Risk Factors Comparison 2024-03-11 to 2023-07-18 Form: 10-K

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Arrow' s financial results and the market price of its stock are subject to risks arising from many factors, including the risks listed below, as well as other risks and uncertainties. Any of these risks could materially and adversely affect Arrow' s business, financial condition or results of operations. Please note that the discussion below regarding the potential impact on Arrow of certain of these factors that may develop in the future is not meant to provide predictions by Arrow' s management that such factors will develop, but to acknowledge the possible negative consequences to the Company and business if certain conditions materialize. MACROECONOMIC AND INDUSTRY RISKS Market conditions could present significant challenges to the U. S. commercial banking industry and its core business of making and servicing loans ~~and any~~ **. Any** substantial downturn in the regional markets in which Arrow operates or in the U. S. economy generally could adversely affect Arrow' s ability to maintain ~~steady~~ **and / or** ~~growth~~ -- **grow** ~~in the loan portfolio and~~ earnings. Arrow' s business is highly dependent on the business environment in the markets in which the Company operates as well as the United States as a whole. Arrow' s business is dependent upon the financial stability of the Company' s borrowers, including their ability to pay interest on and repay the principal amount of ~~,~~ outstanding loans, the value of the collateral securing those loans, and the overall demand for loans and other products and services, all of which impact Arrow' s stability and future growth. Although Arrow' s market area has experienced a stabilizing of economic conditions in recent years and even periods of modest growth, if unpredictable or unfavorable economic conditions unique to the market area should occur in upcoming periods, these conditions will likely have an adverse effect on the quality of the loan portfolio and financial performance. ~~As a community bank,~~ Arrow is less able than larger regional competitors to spread the risk of unfavorable local economic conditions over a larger market area. Further, if the overall U. S. economy deteriorates, then Arrow' s business, results of operations, financial condition and prospects could be adversely affected. In particular, financial performance may be adversely affected by short- term and long- term interest rates, the prevailing yield curve, inflation, monetary supply, fluctuations in the debt and equity capital markets, and the strength of the domestic economy and the local economies in the markets in which Arrow operates, all of which are beyond Arrow' s control. A continued period of high inflation could adversely impact our business and our customers. The Federal Reserve Board has raised certain benchmark interest rates in an effort to combat the pronounced increase in inflation. ~~As~~ **Should** rates continue to rise, the value of our investment securities, particularly those with longer maturities, would likely decrease (although this effect may be mitigated for floating rate instruments). Further, inflation increases the cost of operational expenses which increases our noninterest expenses. Additionally, our customers may be affected by inflation, which could have a negative impact on their ability to repay loans. Finally, the high inflationary environment may discourage our customers from pursuing new loans. Arrow operates in a highly competitive industry and market areas that could negatively affect growth and profitability. Competition for commercial banking and other financial services is fierce in Arrow' s market areas. In one or more aspects of business, Arrow' s subsidiaries compete with other commercial banks, savings and loan associations, credit unions, finance companies, Internet- based financial services companies, mutual funds, insurance companies, brokerage and investment banking companies, and other financial intermediaries. Additionally, due to their size and other factors, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services, as well as better pricing for those products and services, than Arrow can. Technology has lowered barriers to entry and made it possible for non- banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. In addition, many of Arrow' s competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks. Failure ~~,~~ by Arrow ~~,~~ to offer competitive services in Arrow' s market areas could significantly weaken Arrow' s market position, adversely affecting growth, which, in turn, could have a material adverse effect on Arrow' s financial condition and results of operations ~~. Uncertainty relating to LIBOR and other reference rates and their potential discontinuance may negatively impact our access to funding and the value of our financial instruments and commercial agreements. Due to uncertainty surrounding the suitability and sustainability of the London interbank offered rate (LIBOR), central banks and global regulators have called for financial market participants to prepare for the discontinuance of LIBOR and the establishment of alternative reference rates. ICE Benchmark Administration (IBA), the administrator of LIBOR, announced that it will consult on its intention to cease publication of one- week and