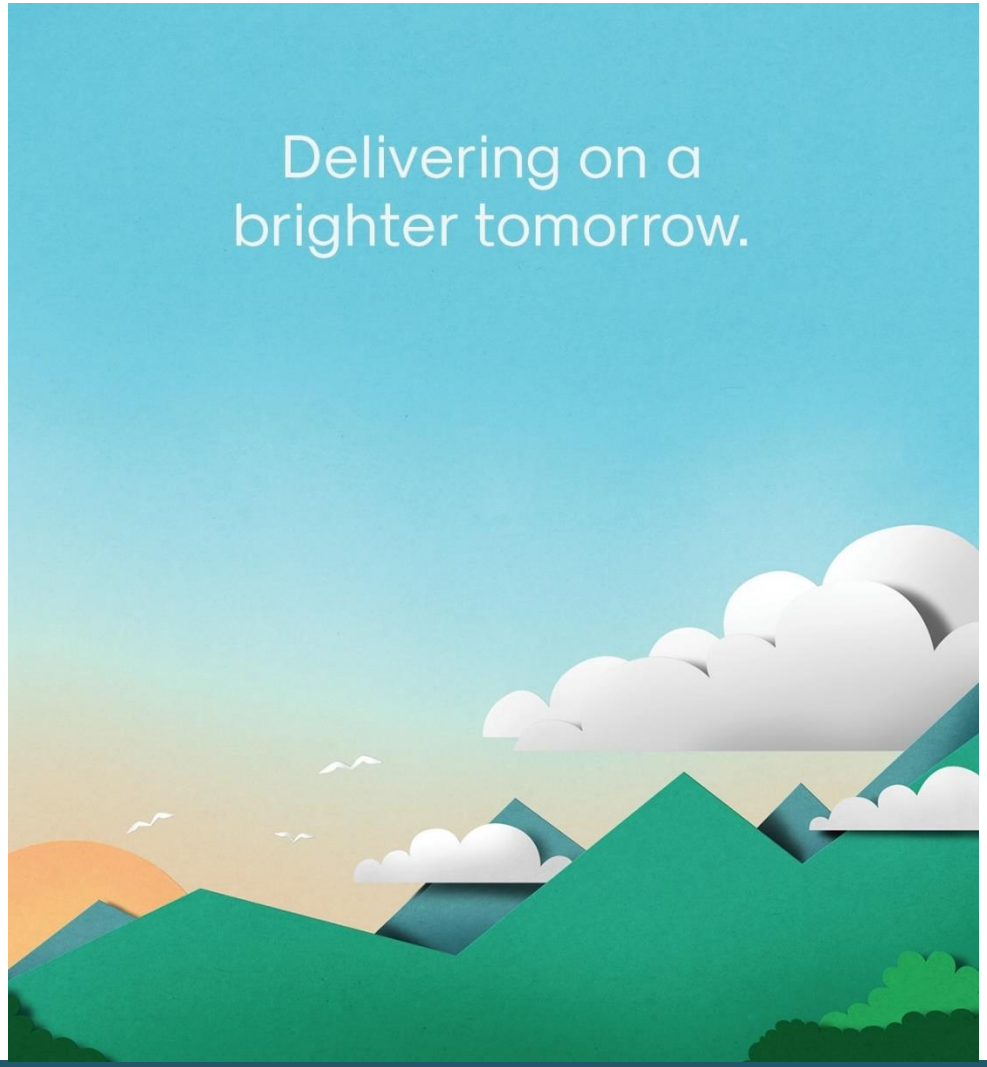


FINANCIAL INSTITUTIONS, INC. (Nasdaq: FISI)
Second Quarter 2020 Earnings Presentation
July 29, 2020

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

Key Statistics as of June 30, 2020

Assets:	$4.7 billion
Loans:	$3.5 billion
Deposits:	$4.0 billion
Shareholders' Equity:	$448.0 million
NPAs(1)/Total Assets:	0.30%
Employees:	~ 700
ROACE (TTM):	8.72%
ROATCE(2) (TTM):	10.61%
ROAA (TTM):	0.87%
Annualized Dividend Per Share:	$1.04
Closing Stock Price Per Share:	$18.61
Dividend Yield:	5.59%
Market Capitalization:	$298.5 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 Key Statistics[1]

- Diluted earnings per share was $0.67 as compared to $0.69 in 2019
- Pre-tax pre-provision income[2] was $17.3 million as compared to $16.7 million in 2019
- Net interest income of $34.2 million was $1.7 million, or 5.3%, higher than the second quarter of 2019
- Worked with 1,700 small businesses to close $270 million of Small Business Administration Payroll Protection Program ("PPP") loans, helping to preserve 18,000 jobs in our markets
- Net interest margin ("NIM") of 3.23% was five basis points lower, primarily as a result of lower yielding PPP loans originated during the quarter
- Common book value per share increased 6.1% from June 30, 2019
  - Tangible common book value per share [2] increased 7.9% from June 30, 2019
- Tangible common equity to tangible assets[2], or TCE ratio, was 7.74% at quarter-end – three basis point decline from the prior year was the result of PPP loans originated during the quarter

(1) As compared to second quarter 2019
(2) Refer to "Non-GAAP Reconciliation" in Appendix

Second Quarter 2020

Results Summary

	2Q'19	1Q'20	**2Q'20**
Net interest income	$32.5	$33.1	**$34.2**
Noninterest income	9.2	10.0	9.8
Noninterest expense	(25.0)	(27.7)	(26.7)
Income tax expense	(2.9)	(0.4)	(2.5)
Preferred stock dividend	(0.4)	(0.3)	(0.3)
Net income available to common shareholders	$11.0	$0.8	$10.8
EPS diluted	$0.69	$0.05	$0.67
Return on average assets	1.06%	0.10%	0.97%
Return on average common equity	11.12%	0.72%	**10.11%**
Return on average tangible common equity[1]	13.73%	0.88%	**12.25%**
Net interest margin	3.28%	3.31%	**3.23%**
Efficiency ratio[2]	59.79%	64.31%	**61.26%**
Dividends per share	$0.25	$0.26	$0.26
Dividend yield (annualized)	3.44%	5.76%	**5.60%**

Commentary

- Net interest income increased $1.7MM from 2Q'19 and $1.1MM from 1Q'20 as a result of loan growth, largely driven by PPP loans (average balance of $177MM).
- Noninterest income increased $599K from 2Q'19 primarily due to higher income from derivative instruments ($2.0MM) and gain on investment securities ($508K) partially offset by lower service charges on deposits ($1.3MM) and lower income from investment in limited partnerships ($388K); and decreased $130K from 1Q'20 due to higher income from derivative instruments ($1.2MM) and gain on investment securities ($453K) partially offset by lower service charges on deposits ($1.1MM) and lower insurance income due to seasonality ($530K).
- Noninterest expense increased $1.7MM from 2Q'19 primarily due to higher salaries and benefits ($1.8MM) and professional services ($648K) partially offset by lower advertising ($541K) and other ($695K); and decreased $1.0MM from 1Q'20, primarily due to lower professional services ($572K) and other ($288K).
- Effective tax rate was 18.0% for 2Q'20 compared to 22.2% for 1Q'20 and 20.5% for 2Q'19

[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'19 – 2Q'20)

