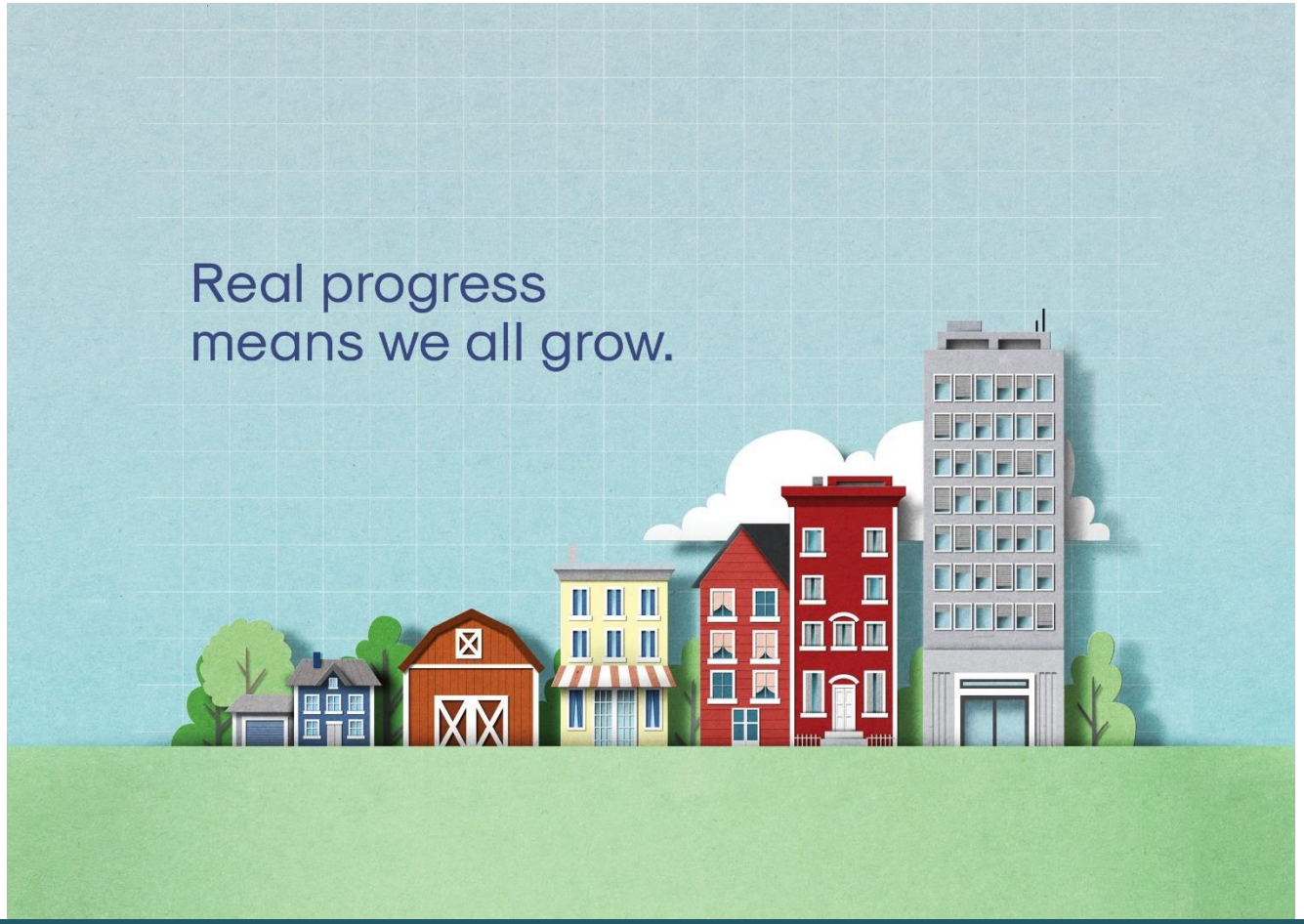


FINANCIAL INSTITUTIONS, INC. (Nasdaq: FISI)

Second Quarter 2019 Earnings Presentation

July 29, 2019

Safe Harbor Statement

Statements contained in this presentation which are not historical facts and which pertain to future operating results of Financial Institutions, Inc. (the "Company") and its subsidiaries constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Similarly, statements that describe the objectives, plans or goals of the Company are forward-looking. These forward-looking statements can generally be identified as such by the context of the statements, including words such as "believe," "expect," "anticipate," "plan," "may," "would," "intend," "estimate," "guidance" and other similar expressions, whether in the negative or affirmative. These forward-looking statements involve significant risks and uncertainties. All forward-looking statements made herein are qualified by the cautionary language in the Company's Annual Report on Form 10-K, its Quarterly Reports on Form 10-Q and other documents filed with the Securities and Exchange Commission. These documents contain and identify important factors that could cause actual results to differ materially from those contained in our projections or forward-looking statements. Except as required by law, the Company assumes no obligation to update any information presented herein. This presentation includes certain non-GAAP financial measures intended to supplement, not substitute for, comparable GAAP measures. Reconciliations of those non-GAAP financial measures to GAAP financial measures are provided in the Appendix to this presentation.

Overview of Financial Institutions, Inc.

Corporate Overview

- Diversified financial services holding company headquartered in Western New York
- Subsidiaries include:
  - Five Star Bank (regional community bank)
  - SDN Insurance Agency, LLC (full-service insurance agency)
  - Courier Capital, LLC (investment advisory firm)
  - HNP Capital, LLC (investment advisory firm)
- 53 banking locations in 15 contiguous counties in Western and Central New York
- Experienced management team with extensive market knowledge and industry experience
- Franchise offers products and services to a diversified mix of consumer, business, municipal, healthcare and not-for-profit customers
- Generating consistent, strong operating results
- Positioned for growth through key initiatives and market disruption

Key Statistics as of June 30, 2019

Assets:	$4.3 billion
Loans:	$3.2 billion
Deposits:	$3.5 billion
Shareholders' Equity:	$422.4million
NPAs(1)/Total Assets:	0.27%
Employees:	~ 700
ROACE (TTM):	10.30%
ROATCE(2) (TTM):	12.90%
ROAA (TTM):	0.96%
Annualized Dividend Per Share:	$1.00
Closing Stock Price Per Share:	$29.15
Dividend Yield:	3.43%
Market Capitalization:	$466.2 million

