

ARROW FINANCIAL CORP
Form 10-Q
August 09, 2016

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

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

For the Quarterly Period Ended June 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
(State)

22-2448962

or
other jurisdiction of incorporation No.)
(I.R.S. Employer Identification No.)

or
organization)
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

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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). 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.

			Smaller
Large accelerated filer	Accelerated	Non-accelerated	reporting
	filer <input checked="" type="checkbox"/>	filer <input type="checkbox"/>	company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes 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 July 29, 2016
Common Stock, par value \$1.00 per share	13,028,892

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)

	June 30, 2016	December 31, 2015	June 30, 2015
ASSETS			
Cash and Due From Banks	\$46,139	\$34,816	\$31,438
Interest-Bearing Deposits at Banks	16,976	16,252	13,699
Investment Securities:			
Available-for-Sale	362,929	402,309	391,817
Held-to-Maturity (Approximate Fair Value of \$354,778 at June 30, 2016; \$325,930 at December 31, 2015; and \$328,361 at June 30, 2015)	343,814	320,611	324,116
Federal Home Loan Bank and Federal Reserve Bank Stock	9,961	8,839	6,470
Loans	1,672,490	1,573,952	1,479,670
Allowance for Loan Losses	(16,798)	(16,038)	(15,574)
Net Loans	1,655,692	1,557,914	1,464,096
Premises and Equipment, Net	26,775	27,440	28,570
Goodwill	21,873	21,873	22,003
Other Intangible Assets, Net	2,885	3,107	3,369
Other Assets	53,198	53,027	47,793
Total Assets	\$2,540,242	\$2,446,188	\$2,333,371
LIABILITIES			
Noninterest-Bearing Deposits	\$368,378	\$358,751	\$325,046
NOW Accounts	900,974	887,317	904,893
Savings Deposits	600,513	594,538	547,706
Time Deposits of \$100,000 or More	72,730	59,792	58,284
Other Time Deposits	129,790	130,025	136,555
Total Deposits	2,072,385	2,030,423	1,972,484
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	41,497	23,173	24,273
Federal Home Loan Bank Overnight Advances	102,000	82,000	29,500
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	23,987	21,621	25,167
Total Liabilities	2,314,869	2,232,217	2,126,424
STOCKHOLDERS' EQUITY			
Preferred Stock, \$5 Par Value; 1,000,000 Shares Authorized	—	—	—
Common Stock, \$1 Par Value; 20,000,000 Shares Authorized (17,420,776 Shares Issued at June 30, 2016 and December 31, 2015 and 17,079,376 at June 30, 2015)	17,421	17,421	17,079
Additional Paid-in Capital	252,511	250,680	240,243
Retained Earnings	38,852	32,139	35,303
	(850)	(1,100)	(1,200)

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Unallocated ESOP Shares (28,671 Shares at June 30, 2016; 55,275 Shares at December 31, 2015; and 58,606 Shares at June 30, 2015)

Accumulated Other Comprehensive Loss	(4,742)	(7,972)	(7,171)
Treasury Stock, at Cost (4,380,736 Shares at June 30, 2016; 4,426,072 Shares at December 31, 2015; and 4,397,740 Shares at June 30, 2015)	(77,819)	(77,197)	(77,307)
Total Stockholders' Equity	225,373		213,971		206,947	
Total Liabilities and Stockholders' Equity	\$2,540,242		\$2,446,188		\$2,333,371	

See Notes to Unaudited Interim Consolidated Financial Statements.

