

ARROW FINANCIAL CORP  
Form 10-Q  
November 08, 2018

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 September 30, 2018

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 every Interactive Data File required to be submitted 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 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.

Large accelerated filer  Accelerated  
filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standard provided pursuant to Section 13(a) of the Exchange Act.

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 October 31, 2018
Common Stock, par value \$1.00 per share	14,452,521

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## PART I - FINANCIAL INFORMATION

## Item 1.

## FINANCIAL STATEMENTS

## ARROW FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Amounts)

(Unaudited)

	September 30, 2018	December 31, 2017	September 30, 2017
<b>ASSETS</b>			
Cash and Due From Banks	\$ 57,385	\$ 42,562	\$ 55,683
Interest-Bearing Deposits at Banks	34,910	30,276	24,983
Investment Securities:			
Available-for-Sale	340,411	300,200	315,459
Held-to-Maturity (Approximate Fair Value of \$282,719 at September 30, 2018; \$335,901 at December 31, 2017; and \$343,899 at September 30, 2017)	289,952	335,907	341,526
Equity Securities	1,916	—	—
Other Investments	10,866	9,949	6,704
Loans	2,126,100	1,950,770	1,908,799
Allowance for Loan Losses	(20,003)	(18,586)	(17,695)
Net Loans	2,106,097	1,932,184	1,891,104
Premises and Equipment, Net	28,601	27,619	26,432
Goodwill	21,873	21,873	21,873
Other Intangible Assets, Net	1,954	2,289	2,395
Other Assets	59,255	57,606	58,303
Total Assets	\$ 2,953,220	\$ 2,760,465	\$ 2,744,462
<b>LIABILITIES</b>			
Noninterest-Bearing Deposits	\$ 490,469	\$ 441,945	\$ 448,515
Interest-Bearing Checking Accounts	899,547	907,315	967,250
Savings Deposits	758,727	694,573	696,805
Time Deposits over \$250,000	76,226	38,147	28,464
Other Time Deposits	182,886	163,136	166,082
Total Deposits	2,407,855	2,245,116	2,307,116
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	62,503	64,966	61,419
Federal Home Loan Bank Overnight Advances	131,000	105,000	33,000
Federal Home Loan Bank Term Advances	45,000	55,000	55,000
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000	20,000
Other Liabilities	22,052	20,780	23,279
Total Liabilities	2,688,410	2,510,862	2,499,814
<b>STOCKHOLDERS' EQUITY</b>			
Preferred Stock, \$5 Par Value; 1,000,000 Shares Authorized	—	—	—
Common Stock, \$1 Par Value; 20,000,000 Shares Authorized (19,035,565 Shares Issued at September 30, 2018; 18,481,301 at December 31, 2017 and 18,481,301 at September 30, 2017)	19,035	18,481	18,481
Additional Paid-in Capital	313,763	290,219	289,294
Retained Earnings	24,258	28,818	22,581

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Unallocated ESOP Shares (9,932 Shares at September 30, 2018; 9,643 Shares at December 31, 2017 and 20,050 Shares at September 30, 2017)	(200	)	(200	)	(400	)
Accumulated Other Comprehensive Loss	(12,621	)	(8,514	)	(6,135	)
Treasury Stock, at Cost (4,584,147 Shares at September 30, 2018; 4,541,524 Shares at December 31, 2017 and 4,570,291 Shares at September 30, 2017)	(79,425	)	(79,201	)	(79,173	)
Total Stockholders' Equity	264,810		249,603		244,648	
Total Liabilities and Stockholders' Equity	\$ 2,953,220		\$ 2,760,465		\$ 2,744,462	

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 Ended September 30, 2018		Nine Months Ended September 30, 2017	
<b>INTEREST AND DIVIDEND INCOME</b>				
Interest and Fees on Loans	\$20,839	\$17,996	\$59,606	\$51,693
Interest on Deposits at Banks	182	104	474	242
Interest and Dividends on Investment Securities:				
Fully Taxable	2,187	1,924	6,128	5,927
Exempt from Federal Taxes	1,287	1,575	4,295	4,660
Total Interest and Dividend Income	24,495	21,599	70,503	62,522
<b>INTEREST EXPENSE</b>				
Interest-Bearing Checking Accounts	390	376	1,165	1,088
Savings Deposits	901	356	2,134	963
Time Deposits over \$250,000	301	66	833	187
Other Time Deposits	370	241	911	702
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	15	13	47	29
Federal Home Loan Bank Advances	1,270	700	2,340	1,651
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	251	197	712	564
Total Interest Expense	3,498	1,949	8,142	5,184
NET INTEREST INCOME	20,997	19,650	62,361	57,338
Provision for Loan Losses	586	800	1,961	1,580
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,411	18,850	60,400	55,758
<b>NONINTEREST INCOME</b>				
Income From Fiduciary Activities	2,262	2,116	7,106	6,284
Fees for Other Services to Customers	2,605	2,453	7,555	6,875
Insurance Commissions	2,024	2,113	6,119	6,426
Net Gain on Securities	114	10	355	10
Net Gain on Sales of Loans	54	182	115	431
Other Operating Income	291	267	900	867
Total Noninterest Income	7,350	7,141	22,150	20,893
<b>NONINTEREST EXPENSE</b>				
Salaries and Employee Benefits	9,771	9,382	28,952	27,740
Occupancy Expenses, Net	2,262	2,371	7,223	7,410
FDIC Assessments	218	225	658	679
Other Operating Expense	3,775	3,570	11,341	10,832
Total Noninterest Expense	16,026	15,548	48,174	46,661
INCOME BEFORE PROVISION FOR INCOME TAXES	11,735	10,443	34,376	29,990
Provision for Income Taxes	2,475	3,027	6,855	8,735
NET INCOME	\$9,260	\$7,416	\$27,521	\$21,255
Average Shares Outstanding <sup>1</sup> :				
Basic	14,431	14,305	14,393	14,306

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Diluted	14,520	14,385	14,479	14,401
Per Common Share:				
Basic Earnings	\$0.64	\$0.52	\$1.91	\$1.49
Diluted Earnings	0.64	0.52	1.90	1.48

<sup>1</sup> 2017 Share and Per Share Amounts have been restated for the September 27, 2018 3% 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 September 30,		Nine Months Ended September 30,		
	2018	2017	2018	2017	
Net Income	\$9,260	\$7,416	\$27,521	\$21,255	
Other Comprehensive Income, Net of Tax:					
Net Unrealized Securities Holding Gains (Losses)	(897	) 9	(4,017	) 465	
Arising During the Period					
Reclassification Adjustments for Securities	—	(6	) —	(6	)
Gains Included in Net Income					
Amortization of Net Retirement Plan Actuarial Loss	60	64	181	245	
Accretion of Net Retirement Plan Prior	20	(2	) 60	(5	)
Service Credit					
Other Comprehensive Income (Loss)	(817	) 65	(3,776	) 699	
Comprehensive Income	\$8,443	\$7,481	\$23,745	\$21,954	

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, 2017	\$ 18,481	\$ 290,219	\$ 28,818	\$ (200 )	\$ (8,514 )	\$ (79,201)	\$ 249,603
Net Income	—	—	27,521	—	—	—	