Investor Presentation

Financial Institutions, Inc. (NASDAQ: FISI)
First Quarter 2023 Earnings Presentation

April 26, 2023



Financial Institutions, Inc.

Important Information

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,” “continues,” “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 and are subject to change. 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.

Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided.

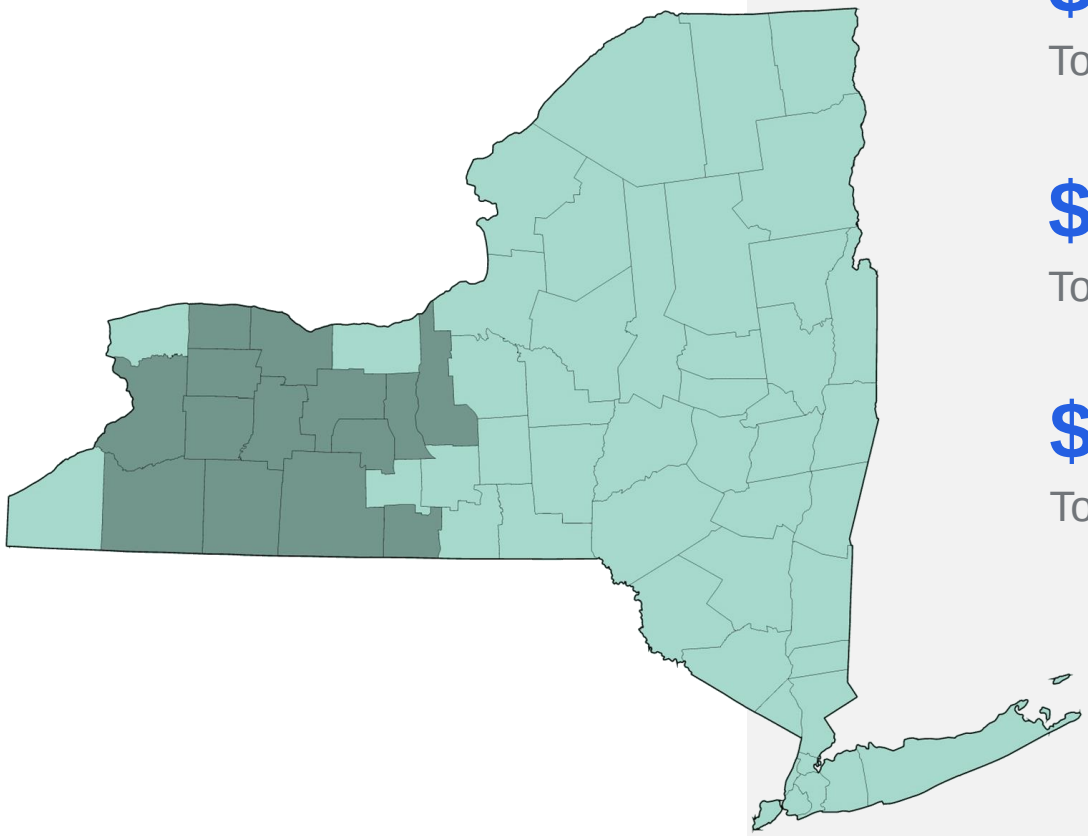
Table of Contents

Company Overview	**3**	**Revenue**	**20**	**Appendix**	**26**
Financial Highlights	**7**	**Expense Management & Operating Leverage**	**22**	Management Team	**27**
High Quality Lending	**9**	**Capital Management & Investment Considerations**	**23**	Strategy Map	**28**
Securities and Deposits	**17**			Non-GAAP Reconciliation	**29**

Overview of Financial Institutions, Inc.

NASDAQ: FISI

- **Innovative financial holding company** headquartered in Western New York offering banking, insurance and wealth management services through a network of subsidiaries
  - Five Star Bank
  - SDN Insurance Agency, LLC
  - Courier Capital, LLC and HNP Capital, LLC
- **Positioned for growth** through key initiatives, including Banking-as-a-Service
- **Financially stable geography**, with 49 banking locations[1] in 14 contiguous Upstate New York counties, as well as commercial loan production offices serving the Mid-Atlantic and Central New York regions
- **Experienced management team** with extensive market knowledge and industry experience
- **Generating consistent, strong operating results**



$296M
Market cap

$6.0B
Total assets

$4.2B
Total loans

$5.1B
Total deposits

[1] 48 branches and 1 motor branch in Olean, NY
Note: Information on this slide is as of March 31, 2023 unless noted otherwise

Why FISI

Strategic focus designed to deliver long-term value

Results-driven community bank with strong retail and commercial franchises

- Serving financially stable Upstate New York markets and well-positioned for growth in Buffalo and Rochester
- Launched commercial lending platforms in Baltimore, MD serving the Mid-Atlantic region in early 2022 and in Syracuse, NY serving the central New York region in early 2023

Disciplined credit culture with strong credit quality

- From 2008 through 2022, year-end non-performing assets[1] ranged from 0.17% to 0.58% of total assets, while annual net charge-offs to average loans ranged from 0.14% to 0.54%
- Indirect auto lending is a core competency with attractive risk-adjusted return profile and consistent results though several economic cycles

Fee-based businesses diversify revenue and complement core banking franchise

- Leading full-service insurance agency and two well-regarded investment advisory firms support noninterest income and have been enhanced by bolt-on acquisitions in recent years
- Banking-as-a-Service, or BaaS, presents additional fee-based revenue opportunities

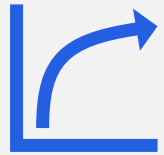
Complementary fintech and digital partnerships driving exceptional digital experiences

- BaaS enables fintechs to offer banking products and services to their end customers
- Creating new fee-based revenue opportunities through service, interchange and other fees



3.4%

increase in common stock dividend announced in February 2023



13.7%

total loan growth year-over-year

[1] Non-performing assets, or NPAs, include nonaccrual loans, loans past due 90 days or more and still accruing, and foreclosed assets

Note: Information on this slide is as of March 31, 2023 unless noted otherwise

Our Digital Evolution

Leveraging our digital and infrastructure investments to deliver value to customers, communities and fintech partners

- Five Star Bank Digital Banking launched in 2020, enhancing user experience through sophisticated online and mobile platforms
- Our fintech partnerships and investments are helping us identify best solutions for quick integration to benefit our customers and generate new revenue opportunities
  - Connectivity to the fintech ecosystem
  - Curated introduction to best-in-class, bank-ready fintechs
  - Extensive engagement and interaction with fintechs
  - Access to BaaS opportunities
  - Market intelligence and insight

ALLOY LABS ALLIANCE

CASTLE CREEK CAPITAL

FinMain

BankTech VENTURES

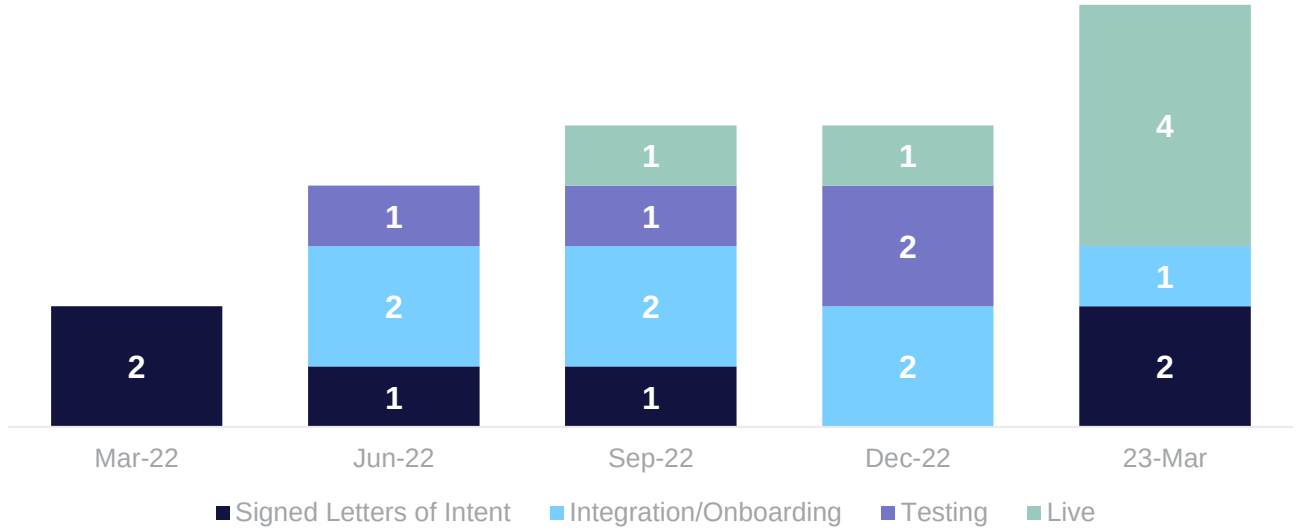
Mendon Venture Partners

Banking-as-a-Service (BaaS)

Creating new revenue opportunities and market differentiation

- BaaS enables fintechs and non-bank financials[1] to offer banking products and services to their end customers
  - Levers FISI's legacy and digital investments and infrastructure
- Value-driven, disciplined approach to partnerships by building a robust pipeline of opportunities that are complementary to our values and risk appetite
- BaaS is a fee-based line of business driven by service, interchange, advisory and servicing fees and other revenue sharing
  - Also has potential to generate lower-cost deposits and enhance loan diversification

Partnership Growth



[1] Primarily wealth and investment advisory firms



First Quarter 2023 Highlights

As of March 31, 2023

- Net income was $12.1 million compared to $12.1 million in the linked quarter and $15.0 million in the year-ago quarter. After preferred dividends, net income available to common shareholders was $11.7 million, or $0.76 per diluted share, in both the current quarter and the fourth quarter of 2022, compared to $14.6 million, or $0.93 per diluted share, in the first quarter of 2022.
- Net income reflects the impact of provision for credit losses of $4.2 million in the current quarter, compared to $6.1 million in the linked quarter and $2.3 million in the prior year quarter.
- Net interest income of $41.8 million decreased $1.3 million, or 3.1%, from the linked quarter, reflective of fewer days in the most recent quarter and amid the current rising interest rate environment that has driven higher funding costs, and increased by $2.3 million, or 5.7%, from the year-ago quarter, due to double-digit loan growth.
- Solid revenue from the Company's insurance and investment advisory subsidiaries contributed to noninterest income of $10.9 million, which was consistent with the fourth quarter of 2022 and decreased by $398 thousand, or 3.5%, from the first quarter of 2022.
- Noninterest expense was $33.7 million in the first quarter of 2023 compared to $33.5 million in the fourth quarter of 2022 and $30.1 million in the first quarter of 2022. The year-over-year increase was driven by a number of items, including higher salaries and benefits costs, computer and data processing expenses and FDIC assessments.
- Total loans were $4.24 billion at March 31, 2023, an increase of $192.9 million, or 4.8%, from December 31, 2022 and $509.7 million, or 13.7%, from March 31, 2022.
- Total deposits were $5.14 billion at March 31, 2023, $211.9 million higher than December 31, 2022, and $138.4 million higher than March 31, 2022.
- The Company continues to report strong credit quality metrics, including non-performing loans to total loans of 0.21% and non-performing assets to total assets of 0.15% as of March 31, 2023 and annualized net charge-offs to average loans for the current quarter of 0.21%.