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ARROW FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
INTEREST AND DIVIDEND INCOME				
Interest and Fees on Loans	\$15,708	\$13,939	\$30,732	\$27,589
Interest on Deposits at Banks	34	26	66	47
Interest and Dividends on Investment Securities:				
Fully Taxable	2,018	2,013	4,105	3,957
Exempt from Federal Taxes	1,477	1,429	2,960	2,804
Total Interest and Dividend Income	19,237	17,407	37,863	34,397
INTEREST EXPENSE				
NOW Accounts	311	338	621	668
Savings Deposits	224	182	446	349
Time Deposits of \$100,000 or More	98	88	185	178
Other Time Deposits	164	185	333	387
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	10	5	15	10
Federal Home Loan Bank Advances	314	301	623	451
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	163	144	324	286
Total Interest Expense	1,284	1,243	2,547	2,329
NET INTEREST INCOME	17,953	16,164	35,316	32,068
Provision for Loan Losses	669	70	1,070	345
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,284	16,094	34,246	31,723
NONINTEREST INCOME				
Income From Fiduciary Activities	2,000	2,051	3,931	3,984
Fees for Other Services to Customers	2,417	2,334	4,654	4,573
Insurance Commissions	2,133	2,367	4,341	4,506
Net Gain on Securities Transactions	144	16	144	106
Net Gain on Sales of Loans	159	120	338	252
Other Operating Income	341	556	662	879
Total Noninterest Income	7,194	7,444	14,070	14,300
NONINTEREST EXPENSE				
Salaries and Employee Benefits	8,408	8,186	16,530	15,878
Occupancy Expenses, Net	2,335	2,344	4,798	4,831
FDIC Assessments	314	296	627	576
Other Operating Expense	3,827	3,557	7,300	7,053
Total Noninterest Expense	14,884	14,383	29,255	28,338
INCOME BEFORE PROVISION FOR INCOME TAXES	9,594	9,155	19,061	17,685
Provision for Income Taxes	2,947	2,850	5,865	5,525
NET INCOME	\$6,647	\$6,305	\$13,196	\$12,160
Average Shares Outstanding:				
Basic	12,982	12,886	12,968	12,886
Diluted	13,038	12,922	13,014	12,923

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Per Common Share:

Basic Earnings	\$0.51	\$0.49	\$1.02	\$0.94
Diluted Earnings	0.51	0.49	1.01	0.94

Share and Per Share Amounts have been restated for the September 28, 2015 2% 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Income	\$6,647	\$6,305	\$13,196	\$12,160
Other Comprehensive Income, Net of Tax:				
Net Unrealized Securities Holding Gains Arising During the Period	682	(1,014)	3,119	(159)
Reclassification Adjustments for Securities Gains Included in Net Income	(88)	(10)	(88)	(65)
Amortization of Net Retirement Plan Actuarial Loss	102	118	203	235
Accretion of Net Retirement Plan Prior Service Credit	(2)	(9)	(4)	(16)
Other Comprehensive Income Gain (Loss)	694	(915)	3,230	(5)
Comprehensive Income	\$7,341	\$5,390	\$16,426	\$12,155

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	—	—	13,196	—	—	—	13,196
Other Comprehensive Income	—	—	—	—	3,230	—	3,230
Cash Dividends Paid, \$.50 per Share	—	—	(6,483)	—	—	—	(6,483)
Stock Options Exercised, Net (59,711 Shares)	—	732	—	—	—	589	1,321
Shares Issued Under the Directors' Stock Plan (3,522 Shares)	—	69	—	—	—	35	104
Shares Issued Under the Employee Stock Purchase Plan (9,433 Shares)	—	157	—	—	—	93	250
Shares Issued for Dividend Reinvestment Plans (31,275 Shares)	—	565	—	—	—	309	874
Stock-Based Compensation Expense	—	145	—	—	—	—	145
Tax Benefit from Exercise of Stock Options	—	46	—	—	—	—	46
Purchase of Treasury Stock (58,605 Shares)	—	—	—	—	—	(1,648)	(1,648)
Allocation of ESOP Stock (26,604 Shares)	—	117	—	250	—	—	367
Balance at June 30, 2016	\$ 17,421	\$ 252,511	\$ 38,852	\$ (850)	\$ (4,742)	\$ (77,819)	\$ 225,373
Balance at December 31, 2014	\$ 17,079	\$ 239,721	\$ 29,458	\$ (1,450)	\$ (7,166)	\$ (76,716)	\$ 200,926
Net Income	—	—	12,160	—	—	—	12,160
Other Comprehensive Income	—	—	—	—	(5)	—	(5)
Cash Dividends Paid, \$.49 per Share ¹	—	—	(6,315)	—	—	—	(6,315)
Stock Options Exercised, Net (3,027 Shares)	—	40	—	—	—	30	70
Shares Issued Under the Directors' Stock Plan (4,579 Shares)	—	73	—	—	—	45	118
Shares Issued Under the Employee Stock Purchase Plan (9,775 Shares)	—	153	—	—	—	96	249
Stock-Based Compensation Expense	—	157	—	—	—	—	157
Purchase of Treasury Stock (29,120 Shares)	—	—	—	—	—	(762)	(762)
Allocation of ESOP Stock (13,142 Shares)	—	99	—	250	—	—	349

