,442)
June 30, 2015	$ 2,315	$(9,020)	$(466)	$(7,171)
Other comprehensive income or loss before reclassifications	543	—	—	543
Amounts reclassified from accumulated other comprehensive income	—	117	(9)	108
Net current-period other comprehensive income	543	117	(9)	651
September 30, 2015	$ 2,858	$(8,903)	$(475)	$(6,520)
For the Year-To-Date periods ended:				
December 31, 2015	$ 629	$(7,893)	$(708)	$(7,972)
Other comprehensive income or loss before reclassifications	2,309	—	—	2,309
Amounts reclassified from accumulated other comprehensive income	(88)	314	(5)	221
Net current-period other comprehensive income	2,221	314	(5)	2,530
September 30, 2016	$ 2,850	$(7,579)	$(713)	$(5,442)
December 31, 2014	$ 2,539	$(9,255)	$(450)	$(7,166)
Other comprehensive income or loss before reclassifications	384	—	—	384
Amounts reclassified from accumulated other comprehensive income	(65)	352	(25)	262
Net current-period other comprehensive income	319	352	(25)	646
September 30, 2015	$ 2,858	$(8,903)	$(475)	$(6,520)

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

The following table presents the reclassifications out of accumulated other comprehensive income:
Reclassifications Out of Accumulated Other Comprehensive Income [1]

Details about Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income Is Presented
For the Quarter-to-date periods ended:			
September 30, 2016			
Unrealized gains and losses on available-for-sale securities	$ —		Gain on Securities Transactions
	—		Total before Tax
	—		Provision for Income Taxes
	$ —		Net of Tax
Amortization of defined benefit pension items:			
Prior-service costs	$ 3	[2]	Salaries and Employee Benefits
Actuarial gains/(losses)	(181)	[2]	Salaries and Employee Benefits
	(178)		Total before Tax
	68		Provision for Income Taxes
	$ (110)		Net of Tax
Total reclassifications for the period	$ (110)		Net of Tax
September 30, 2015			
Unrealized gains and losses on available-for-sale securities	$ —		Gain on Securities Transactions
	—		Total before Tax
	—		Provision for Income Taxes
	$ —		Net of Tax
Amortization of defined benefit pension items:			
Prior-service costs	$ 13	[2]	Salaries and Employee Benefits
Actuarial gains/(losses)	(192)	[2]	Salaries and Employee Benefits
	(179)		Total before Tax
	71		Provision for Income Taxes
	$ (108)		Net of Tax
Total reclassifications for the period	$ (108)		Net of Tax

Reclassifications Out of Accumulated Other Comprehensive Income [1]

Details about Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income Is Presented
For the Year-to-date periods ended:			
September 30, 2016			
Unrealized gains and losses on available-for-sale securities	$ 144		Gain on Securities Transactions
	144		Total before Tax
	(56)		Provision for Income Taxes
	$ 88		Net of Tax
Amortization of defined benefit pension items:			
Prior-service costs	$ 7	[2]	Salaries and Employee Benefits
Actuarial gains/(losses)	(503)	[2]	Salaries and Employee Benefits
	(496)		Total before Tax
	187		Provision for Income Taxes
	$ (309)		Net of Tax
Total reclassifications for the period	$ (221)		Net of Tax
September 30, 2015			
Unrealized gains and losses on available-for-sale securities	$ 106		Gain on Securities Transactions
	106		Total before Tax
	(41)		Provision for Income Taxes
	$ 65		Net of Tax
Amortization of defined benefit pension items:			
Prior-service costs	41	[2]	Salaries and Employee Benefits
Actuarial gains/(losses)	$ (579)	[2]	Salaries and Employee Benefits
	(538)		Total before Tax
	211		Provision for Income Taxes
	$ (327)		Net of Tax
Total reclassifications for the period	$ (262)		Net of Tax

(1) Amounts in parentheses indicate debits to profit/loss.
(2) These accumulated other comprehensive income components are included in the computation of net periodic pension cost.