Recent Earnings Performance

Last five quarters

EARNINGS SUMMARY[1]	1Q '22	2Q '22	3Q '22	4Q '22	1Q '23
Average interest-earning assets	$5,167	$5,247	$5,231	$5,330	$5,486
Net interest margin	3.11%	3.19%	3.28%	3.23%	3.09%
Net interest income	39.6	41.6	43.1	43.1	41.8
Noninterest income	11.3	11.4	12.7	10.9	10.9
Total revenue	**$50.9**	**$53.0**	**$55.7**	**$54.1**	**$52.7**
Noninterest expense	($30.1)	($32.9)	($32.8)	($33.5)	($33.7)
Pre-tax pre-provision income[2]	20.8	20.1	22.9	20.6	19.1
Pre-PPP adjusted pre-tax pre-provision income[2]	19.7	20.5	20.6	20.8	19.1
Provision for credit losses	(2.3)	(0.6)	(4.3)	(6.1)	(4.2)
Income before income taxes	18.4	19.5	18.6	14.5	14.9
Income tax expense	(3.4)	(3.8)	(4.7)	(2.4)	(2.8)
Net income	**$15.0**	**$15.7**	**$13.9**	**$12.1**	**$12.1**
Preferred stock dividends	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net income available to common shareholders	**$14.6**	**$15.3**	**$13.5**	**$11.7**	**$11.7**
Earnings per share – diluted	$0.93	$0.99	$0.88	$0.76	$0.76
Weighted average common shares outstanding – diluted	15.7	15.4	15.4	15.4	15.4

[1] Dollars in thousands, except per share amounts.
[2] Refer to "Non-GAAP Reconciliation" in Appendix.

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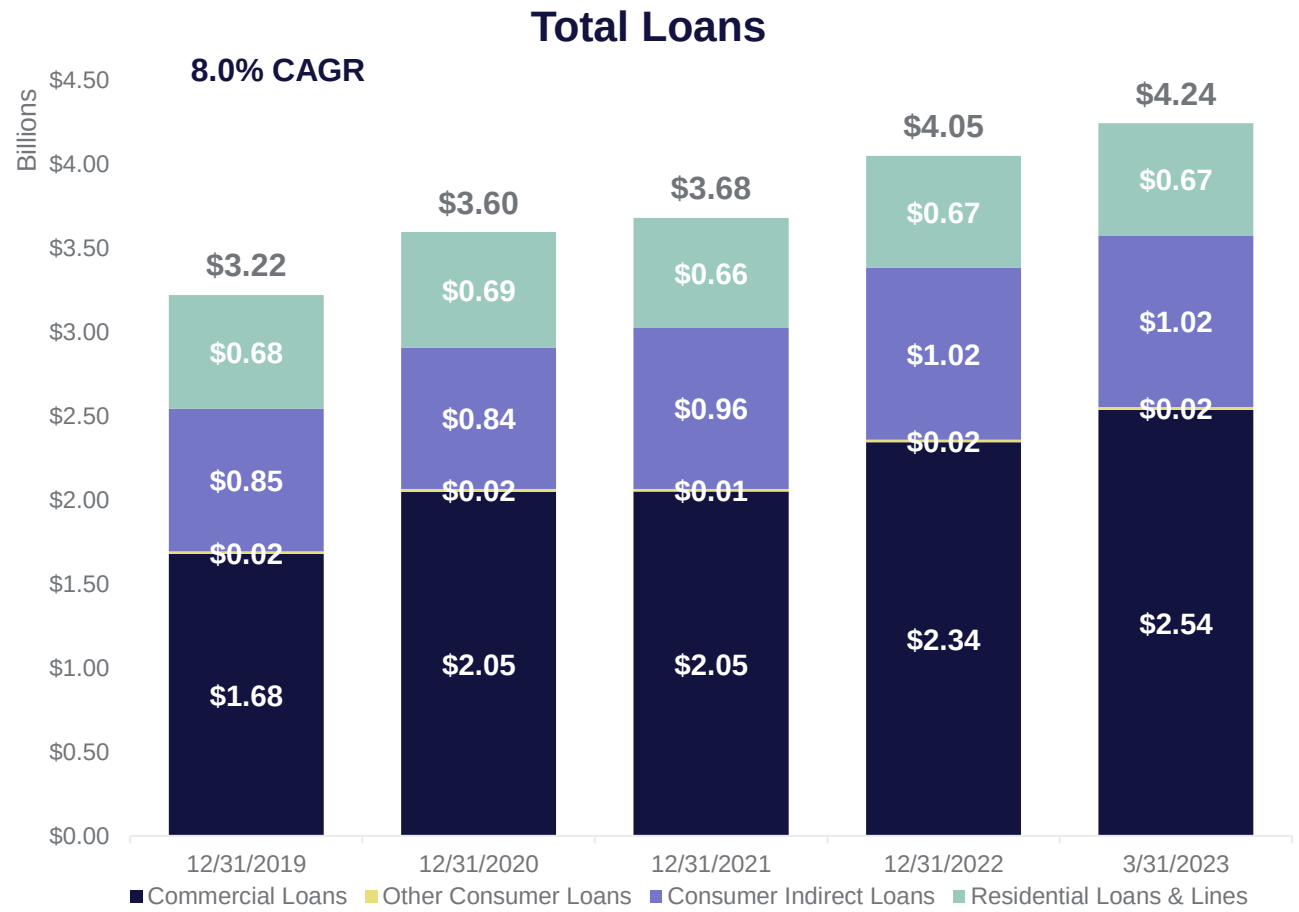
Organic Loan Growth

$4.2B of total loans at March 31, 2023 and average yield of 5.6% for the quarter

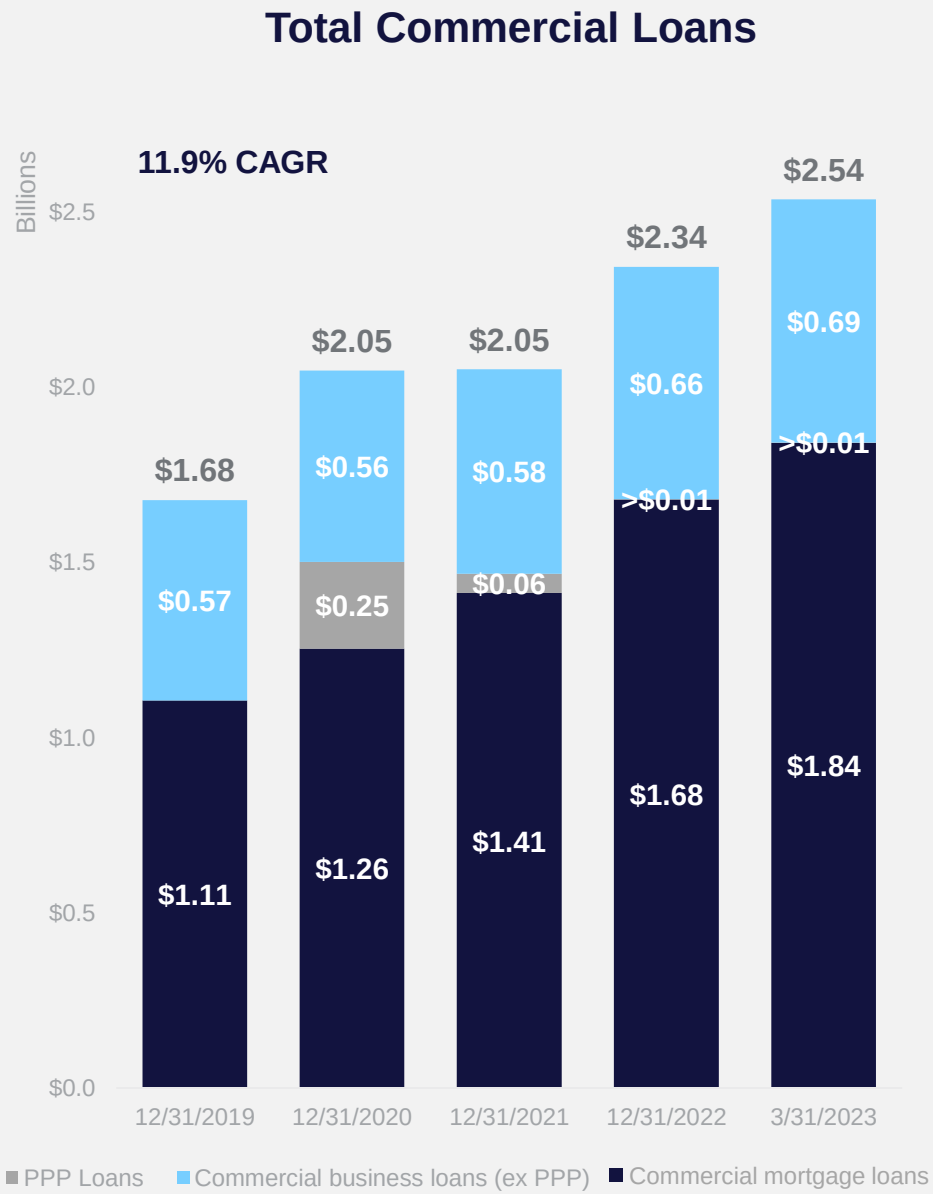
Total loans have increased $192.9M, or 4.8%, from year-end 2022