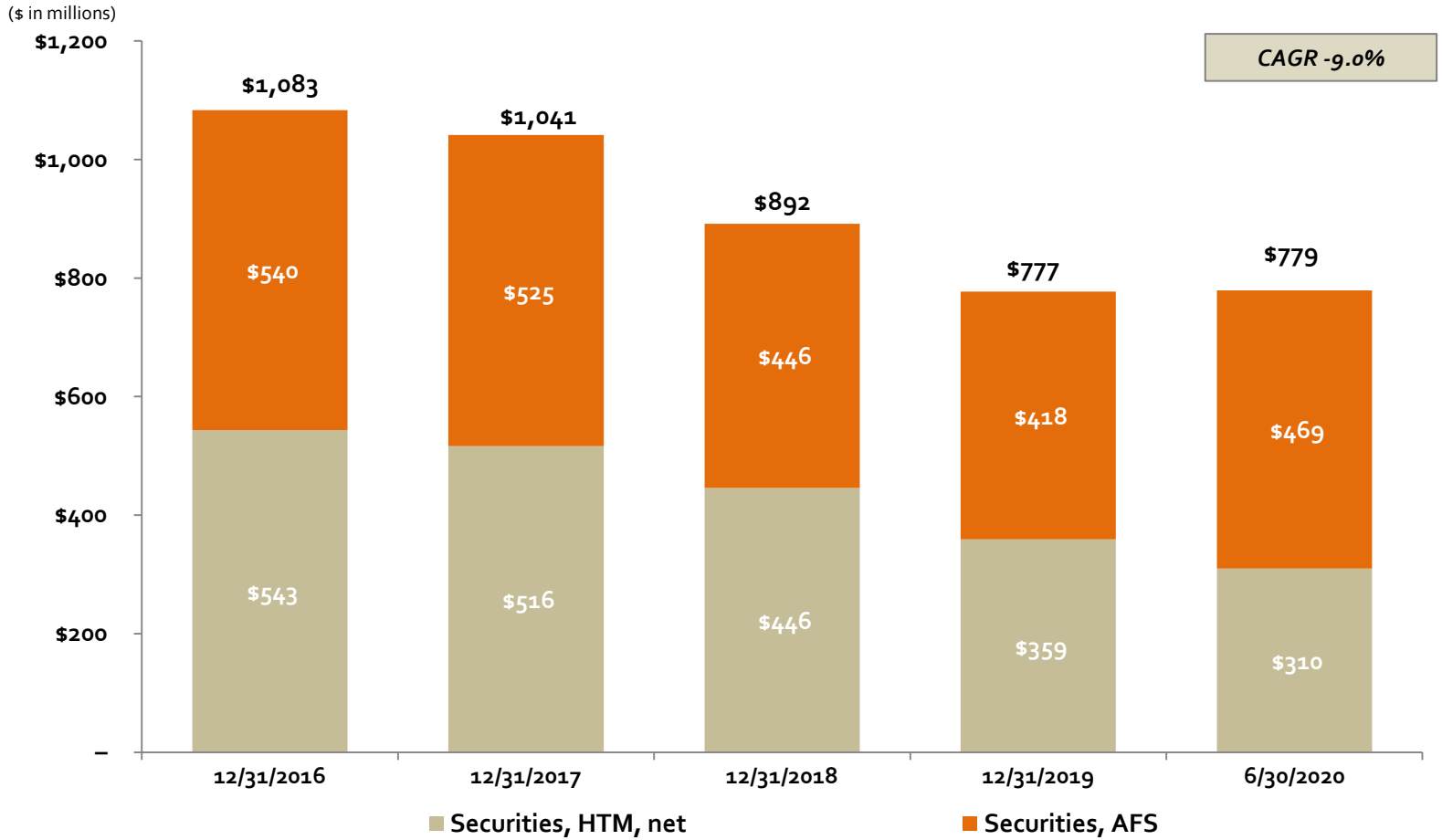
($ in millions, except per share amounts)

Earnings Summary	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20
Average interest-earning assets	$4,008	$3,959	$3,994	**$4,054**	**$4,274**
Net interest margin	3.28%	3.29%	3.33%	**3.31%**	**3.23%**
Net interest income	32.5	32.5	33.2	**33.1**	**34.2**
Noninterest income	9.2	12.3	9.7	**10.0**	**9.8**
Total revenue	**$41.7**	**$44.8**	**$42.9**	**$43.1**	**$44.0**
Noninterest expense	($25.0)	($25.9)	($26.8)	**($27.7)**	**($26.7)**
Pre-tax pre-provision income [1]	16.7	18.9	16.1	**15.4**	**17.3**
Provision for credit losses	(2.4)	(1.8)	(2.7)	**(13.9)**	**(3.7)**
Pre-tax net income	14.3	17.1	13.4	**1.5**	**13.6**
Income tax expense	(2.9)	(4.3)	(0.3)	**(0.4)**	**(2.5)**
Net income	**$11.4**	**$12.8**	**$13.1**	**$1.1**	**$11.1**
Preferred stock dividends	(0.4)	(0.3)	(0.4)	**(0.3)**	**(0.3)**
Net income available to common shareholders	**$11.0**	**$12.5**	**$12.7**	**$0.8**	**$10.8**
Earnings per share - diluted	$0.69	$0.78	$0.79	**$0.05**	**$0.67**
Weighted average common shares outstanding - diluted	16.0	16.1	16.1	**16.1**	**16.0**

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

Securities Portfolio

- The Company launched an initiative in 2018 to convert a portion of low-yield, low-risk weighted investment securities into higher-yielding loans. This initiative was completed in the third quarter of 2019.

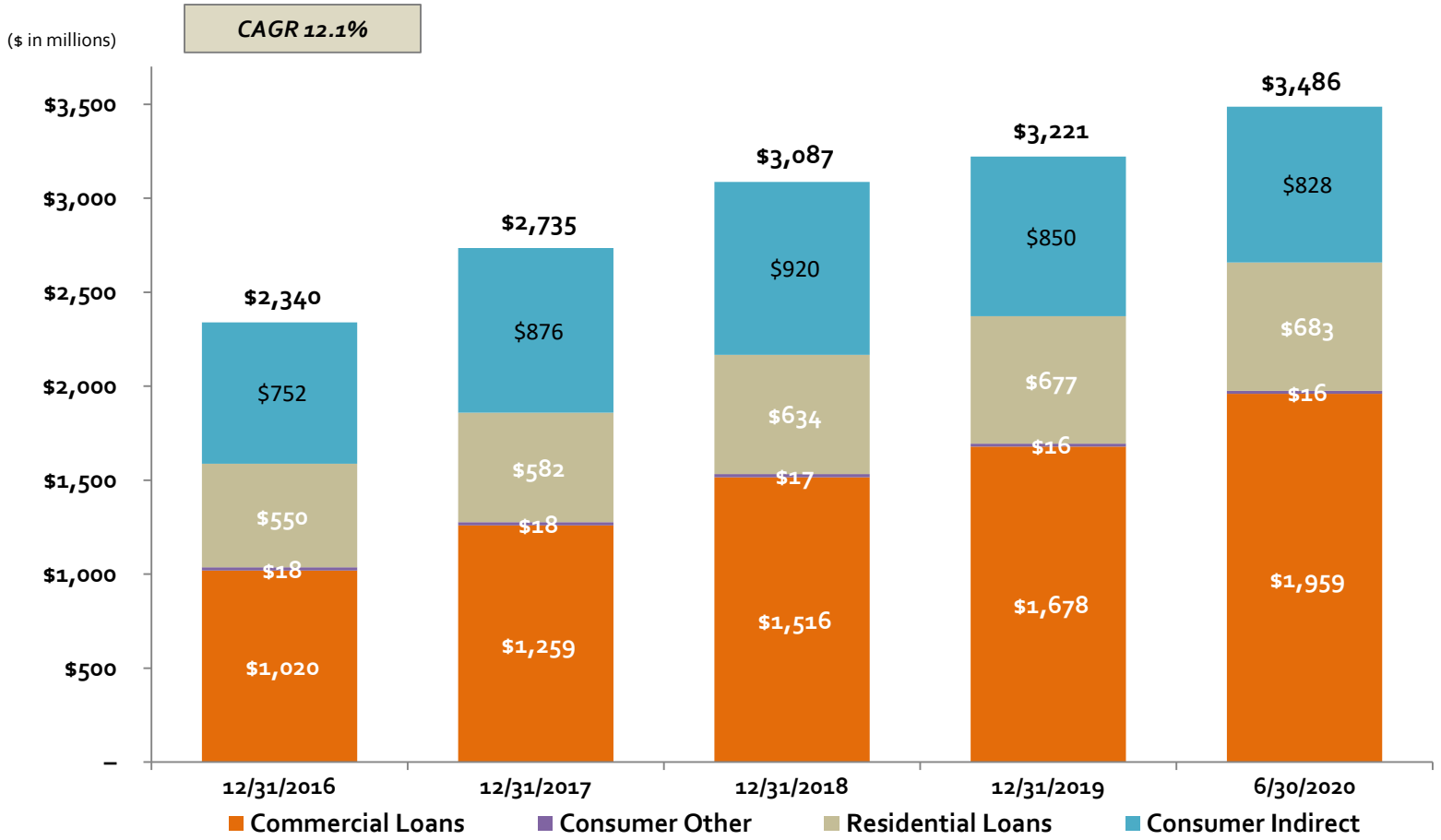


	2016	2017	2018	2019	2020 (YTD)
Security Yield(1)	2.45%	2.48%	2.33%(2)	2.39%(2)	2.48%(2)

