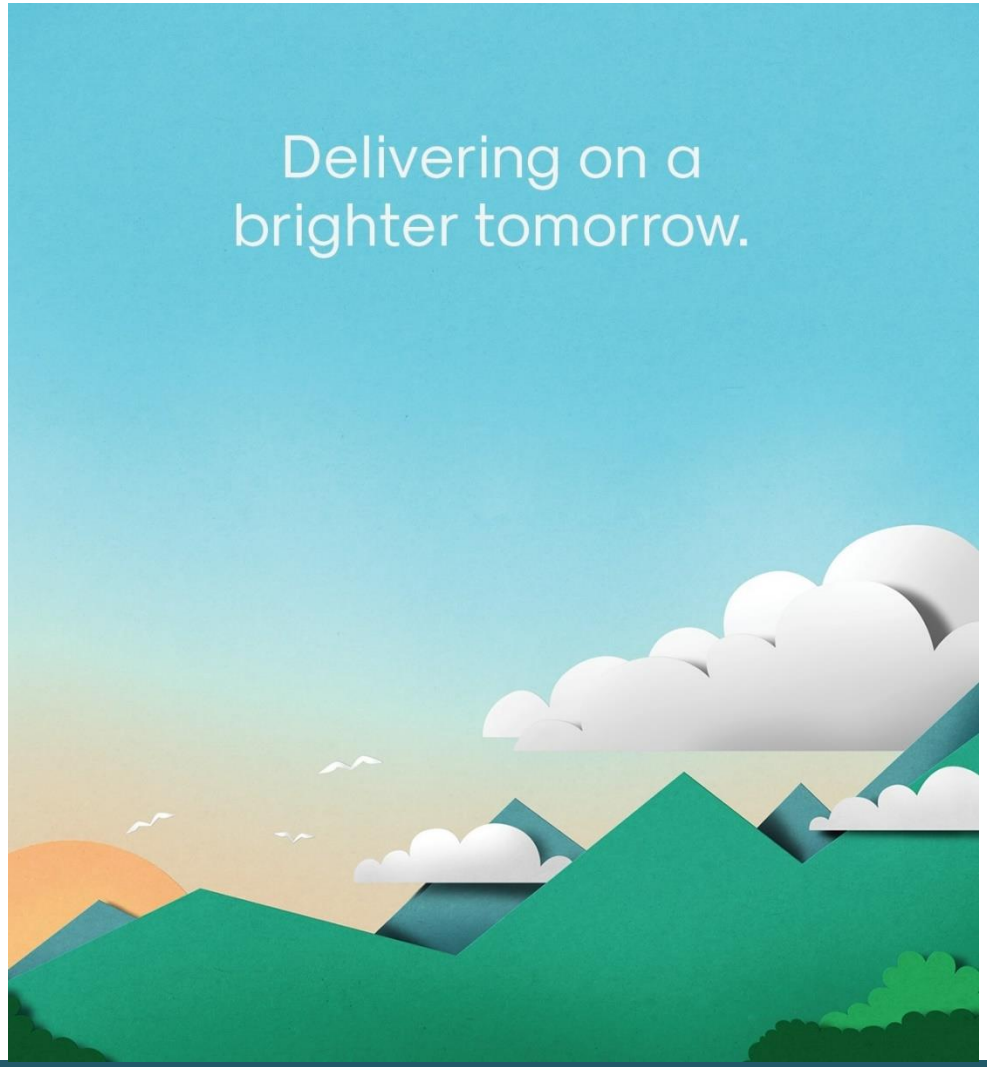


FINANCIAL INSTITUTIONS, INC. (Nasdaq: FISI)
Third Quarter 2020 Earnings Presentation
October 29, 2020

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)
- 47[3] 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 September 30, 2020

Assets:	$5.0 billion
Loans:	$3.6 billion
Deposits:	$4.4 billion
Shareholders' Equity:	$456.4 million
NPAs[1]/Total Assets:	0.28%
Employees:	~ 630
ROACE (TTM):	8.46%
ROATCE[2] (TTM):	10.25%
ROAA (TTM):	0.83%
Annualized Dividend Per Share:	$1.04
Closing Stock Price Per Share:	$15.40
Dividend Yield:	6.75%
Market Capitalization:	$247.0 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
(3) Reflects six branch closures effective October 23, 2020

Third Quarter Key Statistics[1]