Commercial Lending

Balances of $2.54B at March 31, 2023

- Commercial loans totaled $2.54B at March 31, 2023, an increase of $192.5M, or 8.2%, from December 31, 2022 and an increase of $476.7M, or 23.1%, from March 31, 2022
- Commercial loans made up 60% of total loan portfolio at March 31, 2023 and is comprised of Commercial & Industrial (“C&I”), Commercial Real Estate (“CRE”) and Business Banking Unit (“BBU”)[1]
  - C&I makes up 31% of commercial loans and 19% of total loans
  - CRE makes up 64% of commercial loans and 38% of total loans
  - BBU makes up 5% of commercial loans and 3% of total loans



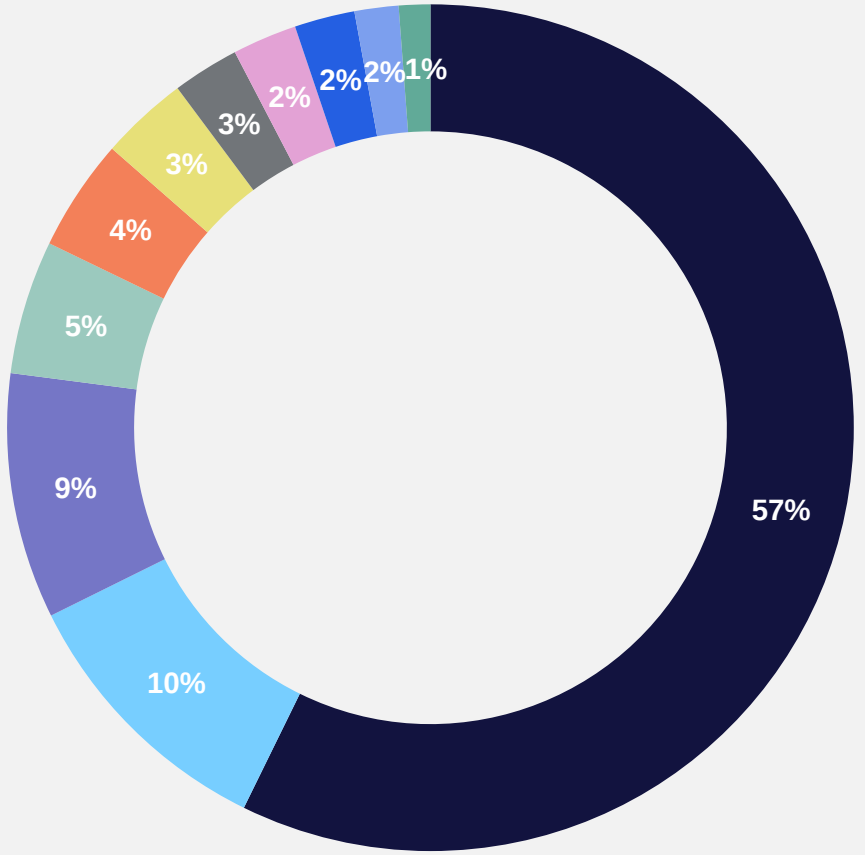
1 Business Banking Unit, or small business lending

Commercial Lending

Committed credit exposure of $3.42B at March 31, 2023

- The vast majority of the commercial loan portfolio is within the Bank's footprint, which now includes an office in Baltimore, MD, following the Company's entry into the Mid-Atlantic region in 1Q'22
- The Bank again expanded its commercial and industrial lending in 1Q'23 with an additional office in Syracuse, NY, serving the Central New York Region
- Disciplined approach to credit and risk management supports strong asset quality metrics, including annualized net recoveries to average commercial loans of just 2 bps in Q1'23

Overall Commercial Portfolio Exposure Mix

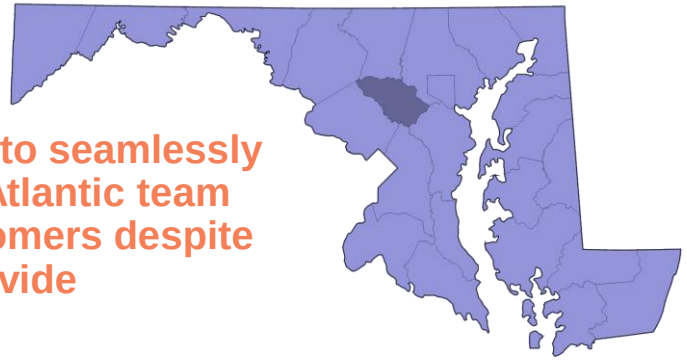


Strong Mid-Atlantic Performance & Opportunity

Launched commercial lending platform serving Mid-Atlantic Region of Baltimore/D.C. in 1Q'22

- Loan production office opened in Baltimore suburb of Ellicott City
  - Consolidation in the market allowed us to add a four-person team and capitalize on opportunities where a community banking approach provides a competitive advantage
- This Mid-Atlantic team is building relationships with very high-quality sponsors
  - Substantially tied to stabilized and mature mortgages with some construction lending
  - Majority of loans are for office space in the Washington, D.C. metro area, primarily located in heavy traffic areas near hospitals with fair amount of medical leasing and high occupancy level
  - Strong pipeline, meaningfully contributing to Five Star's overall commercial lending pipeline

Leveraging technology to seamlessly collaborate with Mid-Atlantic team and onboard new customers despite geographic divide



~$197M
in outstandings

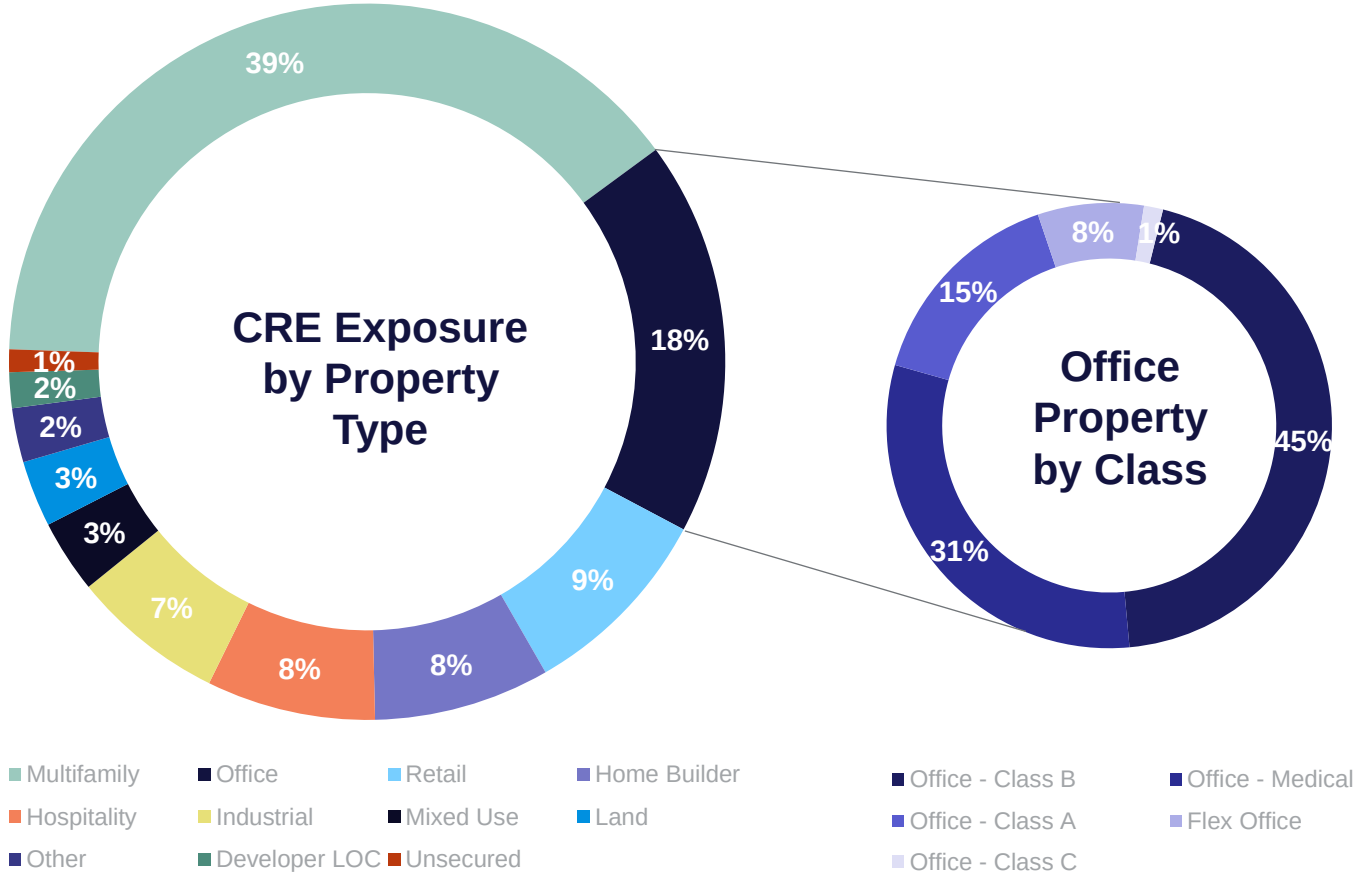
~45%
low average LTV

Note: Information on this slide is as of March 31, 2023 unless noted otherwise

Commercial Real Estate

Outstanding balances of $1.63B and committed credit exposure of $2.07B as of March 31, 2023