(1) NPAs include nonaccrual loans, loans past due 90 days or more and still accruing, and foreclosed assets
(2) Refer to "Non-GAAP Reconciliation" in Appendix

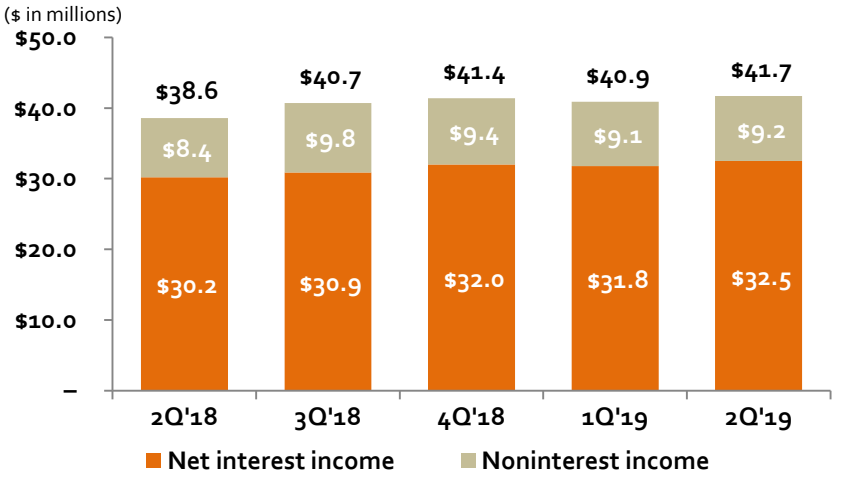
Second Quarter Highlights

- Net income of $11.4 million was third highest in Company history
- Pre-tax pre-provision(1) income of $16.7 million was the highest in Company history
- Net interest income of $32.5 million was $2.2 million, or 7.4%, higher than the second quarter of 2018 and the highest in Company history
- Net interest margin expanded to 3.28% as compared to 3.16% in the second quarter of 2018
- Return on average assets was 1.06%
- 30-basis-point increase in common equity to assets ratio, to 9.39%, and 32-basis-point increase in tangible common equity to tangible assets(1), or TCE ratio, to 7.77%
- Total assets at quarter-end were $4.31 billion, an increase of $122.6 million from June 30, 2018

(1) Refer to "Non-GAAP Reconciliation" in Appendix

Second Quarter 2019

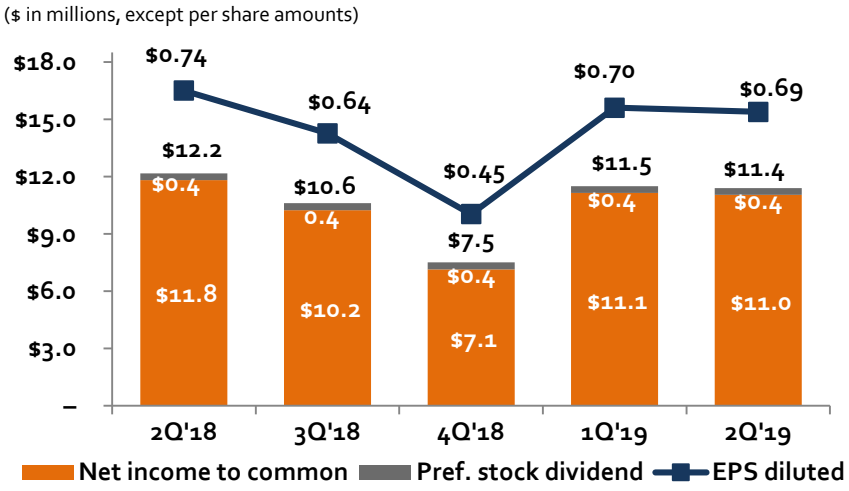
Revenue



Results Summary

	2Q'18	1Q'19	2Q'19
Return on average assets	1.18%	1.09%	**1.06%**
Return on average common equity	12.90%	11.79%	**11.12%**
Return on average tangible common equity[1]	16.27%	14.71%	**13.73%**
Net interest margin	3.16%	3.24%	**3.28%**
Efficiency ratio[2]	60.14%	60.99%	**59.79%**
Dividends per share	$0.24	$0.25	**$0.25**
Dividend yield (annualized)	2.93%	3.73%	**3.44%**

Net Income & EPS



Commentary

- Net interest income increased $2.2 million compared to 2Q'18 and $672 thousand compared to 1Q '19. The increase was primarily the result of organic loan growth combined with the positive impact of the deployment of investment securities into higher-yielding loans
- Noninterest expense increased $1.6 million compared to 2Q'18, primarily due to investments in personnel and the acquisition of HNP Capital, and decreased $168 thousand from 1Q'19.
- Provision for loan losses increased $2.3 million compared to 2Q'18 and $1.2 million compared to 1Q'19. Charge-offs were $432 thousand lower than 2Q'18 and $533 thousand lower than 1Q'19. Quarterly provision varies based primarily on loan growth, charge-offs, collateral values and qualitative factors.

(1) Refer to "Non-GAAP Reconciliation" in Appendix.

(2) Efficiency ratio is calculated by dividing noninterest expense by net revenue, i.e., the sum of net interest income (fully taxable equivalent) and noninterest income before net gains on investment securities. This is a banking industry measure not required by GAAP.