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

Total Loans

- 2019 and 2020 growth reflects lower consumer indirect production as we maintain focus on growing relationship-based categories (commercial and residential) and scaling back consumer indirect lending, especially outside footprint
- 2020 Commercial Loan growth reflects second quarter origination of $268.5 million of PPP loans



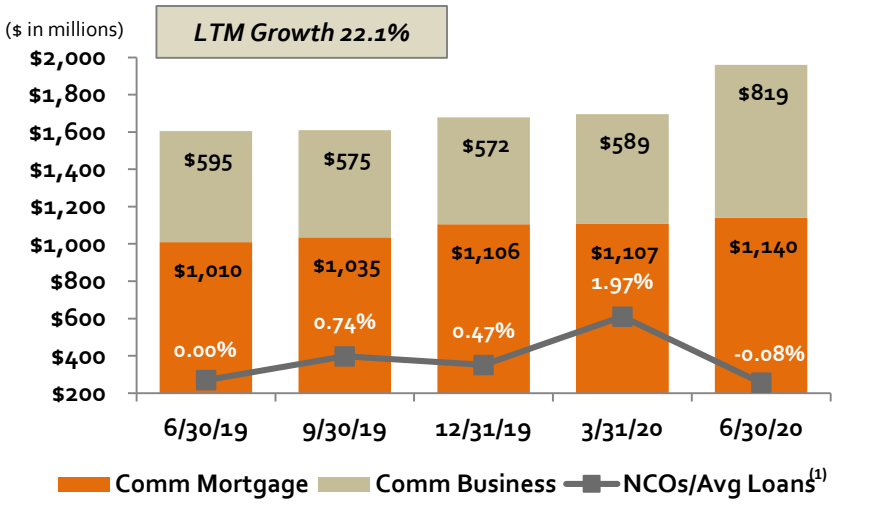
	2016	2017	2018	2019	2020 (YTD)
Loan Yield[1]	4.18%	4.22%	4.51%	4.77%	4.37%

(1) Average yield for the period

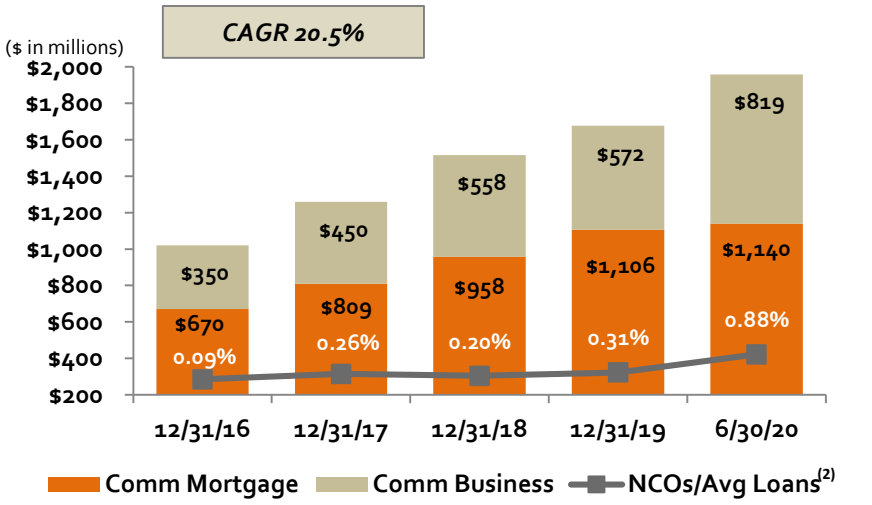
Commercial Banking

- Growth in 2Q'20 reflects origination of $268.5 million of PPP loans
  - Commercial lines of credit increased from late March into April and paid down in May and June, resulting in $27 million decrease in 2Q'20
- Growth was muted in 1Q'20
  - Commercial mortgage experienced higher payoffs than 4Q'19, driving relatively flat linked quarter performance
- 2019 growth in commercial business loans of 3% and commercial mortgage loans of 16%
- Over the course of the past 2+ years, we have made 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

Commercial Banking – Quarterly



Commercial Banking – Annual

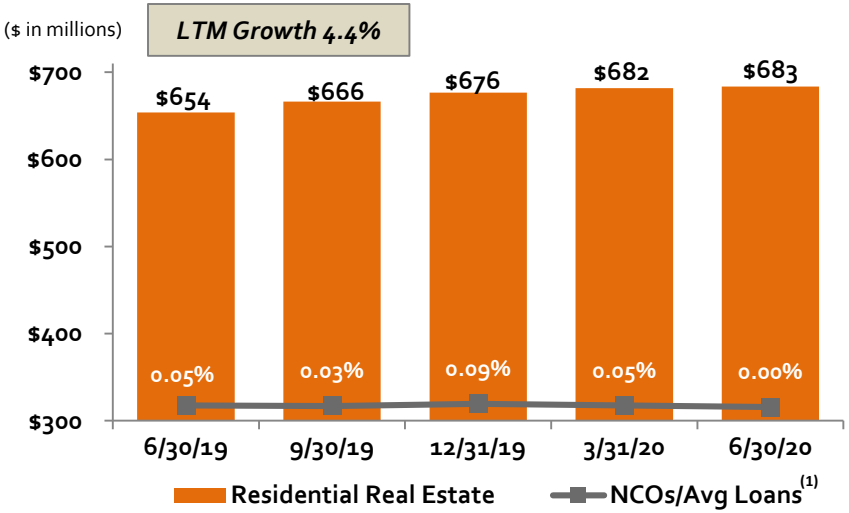


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

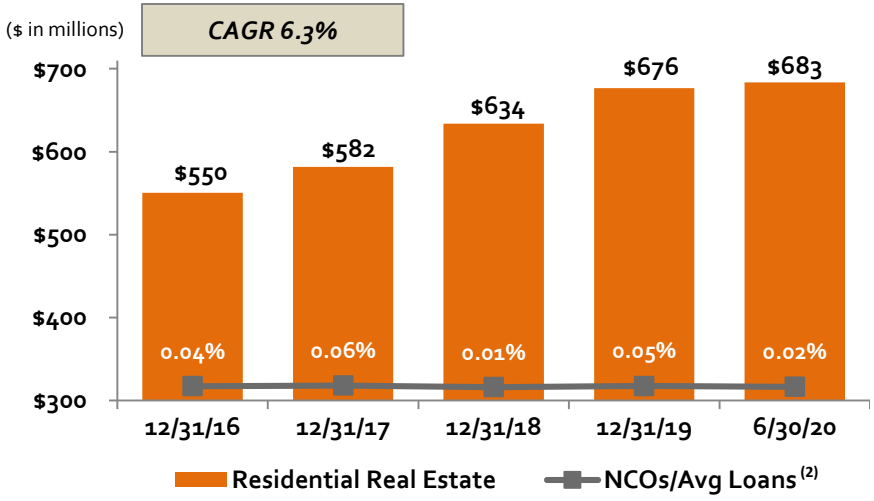
Residential Real Estate Loans and Lines

- 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
- Line of business provides opportunity to establish relationships with new customers: loan and deposit relationships as well as opportunity to provide wealth management and insurance services

