
AUTOMATIC DIVIDEND REINVESTMENT PLAN

**A service for
the Shareholders of**

 ARROW Financial Corporation

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INFORMATION ABOUT ARROW FINANCIAL CORPORATION

Arrow Financial Corporation is a bank holding company. Our business is primarily owning, supervising and controlling our banking subsidiaries. We own two nationally chartered banks in New York — Glens Falls National Bank and Trust Company, headquartered in Glens Falls, and Saratoga National Bank and Trust Company, located in Saratoga Springs.

Our banks serve their hometowns and the communities in Northeastern New York State through a network of banking offices. We also offer electronic banking services, including automated teller machines, point-of-sale terminals and internet banking. Our banks are full service commercial banks. They provide a broad range of financial products, including trust services, demand and time deposit accounts and mortgage, consumer and commercial loans.

Arrow Financial Corporation is a publicly traded company. Therefore, a great deal of information regarding our company is available. The following are some of the documents available to help you learn about our company:

- Our Annual Shareholders' Report
- Our Proxy Statement
- Our Quarterly, Annual and Current Reports filed with the Securities and Exchange Commission (SEC) (on Forms 10-Q and 10-K and 8-K)

You may receive copies of these reports and other documents incorporated by reference in this Prospectus at no charge by contacting:

Investor Relations
Arrow Financial Corporation
250 Glen Street
Glens Falls, New York 12801
Tel: 518-745-1000, Ext. 307

We also invite you to visit our web site at:
www.arrowfinancial.com.

The shares of Common Stock of Arrow Financial Corporation are traded on the NasdaqGS[®] Market. Our ticker symbol is AROW.

Arrow Financial Corporation **Automatic Dividend Reinvestment Plan**

This Prospectus describes the Arrow Financial Corporation Automatic Dividend Reinvestment Plan. The Plan offers shareholders a convenient and economical way to acquire additional shares of our Common Stock without paying any brokerage commissions or service charges.

For shareholders who participate, all cash dividends paid on their shares of Arrow Common Stock are automatically invested for them in additional shares of Arrow Common Stock. Participants also may make optional cash contributions to the Plan to purchase additional shares of our Common Stock.

Participation in the Plan is entirely voluntary. You may join at any time and terminate whenever you wish.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or has determined if this Prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

Plan accounts are not savings accounts, deposit accounts or obligations of a bank. Thus, Plan accounts are not insured by the FDIC, SIPC or any other government agency, and may lose value. There is no bank guarantee of your Plan account or the securities in your account.

BENEFITS OF THE PLAN TO SHAREHOLDERS

1. No Service Charges or Sales Commissions - We pay all administrative and service charges associated with the Plan. We also pay all brokerage commissions on your purchases and sales of shares through the Plan although these payments are treated as income to you for tax purposes.

2. Full Investment of Funds - The Plan permits fractional as well as full shares to be credited to your account.

3. Added Income - Fractional shares, like full shares, earn dividends.

4. Simplified Record Keeping - All paper work is done for you, and you receive a detailed quarterly statement.

ADMINISTRATOR

Our stock transfer agent, American Stock Transfer and Trust Company serves as Administrator of the Plan and generally oversees the Plan's operation.

American Stock Transfer also serves as the Plan's purchasing agent, overseeing purchases and sales of Arrow stock for the Plan and as custodian of all shares acquired and held under the Plan. American Stock Transfer maintains Plan accounts for individual participants and prepares and distributes to participants regular account statements.

INQUIRIES

For general information about the Plan, contact:
Arrow Financial Corporation - Investor Relations:
1-518-745-1000, Ext. 307

For information concerning your own Plan account, contact:

American Stock Transfer and Trust Company:
1-888-444-0058

Or access your account on-line at
www.amstock.com

Written correspondence concerning general provisions of the Plan (including whether you are eligible to participate) or your individual Plan account should be directed to the Plan Administrator at the following address:

American Stock Transfer and Trust Company
6201 15th Avenue
Brooklyn, New York 11219

FOR TRANSACTION PROCESSING

mail your request to:

American Stock Transfer and Trust Company
P.O. Box 922, Wall Street Station
New York, New York 10269-0560

ENROLLING IN THE PLAN

Both existing shareholders of Arrow and persons who are not existing shareholders of Arrow are eligible to enroll as participants in the Plan. Persons in either group may enroll using paper Enrollment Forms provided by the Plan Administrator or by enrolling on-line at www.amstock.com. Persons enrolling on-line will be asked to follow essentially the same instructions and provide the same information as persons using paper enrollment forms. On-line enrollees will be given the opportunity to access or download this prospectus and will be asked to acknowledge they were given that opportunity.

