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Chairman
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Distribution Co., Inc.

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Attorney
Carusone & Carusone

Michael B. Clarke
Retired President & C.E.O.
Lone Star Industries

Gary C. Dake
President
Stewart's Shops Corp.

Mary-Elizabeth T. FitzGerald
Retired Executive Director
Tri-County United Way

Kenneth C. Hopper, MD
Vice Chairman of the Board
Chairman & C.E.O.
ExCel BioScience, Inc.

Thomas L. Hoy
Chairman, President & C.E.O.
Arrow Financial Corporation

David G. Kruczlnicki
President & C.E.O.
Glens Falls Hospital

Elizabeth O'C. Little
New York State Senator
45th District

David L. Moynehan
President
Riverside Gas & Oil Co., Inc.

John J. Murphy
Retired
Executive Vice President
Treasurer & C.F.O.
Arrow Financial Corporation

Richard J. Reisman, DMD
Chairman
Section of Dentistry
Glens Falls Hospital

Directors Emeriti

Richard J. Bartlett, Esq.
Jan-Eric O. Bergstedt
George C. Frost
Herbert A. Heineman, Jr.
Dr. Edward F. Huntington
Robert P. Larson, CFA
Michael F. Massiano-*Chairman Emeritus*
Doris E. Ornstein
Daniel L. Robertson

Executive Officers

Thomas L. Hoy
Chairman, President
& C.E.O.

Terry R. Goodemote, CPA
Senior Vice President,
Treasurer & C.F.O.

Gerard R. Bilodeau
Senior Vice President
& Corporate Secretary

Shareholder Information

Arrow Stock

Arrow Stock is traded on the NasdaqGS® under the symbol "AROW".

Dividend Reinvestment Plan

The Arrow Financial Corporation Dividend Reinvestment Plan offers shareholders a convenient and economical way to acquire additional common stock of Arrow Financial Corporation without payment of any brokerage commission or service charge.

Participants in the Plan may reinvest all stock and cash dividends as well as make optional cash contributions.

Since the Plan is entirely voluntary, you may join at any time and terminate whenever you wish.

Shareholder Benefits Include:

- No Service Charge or Commission on Shares Purchased or Sold - Arrow Financial Corporation pays all service charges associated with the Plan as well as all brokerage commissions on shares purchased or sold for you.
- Full Investment of Funds - The Plan permits fractional as well as full shares to be credited to your account.
- Added Income - Fractional shares, like full shares, earn dividends.
- Simplified Record Keeping - All paperwork is done for you, and you receive a detailed quarterly statement.

For More Information, Please Contact:

American Stock Transfer and Trust Company
59 Maiden Lane
New York, New York 10038
Tel: 800-278-4353
amstock.com

Arrow Financial Corporation

250 Glen Street
P. O. Box 307
Glens Falls, NY 12801
Tel: 518-745-1000
arrowfinancial.com

SHAREHOLDERS' REPORT
December 31, 2008

Arrow Financial Corporation

To Our Shareholders, Staff and Friends

We are pleased to report solid annual earnings performance, primarily as a result of significant increases in net interest income through an expansion in net interest margin and continued growth in average earning assets. A few of the highlights are:

- Net Income – up 17.9%
- Diluted Earnings Per Share – up 19.3%
- Cash Dividends Paid Per Share – up 4.3%
- Book Value Per Share – up 3.7%

During this recessionary period, our conservative loan underwriting and investment practices continue to be key drivers which have generated earnings growth while our balance sheet and asset quality have remained strong. Our concentration on fundamentals has allowed the Company to achieve record levels for total deposits, loans outstanding and total shareholders' equity in spite of the trauma currently being experienced in the banking and financial markets. We believe our strong capital position and traditionally high loan quality have us well positioned to withstand the stresses of a weak economy and financial market turmoil.

Many of Arrow's operating ratios compare favorably to those of our peer group. Most notably, our return on average equity (ROE) for 2008 was 16.26% as compared to 3.18% for our peer group. For 2008, our ratio of nonperforming assets to total assets was .30%, compared to 2.22% for our peer group. We also have maintained a higher total risk-based capital ratio than the average for our peer group.

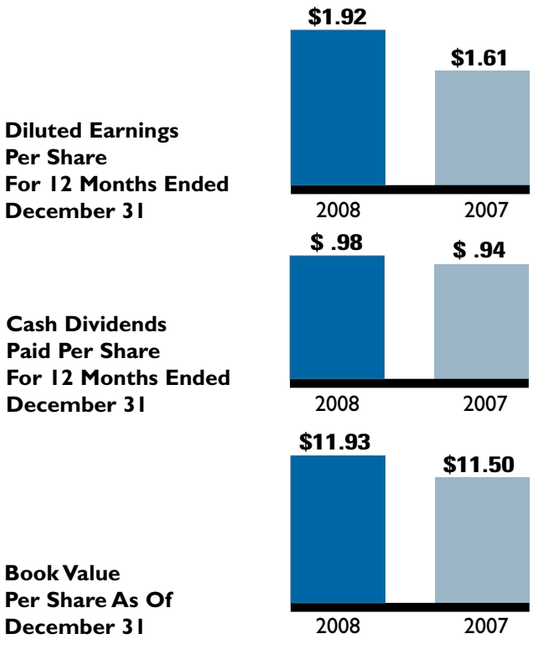
We were very pleased to be an institution worthy of selection by the U.S. Treasury Department for the TARP Capital Purchase Program. However, our balance sheet is strong, we are well capitalized and our business operations have consistently generated very good earnings. In addition, our banks have continued to meet the needs of consumer and commercial loan customers in our five county market area. Our loan portfolio has expanded in recent periods and our asset quality remains strong. We have never engaged in the origination of subprime mortgage loans as a business line, nor do we hold mortgage-backed securities backed by subprime mortgages in our investment portfolio. Consequently, we declined participation in this program as the Company determined it was not in the best interest of our shareholders, given Arrow's strong financial and liquidity positions.