Residential Real Estate – Quarterly



Residential Real Estate – Annual

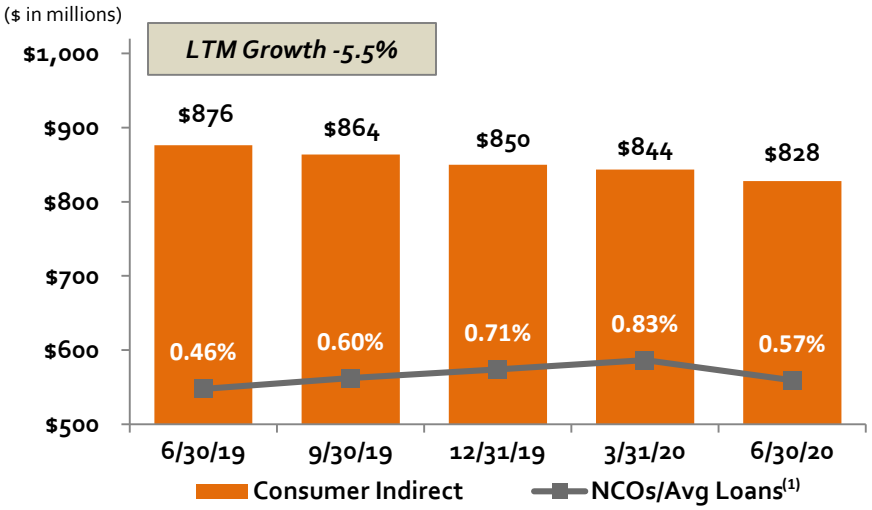


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

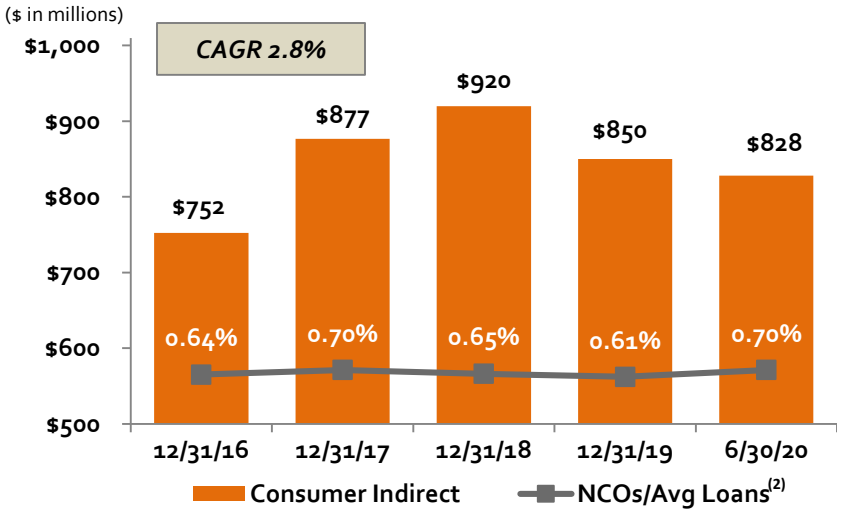
Consumer Indirect Lending

- $828 Million Portfolio at June 30, 2020
  - Portfolio represents 23.8% of total loans, down from 29.8% at 12/31/18 and peak of 35% at 12/31/13
  - '19 and '20 decline reflects lower consumer indirect production as we maintain focus on growing relationship-based categories (commercial and residential) and scaling back indirect lending, especially outside footprint
- Prime Lending Operation with average portfolio FICO score of approximately 724 with 4% under 630
- Dealer network of nearly 500 franchised new automobile dealerships
- Relatively Short Duration – Between 2 and 3 years
- Natural Risk Dispersion – Small Loan Size
- Demonstrated track record of consistent performance through economic expansions, recessions and stagnation

Consumer Indirect – Quarterly



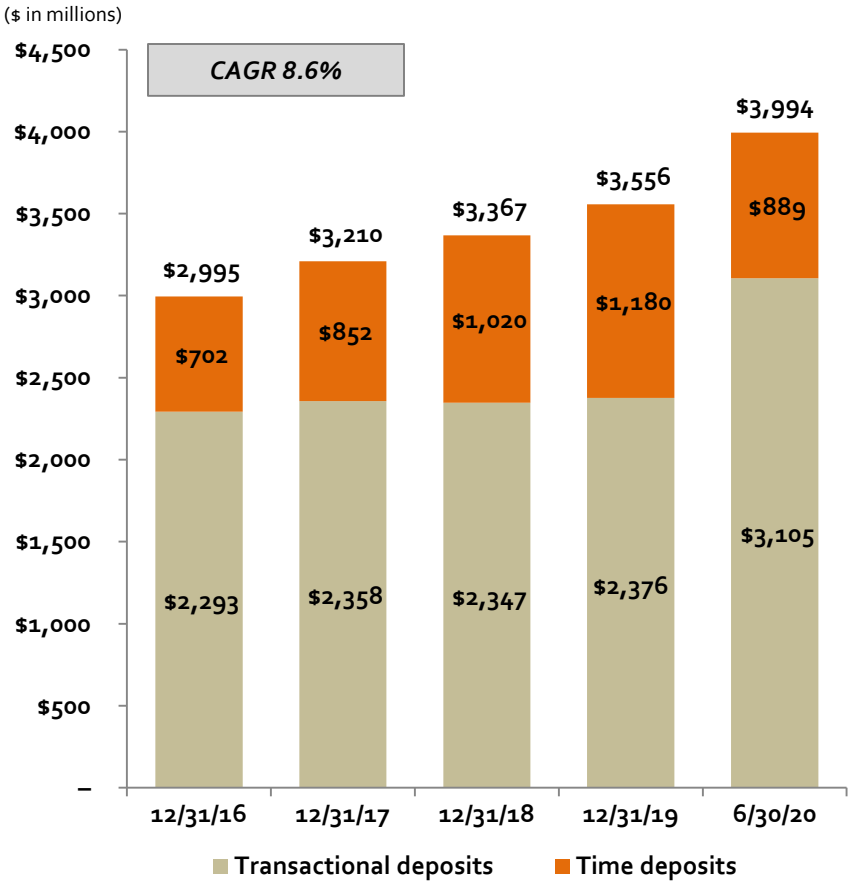
Consumer Indirect – Annual



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

Deposit Growth

Deposits (by account type)



Commentary

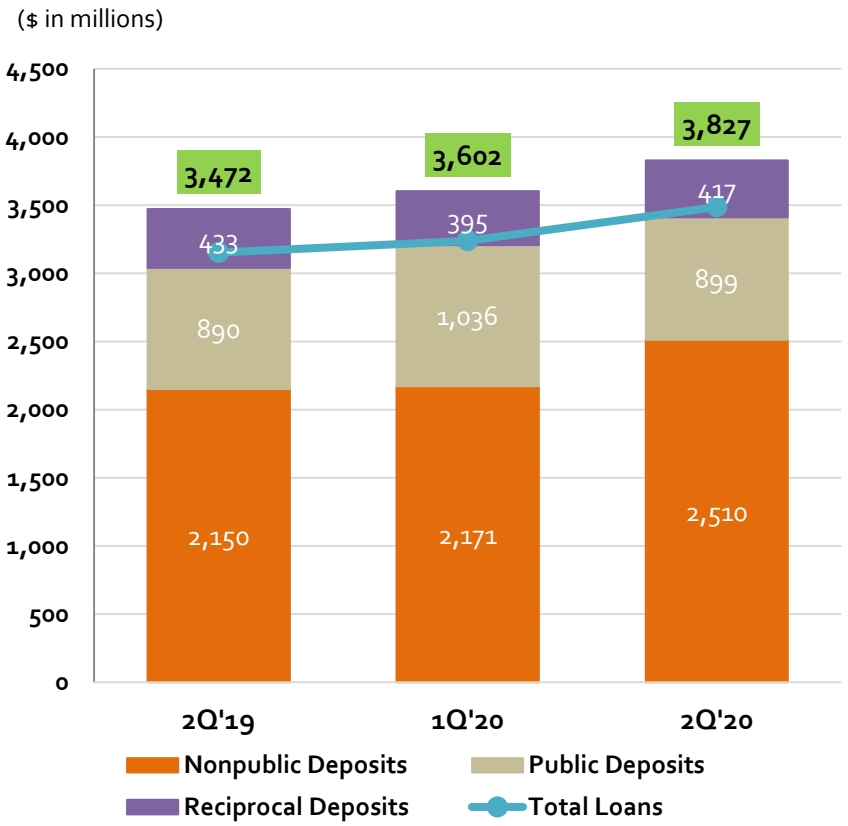
- Opportunities for growth
  - Combined Rochester and Buffalo markets represent attractive deposit market of $65 billion
  - Current FSB market share is less than 3%
- We offer a variety of public (municipal) deposit products to the towns, villages, counties and school districts within our market
  - Deposits are seasonal
  - Comprised 23% of deposits at 6/30/20 compared to 24% of deposits at 12/31/19
  - Low cost funding source
  - Dedicated sales force
  - FSB currently has 313 municipal customers