Existing shareholders may join as follows:

If you already own shares of Arrow Common Stock and the shares are registered in your name, you may join the Plan at any time by completing a paper Enrollment Form and mailing it to the address on the form, or by enrolling on-line at

www.amstock.com. You do not need to send your stock certificates to the Plan Administrator in order to enroll. If you enroll, all of the shares registered in your name will participate in the Plan.

If you own shares of Arrow Common Stock but the shares are not registered in your name (for example, if your shares are held in a brokerage or trust account and are registered in the broker's or trustee's name), you should contact whoever holds the shares for you and direct that person to re-register some or all of your Arrow shares in your name. You may then enroll the shares registered in your name, either by using a paper Enrollment Form or by enrolling on-line.

Persons who are not existing shareholders of Arrow may join as follows:

You may make your initial purchase of Arrow Common Stock at the same time that you enroll in the Plan. Your initial purchase of stock must be in an amount of \$300 or more. If you enroll at the same time that you make your initial purchase of our stock, you may enroll either by using a paper Enrollment Form provided by our Plan Administrator or by enrolling on-line. If you use a paper Enrollment Form, complete and return the form to the address provided on the form and simultaneously pay for your initial purchase of stock, either by (i) including with your Enrollment Form a check or money order in the amount of your initial purchase, made payable to American Stock Transfer and Trust Company, or (ii) indicating on the Enrollment Form that you authorize American Stock Transfer and Trust Company, as purchasing agent, to debit your checking or savings account at your bank. If, in the alternative, you wish to enroll and make your initial purchase of our stock on-line, go to www.amstock.com and follow the instructions. If you enroll and buy your initial shares on-line, you will pay for your shares by authorizing the purchasing agent to debit your checking or savings account in the appropriate amount.

When you enroll, your participation will automatically include any and all shares of Arrow Common Stock registered in your name at that time for the entire purchase. If you subsequently acquire additional shares of our stock (in addition to the shares you acquire through the Plan), those additional shares, if registered in your name, will *automatically* be enrolled in the Plan without further action on your part.

INVESTMENT OPTIONS

Dividend Reinvestment: Once you enroll in the Plan, all cash dividends paid on your Arrow shares enrolled in the Plan (including shares acquired for you under the Plan) will be invested in additional shares of Arrow Common Stock.

Historically, Arrow's cash dividend payment dates have been on or around the 15th day of March, June, September, and December of each year (assuming dividends are being paid). The record dates for dividends are approximately 15 days prior to the payment dates. If you have questions about a record date or a payment date for a dividend, please call American Stock Transfer and Trust Company at 1-888-444-0058.

If you are contemplating enrolling shares in the Plan prior to an anticipated cash dividend for Arrow stock, your enrollment must be completed prior to the record date for that dividend in order to receive the dividend payment.

Optional Cash Contributions: If you are enrolled in the Plan, you also may acquire additional shares of our Common Stock under the Plan through optional cash contributions. Purchases of additional shares through optional cash contributions may be made on an individualized, non-recurring basis or on a pre-planned recurring basis, as explained further below. In either case, you may arrange to make such purchases by submitting the appropriate paper forms by mail or by using on-line contribution procedures. The minimum amount of any optional cash contribution is \$100.

1. Non-recurring Optional Cash Contributions.

If you wish to acquire additional shares by making a non-recurring optional cash contribution, you may do so by mail or on-line. If you do so by mail, you should complete the paper Contribution Form found at the bottom of your statement and send it to the address noted thereon. You may pay for shares by enclosing with the form, a check or money order in the appropriate amount, made payable to American Stock Transfer and Trust Company. If you choose to make a non-recurring optional cash contribution on-line, go to www.amstock.com and follow the instructions. If you use the on-line format, you submit your payment

by authorizing the purchasing agent to debit your checking or savings account in the appropriate amount.