two- month U. S. dollar LIBOR at December 31, 2021, and stop the remaining U. S. dollar settings immediately after publication on June 30, 2023. At this time, it is not anticipated to have a significant impact to Arrow, or Arrow' s financial instruments or commercial agreements that reference LIBOR. Certain of our financial instruments and commercial agreements contain provisions to replace LIBOR as the benchmark following the occurrence of specified transition events. Such provisions may not be sufficient to trigger a change in the benchmark at all times when LIBOR is no longer representative of market interest rates, or that these events will align with similar events in the market generally or in other parts of the financial markets, such as the derivatives market. Alternative reference rates are calculated using components different from those used in the calculation of LIBOR and may fluctuate differently than, and not be representative of, LIBOR. In order to compensate for these differences, certain of our financial instruments and commercial agreements allow for a benchmark replacement adjustment. However, there is no assurance that any benchmark replacement adjustment will be sufficient to produce the economic equivalent of LIBOR, either at the benchmark replacement date or over the life of such instruments and agreements. Arrow established a committee in 2020 comprised of Bank Management to prepare for the discontinuance of LIBOR. Arrow has determined that the financial products tied to LIBOR will not be subject to cessation until June 30, 2023. This review also identified that only a few legacy contracts do not include appropriate fallback~~

~~language. Arrow anticipates that the appropriate fallback provisions for these contracts will be implemented and allow for an orderly transition prior to the June 30, 2023 cessation of U. S. Dollar LIBOR (additional information regarding the replacement of LIBOR for" tough legacy" contracts can be found in the Reference Rate Reform section). As of December 31, 2021, Arrow no longer issues new LIBOR- based financial instruments. Furthermore, U. S. Dollar LIBOR indices utilized by Arrow' s existing financial instruments shall cease on June 30, 2023. Beginning January 1, 2022, Arrow is using the CME Term Secured Overnight Financing Rate (SOFR) as the primary index for financial instruments. Uncertainty as to the nature and timing of the potential discontinuance or modification of LIBOR, the replacement of LIBOR with one or more alternative reference rates or other reforms may negatively impact market liquidity, Arrow' s access to funding required to operate Arrow' s business and / or the trading market for financial instruments. Furthermore, the timing of implementation and use of alternative reference rates and corresponding adjustments or other reforms could be subject to disputes, could cause the interest payable on Arrow' s outstanding financial instruments and commercial agreements to be materially different than expected and may impact the value of financial instruments and commercial agreements~~. The financial services industry is faced with technological advances and changes on a continuing basis, and failure to adapt to these advances and changes could have a material adverse impact on Arrow' s business. Technological advances and changes in the financial services industry are pervasive and constant. The retail financial services sector, like many other retail goods and services sectors, is constantly evolving, involving new delivery and communications systems and technologies that are extraordinarily far- reaching and impactful. For Arrow to remain competitive, Arrow must comprehend and adapt to these systems and technologies. Proper implementation of new technologies can increase efficiency, decrease costs and help to meet customer demand. However, many competitors have greater resources to invest in technological advances and changes. Arrow may not always be successful in utilizing the latest technological advances in offering its products and services or in otherwise conducting its business. Failure to identify, consider, adapt to and implement technological advances and changes could have a material adverse effect on business. Problems encountered by other financial institutions could adversely affect Arrow. Arrow' s ability to engage in routine funding transactions could be adversely affected by financial or commercial problems confronting other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. Arrow has exposure to many different counterparties in the normal course of business, and routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, other commercial banks, investment banks, mutual and hedge funds, and other financial institutions. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, including in response to recent high- profile large bank failures, could lead to market- wide liquidity problems and losses or defaults by Arrow or by other financial institutions on whom Arrow relies or with whom Arrow interacts. Some of these transactions expose Arrow to credit and other potential risks in the event of default of Arrow' s counterparty or client. In addition, credit risk may be exacerbated when the collateral held by Arrow cannot be liquidated or only may be liquidated at prices not sufficient to recover the full amount due Arrow under the underlying financial instrument, held by Arrow. There is no assurance that any such losses would not materially and adversely affect results of operations. OPERATIONAL RISKS Any future economic or financial downturn, including any significant correction in the equity markets, may negatively affect the volume of income attributable to, and demand for, fee- based services of banks such as Arrow, including the Company' s fiduciary business, which could negatively impact Arrow' s financial condition and results of operations. Revenues from trust and wealth management business are dependent on the level of assets under management. Any significant downturn in the equity markets may lead Arrow' s trust and wealth management customers to liquidate their investments, or may diminish account values for those customers who elect to leave their portfolios with Arrow, in either case reducing assets under management and thereby decreasing revenues from this important sector of the business. Other fee- based businesses are also susceptible to a sudden economic or financial downturn. In addition, Arrow' s loan quality is affected by the condition of the economy. Like all financial institutions, Arrow maintains an allowance for credit losses to provide for probable credit losses at the balance sheet date. Arrow' s allowance for credit losses is based on its historical loss experience as well as an evaluation of the risks associated with its loan portfolio, including the size and composition of the portfolio, current economic conditions and geographic concentrations within the portfolio and other factors. While Arrow has continued to enjoy a very high level of quality in its loan portfolio generally and very low levels of loan charge- offs and non- performing loans, if the economy in Arrow' s geographic market area should deteriorate to the point that recessionary conditions return, or if the regional or national economy experiences a protracted period of stagnation, the quality of our loan portfolio may weaken so significantly that its allowance for loan losses may not be adequate to cover actual or expected loan losses. In such events, Arrow may be required to increase its provisions for credit losses and this could materially and adversely affect financial results. Moreover, weak or worsening economic conditions often lead to difficulties in other areas of its business, including growth of its business generally, thereby compounding the negative effects on earnings. Potential **continuing** complications with the implementation of our ~~new~~ core banking system **in September 2022** could adversely impact our business and operations. Arrow relies extensively on information systems and technology to manage the Company' s business and summarize operating results. During September 2022, Arrow completed the implementation of a new core banking system which replaced the prior system. The new core system will enable future enhancements to our digital experience, improve efficiency for our teams and customers, and empower data- driven decisions. This upgrade constitutes a major investment in Arrow' s technology needs and is a key initiative within its strategic plan. The new core system implementation process has required, and will continue to require, the investment of significant personnel and financial resources. We are now using the new core system. In connection with the conversion, we have encountered, and are continuing to experience, operational and other issues, certain of which have required substantial time and resources to address, and which have had a negative impact on our operations and business and have contributed to the material weaknesses in the Company' s internal controls described in Part II, Item 9A, Controls and Procedures. We are continuing to resolve these issues expeditiously, but there can be no assurance that such issues will not have a further negative impact on our operations or business. Arrow faces continuing and growing security risks to its information base including the information maintained relating to customers, and any breaches in the security systems implemented to protect this information could have a material negative effect on Arrow' s business operations and financial condition. In the ordinary course of business, Arrow relies on electronic communications and information systems to conduct its operations and to store sensitive data. Arrow employs an in- depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. Arrow employs a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Arrow has implemented and regularly reviews and updates extensive systems of internal controls and procedures as well as corporate governance policies and procedures intended to protect its business operations, including the security and privacy of all confidential customer information. In addition, Arrow relies on the services of a variety of vendors to meet data processing and communication needs. No matter how well designed or implemented its controls are, Arrow cannot provide an absolute guarantee to protect its business operations from every type of cybersecurity or other security problem in every situation, whether as a result of systems failures, human error or negligence, cyberattacks, security breaches, fraud or misappropriation. Any failure or circumvention of these controls could have a material adverse effect on Arrow' s business