	2016	2017	2018	2019	2020 (YTD)
Cost of Deposits	0.29%	0.35%	0.57%	0.82%	0.62%

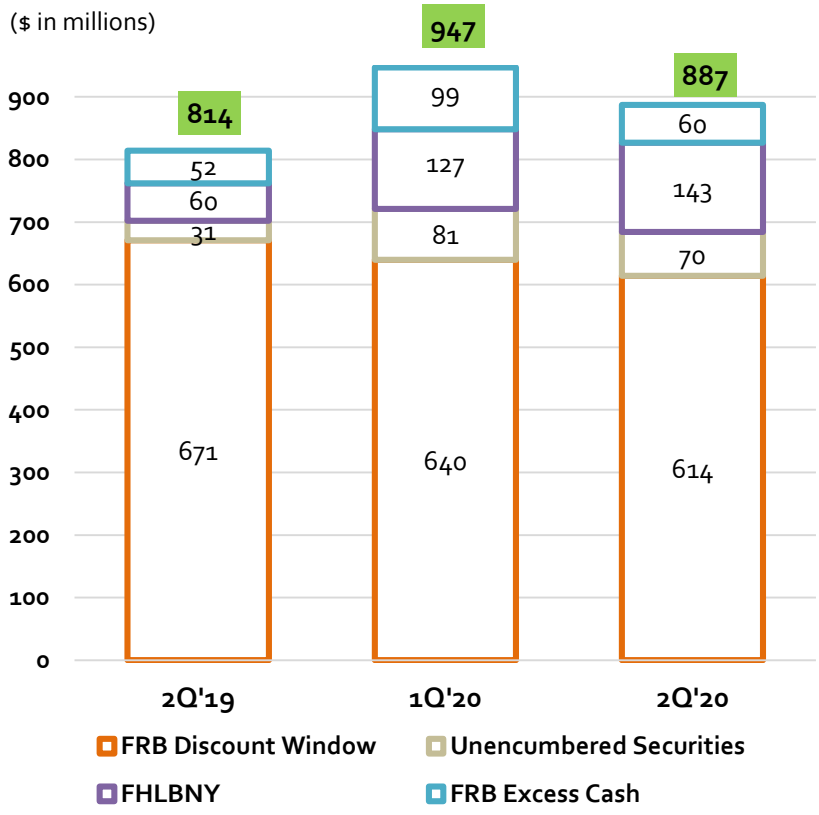
(1) For the year/year-to-date (annualized)

Key Liquidity Metrics

Deposit Mix (1)



Available Committed Liquidity



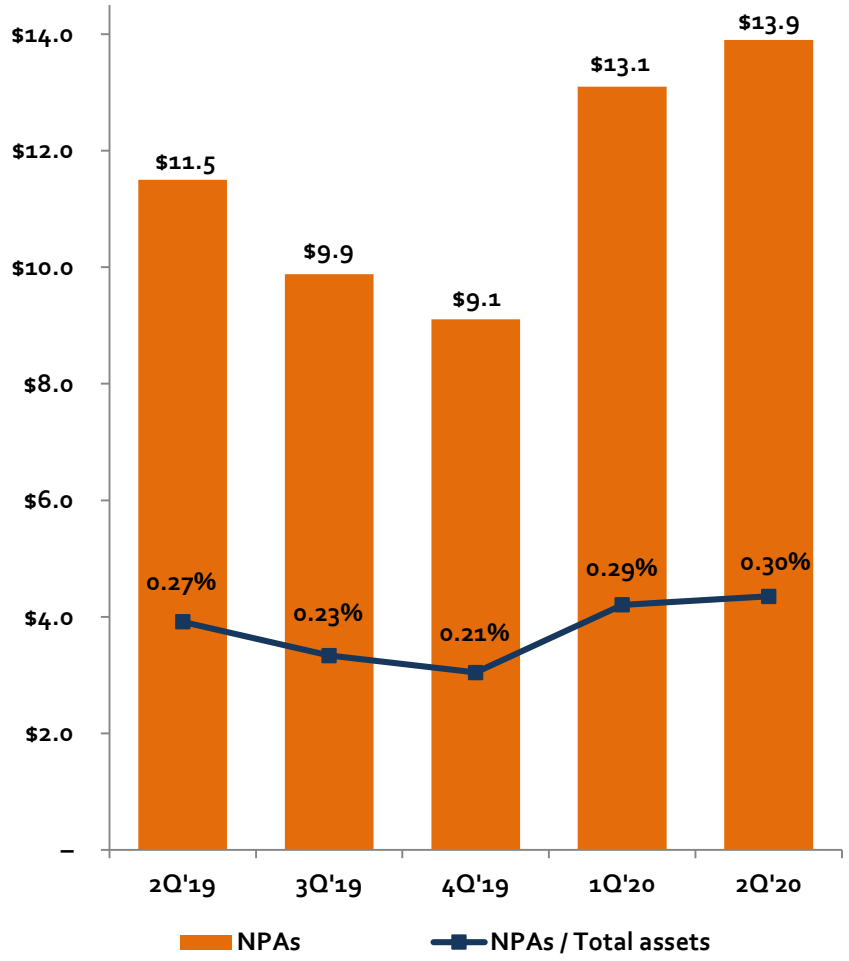
- Diverse deposit gathering capabilities
  - Core nonpublic deposits anchor our deposit base; 87.3% 2Q'20 loan to deposit ratio
  - 2Q'20 available committed liquidity remains strong and stable. Focused on efficiently managing the excess FRB cash position, with no outstanding draws against the FRB PPP Liquidity Facility.

(1) Excluding Brokered Deposits

Asset Quality

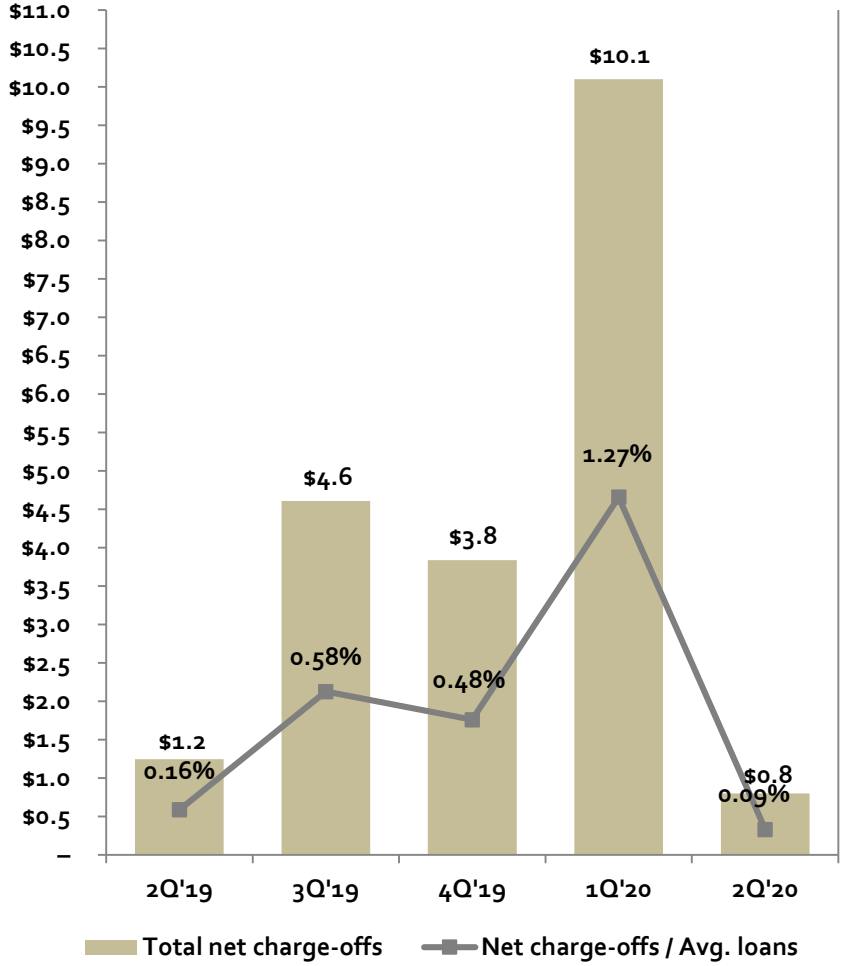
Non-Performing Assets

($ in millions)