Key Earnings Highlights

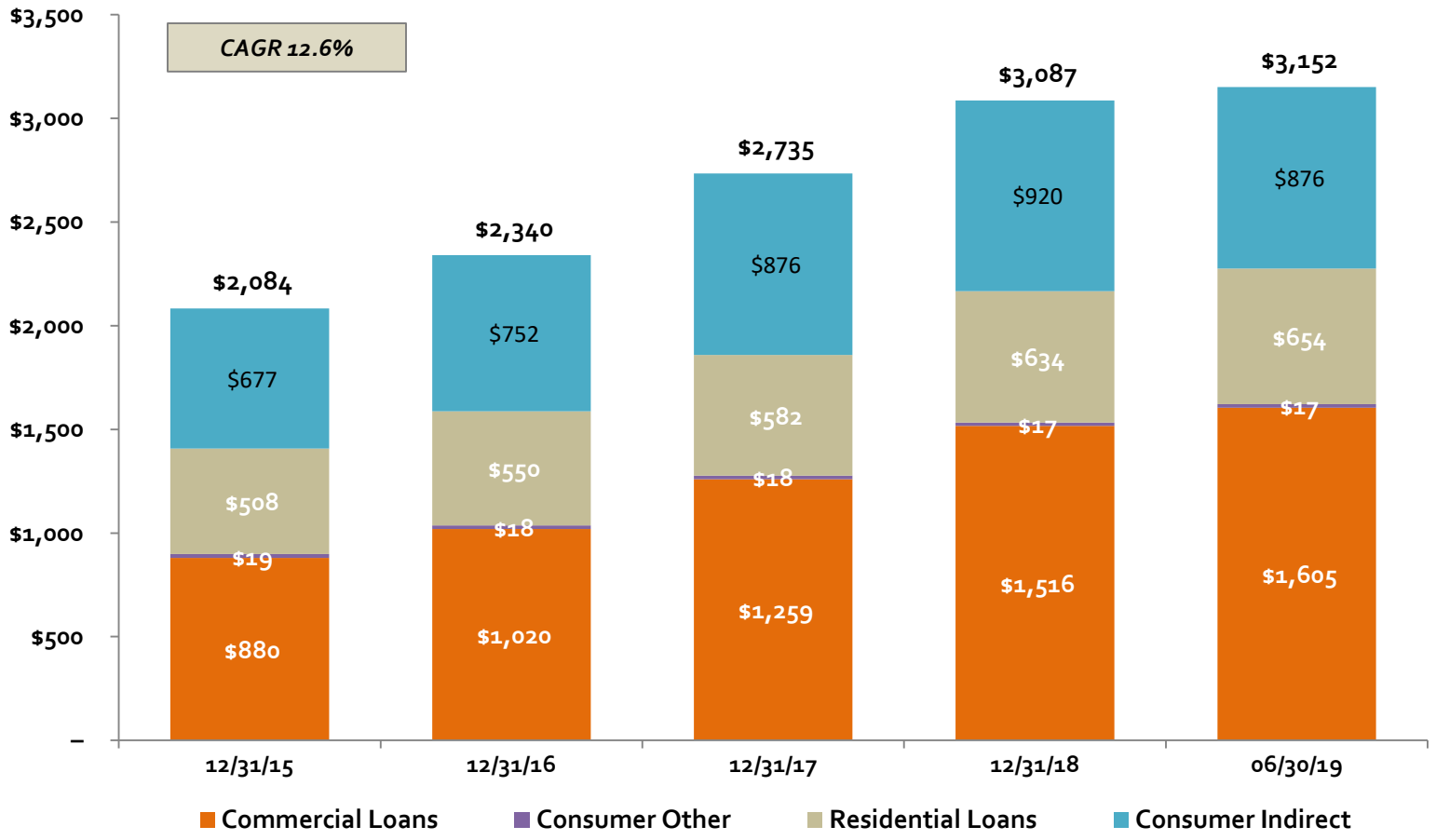
Quarterly Earnings Highlights (2Q'18 – 2Q'19)

($ in millions, except per share amounts)

Earnings Summary	2Q'18	3Q'18	4Q'18	1Q'19	2Q'19
Average interest-earning assets	$3,884	$3,919	$4,004	$3,996	**$4,008**
Net interest margin	3.16%	3.17%	3.21%	3.24%	**3.28%**
Net interest income	30.2	30.9	32.0	31.8	**32.5**
Noninterest income	8.4	9.8	9.4	9.1	**9.2**
Total revenue	**$38.6**	**$40.7**	**$41.4**	**$40.9**	**$41.7**
Noninterest expense	($23.4)	($25.5)	($27.8)	($25.2)	**($25.0)**
Pre-provision net revenue	15.2	15.2	13.6	15.7	**16.7**
Provision for loan losses	(0.0)	(2.1)	(3.9)	(1.2)	**(2.4)**
Pre-tax net income	15.2	13.1	9.7	14.5	**14.3**
Income tax expense	(3.0)	(2.5)	(2.2)	(3.0)	**(2.9)**
Net income	**$12.2**	**$10.6**	**$7.5**	**$11.5**	**$11.4**
Preferred stock dividends	(0.4)	(0.4)	(0.4)	(0.4)	**(0.4)**
Net income available to common shareholders	**$11.8**	**$10.2**	**$7.1**	**$11.1**	**$11.0**
Earnings per share - diluted	$0.74	$0.64	$0.45	$0.70	**$0.69**
Weighted average common shares outstanding - diluted	15.9	15.9	15.9	16.0	**16.0**

Total Loans

($ in millions)