operations and financial condition. Notwithstanding the strength of defensive measures, the threat from cyberattacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date, Arrow has not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks or other security problems, Arrow' s systems and those of its customers and third- party service providers are under constant threat. Risks and exposures related to cybersecurity attacks or other security problems are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats and issues, as well as due to the expanding use of Internet banking, mobile banking and other technology- based products and services by Arrow and customers. The computer systems and network infrastructure that Arrow uses are always vulnerable to unforeseen disruptions, including theft of confidential customer information (“ identity theft ”) and interruption of service as a result of fire, natural disasters, explosion, general infrastructure failure, cyberattacks or other security problems. These disruptions may arise in Arrow' s internally developed systems, or the systems of our third- party service providers or may originate from the actions of our consumer and business customers who access our systems from their own networks or digital devices to process transactions. Information security and cyber security risks have increased significantly in recent years because of consumer demand to use the Internet and other electronic delivery channels to conduct financial transactions. Cybersecurity risk and other security problems are a major concern to financial services regulators and all financial service providers, including Arrow. These risks are further exacerbated due to the increased sophistication and activities of organized crime, hackers, terrorists and other disreputable parties. Arrow regularly assesses and tests security systems and disaster preparedness, including back- up systems, but the risks are substantially escalating. As a result, cybersecurity and the continued enhancement of Arrow' s controls and processes to protect its systems, data and networks from attacks or unauthorized access remain a priority. Accordingly, Arrow may be required to expend additional resources to enhance its protective measures or to investigate and remediate any information security vulnerabilities or exposures. Any breach of Arrow' s system security could result in disruption of its operations, unauthorized access to confidential customer information, significant regulatory costs, litigation exposure and other possible damages, loss or liability. Such costs or losses could exceed the amount of available insurance coverage, if any, and would adversely affect Arrow' s earnings. Also, any failure to prevent a security breach or to quickly and effectively deal with such a breach could negatively impact customer confidence, damaging Arrow' s reputation and undermining its ability to attract and keep customers. In addition, if Arrow fails to observe any of the cybersecurity requirements in federal or state laws, regulations or regulatory guidance, Arrow could be subject to various sanctions, including financial penalties. Business could suffer if Arrow loses key personnel unexpectedly or if employee wages increase significantly. Arrow' s success depends, in large part, on Arrow' s ability to retain key personnel for the duration of their expected terms of service. On an ongoing basis, Arrow prepares and reviews back- up plans, in the event key personnel are unexpectedly rendered incapable of performing or depart or resign from their positions. However, any sudden unexpected change at the senior management level may adversely affect business. In addition, should Arrow' s industry begin to experience a shortage of qualified employees, Arrow, like other financial institutions or businesses in general, may have difficulty attracting and retaining entry level or higher bracket personnel and also may experience, as a result of such shortages or the enactment of higher minimum wage laws locally or nationwide, increased salary expense, which would likely negatively impact results of operations. **Pandemic** ~~COVID- 19~~ or other health emergencies may adversely affect Arrow’ s business activities, financial condition and results of operations. The business of Arrow and its subsidiary banks depends on the willingness and ability of its customers to conduct financial transactions. **Pandemics** ~~COVID- 19~~ or other health emergencies could disrupt the business, activities, and operations of Arrow’ s customers, as well as Arrow' s business and operations. Arrow has taken steps to mitigate the risk of harm to its employees and customers and to its operations from **health emergencies, such as** the COVID- 19 pandemic **,** or other events through its business continuity plan. There are a number of uncertainties related to the potential effects of a pandemic that may not be able to be addressed by this effort. If the spread of a pandemic or a health emergency has an adverse effect on (i) customer deposits, (ii) the ability of borrowers to satisfy their obligations, (iii) the demand for loans or other financial products and services, (iv) the ability of Arrow’ s personnel and third party service providers to perform effectively, (v) financial markets, real estate markets, or economic growth, or (vi) other aspects of operations, then Arrow’ s