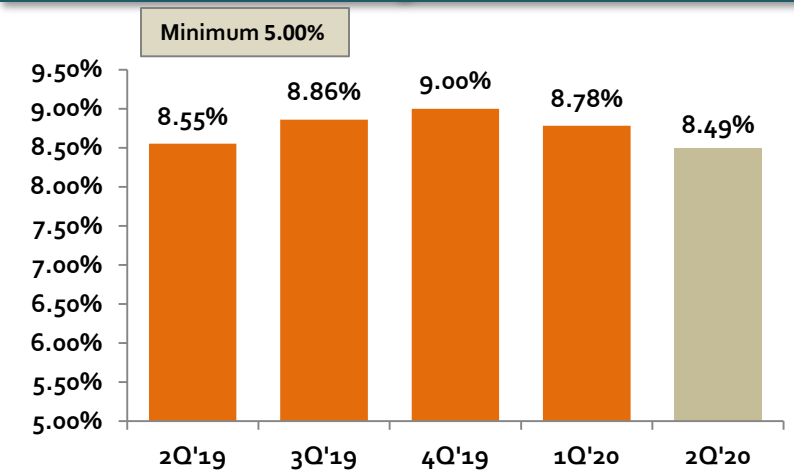
Net Charge-Offs

($ in millions)

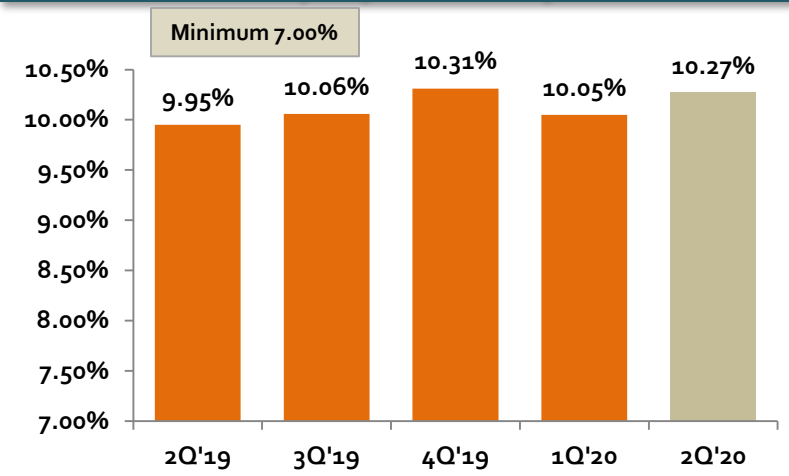


Capital Ratios

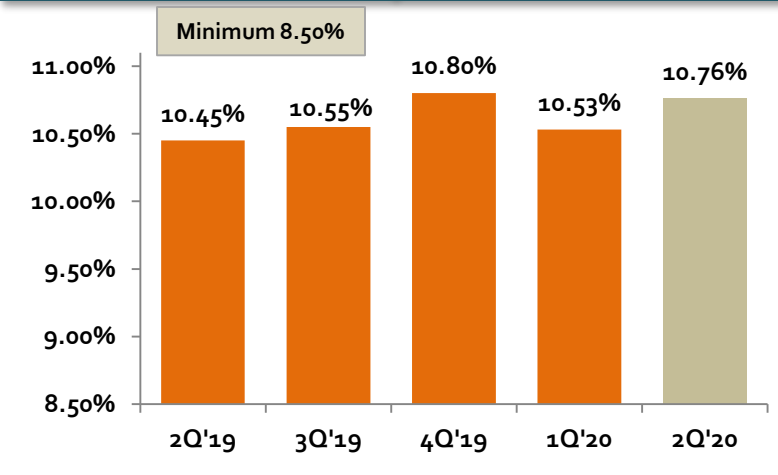
Leverage Ratio (1)



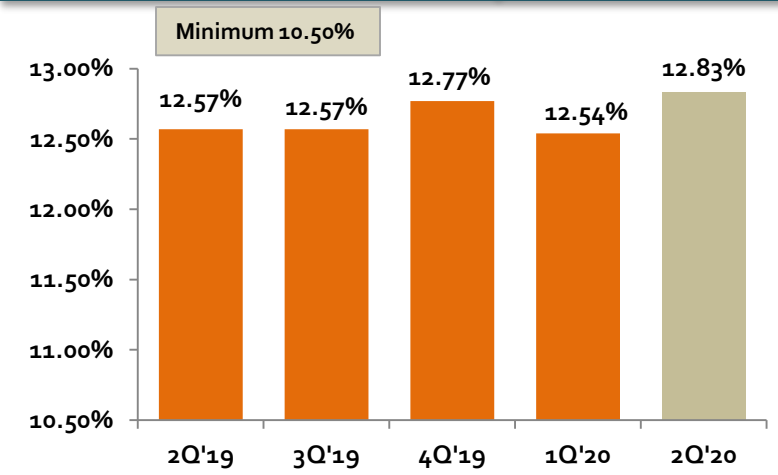
Common Equity Tier 1 Capital Ratio (1)



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.

COVID-19 Response:

Helping our customers, associates and communities. Today. Tomorrow. Always.

Associates

- 65% of non-retail associates working from home or remotely since March 16—as we move forward with our re-entry, at least 50% of non-retail associates will continue to work remotely for the foreseeable future
- Special bi-weekly bonuses for eligible associates
- Additional paid days off to manage personal needs, e.g., childcare, along with other flex working arrangements
- Continue to pay associates at home due to potential exposure, even branch associates

Consumers

- Nearly 90% of our branches remain open[1]; with two of our urban locations operating normally to ensure continued access to full-service banking by under-served communities
- Extensive customer relief programs instituted. Continuing to work w/ customers 1-1 to address unique needs during this time
  - Waiving of certain fees (e.g., late payment, NSF, among others)
  - Not reporting payment deferrals to credit bureaus
  - Up to 90-day grace period for consumer, mortgage, and auto loan payments
  - Providing lower rate emergency loans, up to $5K, to consumers. ~$2.8MM in new loans since March 23
- Extended $4.3MM in consumer loan payments—on average 60 days
- Forbearance $633K in residential mortgages and monthly line payments—on average 90 days
- Continuing to responsibly lend to qualified consumers

Businesses

- Thoughtfully extending credit to small business and commercial customers for working capital and operating purposes
- As of June 30, provided temporary loan relief to:
  - 135 small business customers representing $19MM loans
  - 227 commercial clients representing $383MM in loans
- SBA Paycheck Protection Program as of July 20th:
  - Received total of 1,750 PPP loan applications representing ~$276MM in total loans
  - Successfully processed 608 loans for ~$197MM to small businesses across Western and Central New York prior to round 1 funding being exhausted
  - As of July 21, an additional 1,102 loans for ~$74MM have been processed in second round
  - 1,693 loans for ~$270MM have closed/funded
  - We estimate PPP loans have helped more than 18,000 small business employees in our communities