Amounts submitted as non-recurring optional cash contributions will be invested in additional shares on the first business day after the purchasing agent's receipt thereof, or as soon as practicable thereafter.

2. Recurring Optional Cash Contributions.

If you wish to purchase additional shares of our stock through the Plan by making optional cash contributions on a regular, recurring basis (i.e., monthly), you may sign up to do so at any time, provided you are enrolled in the Plan. You may sign up for recurring purchases either by completing a paper form and sending it to the purchasing agent at the appropriate address, or by using on-line sign up procedures. In either case, you must arrange for regular payments of your designated optional cash contribution amount by authorizing the Plan Administrator to withdraw such amount monthly from your checking or savings account at your bank. Please allow 4 to 6 weeks after you sign up for recurring optional cash contributions for the automatic withdrawals from your bank account and the resulting purchase of shares on your behalf to begin.

If you sign up to make recurring optional cash contributions to the Plan, you may discontinue doing so or change the amount of your recurring contribution at any time, by notifying the Plan Administrator of the change in writing.

For participants who elect to make recurring optional cash contributions to the Plan, contribution amounts will be automatically withdrawn from their bank accounts only on a designated day or days each month. Currently, the Plan Administrator has designated that such withdrawals will be effected on the 10th day of each month. Amounts withdrawn will be invested in additional shares of our Common Stock as soon as practicable after their withdrawal.

No optional cash contribution, whether submitted on a recurring or a non-recurring basis, may be in an amount of less than \$100. Optional cash contributions submitted by a participant (including, if the Plan Administrator so determines, by multiple participants who are affiliates of one another) may not exceed \$20,000 in any calendar month. Contributions received by the purchasing agent that do not conform with dollar limits or rules established

by the Plan Administrator for such contributions will be returned or refunded as soon as possible.

If your check or direct debit is returned as unpaid by your bank, American Stock Transfer and Trust Company will debit your Plan account in such amount if the funds have not yet been invested. If however, the funds have been invested, American Stock Transfer and Trust Company reserves the right to sell the shares purchased with such funds. If the sale of the shares is not sufficient to satisfy the amount of the returned check or direct debit, American Stock Transfer and Trust Company will sell additional shares from your account as necessary to cover the unpaid amounts. In addition, American Stock Transfer and Trust Company will also sell additional shares from your account to recover the current cost of the returned check or direct debit.

For further information on purchasing shares through optional cash contributions, contact American Stock Transfer and Trust Company.

HOW THE PLAN PURCHASES SHARES; PRICING OF SHARES

All shares of our Common Stock acquired under the Plan are purchased by the Plan's purchasing agent, American Stock Transfer and Trust Company. Shares may be purchased on the open market or directly from Arrow, as determined from time to time by the Company.

Shares Purchased on the Open Market

When the purchasing agent acquires shares for the Plan in the open market, it has sole authority to determine the exact timing of the purchases and in selecting the broker/dealer making the purchases. Neither Arrow nor any participant in the Plan has the ability to control the timing of purchases or the selection of broker/dealers.

Generally, purchases of shares on the open market begin on or shortly after the date the purchasing agent receives the funds to be invested, usually on the first business day after receipt. For reinvested dividends, the receipt date is the dividend payment date, which currently is on or about the 15th day of March, June, September and December of each year (assuming dividends are being paid).

The purchasing agent is not required to invest amounts received by it for investment immediately after its receipt thereof, if doing so would not in the purchasing agent's good faith judgment be in the best interests of the participants on whose behalf such funds are to be invested. In such cases, the purchasing agent may extend its purchase of shares with funds received for investment over a period of time not to exceed thirty (30) days from receipt, if and as permitted by law. Therefore, you will not be able to time with precision any market purchases of shares for your account and will bear the market risk associated with short-term fluctuations in the price of Arrow stock. The stock price may go up or down before the purchasing agent completes its purchases of stock with your funds and the commingled funds of other participants. In addition, you will not earn interest on any funds sent by you or on your behalf to the purchasing agent prior to the time those funds are invested in shares.