- Diluted earnings per share was $0.74 as compared to $0.78 in 2019
  - Expenses include $1.6 million of non-recurring restructuring charges in connection with the closing of six branches and staffing reductions announced in July 2020
- Pre-tax pre-provision income[2] was the highest in Company history at $19.2 million as compared to $18.9 million in 2019
- Net interest income of $35.5 million was $3.0 million, or 9.0%, higher than the third quarter of 2019
- Net interest margin ("NIM") of 3.22% was seven basis points lower as a result of heightened Federal Reserve interest-earning cash and the impact of low-yielding Payroll Protection Program loans
- Total loans at quarter-end were $3.57 billion, an increase of $412.1 million, or 13.1%, from 9/30/2019
  - As compared to the year earlier period, Commercial Business Loans were up 42.4%, Commercial Mortgage Loans were up 16.1%, Residential Real Estate Loans were up 6.8% and Consumer Indirect Loans were down 2.7%
  - Payroll Protection Program ("PPP") Loans are included in Commercial Business Loans; PPP balance at 9/30/2020, net of deferred fees was $264 million
- Common book value per share increased 5.5% from September 30, 2019
  - Tangible common book value per share [2] increased 7.1% from September 30, 2019
- Common equity to assets ratio of 8.85% decreased 73 basis points and tangible common equity to tangible assets[2], or TCE ratio, of 7.47% decreased 52 basis points as a result of heightened Federal Reserve interest-earning cash and the impact of low-yielding Payroll Protection Program loans
  - At 9/30/2020, both ratios would have been higher than the year earlier period if not for these factors

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

Third Quarter 2020

Results Summary

	3Q'19	2Q'20	**3Q'20**
Net interest income	$32.5	$34.2	**$35.5**
Noninterest income	12.3	9.8	12.4
Noninterest expense	(25.9)	(26.7)	(28.7)
Income tax expense	(4.3)	(2.5)	(2.9)
Preferred stock dividend	(0.3)	(0.3)	(0.4)
Net income available to common shareholders	$12.5	$10.8	$11.9
EPS diluted	$0.78	$0.67	$0.74
Return on average assets	1.19%	0.97%	1.02%
Return on average common equity	12.00%	10.11%	**10.82%**
Return on average tangible common equity[1]	14.69%	12.25%	**13.02%**
Net interest margin	3.29%	3.23%	**3.22%**
Efficiency ratio[2]	59.52%	61.26%	**60.28%**
Dividends per share	$0.25	$0.26	$0.26
Dividend yield (annualized)	3.29%	5.60%	**6.72%**

Commentary

- Net interest income increased $3.0MM from 3Q'19 and $1.3MM from 2Q'20 as a result of loan growth, largely driven by PPP loans (average balance of $263MM).
- Noninterest income increased $40K from 3Q'19 primarily due to higher income from derivative instruments ($1.0MM) and higher net gain on sale of loans ($1.1MM), offset by lower gain on investment securities ($1.1MM), lower service charges on deposits ($671K) and lower income from investment in limited partnerships ($221K); and increased $2.6MM from 2Q'20 due to higher gains on sale of loans ($850K), service charges on deposits ($774K), insurance income ($538K) and investment advisory fees ($192K).
- Noninterest expense increased $2.8MM from 3Q'19 and $2.0MM from 2Q'20 primarily due to non-recurring restructuring charges totaling $1.6MM in connection with branch closures and staff reductions combined with higher computer and data processing and advertising and promotions expenses related to digital banking launch.
- Effective tax rate was 19.3% compared to 18.0% for 2Q'20 and 25.0% for 3Q'19. Higher rate in 3Q'19 related to 2017 estimated provision and subsequent adjustment.

[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 (3Q'19 – 3Q'20)