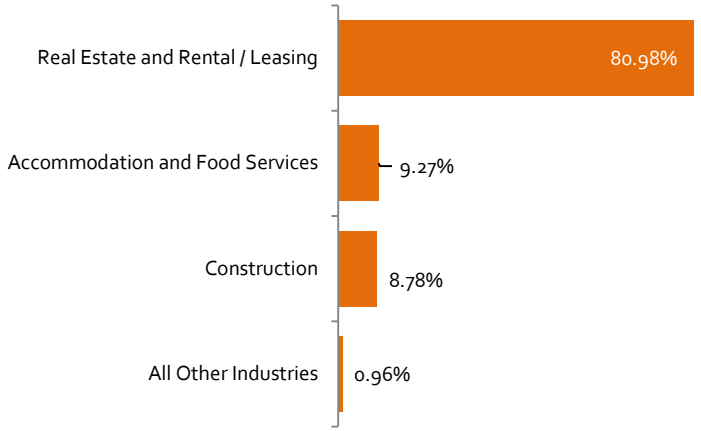
Actively engaging community organizations to provide financial and technical support to benefit our communities in need

1. Drive-thru, vestibule ATM and appointment hours

Commercial Loan Portfolio Detail

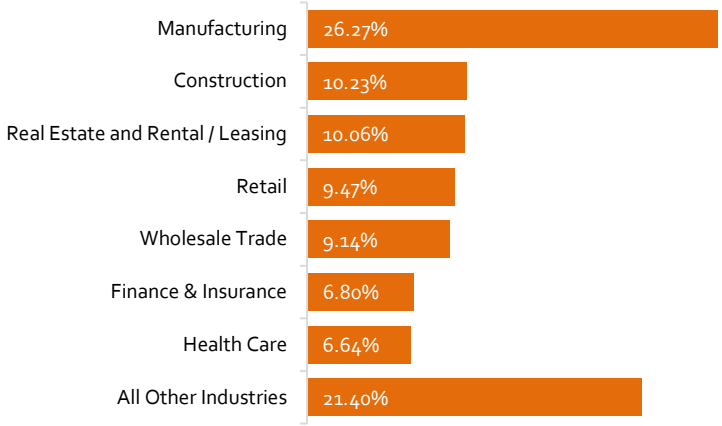
Commercial Real Estate Ttl Exposure[1] ($1.1Bn[2])

As of June 30, 2020



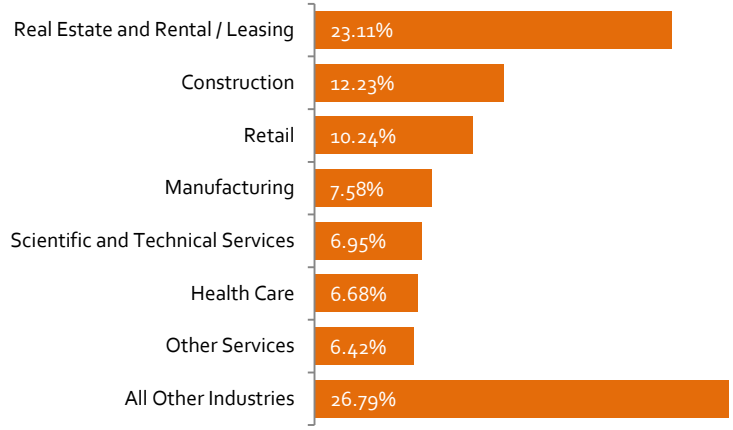
Commercial & Industrial Ttl Exposure ($950MM[2])

As of June 30, 2020



Business Banking Ttl Exposure ($196MM[2])

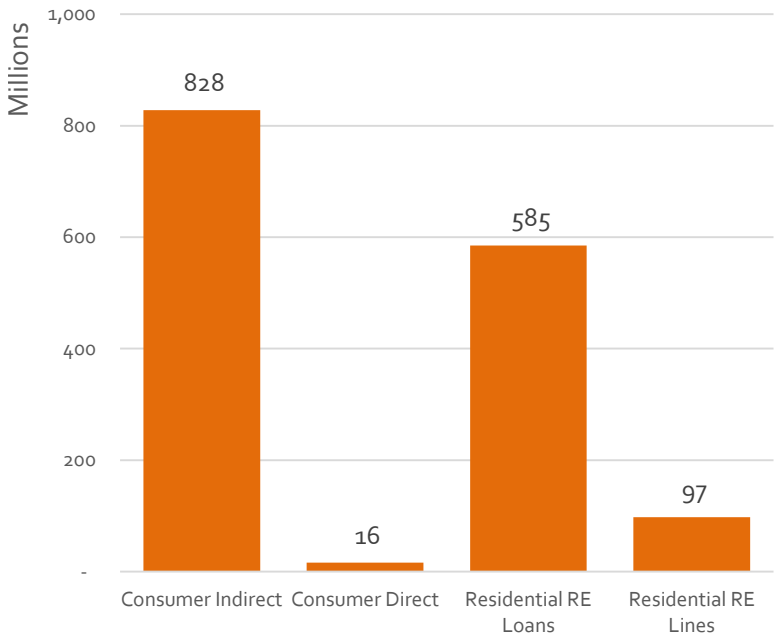
As of June 30, 2020



(1) Exposures are outstanding loan balances plus all undrawn access to credit (e.g., lines/letter of credit)
(2) All balances exclude PPP loans

Consumer & Residential Loan Portfolio Detail

Consumer Lending Portfolio
As of June 30, 2020



Consumer Lending Portfolio Metrics
As of June 30, 2020

	% of Ttl. Loan Portfolio ($3.5Bn)	# of Loans	Wt. Avg FICO Score (at origination)	Avg. Loan Balance
Consumer Indirect	23.8%	46,742	724	$17,032
Consumer Direct	0.5%	11,867	726	$1,245
Residential Real Estate Loans	16.8%	6,884	737	$82,100
Residential Home Equity Lines of Credit (HELOCs)	2.8%	3,950	767	$24,231

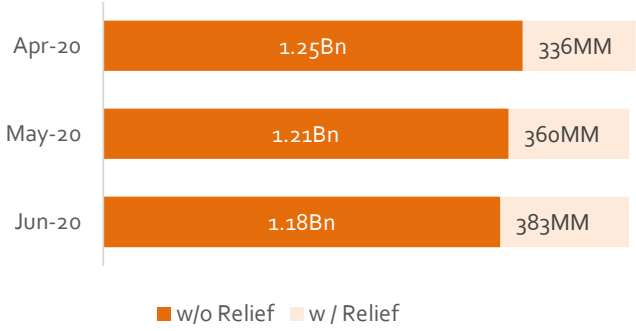
COVID-19 Loan Relief Programs

Measuring Impact of Relief vs Total Portfolios

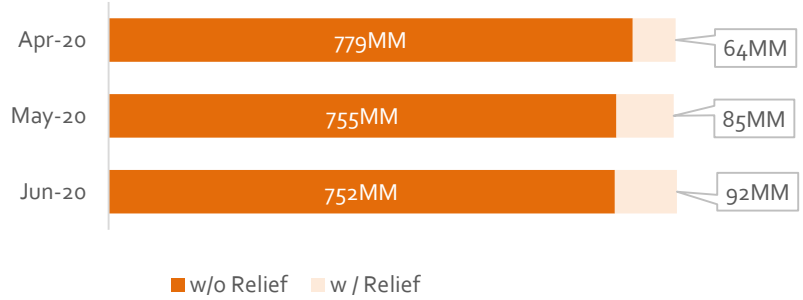
Consumer Mortgage Forbearance vs Ttl Resi Portfolio
As of June 30, 2020



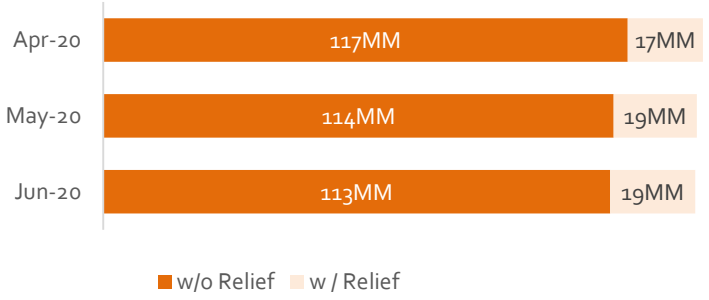
Commercial (C&I, CRE) Relief vs Ttl Large Commercial Portfolio[1]
As of June 30, 2020



