ARROW FINANCIAL CORPORATION

CHARTER OF THE AUDIT COMMITTEE

I. AUDIT COMMITTEE PURPOSE

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

Monitor the independence and performance of the Company's independent auditors and internal audit department.

Monitor the quality and integrity of the Company's financial reporting process and systems of internal controls regarding financial, accounting, and legal compliance.

Provide a means of communication among the independent auditors, management, the internal audit department, and the Board of Directors.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and it has direct access to the independent auditors as well as anyone in the organization. The Audit Committee has the ability to retain, at the Company's expense, independent legal, financial, accounting, 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. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services and to any advisors employed by the Audit Committee, and for payment of ordinary administrative expenses of the Audit Committee that are necessary and appropriate in carrying out its duties.

II. AUDIT COMMITTEE COMPOSITION AND MEETINGS

The Audit Committee shall comprise at least three and no more than five directors who are generally knowledgeable in financial matters. Audit Committee members shall, in the opinion of the Board, meet the financial competence or sophistication requirements and the independence requirements of (i) the Nasdaq Stock Market, (ii) the Securities Exchange Act of 1934, (iii) the rules and regulations of the Securities and Exchange Commission (SEC), and (iv) all other applicable laws and regulations. The Audit Committee shall determine from time to time whether any one or more of its members qualifies as a "financial expert," as defined by the SEC, and shall ensure that the Company makes all disclosures required by law and regulation regarding the Committee's membership, including the independence and financial qualifications of members and identification of financial experts, if any.

If an Audit Committee Chairperson is not designated or present, the members of the Audit Committee may designate a Chairperson by majority vote of the Audit Committee membership.

The Audit Committee shall meet at least quarterly or more frequently as circumstances dictate. The Committee shall also meet at least annually with the independent auditors, without management being present, to discuss any matters that the Committee or the auditors believe should be discussed.

III. AUDIT COMMITTEE RESPONSIBILITIES AND DUTIES

The Audit Committee shall possess the following responsibilities and duties:

A. Regarding the Independent Auditors

1. Sole authority to select and appoint the independent auditors each year. Determine all terms and conditions of the engagement of the selected independent auditors, including the scope of engagement and the fees to be paid for audit services. Review the independent auditor's engagement plan to determine scope of services and reliance upon management and the internal audit.

2. Monitor the performance by the independent auditors. Maintain direct communication with the independent auditors. Sole authority to terminate the independent auditors in appropriate circumstances.

3. Pre-approve all permitted non-auditing services to be performed from time to time by the independent auditors, including terms and conditions thereof and fees to be paid for such services (such duty may be delegated to one or more members, but any decisions made by such delegate must be reported to the Audit Committee at its next meeting).

4. Oversee the independence of the independent auditors by (i) annually receiving from the independent auditors a formal written statement delineating all relationships between the independent auditors and the Company and its executive officers consistent with all applicable rules and regulations, and (ii) periodically reviewing with the independent auditors any disclosed relationships or services between the independent auditors and the Company or its executive officers that may impair the independent auditor's objectivity and independence.

5. Obtain and review, at least annually, a report from the independent auditors describing the independent auditor's internal quality-control procedures and any material issues raised by the most recent internal quality control review or peer review of the independent auditor.

B. Internal Review Procedures

1. Review the Company’s quarterly reports on Form 10-Q and annual report on Form 10-K, together with included financial statements and information, prior to the filing of such reports with the SEC. Each review should include discussion with management and independent auditors, jointly and/or separately, as appropriate, of significant issues regarding principles, practices and judgments, and any matters required to be communicated to the Audit Committee in accordance with SAS 61.

2. Discuss with the independent auditors and management the independent auditor's oral or written reports to the Committee regarding (i) all critical accounting policies and practices to be used, (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor, and (iii) any material written communications between the independent auditors and management.

3. Review and discuss with the independent auditors and management the effect of material regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.

4. In consultation with management, the independent auditors and the internal auditors, consider the integrity of the Company's reporting process and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control and report such exposures. Review significant findings prepared by the independent auditors together with management responses, and follow-up on these findings.

5. Quarterly review of the Internal Audit Plan, including completion of the internal audits and any other significant issues, including Audit Manual changes.

6. Review the performance of the internal auditor for the preceding year.

7. Determine the independence of all internal audit staff by requiring a report of any fact or circumstance which impairs or has the potential to impair the objectivity or independence of the internal audit staff or overall function including, without limitation, personal or business relationships, positions or transactions.

8. Review and reassess the adequacy of this Charter at least annually. Submit any recommended changes in the Charter from time to time to the Board of Directors for approval. Ensure that the Charter, as amended and updated from time to time, is published at least every three years in accordance with SEC regulations.

C. <u>Other Audit Committee Responsibilities</u>

1. Establish and maintain procedures for the receipt, retention and treatment of complaints or comments from employees or others regarding (i) accounting, (ii) internal accounting controls and (iii) auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

2. Annually prepare a report of the Audit Committee to shareholders, in conformity with SEC rules, to be included in the Company's proxy statement for the annual meeting of shareholders.

3. On at least an annual basis, review with management and/or the Company's legal counsel, as appropriate, any legal matters that may have a material impact on the Company's financial condition or results including matters relating to compliance with applicable laws, rules and regulations or inquiries received from any regulator or other governmental agencies.

4. Perform any other activities consistent with this Charter, the Company's By-Laws and governing law, as the Audit Committee or Board deems necessary or appropriate.

5. Maintain minutes of meetings and periodically report to the Board of Directors significant results of the foregoing activities.

D. Board Oversight; Amendment of Charter

1. The Board has ultimate authority for the specification of Committee duties and responsibilities in this Charter, consistent with laws and regulations. From time to time, upon its own motion or upon recommendation of the Committee, 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.

2. Any delegation of Board authority, duties or responsibilities to the Committee, in this Charter or otherwise, is subject to applicable law and regulation regarding the authority, duties and responsibilities of the Company's shareholders and/or the Board. As a general matter, all major actions and decisions by the Committee are subject to review by the full Board and may be modified or rescinded by the full Board, except as otherwise prohibited or limited under applicable laws, regulations or listing standards. To the extent that any grant of discretionary authority to the Committee in this Charter (e.g., sole discretion) exceeds the maximum allowable grant under applicable law, such grant shall be deemed modified to constitute the maximum allowable grant of discretionary authority under such law.