

# **ARROW FINANCIAL CORPORATION**

(A New York corporation)

## **Charter of the Compensation Committee**

This is the charter of the Compensation Committee (the Committee) of the Board of Directors (the Board) of Arrow Financial Corporation (the Company) as most recently amended or restated. The Committee shall establish and oversee the Company's executive and Board compensation and benefits philosophy and programs. The principal tasks of the Committee are to 1) review and approve executive compensation, 2) review and make recommendations to the full Board regarding the compensation of directors, 3) provide general oversight of the compensation and benefit programs and policies for employees generally, 4) provide equity and benefit plan oversight, and 5) produce an annual report on executive compensation for inclusion in the Company's proxy statement. This charter governs the responsibilities, authority and operations of the Committee.

### **Membership**

The Committee shall consist of three (3) or more directors of the Company as determined from time to time by the Board each of whom shall satisfy the applicable independence requirements of NASDAQ, the Securities and Exchange Act of 1934, as amended, and any other regulatory requirements. The Board shall appoint or designate the members of the Committee, annually and shall have the power to remove directors as members, with or without cause, and to appoint replacement or new members to the Committee at any time.

The Committee's Chairperson shall be designated by the Board or if it does not do so, the Committee members shall select a Chairperson by vote of a majority of its members. The Chairperson of the Committee will preside at each meeting. A majority of Committee members will constitute a quorum for voting purposes.

### **Responsibilities and Duties**

The principal area of responsibility of the Committee is executive compensation and benefits. Additional areas of responsibility are the compensation of directors and general oversight of the compensation and benefit programs and policies of employees generally.

During the course of its duties, the Committee shall make recommendations to the Board regarding the adoption, amendment and rescission of benefit plans including incentive compensation plans, equity-based plans, deferred compensation plans, retirement plans and welfare plans. In addition, unless otherwise provided by the terms of such plans or as otherwise delegated by the Board or the Committee, the Committee shall: provide general oversight of such plans, interpret the plans, determine rules and regulations relating to the plans, make awards under the plans to executive officers, make awards under equity plans, modify or cancel existing awards and impose limitations, restrictions and conditions upon any awards to executive officers or as otherwise appropriate.

The specific duties of the Committee within each such area are as follows:

### Executive Compensation

- The Committee shall review and approve the compensation of executives, subject to applicable law. Such review shall be undertaken not less often than annually and shall include all aspects of compensation, including salary, bonus, long-term incentive compensation (including stock-based awards), retirement and severance arrangements, deferred compensation arrangements, and other benefits and perquisites.
- For purposes of the Committee's duties in the area of executive compensation, "executives" shall include (i) all executive officers of the Company as listed in the "Executive Officers" table included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission, (ii) any officers hired to replace any such officers, and (iii) any other senior officers that the Committee believes play a significant role in senior management of the Company and should be included in its reviews and determinations.
- As part of its annual review of executive compensation, the Committee shall review and, to the extent it deems appropriate, make recommendations to the full Board on the Company's corporate goals and objectives relating to executive compensation, as determined from time to time by the full Board.
- As part of its annual review of executive compensation, the Committee shall evaluate the performance of the CEO and discuss with the CEO his evaluation of the performance of the other executives during the prior period, taking into account both individual and corporate performance.
- In connection with its annual review of executive performance, the Committee shall consult with the CEO and such other sources, including other executives, as it deems appropriate regarding the latter's recommendations on types and amounts of executive compensation.
- As part of its annual review of executive compensation, the Committee shall take into account the executive compensation policies and practices at peer-group companies and other businesses, to the extent it deems appropriate.
- Based upon its reviews, the Committee shall have exclusive authority to determine the types and amounts of incentive awards granted to executives under the Company's stock-based incentive compensation plans and shall make all significant interpretations regarding such awards and plans as they pertain to executives.
- Based upon its reviews, the Committee shall approve annual salaries and bonuses of executives as well as other aspects of their compensation, including any contracts or agreements between the Company and the executives providing for compensation or severance payments.

- The Chief Executive Officer shall at least annually report to the Committee with respect to succession planning and related recommendations to the Committee and the Board regarding short and long-term succession planning. The Committee (or other committee designate by the Board) shall have responsibility for reporting to the Board with respect to CEO succession.
- The Committee shall review and discuss with management the section of the Company's proxy statement for its annual meeting of shareholders ("Proxy Statement") entitled Compensation Discussion and Analysis ("CD&A") and shall prepare a separate report of the Committee on executive compensation for the Proxy Statement recommending to the Board, if the Committee so determines, inclusion of the CD&A in the Proxy Statement.

#### Compensation of Directors

- The Committee shall periodically review board compensation and make recommendations to the full Board for continuation of or periodic adjustments to the types and amounts of compensation payable to the directors of the Company for their service on the Board, or committees of the Board, and on the boards of directors and committees of the Company's subsidiaries. The Committee also shall periodically review the types and amounts of compensation payable to other directors of subsidiaries of the Company, and make recommendations regarding the same, as it deems appropriate.

#### Employee Compensation Oversight; Relationship to Risk

- The Committee shall consult with management and provide general oversight of the compensation and benefit programs and policies for all employees of the Company and its subsidiaries generally.
- The Committee shall consult with management in the Committee's review of the Company's employee compensation programs and policies (including incentive compensation plans) as they relate to risk including to ensure that they do not create excessive and unnecessary risk taking.

#### **Annual Assessment: Committee and Board Review of Charter**

The Committee shall annually review and reassess its ability to perform its duties and responsibilities consistent with this charter and, if it so elects, shall recommend to the full Board appropriate changes in this charter. The full Board and, to the extent required or permitted under this charter, one or more other committees of the Board also may review this Committee's charter and performance of its duties under the charter.

## **Disclosure of Charter**

This charter or portions hereof shall be disclosed as part of the Company's annual meeting proxy statement or otherwise, if and as required under applicable securities laws and regulations.

## **Access to Company Books, Records and Personnel**

In discharging its duties and responsibilities, the Committee is empowered to examine, under the direction of its Chairperson, those matters appropriate to fulfilling its responsibilities, with unrestricted access to all books, records, facilities and personnel of the Company.

## **Further Committee Duties and Responsibilities; Board Oversight**

The Board has ultimate authority for the delegation of duties and responsibilities to the Committee and the specification of these duties and responsibilities in this charter, subject to applicable law and any applicable rules, regulations and listing standards.

From time to time, the Board may add to, delete from or modify the duties and responsibilities of the Committee set forth herein and amend this charter accordingly. The Board also may assign to the Committee such further and particular tasks as it chooses, consistent with this charter, without so specifying in this charter.

On a regular basis, the Chairperson of the Committee will report to the full Board regarding the actions and decisions of the Committee, in such detail as may be appropriate or as the full Board may request. Any Committee recommendations to the full Board for action by the latter shall be accompanied by all necessary or appropriate information and documentation.

## **Outside Advisors**

The Committee has the ability to retain, at the Company's expense, independent legal, financial, accounting, compensation or other consultants, experts or advisors, as it deems necessary in the performance of its duties, with sole authority to determine the terms and conditions of any such retention, including fees.