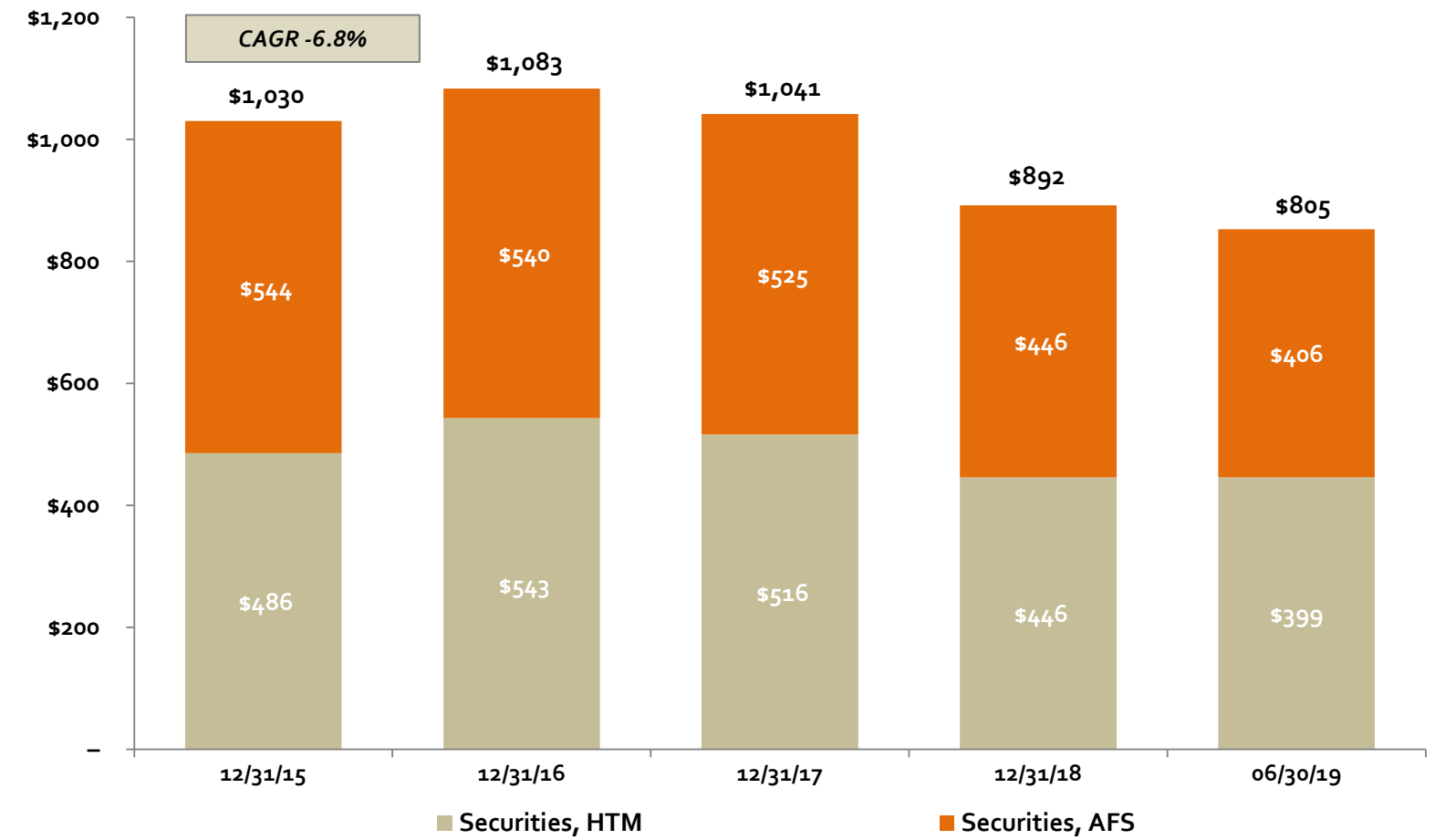


	2015	2016	2017	2018	2019 YTD
Loan Yield(1)	4.21%	4.18%	4.22%	4.51%	4.80%

(1) Average yield for the period

Securities Portfolio

($ in millions)



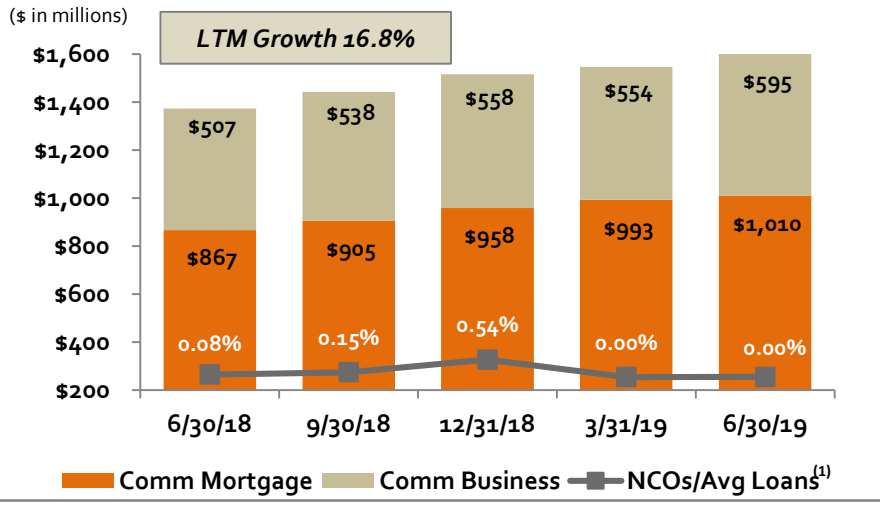
	2015	2016	2017	2018	2019 YTD
Security Yield(1)	2.46%	2.45%	2.48%	2.33%(2)	2.38%(2)

(1) Average yield (tax equivalent basis) for the period
(2) Decrease due to lower federal tax rate beginning in 2018

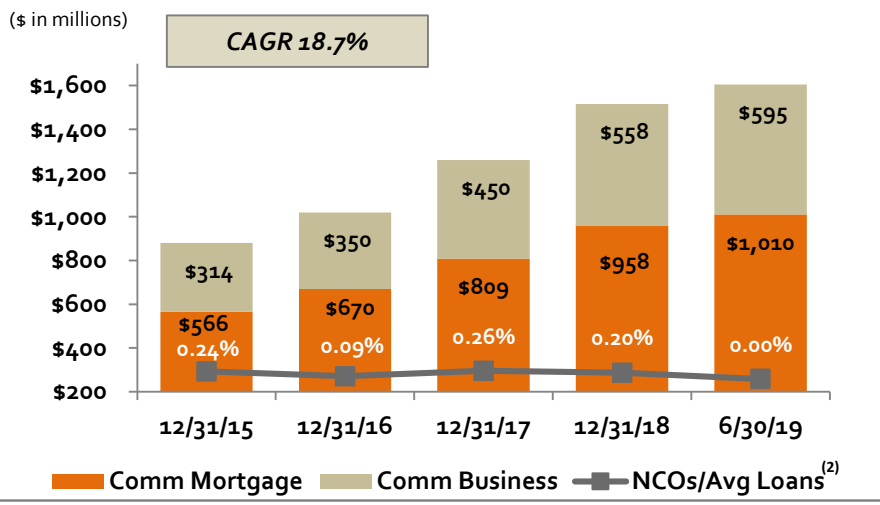
Commercial Banking

- Year-over-year growth was 17.3% in commercial business loans and 16.5% in commercial mortgage loans
- Includes growth in higher-yielding Small Business Commercial Lending
- Over the course of the past 2+ years, we have taken advantage of market disruption with strategic hires, adding lenders in nearly all categories
  - Hiring experienced professionals from competing institutions
  - They bring market experience, knowledge and relationships
  - Attracting new customers and generating new loan business as well as noninterest income
- Five Star Bank is gaining momentum in becoming financial partner of choice
  - Provides a wide spectrum of products
  - Responsive to changing customer needs