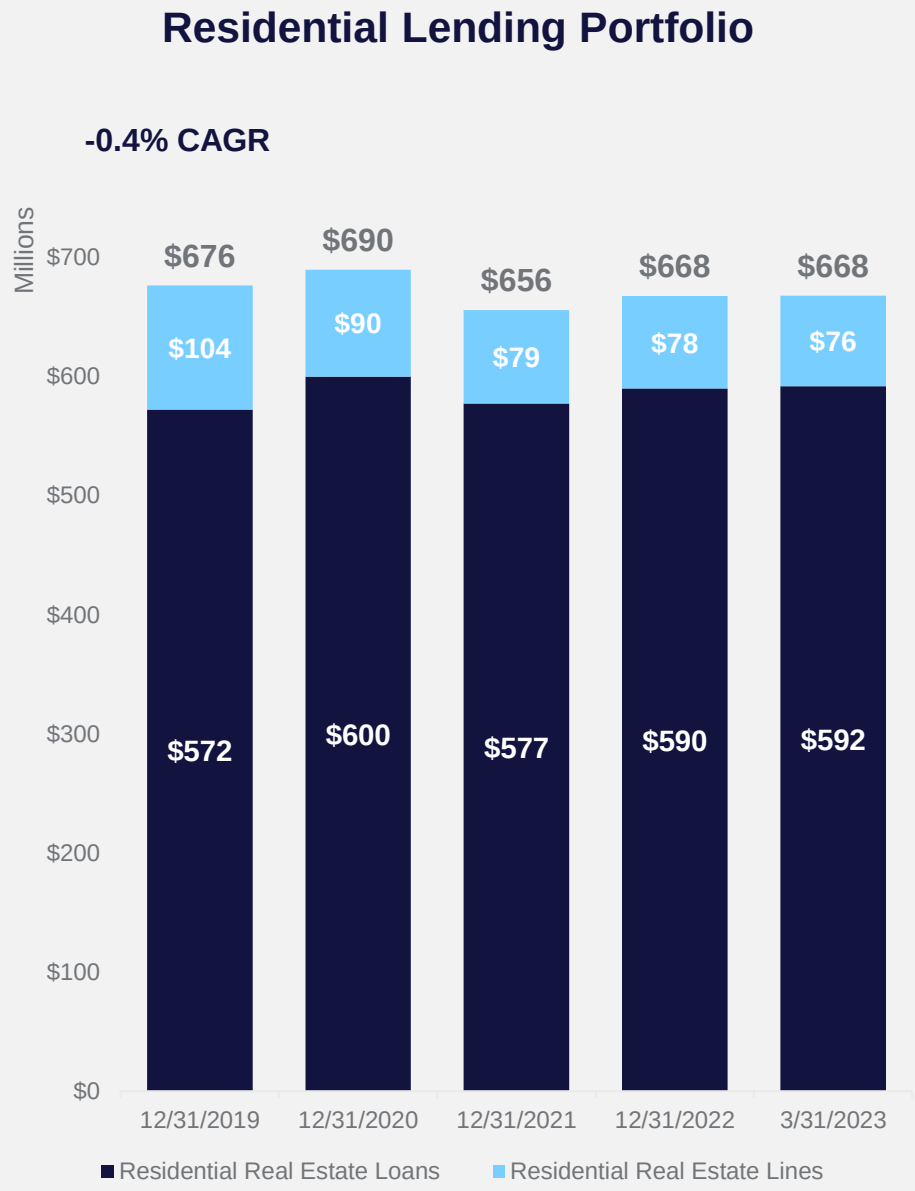
- Well diversified, with more than 700 loan facilities consolidated into approximately 300 separate lending relationships
  - Average loans size of $2.8M
  - 74% of CRE clients have loan relationships <$10M
- Growth achieved without compromising strong credit culture
  - Portfolio factors in loan rollover risk, with 15.5% of exposure scheduled to mature within next 12-months and another 14% within 24 months
  - More than 92% of CRE loans have full or limited personal or corporate recourse, providing comfort with loan rollover risk
  - Average LTV of 55%



Residential Real Estate

$667.9M portfolio at March 31, 2023

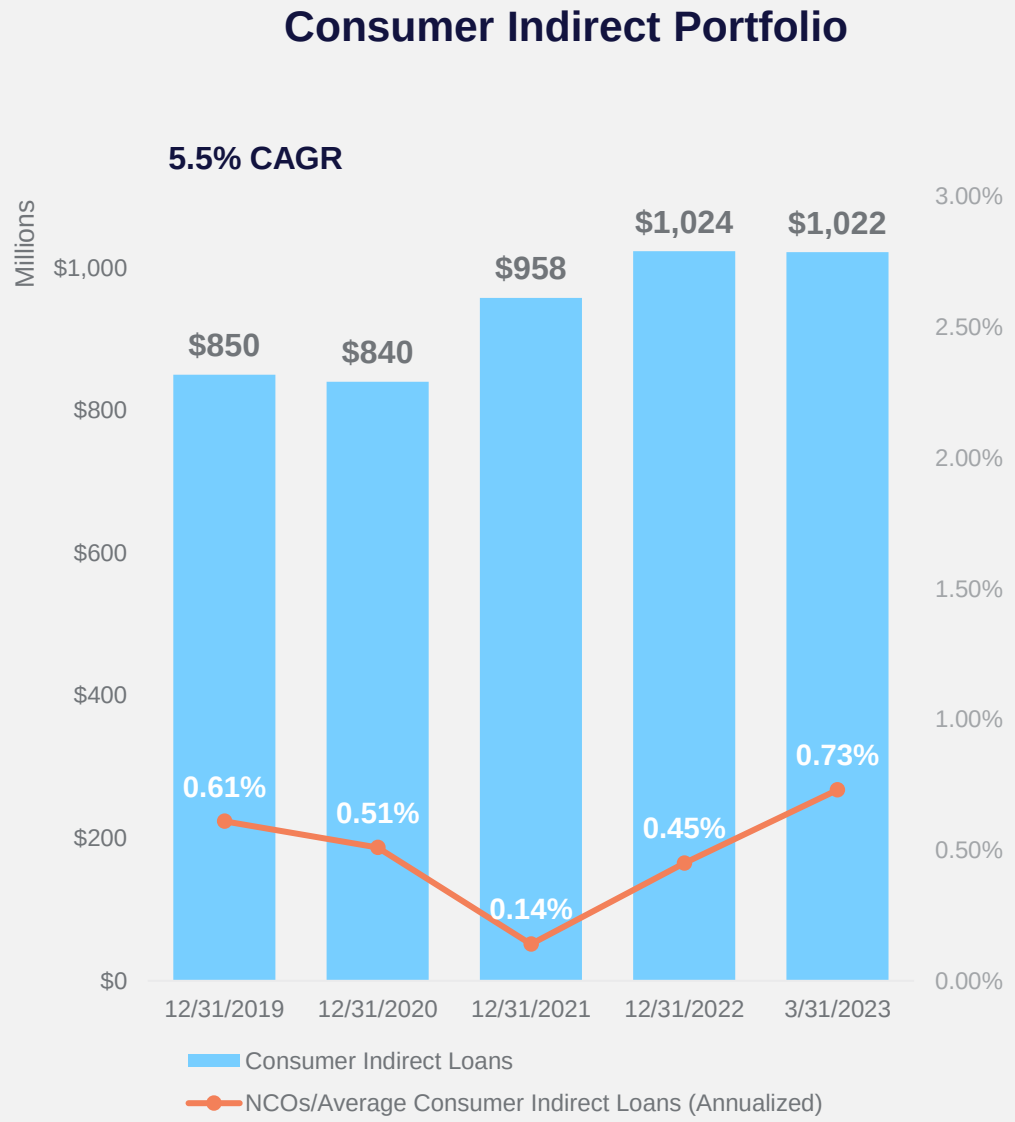
- Residential portfolio was flat compared to the previous quarter and up $16.2M, or 2.5%, year-over-year
- High quality portfolio in stable Upstate New York market
  - As of quarter-end, our residential real estate loans had a weighted average FICO score of 738 at origination and an average balance of $87,078, while our home equity lines of credit, or HELOCs, had an average score of 769 and average balance of $21,620
- Full product menu featuring competitive portfolio and saleable products including government loan programs
- In-market originations through mortgage loan originators and Five Star Bank branch network



Indirect Auto Remains Core Competency

$1.02B portfolio at March 31, 2023

- Consumer indirect portfolio was relatively flat with the linked quarter and up $14.8M, or 1.4%, or from March 31, 2022
- Prime lending operation with average portfolio FICO score of ~714
- Strong network of ~470 franchised new auto dealers
- Relatively short duration averaging ~3.3 years and natural risk dispersion due to small loan size
  - Average loan balance of $20,957
- Demonstrated track record of consistent performance through economic expansions, recessions and stagnation
  - Annual charge-offs ranged 0.51% to 0.87% for 2008 through 2020, were exceptionally low in 2021 at 0.14%
  - Net charge off levels have normalized and remain within our historical range



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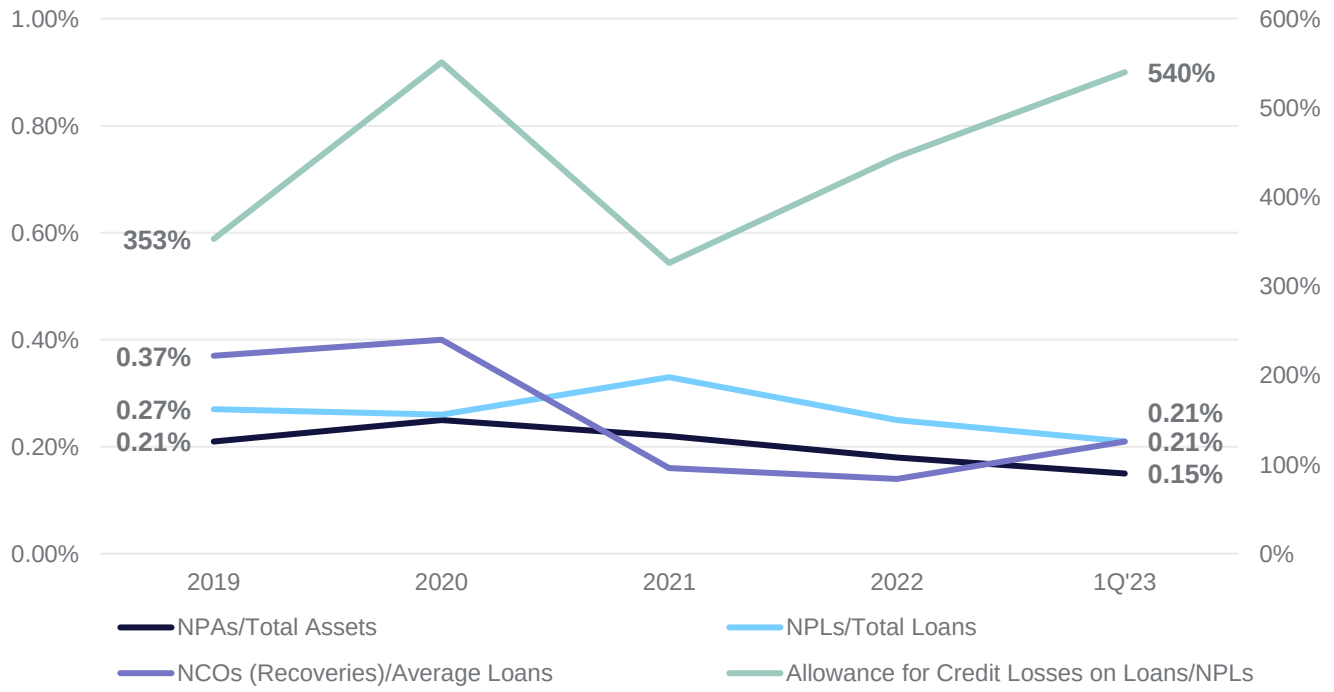
Solid Asset Quality