When the purchasing agent commences market purchases with reinvested dividends or optional cash contributions at any time on any day, it aggregates all amounts received by it prior to that time and not previously invested by it in shares. All participants whose reinvested dividends or contributed funds are part of the aggregated amount shall be deemed to have acquired a pro rata portion of the shares, purchased with such amount and to have paid the same price per share for their new shares of Arrow stock which shall be the average price for all shares acquired by the purchasing agent on the open market on such day.

Neither Arrow nor the Plan Administrator is responsible for the price paid for shares acquired on the open market for participants' accounts.

Shares Purchased From Arrow

If at any time it has been determined that shares acquired under the Plan will be acquired directly from Arrow, funds received by the purchasing agent for investment in shares under the Plan will be invested as soon as possible after the purchasing agent's receipt thereof, by transfer of such funds to Arrow, in return for its issuance of shares. The price per share for all shares acquired from Arrow on any day will be the average closing price of Arrow stock as reported on the NasdaqGS[®] Market for the three (3) trading days immediately preceding the purchase, rounded to four (4) decimal places. Shares acquired under the Plan directly from Arrow may be

authorized but unissued shares or treasury shares. Arrow intends to use any proceeds derived by it from sales of shares under the Plan for general corporate purposes.

Stock Dividends

Arrow may declare and pay stock dividends from time to time. If you are participating in the Plan, stock dividends paid on your Arrow shares participating in the Plan, including shares held in your Plan account, will be credited directly to your Plan account on the record payment date.

Possible Suspensions of Purchases

On occasion, purchases of Arrow shares under the Plan may be temporarily suspended for legal reasons. Neither Arrow nor the purchasing agent shall be held accountable for any such suspension.

SHARES HELD IN PLAN ACCOUNTS

In Whose Name Are Shares Registered?

The purchasing agent normally will register in its own name, or in the name of its nominee, all shares of Arrow Common Stock purchased for and held in your Plan account. Thus, you will not normally receive stock certificates for the shares acquired for your Plan account.

If you submit a request, however, American Stock Transfer and Trust Company will send you a stock certificate for some or all of the shares in your account, registered in your name, without terminating the shares' participation in the Plan. You may submit a request for one or more stock certificates in writing or on-line, at www.amstock.com. Shares represented by such certificates will still participate in the Plan.

You may also elect to withdraw shares held in your account from participating in the Plan as discussed on page 11 in the section "Sale, Withdrawal or Transfer of Shares in Your Plan Account."

No certificates for fractional shares will be issued.

Voting

You will control the voting of all Arrow shares held in your Plan account. The shares will be voted by the Plan Administrator or its nominee in accordance with your instructions. When Arrow distributes proxy materials to its shareholders, the Plan Administrator or the outside proxy agent will forward a set of the materials to you, including a form of proxy reflecting

the number of shares you own through the Plan. You may return the proxy directly to Arrow and your Plan shares will be voted as you instruct.

Other Shareholder Rights

You will not lose any rights you have as an Arrow shareholder by participating in the Plan. If shareholders are given choices in exercising their rights, the Plan Administrator or custodian will act in accordance with your instructions in enabling you to exercise your rights for all shares in your Plan account as you choose.

Account Statements

As a participant, you will receive regular account statements from the Plan custodian, American Stock Transfer and Trust Company. The statements will disclose the total amount invested on your behalf in stock purchases in the preceding period, the price paid per share and number of shares purchased in each such transaction, as well as other account information.

SALE, WITHDRAWAL OR TRANSFER OF SHARES IN YOUR PLAN ACCOUNT

Sales

You can sell some or all of the Arrow shares held in your Plan account at any time by notifying the purchasing agent, American Stock Transfer and Trust Company. The purchasing agent will effect the sale of your shares on the open market as soon as practicable after receiving your instruction. The purchasing agent will have sole authority over the precise timing of the sale and selection of the broker/dealer executing the sale. Therefore, you will not be able to time with precision sales of shares from your account and will bear the market risk associated with any short-term fluctuation in the price of Arrow stock. Generally, you will not be permitted to sell shares purchased for your account by the purchasing agent using funds received from you in a personal check within fifteen (15) days of the purchasing agent's receipt of the check.