Commercial Banking – Quarterly



Commercial Banking – Annual

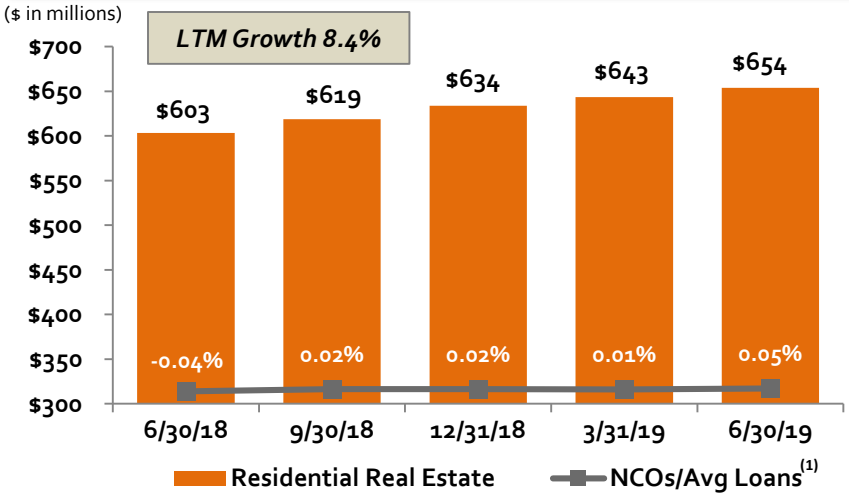


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

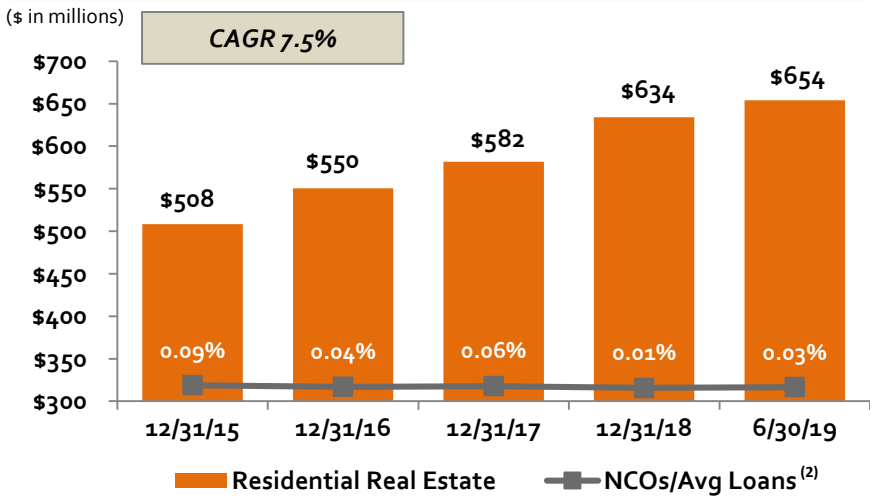
Residential Real Estate Loans and Lines

- In-market originations through mortgage loan originators and Five Star Bank branch network
- Full product menu featuring competitive portfolio and saleable products including government loan programs
- Continuing the build-out of residential mortgage production capabilities
  - Community bank delivery model
- In 2018, 6 incremental MLOs hired (including two Community Development Loan Officers)
- CRA product origination nearly three times higher in 2018 than 2017
- Line of business provides opportunity to establish relationships with new customers
  - Loan and deposit relationships
  - Opportunity to provide wealth management and insurance services
- Increased mortgage lending is expected to result in positive balance sheet impact as well as fee generation