Disciplined credit culture supports consistently strong asset quality metrics

- Thorough credit review exercise undertaken at the outset of COVID-19 pandemic reinforced confidence in health of loan portfolio
  - During 2Q'22, COVID-19 at-risk pool was eliminated, and all credits now monitored as part of standard loan monitoring process.
- Consumer indirect NCOs returning to pre-pandemic historical range

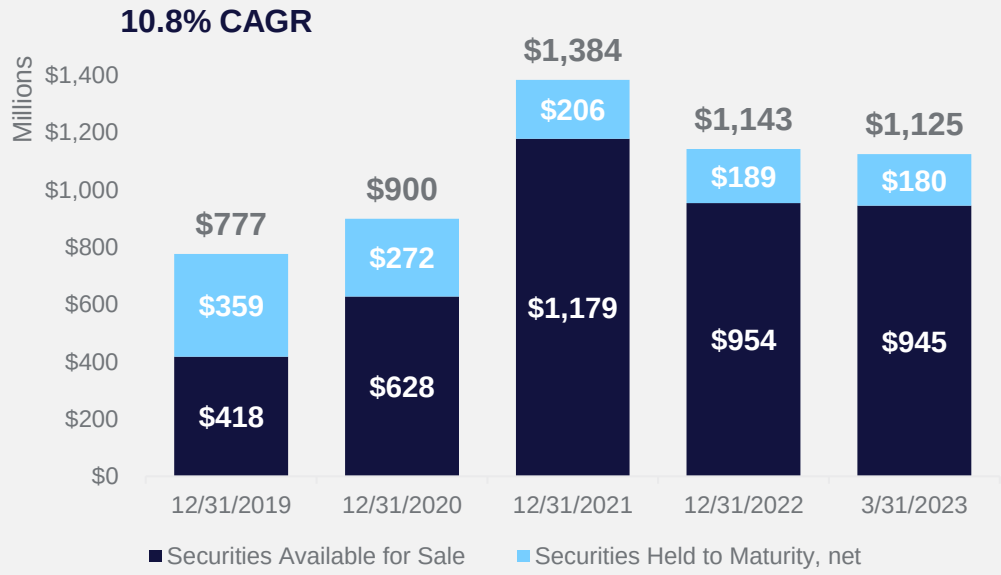


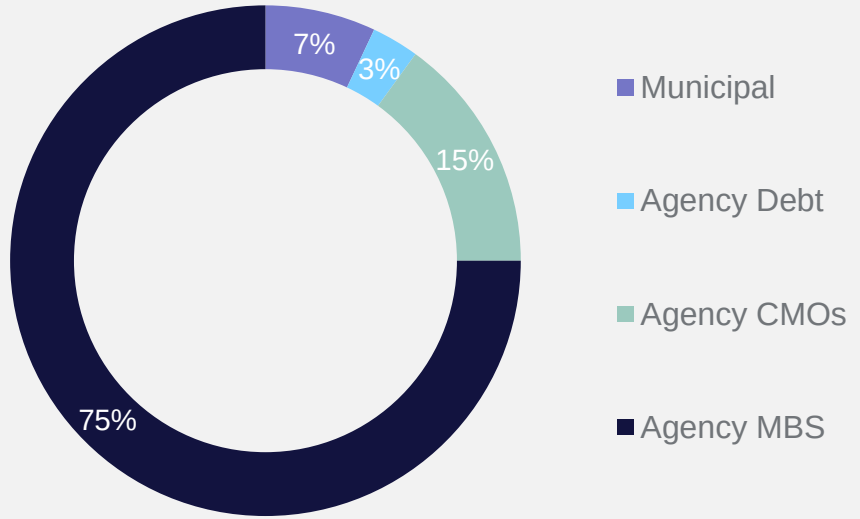
[1] Non-performing assets, or NPAs, include nonaccrual loans, loans past due 90 days or more and still accruing, and foreclosed assets

Securities Portfolio

$1.13B at March 31, 2023

- Primarily comprised of agency wrapped mortgage-backed securities with intermediate durations, which provide ongoing cash-flow, coupled with investment grade municipal bonds that are classified as held-to-maturity.
  - Average yield on a tax equivalent basis for Q1’23 was 1.90%.
- Cash flow from the securities portfolio allows for reinvestment into loans or additional investment securities.
  - Principal cash flow of ~$140.5M expected over next 12 months.





Note: Shown as a percentage of amortized cost basis

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Deposit Growth

Low-cost deposits from rural markets fund higher growth in metro markets

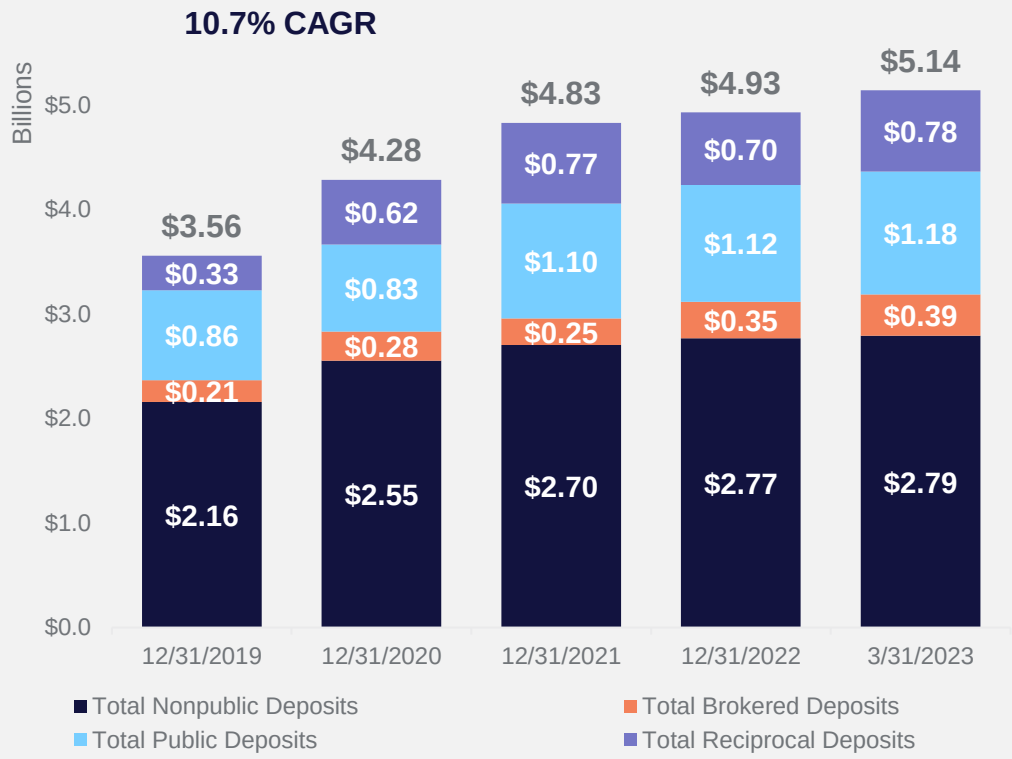
- Granularity of community banking franchise benefits deposit portfolio.
  - Average deposit balances per branch of ~$79M, excluding reciprocal and brokered deposits.
- Offering a variety of public (municipal) deposit products to the towns, villages, counties and school districts providing seasonal, low-cost funding source
  - Public deposit balances represented 23% of total deposits at March 31, 2023, 23% at December 31, 2022, and 26% at March 31, 2022.
- Given the interest rate environment, we continue to see disintermediation from core transaction type accounts to time deposits in both our nonpublic and public deposit portfolios.
  - Time deposits made up 29% of total deposits at quarter-end

319

municipal customers as of MRQ-end

1.84%

YTD cost of deposits



Liquidity

Diverse deposit gathering capabilities and eligible collateral support a robust liquidity position