Our Proxy and 2008 Annual Report on Form 10-K, will be available electronically to shareholders on March 20, 2009 by accessing arrowfinancial.com.

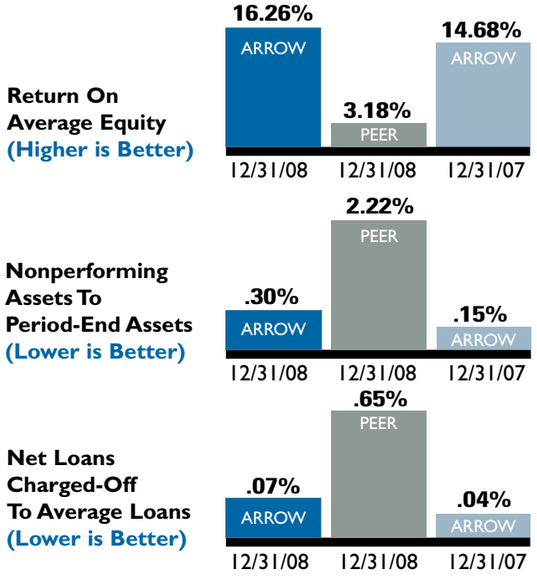
Sincerely,

Thomas L. Hoy
Chairman, President & C.E.O.

Performance Comparisons



Ratios as Compared to Peer Group*



Consolidated Statements of Income

($ in thousands, except per share amounts)

	Years Ended December 31, 2008	2007
Interest and Dividend Income	$ 89,508	$ 86,577
Interest Expense	32,277	40,283
Net Interest Income	57,231	46,294
Provision for Loan Losses	1,671	513
Net Interest Income After Provision for Loan Losses	55,560	45,781
Total Noninterest Income	16,269	16,288
Total Noninterest Expense	42,393	37,930
Income Before Taxes	29,436	24,139
Provision for Income Taxes	8,999	6,807
Net Income	$ 20,437	$ 17,332
Share and Per Share Data		
Diluted Average Shares Outstanding	10,622	10,786
Diluted Earnings Per Share	$ 1.92	$ 1.61
Cash Dividends	.98	.94
Book Value	11.93	11.50
Key Earnings Ratios		
Return on Average Assets	1.24%	1.11%
Return on Average Equity	16.26%	14.68%
Return on Tangible Equity	18.73%	17.11%
Net Interest Margin	3.84%	3.31%
Capital Ratios		
Tier 1 Leverage Ratio	8.45%	8.37%
Total Risk-Based Capital Ratio	14.27%	14.09%

Net Interest Margin includes a tax equivalent upward adjustment for the twelve month period of 19 basis points in 2008 and 20 basis points in 2007.

* Peer Group data consists of all U.S. Bank Holding Companies having $1.0 to $3.0 billion in assets as identified in the Federal Reserve Bank's December 31, 2008 Bank Holding Company Performance Report.

Consolidated Balance Sheets

($ in thousands)

	December 31, 2008	2007
Assets		
Cash and Due from Banks	$ 37,239	$ 35,289
Interest-Bearing Bank Balances	21,099	---
Federal Funds Sold	---	16,000
Securities	459,066	452,681
Loans	1,109,812	1,038,844
Allowance for Loan Losses	(13,272)	(12,401)
Net Loans	1,096,540	1,026,443
Premises and Equipment, Net	17,602	16,728
Goodwill and Intangible Assets, Net	16,378	16,590
Other Assets	17,162	21,115
Total Assets	$1,665,086	$1,584,846
Liabilities and Shareholders' Equity		
Demand Deposits	$ 182,613	$ 184,273
Nonmaturity Interest-Bearing Deposits	688,752	590,383
Time Deposits of $100,000 or More	157,187	180,334
Other Time Deposits	246,511	249,210
Total Deposits	1,275,063	1,204,200
Short-Term Borrowings	59,956	53,719
Federal Home Loan Bank Advances	160,000	160,000
Other Long-Term Debt	20,000	20,000
Other Liabilities	24,265	24,671
Total Liabilities	1,539,284	1,462,590
Total Shareholders' Equity	125,802	122,256
Total Liabilities and Shareholders' Equity	$1,665,086	$1,584,846