Residential Real Estate – Quarterly



Residential Real Estate – Annual

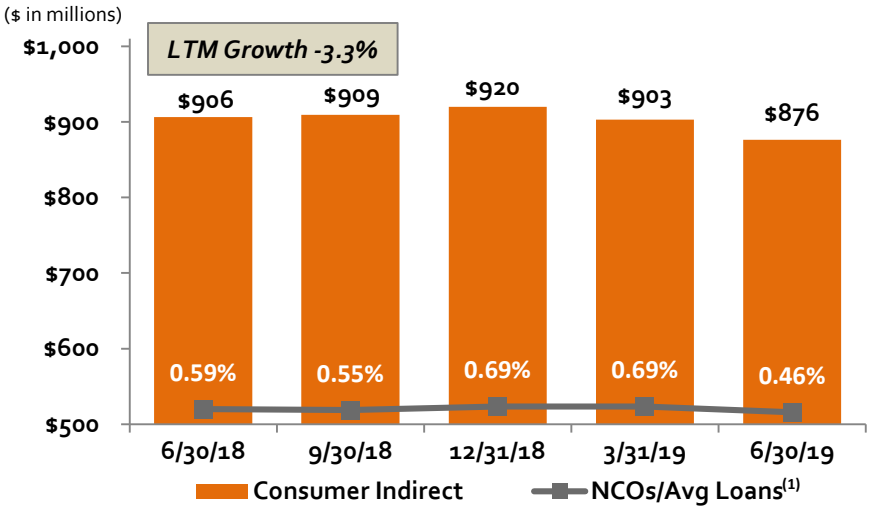


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

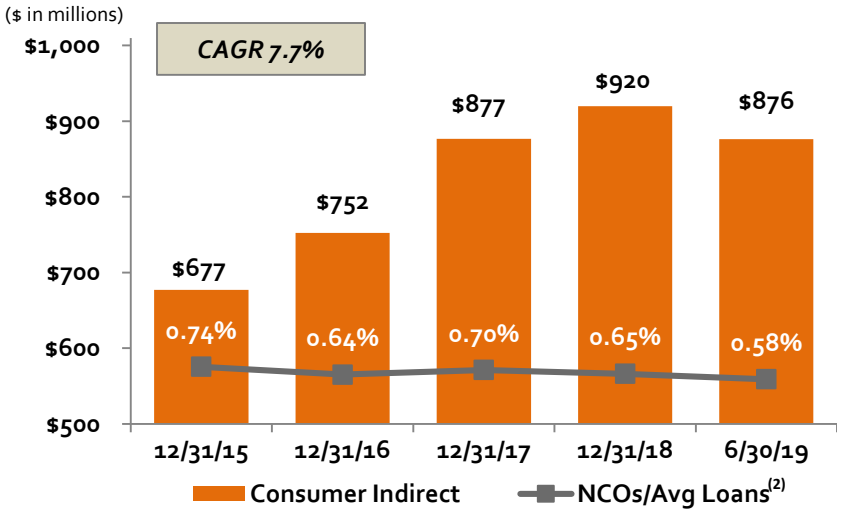
Consumer Indirect Lending

- $876 Million Portfolio at June 30, 2019
  - Portfolio represents 27.8% of total loans, down from 29.8% at 12/31/18 and peak of 35% at 12/31/13
- Decline due to strong growth in relationship-based commercial and residential lending businesses, pricing discipline resulting in lower consumer indirect production and the Q2 '19 sale of $21 million of consumer indirect loans
- Prime Lending Operation with average portfolio FICO score of approximately 730 and less than 2.5% under 630
- Dealer network of nearly 500 franchised new automobile dealerships
- Relatively Short Duration Allows for Rapid Re-pricing
- Natural Risk Dispersion – Small Loan Size
- Demonstrated track record of consistent performance through economic expansions, recessions and stagnation

Consumer Indirect – Quarterly



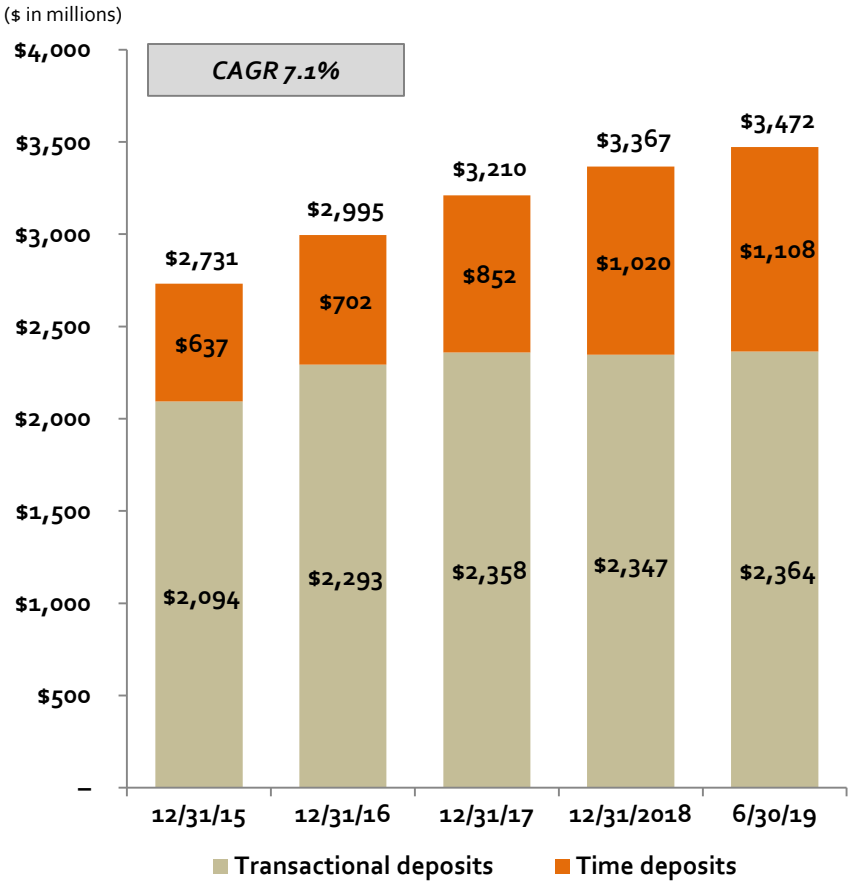
Consumer Indirect – Annual



(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

Deposit Growth

Deposits (by account type)