All sales of shares for Plan participants occurring in any one trading day generally will be aggregated by the purchasing agent, and the sale price for each selling participant that day will be the weighted average price of all shares sold that day for participants. You will receive the cash proceeds from any sale of your Plan account shares less any required tax withholdings directly from the purchasing agent.

Of course, if you wish to sell some or all of your Plan shares through a stockbroker of your choice, you may withdraw the shares from the Plan and proceed with your sale.

Withdrawals

You may withdraw some of your Arrow shares from participation in the Plan, without terminating your participation with respect to the rest of your Arrow shares, by sending a request for withdrawal to the purchasing agent, American Stock Transfer and Trust Company, specifying the number of shares you wish to withdraw. You may request such withdrawal in writing or on-line at www.amstock.com.

Withdrawn shares will not continue to participate in the Plan after the effective date of withdrawal, while the remaining shares in your account will continue to participate. If the shares withdrawn from participation are held in your Plan account, you will receive one or more certificates representing such shares from the purchasing agent, registered in your name. If you request withdrawal from participation of all of your shares that are participating in the Plan, your request will be treated as a notice of termination of your participation in the Plan. Withdrawals may be subject to procedures adopted by the Plan Administrator.

You also may elect upon termination to leave your shares in your Plan account indefinitely; if so, subsequent cash dividends will be sent directly to you and subsequent stock dividends on shares in your Plan account will be credited to your account.

Gifts

You may also use the Plan to make gifts of shares held in your Plan account to anyone you choose, whether or not the intended recipient (donee) is a current participant in the Plan or wishes to become a participant.

1. If your donee already participates in the Plan, you may either transfer the shares directly from your account to the donee's account or make an optional cash contribution to the donee's account in an amount equal to the current market value of the shares in your account that you have identified as constituting the gift.

2. If your donee does not currently participate in the Plan but wishes to open an account, you may either transfer the shares directly from your account into a new account established for the donee or make

an initial cash contribution to the donee's new account equal to the current market value of the gifted shares.

3. If your donee is not a participant and does not wish to become one, you may transfer any number of shares out of your Plan account to the donee.

4. If you wish to transfer shares from your account to a Plan account of your donee, or to your donee directly, you must transfer a whole number of shares unless you transfer your entire Plan account.

In order to transfer the ownership of all or a part of the whole shares of Arrow stock held in your Plan account, you must mail to the purchasing agent, American Stock Transfer and Trust Company, a transfer request form along with a properly signed stock power and certificates you wish to transfer. The stock power form can be obtained from the purchasing agent, a bank, or a stock broker. You must have your signature guaranteed by a financial institution participating in the Medallion Guarantee program. The Medallion Guarantee program insures that the individual signing the stock power or the certificate is, in fact, the registered owner as it appears on the stock certificate or stock power.

The purchasing agent will send the recipients of gifts a notice of such transfer.

If your request to transfer shares out of your account is received during the 3 business days prior to a dividend record date, the processing of your request may be held until your account is credited with reinvested dividends. This holding period could be as long as 4 weeks.

No COMMISSIONS

Shareholders who participate in the Plan pay no brokerage commissions or fees for any purchases or sales of stock for their Plan accounts, although they are subject to taxation on the value of such commissions or fees paid on their behalf by Arrow. Participants are not charged any fees for distributions of shares or stock certificates to them out of their Plan accounts. All expenses of the Plan are borne by Arrow.

TERMINATING YOUR ACCOUNT

You may terminate your participation in the Plan at any time, and thereby terminate your Plan account, by giving notice to the purchasing agent, American Stock Transfer and Trust Company. You may give notice by mail or on-line, at www.amstock.com. Termination will be effective upon

the purchasing agent's receipt of your notice. Arrow also may terminate your account at any time by notice mailed to you and the purchasing agent. If your request to terminate participation in the Plan is received at least 2 business days prior to any dividend payment date, your account will be terminated and that dividend will be paid to you in cash. If your request to terminate participation in the plan is received during the 2 business days prior to any dividend payment date, that dividend will be invested. However, all subsequent dividends will be paid to you in cash.

What Happens to Your Shares?