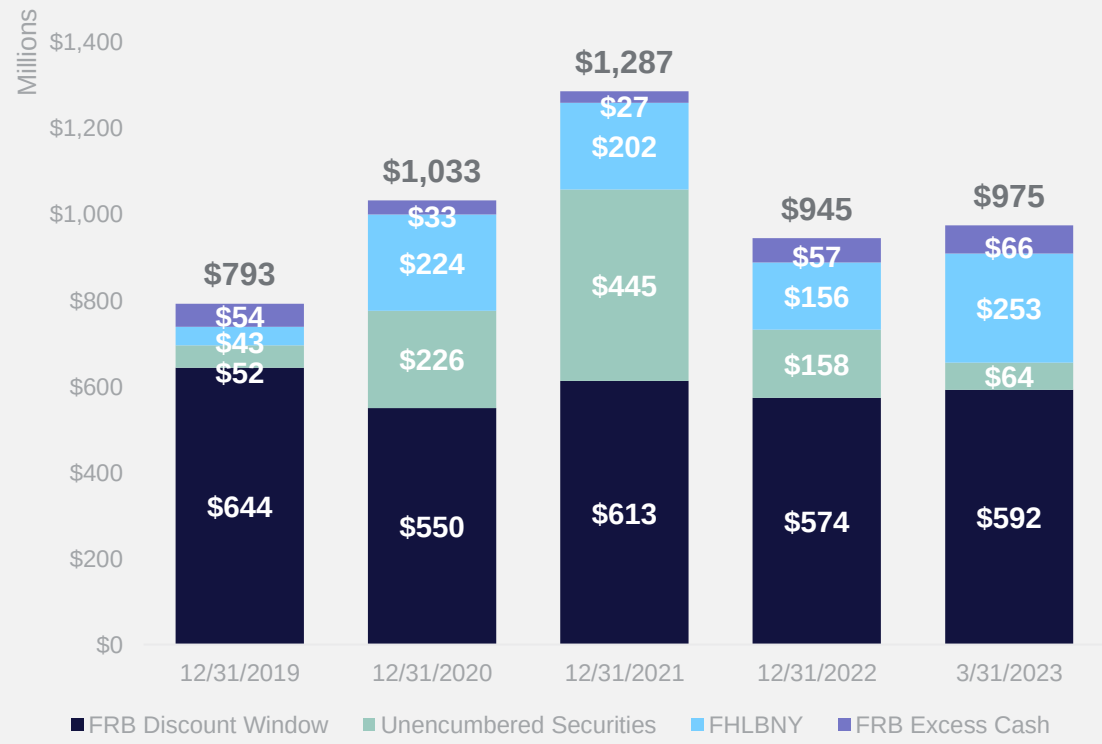
- 1Q'23 available committed liquidity remains strong, as supported through unencumbered collateral in the securities portfolio, borrowing capacity at the FHLB, access to brokered deposits and tertiary liquidity via the FRB discount window, which totaled approximately $1.2B.
- The decrease in unencumbered securities is reflective of a seasonal increase in public deposits, requiring collateralization and principal portfolio cash flow.
- Further, approximately uninsured retail deposits make up ~14% of our total deposits, when considering the secured nature of our public and reciprocal portfolios, which typically have larger balances.

4.2%

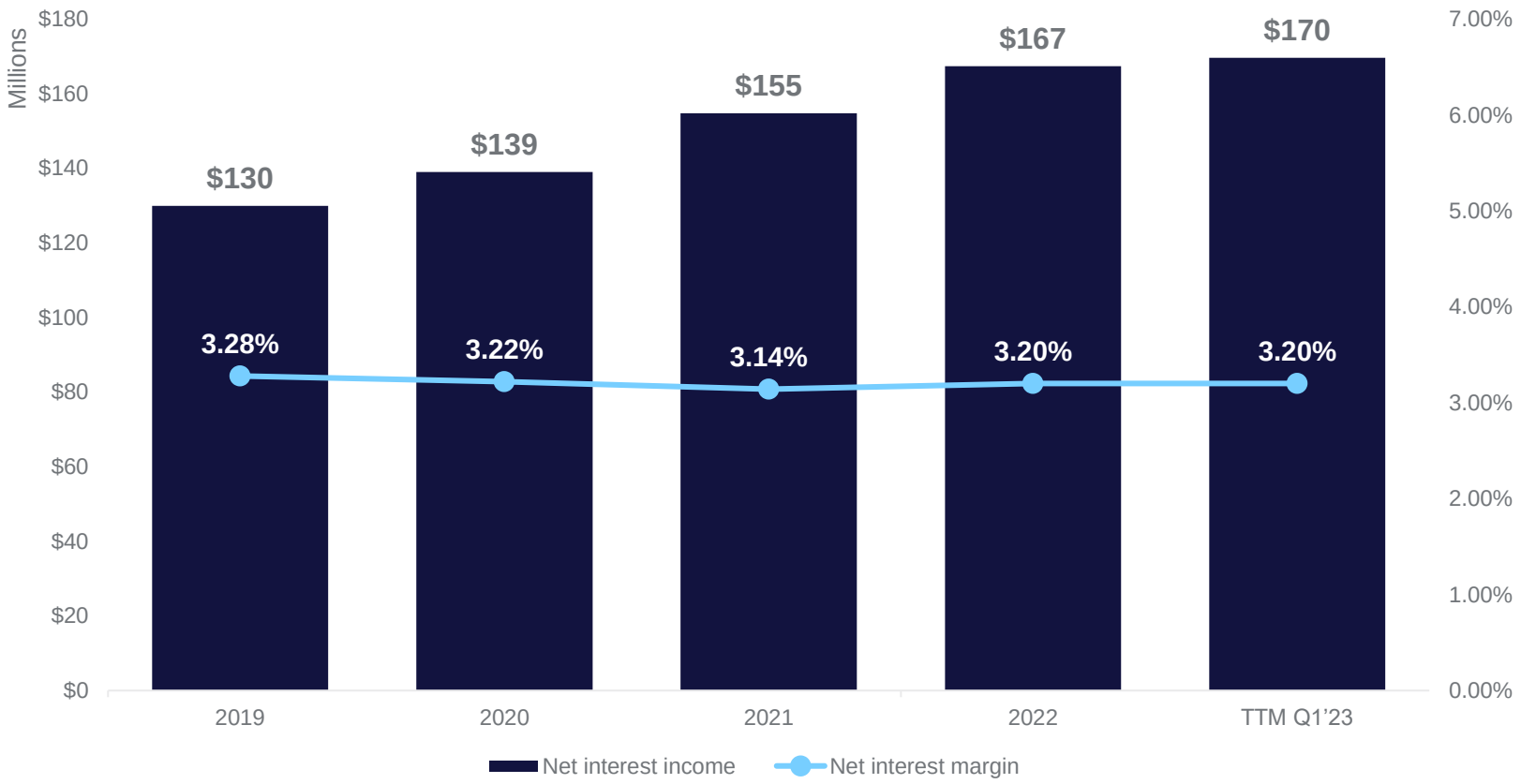
year-over-year increase in non-public deposits

82.5%

Loan to deposit ratio



Net Interest Income & Margin



- Net interest income of $41.8M decreased $1.3M, or 3.1%, from the previous quarter and increased $2.3M, or 5.7%, from the year-ago quarter
- Net interest margin of 3.09% for the current quarter was 14 bps lower than the previous quarter and 2 bps lower than prior year quarter
  - This is primarily a result of a shift in mix from lower cost transactional deposit accounts to higher cost time, as well as seasonality and repricing within the Bank's public deposit portfolio.

Growing Noninterest Income

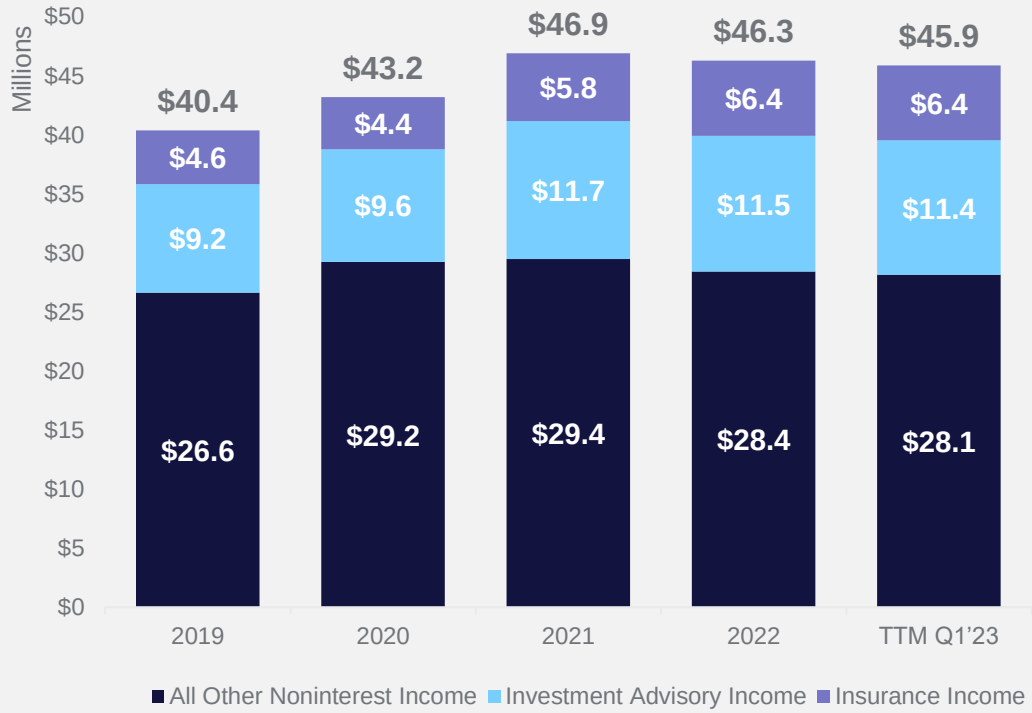
- **Insurance services provided through SDN Insurance Agency, LLC**
  - Acquired initial business in 2014 and further enhanced capabilities and reach through two bolt-on acquisitions in 2021
  - Full-service agency offering commercial and personal insurance, as well as employee benefits
  - Boutique offerings with national reach for select segments
  - Exclusive broker for allied health professionals, serving >2,000 chiropractors, acupuncturists and naturopaths across 46 states
- **Wealth management provided by Courier Capital, LLC and HNP Capital, LLC**
  - Since entering the investment advisory space in 2016 with the acquisition of Courier Capital, completed two additional wealth management acquisitions in 2017 and 2018
  - Provide customized investment management, retirement planning, and consulting services for individuals, businesses, institutions, and foundations