Consumer Loan Relief vs Total Consumer Portfolio
As of June 30, 2020



Small Business (BBU) Relief vs Total Small Business Portfolio[1]
As of June 30, 2020



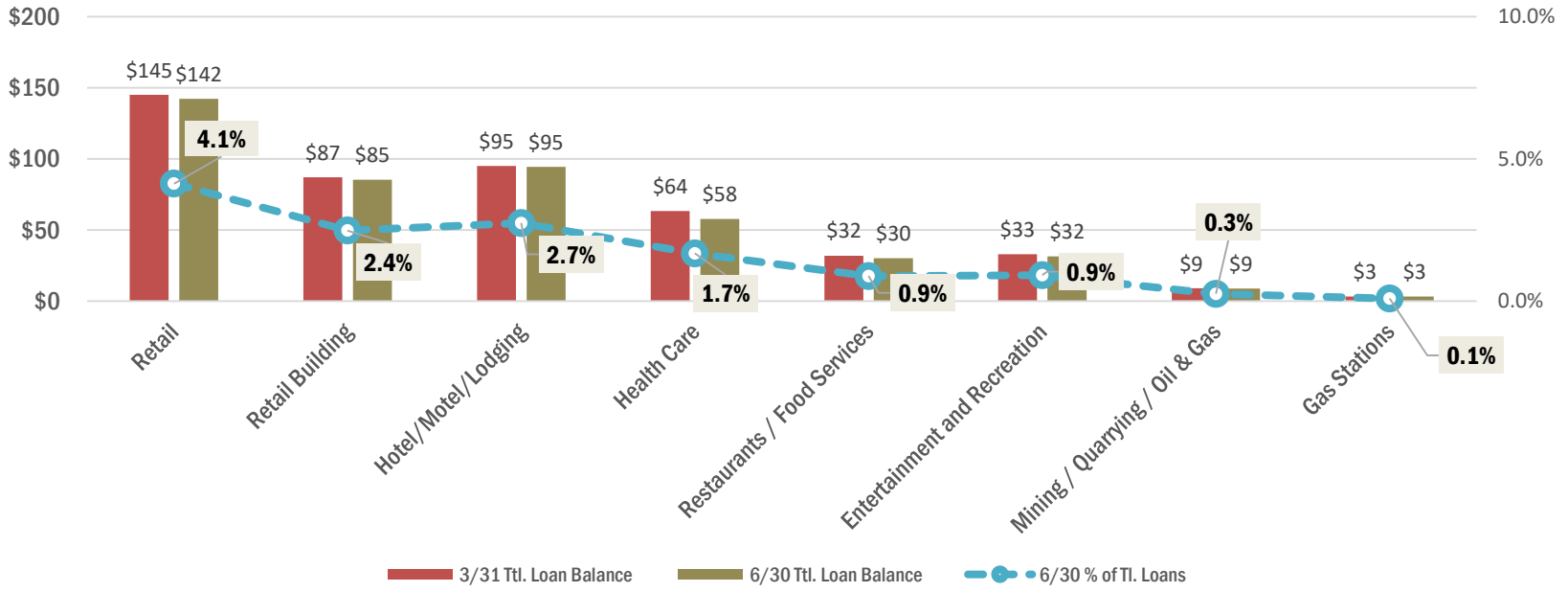
- Loan relief programs ended June 30th, however we remain vigilant and cautious while working with our customers one-one
- Since, the end of June, Commercial and BBU have shown signs of stabilization, with balances beginning to decrease
- Consumer loan deferrals have also shown signs of stabilization as we are seeing decreasing deferral activity
- Residential Lending has been largely stable for the past two months

(1) Excludes PPP loans

Exposure to Industries Most Impacted by COVID-19

- Portfolio segment limits are maintained for C&I and CRE which encompasses the industries described
- To date, the C&I and CRE exposures are within policy limits
- Analysis of commercial portfolio ongoing; segmented "at-risk" commercial loan portfolio
- Tier I represents most impacted industries (retail, hotels/lodging, restaurants, etc.)

Tier I Commercial Loan Portfolio – Outstanding Loan Balances (1Q vs. 2Q) and % Ttl. Loan Portfolio ($MMs)[1]

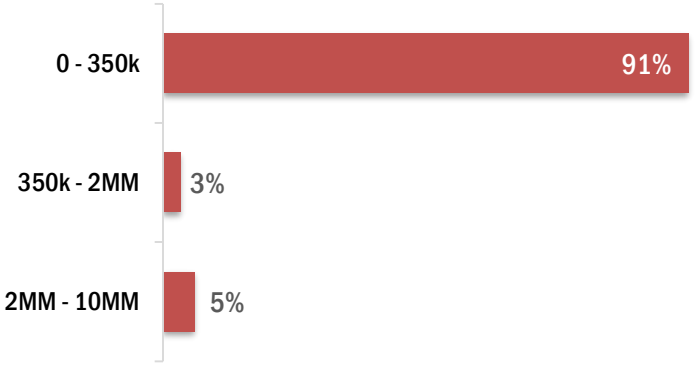


(1) All balances exclude PPP loans

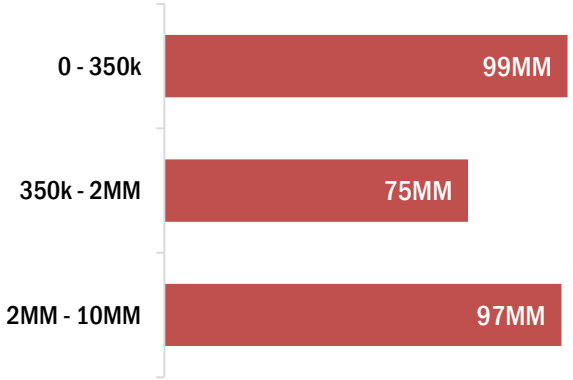
SBA Payroll Protection Program ("PPP") Loans

- 1,710 total approved PPP loans for a total of $270.4MM as of July 20, 2020
- Median loan amount is $155,593. ~91% of loans are for less than $350K

Approved PPP Loan Volumes (No. Units by SBA Loan Size)
As of July 20, 2020



Approved PPP Loans ($ by Loan Size)
As of July 20, 2020



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)	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020	6/30/2020
Computation of ending tangible common equity:						
Common shareholders' equity	$ 405,026			$ 422,065	$ 430,717	$ 430,717
Less: Goodwill and other intangible assets, net	75,534			74,629	74,342	74,342
Tangible common equity	329,492			347,436	356,375	356,375
Computation of ending tangible assets:						
Total assets	$ 4,313,948			$ 4,471,768	$ 4,680,930	$ 4,680,930
Less: Goodwill and other intangible assets, net	75,534			74,629	74,342	74,342
Tangible assets	4,238,414			4,397,139	4,606,588	4,606,588
Tangible common equity to tangible assets[1]	7.77%			7.90%	7.74%	7.74%
Common shares outstanding	15,995			16,020	16,038	16,038
Tangible common book value per share[2]	$ 20.60			$ 21.69	$ 22.22	$ 22.22
Computation of average tangible common equity:						
Average common equity	$ 398,083			$ 423,888	$ 428,111	$ 421,109
Less: Average goodwill and other intangible assets, net	75,711			74,797	74,504	74,950
Average tangible common equity	322,372			349,091	353,607	346,159
Computation of average tangible assets:						
Average assets	$ 4,300,254			$ 4,376,125	$ 4,624,360	$ 4,389,558
Less: Average goodwill and other intangible assets, net	75,711			74,797	74,504	74,950
Average tangible assets	4,224,543			4,301,328	4,549,856	4,314,608
Net income available to common shareholders	11,035			762	10,766	36,737
Return on average tangible common equity[3]	13.73%			0.88%	12.25%	10.61%
Pre-tax pre-provision income:						
Net income	$ 11,401	$ 12,833	$ 13,107	$ 1,127	$ 11,132	
Add: Income tax expense	2,939	4,281	312	322	2,441	
Add: Provision for credit losses	2,354	1,844	2,653	13,915	3,746	
Pre-tax pre-provision income	$ 16,694	$ 18,958	$ 16,072	$ 15,364	$ 17,319	

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.