Upon termination, certificates for full Arrow shares will be issued in your name. If you choose, however, the shares will be sold by American Stock Transfer and Trust Company and the proceeds sent to you. Sales generally will be aggregated with other sales occurring that day for other Plan participants, with all participants to receive the same weighted average price for all shares sold that day. Fractional shares will be automatically converted to cash, based on the current market price of Arrow stock, and the proceeds remitted to you.

You also may elect upon termination to leave your shares in your Plan account indefinitely; if so, subsequent cash dividends will be sent directly to you and subsequent stock dividends on shares in your Plan account will be credited to your account.

What If You Sell All Your Arrow Shares That Are Not in Your Account?

If you are a Plan participant but dispose of all Arrow shares registered in your name and not held in your account, the Plan Administrator may, at its option, terminate your account and distribute to you all shares then held in your account. Otherwise, your account will continue and dividends subsequently paid on the shares in your account will be invested in additional shares.

RESPONSIBILITIES OF ARROW

Arrow and American Stock Transfer and Trust Company, as the Plan Administrator, purchasing agent and custodian, are not liable for any act or failure to act on their part, if the act or failure to act was not knowingly wrongful. Arrow and American Stock Transfer and Trust Company also are not liable (1) for failing to terminate a participant's account when the participant dies, if they do not know of the death,

(2) for the price at which shares are purchased or sold for a participant's account, or (3) for the timing of purchases or sales for a participant's account.

Neither Arrow nor American Stock Transfer and Trust Company is able to guarantee you a profit or protect you against a loss on the shares you purchase under the Plan.

Although the Plan contemplates the continuation of quarterly cash dividend payments by Arrow, the payment of cash dividends is at the discretion of Arrow's Board of Directors, and is subject to limitations set forth in applicable laws and regulations. In deciding upon dividends, the Board considers current and expected future earnings, the financial condition of Arrow and other factors. If cash dividends are suspended for any period of time, the Plan also will be suspended and optional cash contributions will not be accepted or invested.

Arrow reserves the right to suspend, change or terminate the Plan at any time. The Plan Administrator also reserves the right to suspend or terminate Plan participation by any shareholder at any time. In either case, you will be notified in writing. Your pre-existing Plan account will not be negatively affected by such action.

U.S. FEDERAL INCOME TAX INFORMATION

The following is a summary of the general U.S. Federal income tax consequences for individuals participating in the Plan. This summary is not a comprehensive summary of all the U.S. Federal income tax considerations that may be relevant to a participant in the Plan. This summary is based on the laws in effect at the time of the preparation of this document. Such laws may be changed before the taxable events described actually occur. Therefore, you are urged to consult your tax advisor regarding the consequences of participation in the Plan. No information is provided with respect to state, local or foreign tax consequences of participation in the Plan.

Reinvested Dividends

Cash dividends reinvested under the Plan will be taxable as having been received by you even though you have not actually received them in cash. Cash dividends, although generally considered to be ordinary income for Federal tax law purposes, are entitled to special treatment under recently enacted Federal tax laws. For cash dividends on Arrow shares received by individual shareholders in taxable years beginning

after December 31, 2002, the maximum rate of Federal income tax imposed on most such dividends received by individuals whose marginal tax rate is 25 percent or higher will be 15 percent. For individuals whose marginal tax rate is lower than 25 percent, the maximum rate of tax that will be imposed on such dividends will be 5 percent. "Marginal tax rate" is the rate of Federal income tax you would have paid on an additional dollar of taxable income in the tax year in question. In order to be eligible for the reduced rate described above, an individual shareholder must have held the particular shares on which the dividend is being paid for more than 60 days during the 121-day period that begins 60 days before the ex-dividend date. Under the current law, these lower tax rates on qualifying dividends will cease to apply to dividends paid after December 31, 2008.

You will receive an annual statement from the Plan custodian, American Stock Transfer and Trust Company, indicating the amount of reinvested dividends reported to the IRS as dividend income. The custodian also will identify in the statement the amount of any such reinvested dividends that will not qualify for the new lower rates by virtue of the fact that the underlying shares were purchased by the purchasing agent too recently to meet the holding period requirement set forth on the preceding page.

Plan Costs and Fees

Brokerage commissions, if any, incurred by Arrow on behalf of you and other Plan participants will be reported as additional taxable income to you and other participants on a pro rata basis, based on each individual participant's pro rata share of the brokerage commissions for net purchases on any given day.