21%

of TTM revenue from non-interest income

6

financial services acquisitions since 2014



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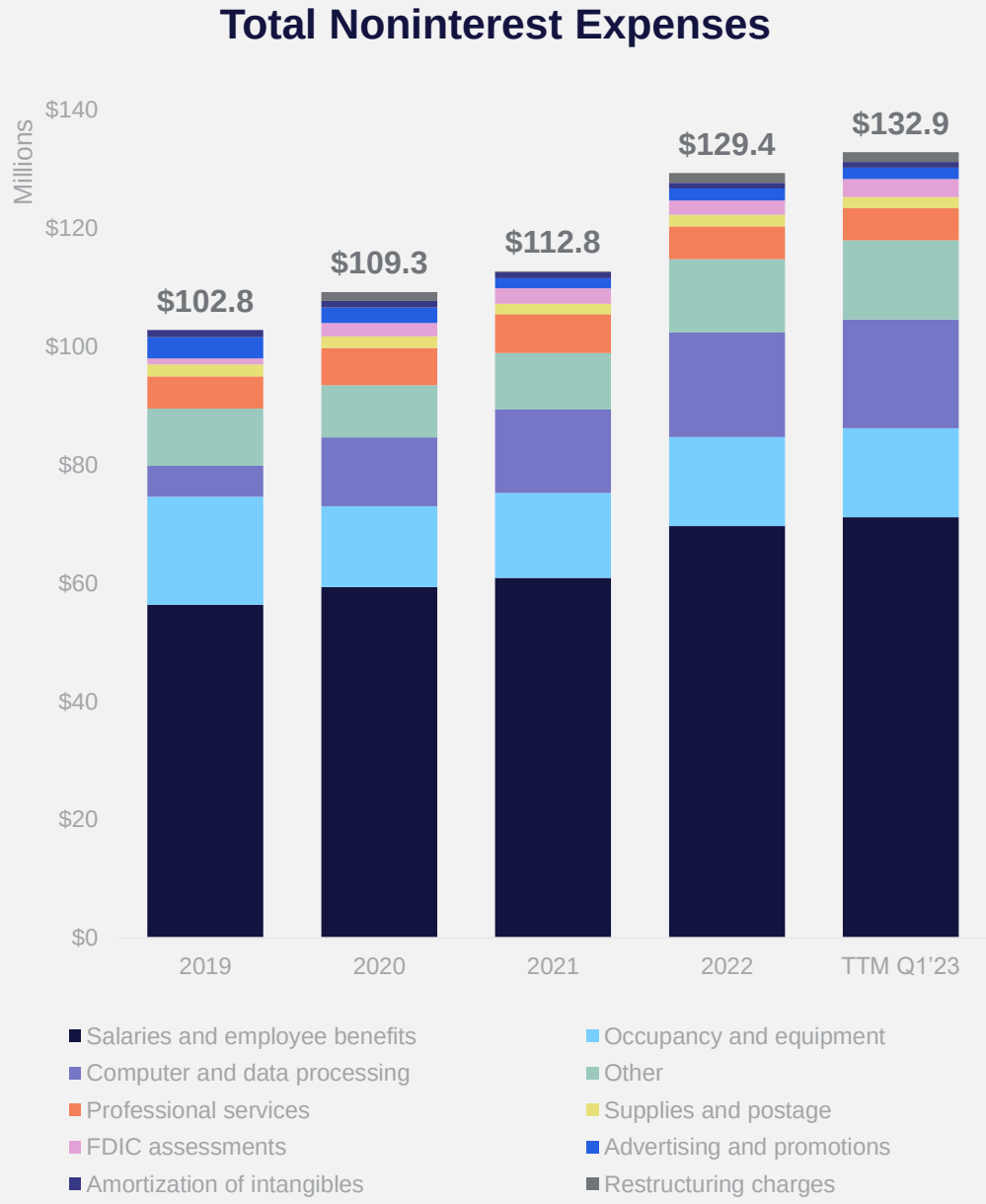
Financial Institutions, Inc.

Strategic Investments Expected to Drive Operating Leverage

- Noninterest expense increased $3.5M, or 11.7%, from 1Q'22 and $0.1M, or 0.4%, from 4Q'22
  - The YoY increase was primarily due to higher salaries and employee benefits (variance of $1.5M) and other expense ($1.0M) between periods
- 2022 expenses included investments in strategic initiatives that we believe will support improved operating leverage over the coming years
- Investments were primarily related to enhancing our customer relationship management solution, digital banking and BaaS
- First quarter 2023 efficiency ratio[1] of 63.68%



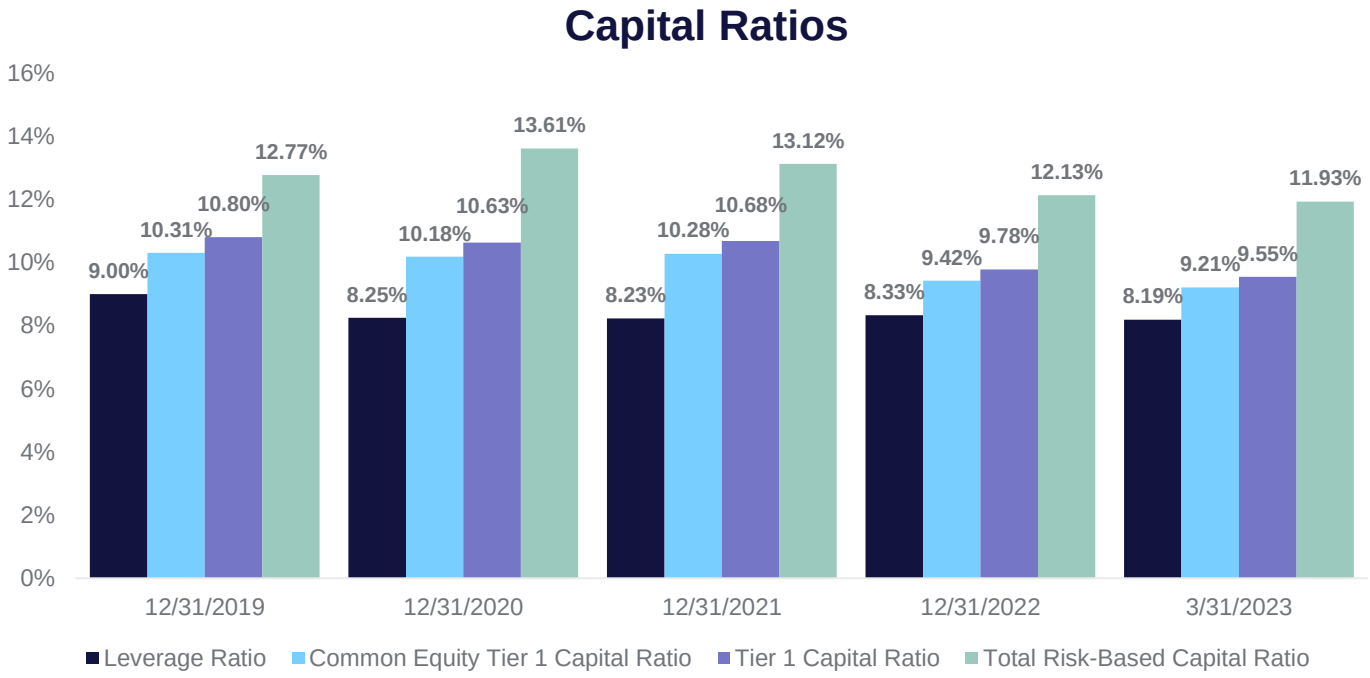
[1] Efficiency ratio is calculated by dividing noninterest expense by net revenue, i.e., the sum of net interest income (fully taxable equivalent) and noninterest income before net gains on investment securities. This is a banking industry measure not required by GAAP.

Financial Institutions, Inc.

Well-Capitalized

Exceeding well-capitalized regulatory thresholds and well-positioned to support future loan growth

Longstanding commitment to rewarding shareholders through meaningful dividend yield
29-year history of cash dividend, with annual increases in each of last 13 years



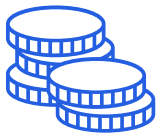
Capital Ratio	As of March 31, 2022	Well-Capitalized Threshold
Leverage ratio	8.19%	5.00%
Common equity tier 1 capital ratio	9.21%	6.50%
Tier 1 capital ratio	9.55%	8.00%
Total risk-based capital ratio	11.93%	10.00%

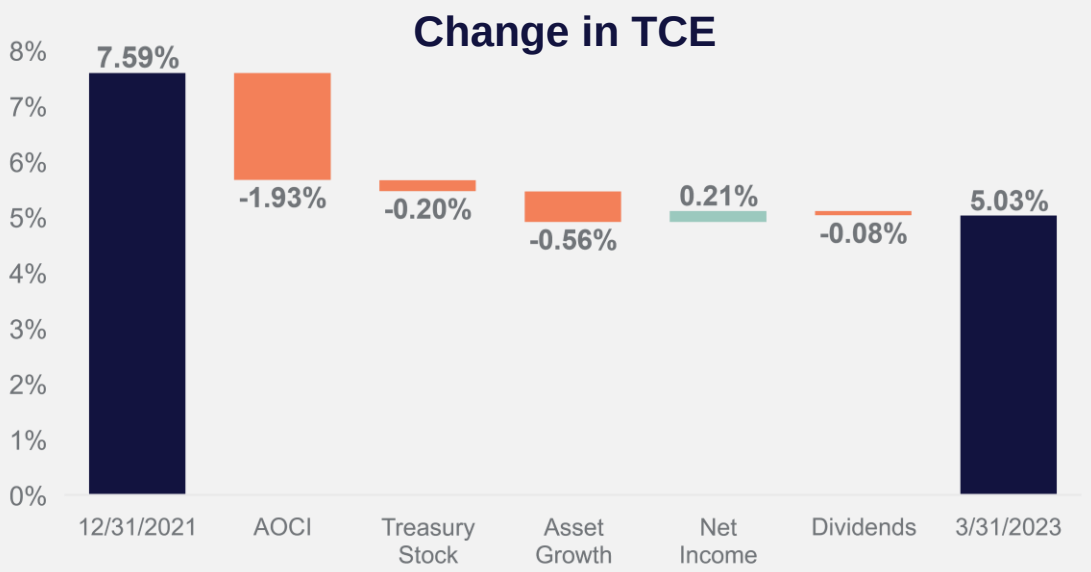
AOCI Impact on TCE & TCBV[1]