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Balance at June 30, 2015 \$ 17,079 \$ 240,243 \$ 35,303 \$ (1,200) \$ (7,171) \$ (77,307) \$ 206,947

¹ Cash dividends paid per share have been adjusted for the September 28, 2015 2.0% 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)

	Six Months Ended June 30,	
	2016	2015
Cash Flows from Operating Activities:	2016	2015
Net Income	\$ 13,196	\$ 12,160
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	1,070	345
Depreciation and Amortization	3,114	3,266
Allocation of ESOP Stock	367	349
Gains on the Sale of Securities Available-for-Sale	(144)	(106)
Loans Originated and Held-for-Sale	(12,432)	(10,626)
Proceeds from the Sale of Loans Held-for-Sale	10,628	7,620
Net Gains on the Sale of Loans	(338)	(252)
Net Losses on the Sale of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	47	112
Contributions to Retirement Benefit Plans	(370)	(416)
Deferred Income Tax (Benefit) Expense	(403)	297
Shares Issued Under the Directors' Stock Plan	104	118
Stock-Based Compensation Expense	145	157
Net Increase in Other Assets	(2,719)	(1,777)
Net Increase in Other Liabilities	2,734	2,458
Net Cash Provided By Operating Activities	14,999	13,705
Cash Flows from Investing Activities:		
Proceeds from the Sale of Securities Available-for-Sale	10,568	21,426
Proceeds from the Maturities and Calls of Securities Available-for-Sale	43,780	55,976
Purchases of Securities Available-for-Sale	(10,920)	(104,488)
Proceeds from the Maturities and Calls of Securities Held-to-Maturity	33,809	30,084
Purchases of Securities Held-to-Maturity	(57,572)	(52,815)
Net Increase in Loans	(97,100)	(64,241)
Proceeds from the Sales of Premises and Equipment, Other Real Estate Owned and Repossessed Assets	1,438	820
Purchase of Premises and Equipment	(527)	(1,136)
Proceeds from the Sale of a Subsidiary, Net	48	—
Net Increase in Other Investments	(1,122)	(1,619)
Net Cash Used In By Investing Activities	(77,598)	(115,993)
Cash Flows from Financing Activities:		
Net Increase in Deposits	41,962	69,536
Net Increase (Decrease) in Short-Term Borrowings	38,324	(36,148)
Federal Home Loan Bank Advances	—	74,500
Purchase of Treasury Stock	(1,648)	(762)
Stock Options Exercised, Net	1,321	70
Shares Issued Under the Employee Stock Purchase Plan	250	249
Tax Benefit from Exercise of Stock Options	46	—
Shares Issued for Dividend Reinvestment Plans	874	—
Cash Dividends Paid	(6,483)	(6,315)
Net Cash Provided By Financing Activities	74,646	101,130

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Net Increase (Decrease) in Cash and Cash Equivalents	12,047	(1,158)
Cash and Cash Equivalents at Beginning of Period	51,068	46,295
Cash and Cash Equivalents at End of Period	\$63,115	\$45,137

Supplemental Disclosures to Statements of Cash Flow Information:

Interest on Deposits and Borrowings	\$2,545	\$2,297
Income Taxes	6,241	4,860
Non-cash Investing and Financing Activity:		
Transfer of Loans to Other Real Estate Owned and Repossessed Assets	394	756

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 June 30, 2016, December 31, 2015 and June 30, 2015; the results of operations for the three-month period ended June 30, 2016; the consolidated statements of comprehensive income for the three- and six-month periods ended June 30, 2016; the changes in stockholders' equity for the six-month periods ended June 30, 2016 and 2015; and the cash flows for the six-month periods ended June 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 13 accounting standards updates. Some of the standards listed below did not have had 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. Currently, we hold 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.