liquidity, financial condition and / or results of operations may be materially and adversely affected. FINANCIAL RISKS Arrow is subject to interest rate risk, which could adversely affect profitability. Profitability, like that of most financial institutions, depends to a large extent on Arrow' s net interest income, which is the difference between interest income on interest- earning assets, such as loans and investment securities, and interest expense on interest- bearing liabilities, such as deposits and borrowings. Changes in monetary policy, including changes in interest rates, could influence not only the interest received on loans and securities and the amount of interest paid on deposits and borrowings, but also (~~1~~ **i**) Arrow' s ability to originate loans and obtain deposits, (~~2~~ **ii**) the fair value of financial assets and liabilities, and (~~3~~ **iii**) the average duration of mortgage- backed securities portfolio. If the interest rates Arrow pays on deposits and other borrowings increase at a faster rate than the interest rates received on loans, securities and other interest- earning investments, net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Changes in interest rates, whether they are increases or decreases, can also trigger repricing and changes in the pace of payments for both assets and liabilities. Beginning and continuing throughout **early** ~~2022~~ **2023** , the Federal Reserve raised benchmark interest rates, partially in response to increasing inflation. In ~~2023~~ **2024** , rates may **stabilize** ~~continue to rise~~ and / or **decrease** ~~stay at elevated levels~~ . **Continued** ~~Higher~~ **higher** interest rates could have a negative impact on results of operations by reducing the ability of borrowers to repay their current loan obligations. These circumstances could not only result in increased loan defaults, foreclosures and charge- offs, but also necessitate further increases to the allowance for credit losses which may materially and adversely affect Arrow' s business, results of operations, financial condition and prospects. Arrow could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate. Factors beyond our control can significantly influence and cause potential adverse changes to the fair value of securities in our portfolio. For example, fixed- rate securities acquired by us are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities, our own analysis of the value of the securities, defaults by the issuers or individual mortgagors with respect to the underlying securities and instability in the credit markets. Any of the foregoing factors, as well as changing economic and market conditions, generally, could cause other- than- temporary impairments, realized or unrealized losses in future periods and declines in other comprehensive income, any of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects. The process for determining whether an impairment is other- than- temporary requires complex, subjective judgments about Arrow' s future financial performance and liquidity, the fair value of any collateral underlying the security and whether and to what extent the principal and interest on the security will ultimately be paid in accordance with its payment terms, any of which could subsequently prove to have been wrong. Arrow' s allowance for possible credit losses may be insufficient, and an increase in the allowance would reduce earnings. The allowance is established through a provision for credit losses based on management' s evaluation of the risks inherent in the loan portfolio and the general economy. The allowance is based upon a number of factors, including the size of the loan portfolio, asset classifications, economic trends, industry experience and trends, industry and geographic concentrations, estimated collateral values, management' s assessment of the credit risk inherent in the portfolio, historical loss experience and loan underwriting policies. In addition, Arrow evaluates all loans identified as problem loans and augments the allowance based upon an estimation of the potential loss associated with those problem loans. Additions to the allowance for credit losses decrease net income through provisions for credit losses. If the evaluation performed in connection with establishing credit loss reserves is wrong, the allowance for credit losses may not be sufficient to cover Arrow' s losses, which would have an adverse effect on operating results. Arrow' s regulators, in reviewing the loan portfolio as part of a regulatory examination, may from time to time require Arrow to increase the allowance for credit losses, thereby negatively affecting earnings, financial condition and capital ratios at that time. Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans and leases, identification of additional problem loans and other factors, both within and outside of Arrow' s control. Additions to the allowance could have a negative impact on Arrow' s results of operations. Arrow' s financial condition and the results of its operations could be negatively impacted by liquidity management. Arrow' s liquidity can be significantly and negatively impacted by factors outside the Company' s control, including general disruptions in the financial markets, governmental fiscal and monetary policies, regulatory changes, negative investor perceptions of Arrow' s creditworthiness, unexpected increases in cash or collateral requirements and the consequent inability to monetize available liquidity resources. Further, competition for deposits has continued to increase in recent years, including as a result of online banks and digital banking and fixed income alternatives for customer funds. Continued or increased competition for deposits in the current higher interest rate environment could negatively impact Arrow' s liquidity going forward. In addition, as a holding company, Arrow relies on interest, dividends, distributions and other payments from its subsidiary banks to fund dividends as well as to satisfy its debt and other obligations. Limitations on the payments that Arrow receives from its subsidiary banks could also impact Arrow' s liquidity. A bank holding company is required by law to act as a source of financial and managerial strength for its subsidiary banks. As a result, Arrow may be required to commit resources to its subsidiary banks, even if doing so is not otherwise in the interests of the Company, its shareholders or its creditors, which could reduce the amount of funds available to meet its obligations. The increasing complexity of Arrow' s operations presents varied risks that could affect earnings and financial condition. Arrow processes a large volume of transactions on a daily basis and is exposed to numerous types of risks related to internal processes, people and systems. These risks include, but are not limited to, the risk of fraud by persons inside or outside the Company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, breaches of data security, human error or negligence, and Arrow' s internal control system and compliance with a complex array of consumer and safety and soundness regulations. Arrow could also experience additional loss as a result of potential legal actions that could arise as a result of operational deficiencies or as a result of noncompliance with applicable laws and regulations. We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, result in a material misstatement of our financial statements. **As disclosed in our Annual Report** ~~Although Arrow established and maintained a system of internal controls to provide management with information~~ on **Form 10- K** ~~a timely basis and allow~~ for the ~~monitoring~~ **year ended December 31, 2022 (the " 2022 Form 10- K ") and as further discussed in Part II, Item 9A, Controls and Procedures** of ~~compliance with operational standards~~ **this Annual Report on Form 10- K** , we have identified material weaknesses in ~~our~~ **the** system of internal controls ~~. Specifically, in connection~~ **we maintain to provide management** with ~~management' s evaluation of~~ **information on a timely basis and allow for** the ~~effectiveness of our internal control over financial reporting as of December 31, 2022, we determined that we did not maintain effective~~ monitoring **of compliance** ~~controls in relation to testing, communication, and oversight over internal controls over financial reporting. Also,~~ with **operational standards** ~~regard to the conversion of our core banking information technology system, we did not effectively perform risk assessment procedures to identify the impact of the conversion on our internal control over financial reporting~~. ~~The~~ **These** material weaknesses did not result in a material misstatement of our annual or interim financial statements. **The Company has improved its organizational capabilities and implemented necessary remediation measures,** ~~However~~ **however** ~~,~~ **the remediation steps taken were not in place for a sufficient amount of time for** the material weaknesses **to be considered fully remediated as of December 31, 2023. Accordingly, the Company will continue to assess its remediation measures in 2024 in order to confirm effective remediation of the identified material weaknesses. As part of the ongoing remediation process, the Company** could **conclude** ~~result in a misstatement of certain account balances or disclosures~~ that **additional remediation measures are required. Additionally, it is possible that inadequate remediation** could result in a material misstatement to the annual or interim financial statements which would not be prevented or detected in a timely manner. **These or** ~~Losses from operational risks may still occur, however, including losses from the~~ **other** ~~effects of operational errors. We have developed and are executing upon a plan of remediation to address the identified~~ material weaknesses ~~. If our remediation efforts are insufficient to address the identified material weaknesses or if additional material weaknesses in internal controls are~~ discovered in the future ~~, we may be unable to timely and accurately record, process, summarize and report our financial results. The occurrence of or failure to remediate a material weakness~~ may adversely affect our reputation ~~and~~ **, our** business and the market price of shares of our common stock. For additional discussion, see Part II, Item 9A, Controls and Procedures. RISKS RELATED TO OWNING OUR COMMON STOCK The Company relies on the operations of its banking subsidiaries to provide liquidity, which, if limited, could impact Arrow' s ability to pay dividends to its shareholders or to repurchase its common stock. Arrow is a bank holding