Contribution or Withdrawal of Shares

You will not realize gain or loss for U.S. Federal income tax purposes upon your election to participate in the Plan. In addition, your record transfer of any shares owned by you to American Stock Transfer and Trust Company, as custodian of the Plan, at any time; your election to terminate participation in the Plan of some or all of the shares previously participating (assuming you do not elect to have the Plan custodian sell any such shares); or your election to have the Plan custodian distribute stock certificates to you representing some or all of your shares that are participating in the Plan will not result in your realization of any gain or loss for U.S. Federal income tax purposes.

Sale of Plan Shares; Tax Basis, Holding Period

Generally, you will realize gain or loss upon the sale of your shares (including the receipt of cash for fractional shares) held in your Plan account. Your tax basis in any shares purchased under the Plan will be equal to the amount paid for such shares plus the amount of income (if any) recognized by you on account of any commissions or fees paid by Arrow in connection with the purchase. The holding period for determining whether you have long-term or short-term capital gain or loss upon a subsequent sale of shares purchased under the Plan commences on the date following the date the shares are purchased on your behalf.

Backup Withholding

Plan participants who are subject to the backup withholding requirements of the Internal Revenue Code will generally have deducted and withheld from any dividends paid on shares held in their Plan accounts an amount currently equal to twenty-eight percent (28%) of such payments. Plan participants who are non-resident aliens or non-U.S. corporations, partnerships or other entities generally are also subject to U.S. withholding tax on dividends paid on shares held in their Plan accounts. The withholding rate for such a foreign person generally is equal to fifteen percent (15%) to thirty percent (30%) of the dividends paid unless reduced by treaty between the U.S. and the country in which such participant resides. If withholding is applicable and amounts are withheld, only the amount of dividends net of the applicable withholding tax, will be credited to the participant's Plan account for investment in additional shares of Arrow Common Stock.

AVAILABLE INFORMATION

Arrow Filings

Arrow files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any such reports, statements or other information at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Arrow's SEC filings are also available to the public from commercial document retrieval services and at the website maintained by the SEC at <http://www.sec.gov>.

Incorporated Documents

Arrow is permitted to "incorporate by reference" into this Prospectus the information Arrow files with the

SEC. This means we disclose important information to you by referring you to various other documents filed by us with the SEC, both documents filed in the past and documents to be filed in the future. The information incorporated by reference is considered to be part of this Prospectus, and later information filed with the SEC will update and supersede this information. The documents listed below and future filings of similar documents made by us with the SEC under Section 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 until the Plan is terminated comprise the incorporated documents:

(a) Arrow's latest annual report filed with the SEC on Form 10-K;

(b) All other reports filed by Arrow pursuant to Section 13 or 15(d) of the Exchange Act since the end of the fiscal year covered by the annual report referred to in (a) above (e.g., specifically, all qualifying reports on Forms 10-Q and current reports on 8-K filed by us since we filed the 10-K); and

(c) The description of Arrow Common Stock which is contained in a registration statement filed by us with the SEC under Section 12 of the Exchange Act, including any amendment or report filed for the purpose of updating such description.

At your request, we will send you a copy, at no charge, of any or all of these incorporated documents (other than certain exhibits). Written requests should be directed to Investor Relations, Arrow Financial Corporation, 250 Glen Street, Glens Falls, New York 12801. Telephone requests for copies may be directed to (518) 745-1000, Ext. 307, Investor Relations.

Legal Matters

Certain legal matters relating to the Plan and this Prospectus have been reviewed for Arrow by the law firm of Thompson Coburn, LLP.

Independent Accountants

The financial statements of Arrow that are incorporated by reference into this Prospectus from Arrow's Form 10-K have been audited by KPMG LLP, independent certified public accountants, as indicated in their report relating to such financial statements. These financial statements are included in this Prospectus in reliance upon the authority of said firm as experts in accounting and auditing.

In deciding whether you will participate in the Plan and purchase Arrow stock through the Plan, you

should rely only on this Prospectus, any Prospectus supplement, and the incorporated Arrow documents. Arrow has not authorized anyone to provide you with different or additional information.