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.

Note 2. INVESTMENT SECURITIES (In Thousands)

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

Available-For-Sale Securities

State and	Mortgage-	Corporate	Total
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	U.S. Agency Obligations	Municipal Obligations	Backed Securities - Residential	and Other Debt Securities	Mutual Funds and Equity Securities	Available- For-Sale Securities
June 30, 2016						
Available-For-Sale Securities, at Amortized Cost	\$ 155,859	\$ 36,256	\$ 157,926	\$ 5,749	\$ 1,120	\$ 356,910
Available-For-Sale Securities, at Fair Value	157,990	36,425	161,728	5,555	1,231	362,929
Gross Unrealized Gains	2,131	169	3,806	6	111	6,223
Gross Unrealized Losses	—	—	4	200	—	204
Available-For-Sale Securities, Pledged as Collateral						267,912
Maturities of Debt Securities, at Amortized Cost:						
Within One Year	—	20,424	10,368	3,248		34,040
From 1 - 5 Years	155,859	14,724	137,109	1,501		309,193
From 5 - 10 Years	—	548	10,449	—		10,997
Over 10 Years	—	560	—	1,000		1,560

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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
Maturities of Debt Securities, at Fair Value:						
Within One Year	\$ —	\$ 20,459	\$ 10,468	\$ 3,251		\$ 34,178
From 1 - 5 Years	157,990	14,858	140,293	1,504		314,645
From 5 - 10 Years	—	548	10,967	—		11,515
Over 10 Years	—	560	—	800		1,360

Securities in a Continuous
Loss Position, at Fair Value:

Less than 12 Months	\$ —	\$ —	\$ 710	\$ —	\$ —	\$ 710
12 Months or Longer	—	256	—	2,281	—	2,537
Total	\$ —	\$ 256	\$ 710	\$ 2,281	\$ —	\$ 3,247
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	\$ —	\$ —	\$ 4	\$ —	\$ —	\$ 4
12 Months or Longer	—	—	—	200	—	200
Total	\$ —	\$ —	\$ 4	\$ 200	\$ —	\$ 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

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:

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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

June 30, 2015

Available-For-Sale Securities, at Amortized Cost	\$ 156,248	\$ 59,230	\$ 154,501	\$ 16,910	\$ 1,120	\$ 388,009
Available-For-Sale Securities, at Fair Value	156,937	59,303	157,641	16,691	1,245	391,817
Gross Unrealized Gains	788	117	3,350	5	125	4,385
Gross Unrealized Losses	99	43	210	224	—	576
Available-For-Sale Securities, Pledged as Collateral						289,418

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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	\$ —	\$ —	\$ —	\$ —	\$ —	—\$ —
12 Months or Longer	35,149	16,401	47,859	10,232	—	109,641
Total	\$ 35,149	\$ 16,401	\$ 47,859	\$ 10,232	\$ —	—\$109,641
Number of Securities in a Continuous Loss Position	10	71	1	14	—	96
Unrealized Losses on Securities in a Continuous Loss Position:						
Less than 12 Months	\$ —	\$ —	\$ —	\$ —	\$ —	—\$ —
12 Months or Longer	99	43	210	224	—	576
Total	\$ 99	\$ 43	\$ 210	\$ 224	\$ —	—\$576