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Note 6. STOCK BASED COMPENSATION PLANS

Under our 2013 Long-Term Incentive Plan, we granted options in the first quarter of 2016 to purchase shares of our common stock. The fair values of the options were estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of our grants is expensed over the four year vesting period.
The following table presents a roll-forward of our stock option plans and grants issued during 2016:
Schedule of Share-based Compensation Arrangements

	Stock Option Plans	
Roll-Forward of Shares Outstanding:		
Outstanding at January 1, 2016	421,751	
Granted	56,650	
Exercised	(82,790)	
Forfeited	(10,758)	
Outstanding at September 30, 2016	384,853	
Exercisable at Period-End	253,241	
Vested and Expected to Vest	131,612	
Roll-Forward of Shares Outstanding - Weighted Average Exercise Price:		
Outstanding at January 1, 2016	$21.93	
Granted	25.10	
Exercised	21.46	
Forfeited	23.97	
Outstanding at September 30, 2016	22.44	
Exercisable at Period-End	21.41	
Vested and Expected to Vest	24.44	
Grants Issued During 2016 - Weighted Average Information:		
Fair Value	$5.60	
Fair Value Assumptions:		
Dividend Yield	3.88	%
Expected Volatility	32.95	%
Risk Free Interest Rate	1.80	%
Expected Lives (in years)	7.56	

The following table presents information on the amounts expensed for the periods ended September 30, 2016 and 2015:
Share-Based Compensation Expense

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Share-Based Compensation Expense	$ 71	$ 76	$215	$233

Arrow also sponsors an Employee Stock Purchase Plan under which employees purchase Arrow's common stock at a 5% discount below market price. Under current accounting guidance, a stock purchase plan with a discount of 5% or less is not considered a compensatory plan.

Note 7. RETIREMENT PLANS (Dollars in Thousands)

The following tables provide the components of net periodic benefit costs for the three- and nine-month periods ended 9/30/2016 and 2015.

	Employees' Pension Plan	Select Executive Retirement Plan	Postretirement Benefit Plans
Net Periodic Benefit Cost			
For the Three Months Ended September 30, 2016:			
Service Cost	$ 376	$ 8	$ 63
Interest Cost	420	56	83
Expected Return on Plan Assets	(828)	—	—
Amortization of Prior Service (Credit) Cost	(14)	14	(3)
Amortization of Net Loss	140	28	—
Net Periodic Benefit Cost	$ 94	$ 106	$ 143
Plan Contributions During the Period	$ —	$ 131	$ 47
For the Three Months Ended September 30, 2015:			
Service Cost	$ 353	$ 3	$ 43
Interest Cost	402	61	144
Expected Return on Plan Assets	(808)	—	—
Amortization of Prior Service (Credit) Cost	(21)	15	(8)
Amortization of Net Loss	139	30	24
Net Periodic Benefit Cost	$ 65	$ 109	$ 203
Plan Contributions During the Period	$ 3,000	$ 70	$ 106
Net Periodic Benefit Cost			
For the Nine Months Ended September 30, 2016:			
Service Cost	$ 1,127	$ 24	$ 188
Interest Cost	1,262	163	178
Expected Return on Plan Assets	(2,483)	—	—
Amortization of Prior Service Cost (Credit)	(42)	43	(8)
Amortization of Net Loss	419	84	—
Net Periodic Benefit Cost	$ 283	$ 314	$ 358
Plan Contributions During the Period	$ —	$ 350	$ 197
Estimated Future Contributions in the Current Fiscal Year	$ —	$ 117	$ 66
For the Nine Months Ended September 30, 2015:			
Service Cost	$ 1,058	$ 8	$ 130
Interest Cost	1,203	182	361
Expected Return on Plan Assets	(2,423)	—	—
Amortization of Prior Service (Credit) Cost	(62)	44	(23)
Amortization of Net Loss	417	91	71
Net Periodic Benefit Cost	$ 193	$ 325	$ 539

Plan Contributions During the Period	$ 3,000	$ 344	$ 231

We were not required to make a contribution to our qualified pension plan in 2016, and currently, we do not expect to make additional contributions in 2016. Arrow makes contributions to its other post-retirement benefit plans in an amount equal to benefit payments for the year.

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Note 8. EARNINGS PER COMMON SHARE (In Thousands, Except Per Share Amounts)

The following table presents a reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per common share ("EPS") for periods ended September 30, 2016 and 2015. All share and per share amounts have been adjusted for the September 29, 2016 3% stock dividend.