	2015	2016	2017	2018	2019 YTD
Cost of Deposits[1]	0.27%	0.29%	0.35%	0.57%	0.83%

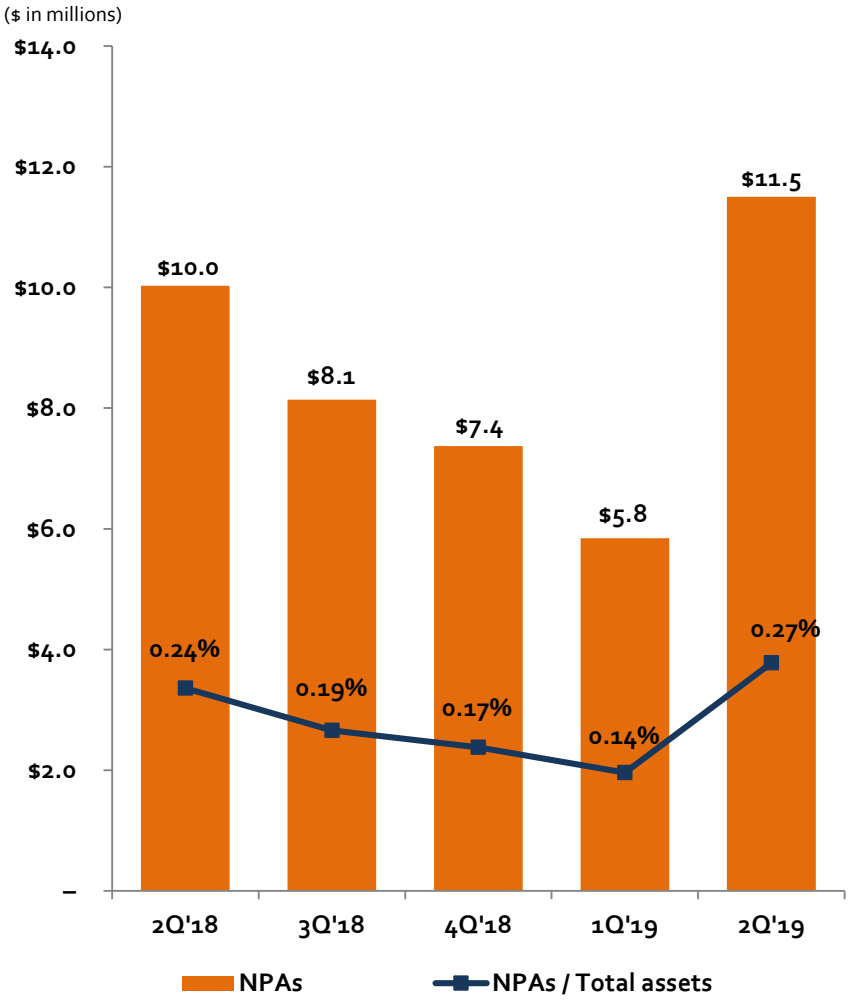
Commentary

- Opportunities for growth
  - Combined Rochester and Buffalo markets represent attractive local deposit market of $40 billion
  - Current FSB market share is less than 4%
- We offer a variety of public (municipal) deposit products to the towns, villages, counties and school districts within our market
  - Deposits are seasonal
  - Comprised 26% of deposits at 6/30/19 compared to 25% at 12/31/18
  - Low cost funding source
  - Dedicated sales force
  - FSB currently has approximately 320 municipal customers

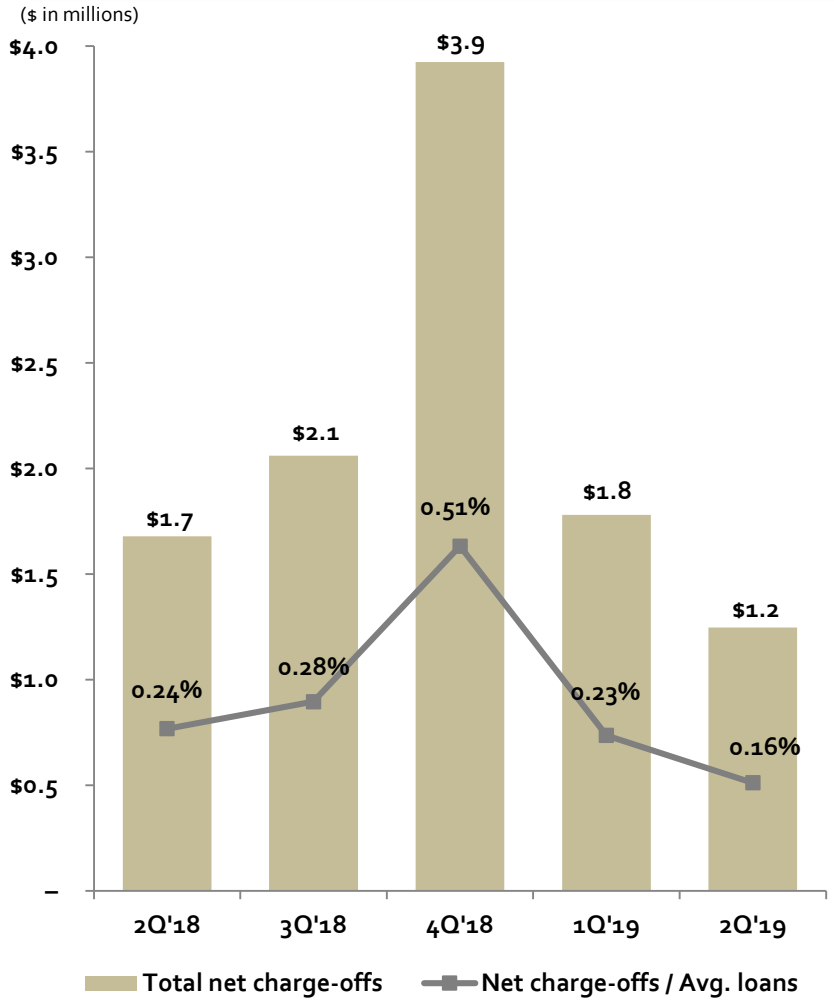
(1) For the year/year-to-date (annualized)