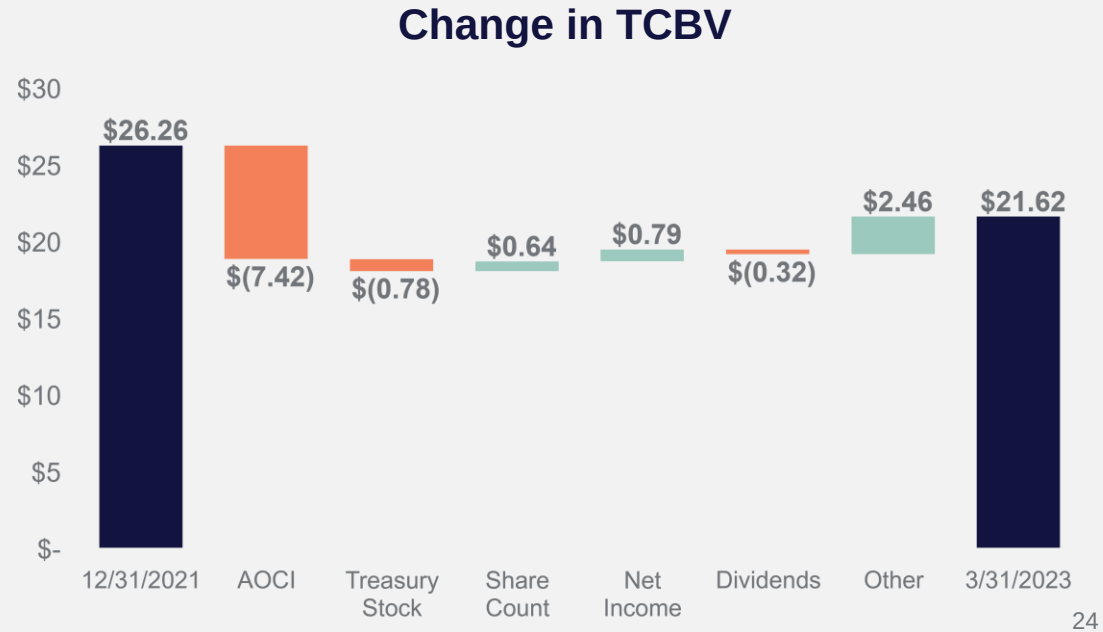
Unrealized losses believed to be temporary in nature

- AOCI losses are believed to be temporary in nature, as they are associated with the increase in interest rates which has resulted in an increase in the unrealized loss position of the available for sale securities portfolio.
- We expect these metrics to return to more normalized levels over time given the high quality of our investment portfolio.
- Excluding the AOCI impact, TCE ratio and tangible common book value per share would have been 6.95% and $29.04, respectively.

FISI believes a stock buyback program is an important part of the capital markets tool kit and announced a new stock repurchase program in June 2022 for up to ~5% of then outstanding common shares







[1] AOCI= Accumulated other comprehensive income (loss). TCE = Tangible common equity to tangible assets. TCBV = Tangible common book value per share. Please see Appendix for reconciliation of non-GAAP Financial measures for the computation of these non-GAAP measures.

FISI Presents a Compelling Valuation

Well-positioned for growth in 2023

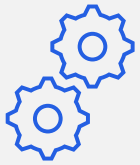
Investment Profile	As of March 31, 2023
Closing Price	$19.28
52-week High	$30.67
52-week Low	$18.35
Common Shares Outstanding	15.4M
Market Capitalization	$296.4M
Price/LTM EPS	5.4x
Price/NTM Consensus EPS	5.8x
Price/Book	76%
Float	97.64%
Average Daily Volume (3 mos.)	~46,000
Annualized Dividend per Share	$1.20
Dividend Yield	6.31%
Common Dividend Payout Ratio	39.47%



Results-driven community bank with strong retail and commercial franchises



Disciplined credit culture with strong credit quality



Fee-based businesses diversify revenue and complement core banking franchise



Complementary fintech and digital partnerships driving exceptional digital experiences



Appendix

Management Team	28
Strategy Map	29
Non-GAAP Reconciliation	30

Thank you for your interest in Financial Institutions, Inc.

NASDAQ: FISI

Investor Relations Contacts

Kate Croft
Director of Investor and External Relations

Jack Plants
Chief Financial Officer & Corporate Treasurer

FISI-Investors@five-starbank.com

Learn more at www.FISI-Investors.com

Management Team

Experienced management team with extensive market knowledge and industry experience



Martin K. Birmingham
President & Chief Executive Officer



Justin K. Bigham
EVP, Chief Community Banking Officer



Samuel J. Burruano Jr.
EVP, Chief Legal Officer & Corporate Secretary



W. Jack Plants II
EVP, Chief Financial Officer & Treasurer



Sean M. Willett
EVP, Chief Administrative Officer



Laurie R. Collins
SVP, Chief Human Resources Officer



Gary A. Pacos
SVP, Chief Risk Officer



Kevin B. Quinn
SVP, Chief Commercial Banking Officer

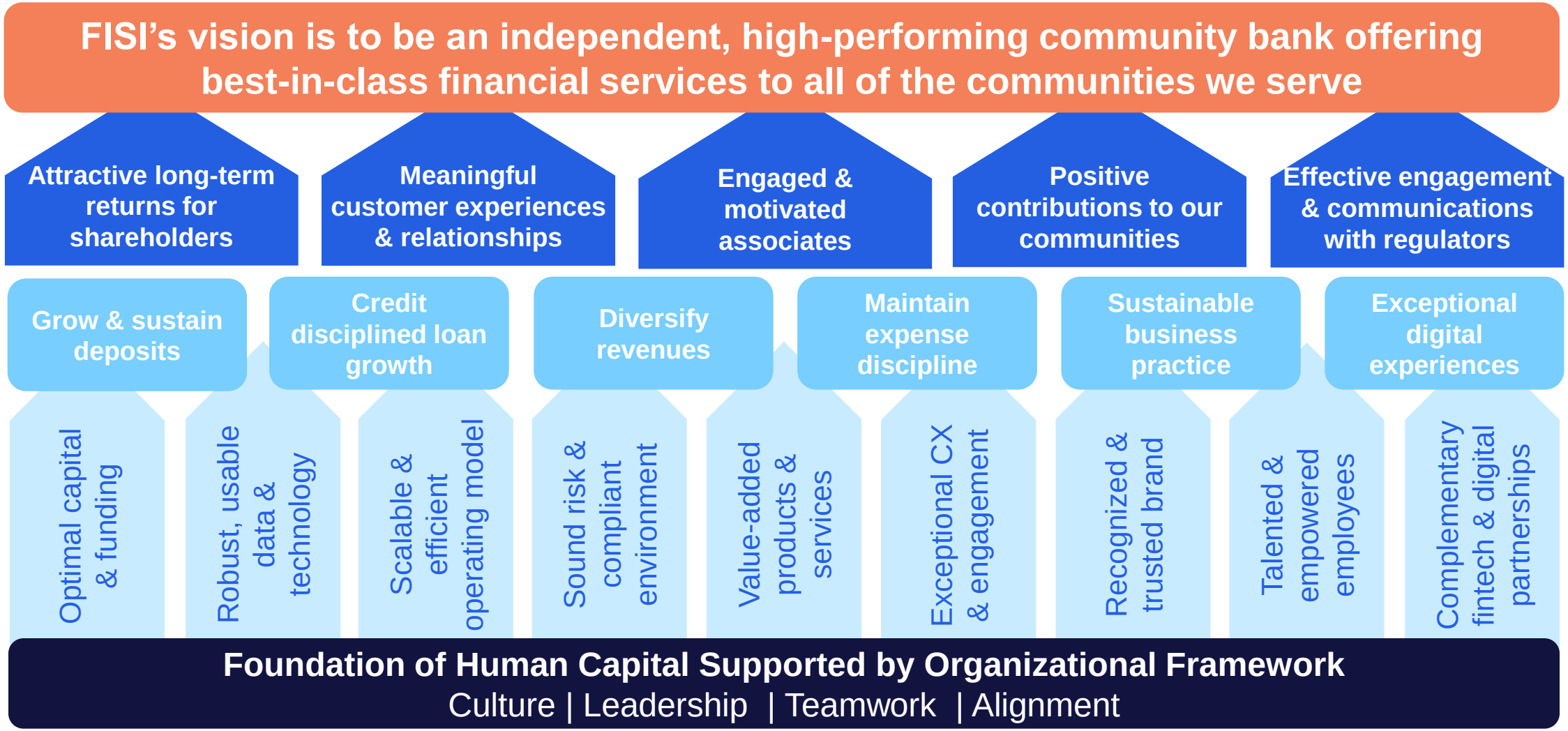
Optimized leadership & organizational structure

Core functional areas of Community Banking, Finance, Administrative, Risk, Commercial Banking, Legal and HR aligned to report directly to CEO

160+ years

Collective financial services experience

Strategy Map



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.

$ in thousands, except per share data	12/31/2021	3/31/2023
Computation of ending tangible common equity:		
Common shareholders' equity	$ 487,850	$ 405,531
Less: Goodwill and other intangible assets, net	74,400	73,180
Tangible common equity	413,450	332,351
Computation of ending tangible assets:		
Total assets	$ 5,520,779	$ 5,966,992
Less: Goodwill and other intangible assets, net	74,400	73,180
Tangible assets	5,446,379	5,893,812
Tangible common equity to tangible assets[1]	7.59%	5.64%
Common shares outstanding	15,745	15,375
Tangible common book value per share[2]	$ 20.26	$ 21.62

[1] Tangible common equity divided by tangible assets.
[2] Tangible common equity divided by common shares outstanding.
Source: Company filings

Non-GAAP Reconciliation Continued

$ in thousands	3/31/2022	6/30/2022	Quarter ended 9/30/2022	12/31/2022	3/31/2023
Pre-tax pre-provision income:					
Net income	$14,983	$15,648	$13,854	$12,088	**$12,089**
Add: Income tax expense	3,443	3,859	4,725	2,370	**2,775**
Add: Provision (benefit) for credit losses	2,319	563	4,314	6,115	**4,214**
Pre-tax pre-provision income	20,745	20,070	22,893	20,573	**19,078**
Add: Restructuring charges	-	1,269	-	350	**-**
Less: Enhancement from COLI surrender and redeployment	-	-	(1,997)	-	**-**
Adjusted pre-tax pre-provision income	20,745	21,339	20,896	20,923	**19,078**
Less: PPP accretion interest income and fees	(1,072)	(809)	(312)	(78)	**(8)**
Pre-PPP adjusted pre-tax pre-provision income	19,673	20,530	20,584	20,845	**19,070**

Source: Company filings