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

Held-To-Maturity Securities

	State and Municipal Obligations	Mortgage- Backed Securities - Residential	Corporate and Other Debt Securities	Total Held-To- Maturity Securities
June 30, 2016				
Held-To-Maturity Securities, at Amortized Cost	\$ 257,982	\$ 84,832	\$ 1,000	\$ 343,814
Held-To-Maturity Securities, at Fair Value	265,983	87,795	1,000	354,778
Gross Unrealized Gains	8,002	2,963	—	10,965
Gross Unrealized Losses	1	—	—	1
Held-To-Maturity Securities, Pledged as Collateral				327,820
Maturities of Debt Securities, at Amortized Cost:				
Within One Year	\$ 35,656	\$ —	\$ —	\$ 35,656
From 1 - 5 Years	86,496	73,022	—	159,518
From 5 - 10 Years	131,644	11,810	—	143,454
Over 10 Years	4,186	—	1,000	5,186
Maturities of Debt Securities, at Fair Value:				
Within One Year	\$ 35,754	\$ —	\$ —	\$ 35,754
From 1 - 5 Years	89,653	75,495	—	165,148
From 5 - 10 Years	136,186	12,300	—	148,486

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Over 10 Years	4,390	—	1,000	5,390
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Securities in a Continuous
Loss Position, at Fair Value:

Less than 12 Months	\$ —	\$ —	\$ —	\$ —
12 Months or Longer	659	—	—	659
Total	\$ 659	\$ —	\$ —	\$ 659

Number of Securities in a Continuous Loss Position	3	—	—	3
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Unrealized Losses on Securities
in a Continuous Loss Position:

Less than 12 Months	\$ —	\$ —	\$ —	\$ —
12 Months or Longer	1	—	—	1
Total	\$ 1	\$ —	\$ —	\$ 1

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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
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

June 30, 2015

Held-To-Maturity Securities, at Amortized Cost	\$ 219,878	\$ 103,238	\$ 1,000	\$ 324,116
Held-To-Maturity Securities, at Fair Value	223,031	104,330	1,000	328,361
Gross Unrealized Gains	3,737	1,201	—	4,938
Gross Unrealized Losses	583	109	—	692
Held-To-Maturity Securities, Pledged as Collateral				300,040

Securities in a Continuous
Loss Position, at Fair Value:

Less than 12 Months	\$ —	\$ —	\$ —	\$ —
12 Months or Longer	44,748	3,967	—	48,715
Total	\$ 44,748	\$ 3,967	\$ —	\$ 48,715
Number of Securities in a Continuous Loss Position	157	1	—	158

Unrealized Losses on
 Securities in a Continuous
 Loss Position:

Less than 12 Months	\$ —	\$ —	\$ —	\$ —
12 Months or Longer	583	109	—	692
Total	\$ 583	\$ 109	\$ —	\$ 692

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.

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In the available-for-sale category at June 30, 2016, 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 \$158.0 million. Mortgage-backed securities - residential consisted of U.S. Government Agency securities with an amortized cost of \$10.3 million and a fair value of \$10.4 million and government sponsored entity (GSE) securities with an amortized cost of \$147.6 million and a fair value of \$151.3 million. In the held-to-maturity category at June 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 \$81.3 million and a fair value of \$84.2 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 June 30, 2015, U.S. agency obligations consisted solely of U.S. Government Agency securities with an amortized cost of \$156.2 million and a fair value of \$156.9 million. Mortgage-backed securities - residential consisted of US Government Agency securities with an amortized cost of \$30.8 million and a fair value of \$31.7 million and GSE securities with an amortized cost of \$123.7 million and a fair value of \$126.0 million. In the held-to-maturity category at June 30, 2015, mortgage-backed securities-residential consisted of U.S. Government Agency securities with an amortized cost of \$28.8 million and a fair value of \$29.0 million and GSE securities with an amortized cost of \$74.5 million and a fair value of \$75.4 million.

Securities in a continuous loss position, in the tables above for June 30, 2016, December 31, 2015 and June 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 June 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 June 30, 2016, December 31, 2015 and June 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 \$2,440, \$298 and \$3,656 as of June 30, 2016, December 31, 2015 and June 30, 2015, respectively, are included in the residential real estate balances for current loans.