Earnings Per Share

	Quarterly Period Ended:		Year-to-Date Period Ended:	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Earnings Per Share - Basic:				
Net Income	$6,738	$ 5,933	$19,934	$ 18,093
Weighted Average Shares - Basic	13,407	13,275	13,374	13,273
Earnings Per Share - Basic	$0.50	$ 0.45	$1.49	$ 1.36
Earnings Per Share - Diluted:				
Net Income	$6,738	$ 5,933	$19,934	$ 18,093
Weighted Average Shares - Basic	13,407	13,275	13,374	13,273
Dilutive Average Shares Attributable to Stock Options	90	42	65	41
Weighted Average Shares - Diluted	13,497	13,317	13,439	13,314
Earnings Per Share - Diluted	$0.50	$ 0.45	$1.48	$ 1.36
Antidilutive Shares Excluded from the Calculation of Earnings Per Share	—	—	—	—

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Note 9. FAIR VALUE OF FINANCIAL INSTRUMENTS (In Thousands)

FASB ASC Subtopic 820-10 defines fair value, establishes a framework for measuring fair value in Generally Accepted Accounting Principles (GAAP) and requires certain disclosures about fair value measurements. We do not have any nonfinancial assets or liabilities measured at fair value on a recurring basis. The only assets or liabilities that Arrow measured at fair value on a recurring basis at September 30, 2016, December 31, 2015 and September 30, 2015 were securities available-for-sale. Arrow held no securities or liabilities for trading on such dates.
The table below presents the financial instrument's fair value and the amounts within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement:
Fair Value of Assets and Liabilities Measured on a Recurring and Nonrecurring Basis

		Fair Value Measurements at Reporting Date Using:			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Fair Value of Assets and Liabilities Measured on a Recurring Basis:					
September 30, 2016					
Securities Available-for Sale:					
U.S. Agency Obligations	$153,926	$—	$153,926	$ —	
State and Municipal Obligations	31,628	—	31,628	—	
Mortgage-Backed Securities - Residential	148,087	—	148,087	—	
Corporate and Other Debt Securities	4,299	—	4,299	—	
Mutual Funds and Equity Securities	1,250	—	1,250	—	
Total Securities Available-for-Sale	$339,190	$—	$339,190	$ —	
December 31, 2015					
Securities Available-for Sale:					
U.S. Agency Obligations	$155,782	$—	$155,782	$ —	
State and Municipal Obligations	52,408	—	52,408	—	
Mortgage-Backed Securities - Residential	178,588	—	178,588	—	
Corporate and Other Debt Securities	14,299	—	14,299	—	
Mutual Funds and Equity Securities	1,232	—	1,232	—	
Total Securities Available-for Sale	$402,309	$—	$402,309	$ —	
September 30, 2015					
Securities Available-for Sale:					
U.S. Agency Obligations	$162,518	$—	$162,518	$ —	
State and Municipal Obligations	55,486	—	55,486	—	
Mortgage-Backed Securities - Residential	161,637	—	161,637	—	
Corporate and Other Debt Securities	16,672	—	16,672	—	
Mutual Funds and Equity Securities	1,246	—	1,246	—	
Total Securities Available-for Sale	$397,559	$—	$397,559	$ —	

Fair Value of Assets and Liabilities Measured on a Nonrecurring Basis:					
September 30, 2016					
Collateral Dependent Impaired Loans	$2,640	$—	$—	$ 2,640	$ (240)
Other Real Estate Owned and Repossessed Assets, Net	1,016	—	—	1,016	(319)
December 31, 2015					
Collateral Dependent Impaired Loans	$—	$—	$—	$ —	$ —
Other Real Estate Owned and Repossessed Assets, Net	2,018	—	—	2,018	(687)
September 30, 2015					
Collateral Dependent Impaired Loans	$902	$—	$—	$ 902	$ (322)
Other Real Estate Owned and Repossessed Assets, Net	585	—	—	585	(135)

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We determine the fair value of financial instruments under the following hierarchy:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Fair Value Methodology for Assets and Liabilities Measured on a Recurring Basis

The fair value of Level 1 securities available-for-sale are based on unadjusted, quoted market prices from exchanges in active markets. The fair value of Level 2 securities available-for-sale are based on an independent bond and equity pricing service for identical assets or significantly similar securities and an independent equity pricing service for equity securities not actively traded. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows.

Fair Value Methodology for Assets and Liabilities Measured on a Nonrecurring Basis

The fair value of collateral dependent impaired loans was based on third-party appraisals of the collateral. The fair value of other real estate owned was based on third-party appraisals. Other assets which might have been included in this table include mortgage servicing rights, goodwill and other intangible assets. Arrow evaluates each of these assets for impairment on a quarterly basis, with no impairment recognized for these assets at September 30, 2016, December 31, 2015 and September 30, 2015.

Fair Value by Balance Sheet Grouping

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

Schedule of Fair Values by Balance Sheet Grouping

			Fair Value Hierarchy		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2016					
Cash and Cash Equivalents	$102,059	$102,059	$102,059	$ —	$ —
Securities Available-for-Sale	339,190	339,190	—	339,190	—
Securities Held-to-Maturity	338,238	347,441	—	347,441	—