company, a separate legal entity from its subsidiaries. The bank holding company does not have significant operations of its own. The ability of the subsidiaries, including bank and insurance subsidiaries, to pay dividends is limited by various statutes and regulations. It is possible, depending upon the financial condition of Arrow' s subsidiaries and other factors, that the subsidiaries might be restricted at some point in the ability to pay dividends to the holding company, including by a bank regulator asserting that the payment of such dividends or other payments would constitute an unsafe or unsound practice. In addition, under federal banking law, Arrow is subject to consolidated capital requirements at the holding company level. If the holding company or the bank subsidiaries are required to retain or increase capital, Arrow may not be able to maintain the cash dividends or pay dividends at all, or to repurchase shares of Arrow' s common stock. LEGAL, TAX, REGULATORY AND COMPLIANCE RISKS Capital and liquidity standards require banks and bank holding companies to maintain more and higher quality capital and greater liquidity than has historically been the case. Capital standards, particularly those adopted as a result of Dodd- Frank, continue to have a significant effect on banks and bank holding companies, including Arrow. The need to maintain more and higher quality capital, as well as greater liquidity, and generally increased regulatory scrutiny with respect to capital levels, may at some point limit business activities, including lending, and our ability to expand. It could also result in Arrow being required to take steps to increase regulatory capital and may dilute shareholder value or limit the ability to pay dividends or otherwise return capital to investors through stock repurchases. The Capital Rules promulgated under Dodd- Frank will remain applicable to Arrow. Federal banking statutes and regulations could change in the future, which may adversely affect Arrow. Arrow is subject to extensive federal and state banking regulations and supervision. Banking laws and regulations are intended primarily to protect bank depositors’ funds (and indirectly the Federal Deposit Insurance Fund) as well as bank retail customers, who may lack the sophistication to understand or appreciate bank products and services. These laws and regulations generally are not, however, aimed at protecting or enhancing the returns on investment enjoyed by bank shareholders. Arrow' s depositor / customer awareness of the changing regulatory environment is particularly true of the set of laws and regulations under Dodd- Frank, which were passed in the aftermath of the 2008- 09 financial crisis and in large part were intended to better protect bank customers (and to some degree, banks) against a wide variety of lending products and aggressive lending practices that pre- dated the crisis and are seen as having contributed to its severity. Although not all banks offered such products or engaged in such practices, all banks are affected by these laws and regulations to some degree. Dodd- Frank restricts Arrow' s lending practices, requires us to expend substantial additional resources to safeguard customers, significantly increases its regulatory burden, and subjects Arrow to significantly higher minimum capital requirements which, in the long run, may serve as a drag on its earnings, growth and ultimately on its dividends and stock price (the Dodd- Frank capital standards are separately addressed in a previous risk factor). Although the Economic Growth Act and similar initiatives may mitigate the impact of Dodd- Frank, other statutory and regulatory changes including additional guidance and interpretations of existing rules and requirements could add to the existing regulatory burden imposed on banking organizations like Arrow, resulting in a potential material adverse effect on Arrow' s financial condition and results of operations. Non- compliance with the Patriot Act, Bank Secrecy Act, or other anti- money laundering laws and regulations could result in fines or sanctions and restrictions on conducting acquisitions or establishing new branches. The Patriot Act and Bank Secrecy Act require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are suspected, financial institutions are obligated to file suspicious activity reports with FinCEN. Federal anti- money laundering rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions, and restrictions on conducting acquisitions or establishing new branches. During the last few years, several banking institutions have received large fines for non- compliance with these laws and regulations. The policies and procedures Arrow adopted that are designed to assist in compliance with these laws and regulations may not be effective in preventing violations of these laws and regulations. Arrow, through its banking subsidiaries, is subject to the CRA and fair lending laws, and failure to comply with these laws could lead to material penalties. CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. A successful regulatory challenge to an institution’ s performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion. Private parties may also have the ability to challenge an institution’ s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on Arrow' s business, financial condition and results of operations.