Asset Quality

Non-Performing Assets

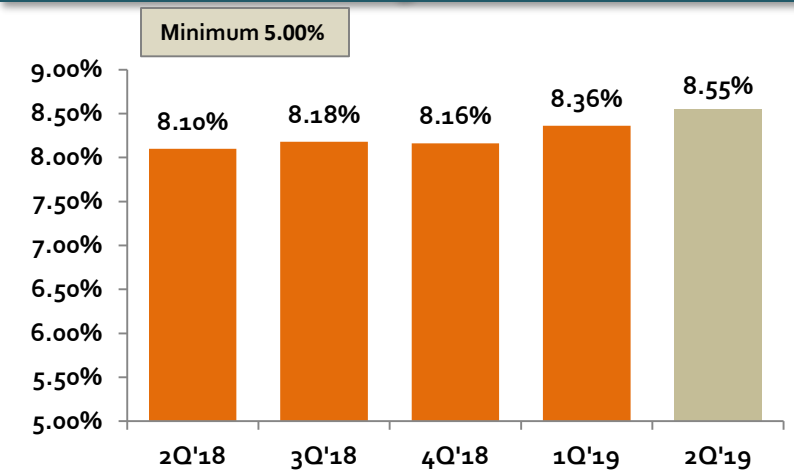


Net Charge-Offs

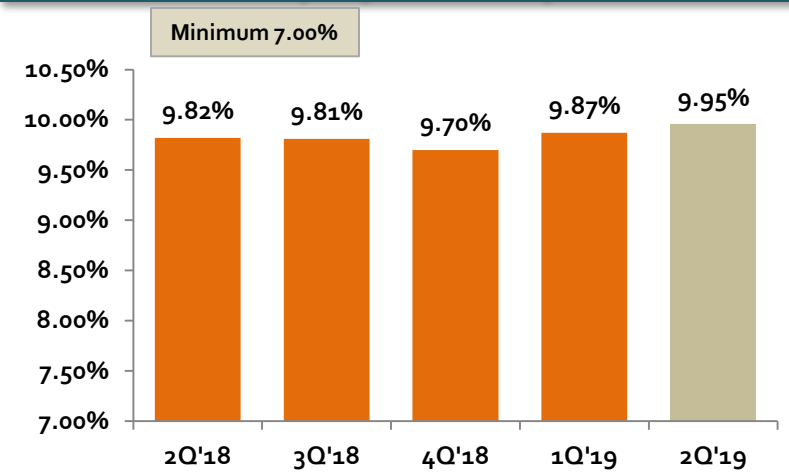


Capital Ratios

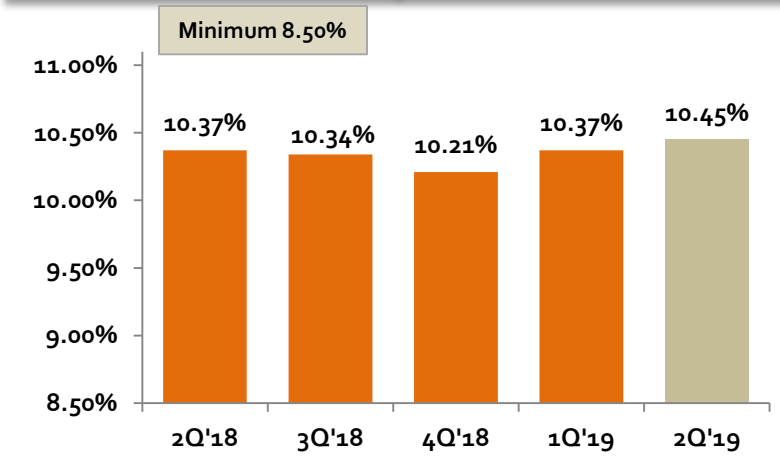
Leverage Ratio [1]



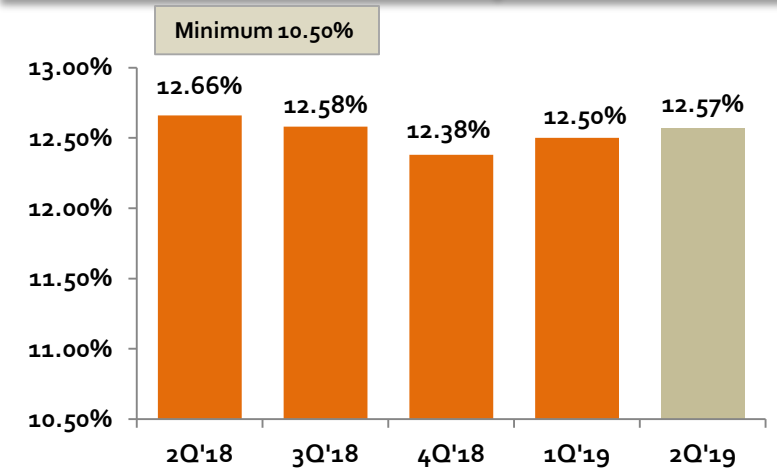
Common Equity Tier 1 Capital Ratio [1]



Tier 1 Capital Ratio [1]



Total Risk-Based Capital Ratio [1]



[1] Minimum capital ratios based on January 2019 fully phased-in Basel III requirements.

Appendix

Non-GAAP Reconciliation

In addition to results presented in accordance with U.S. generally accepted accounting principles ("GAAP"), this presentation contains certain non-GAAP financial measures. The Company believes that providing certain non-GAAP financial measures provides investors with information useful in understanding our financial performance, performance trends and financial position. Our management uses these measures for internal planning and forecasting purposes and we believe that our presentation and discussion, together with the accompanying reconciliations, allows investors, security analysts and other interested parties to view our performance and the factors and trends affecting our business in a manner similar to management. These non-GAAP measures should not be considered a substitute for GAAP measures and we strongly encourage investors to review our consolidated financial statements in their entirety and not to rely on any single financial measure to evaluate the Company. Non-GAAP financial measures have inherent limitations, are not uniformly applied and are not audited. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names.

	Quarter ended,			TTM Ended
($ in thousands, except per share data)	6/30/2018	3/31/2019	6/30/2019	6/30/2019
Computation of ending tangible common equity:				
Common shareholders' equity	$ 369,608	$ 390,925	$ 405,026	$ 405,026
Less: Goodwill and other intangible assets, net	79,188	75,850	75,534	75,534
Tangible common equity	290,420	315,075	329,492	329,492
Computation of ending tangible assets:				
Total assets	$ 4,191,315	$ 4,302,541	$ 4,313,945	$ 4,313,945
Less: Goodwill and other intangible assets, net	79,188	75,850	75,534	75,534
Tangible assets	4,112,127	4,226,691	4,238,411	4,238,411
Tangible common equity to tangible assets[1]	7.06%	7.45%	7.77%	7.77%
Common shares outstanding	15,924	15,941	15,995	15,995
Tangible common book value per share[2]	$ 18.24	$ 19.77	$ 20.60	$ 20.60
Computation of average tangible common equity:				
Average common equity	$ 366,942	$ 383,630	$ 398,083	$ 383,745
Less: Average goodwill and other intangible assets, net	75,957	76,033	75,711	77,288
Average tangible common equity	290,985	307,597	322,372	306,457
Computation of average tangible assets:				
Average assets	$ 4,142,735	$ 4,282,991	$ 4,300,254	$ 4,259,661
Less: Average goodwill and other intangible assets, net	75,957	76,033	75,711	77,288
Average tangible assets	4,066,778	4,206,958	4,224,543	4,182,373
Net income available to common shareholders	11,804	11,156	11,035	39,529
Return on average tangible common equity[3]	16.27%	14.71%	13.73%	12.90%
Pre-tax pre-provision income:				
Net income	$ 12,170	$ 11,521	$ 11,401	
Add: Income tax expense	2,979	3,027	2,939	
Add: Provision for loan losses	40	1,193	2,354	
Pre-tax pre-provision income	$ 15,189	$ 15,741	$ 16,694	

Source: Company filings.

(1) Tangible common equity divided by tangible assets.

(2) Tangible common equity divided by common shares outstanding.

(3) Net income available to common shareholders (annualized) divided by average tangible common equity.