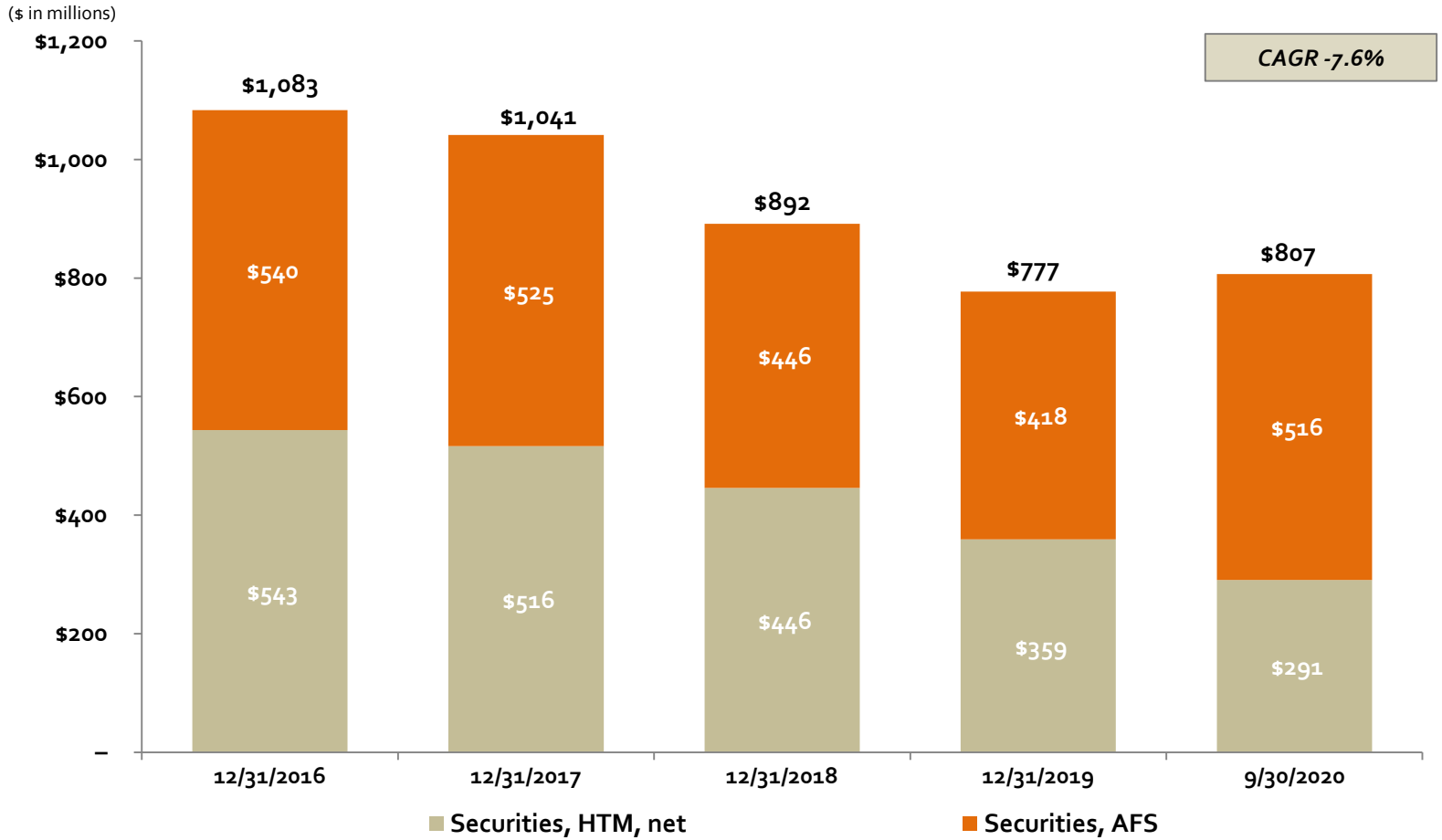
($ in millions, except per share amounts)

Earnings Summary	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20
Average interest-earning assets	$3,959	$3,994	**$4,054**	**$4,274**	**$4,414**
Net interest margin	3.29%	3.33%	**3.31%**	**3.23%**	**3.22%**
Net interest income	32.5	33.2	**33.1**	**34.2**	**35.5**
Noninterest income	12.3	9.7	**10.0**	**9.8**	**12.4**
Total revenue	**$44.8**	**$42.9**	**$43.1**	**$44.0**	**$47.9**
Noninterest expense	($25.9)	($26.8)	**($27.7)**	**($26.7)**	**($28.7)**
Pre-tax pre-provision income [(1)]	18.9	16.1	**15.4**	**17.3**	**19.2**
Provision for credit losses	(1.8)	(2.7)	**(13.9)**	**(3.7)**	**(4.0)**
Pre-tax net income	17.1	13.4	**1.5**	**13.6**	**15.2**
Income tax expense	(4.3)	(0.3)	**(0.4)**	**(2.5)**	**(2.9)**
Net income	**$12.8**	**$13.1**	**$1.1**	**$11.1**	**$12.3**
Preferred stock dividends	(0.3)	(0.4)	**(0.3)**	**(0.3)**	**(0.4)**
Net income available to common shareholders	**$12.5**	**$12.7**	**$0.8**	**$10.8**	**$11.9**
Earnings per share - diluted	$0.78	$0.79	**$0.05**	**$0.67**	**$0.74**
Weighted average common shares outstanding - diluted	16.1	16.1	**16.1**	**16.0**	**16.1**

(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.

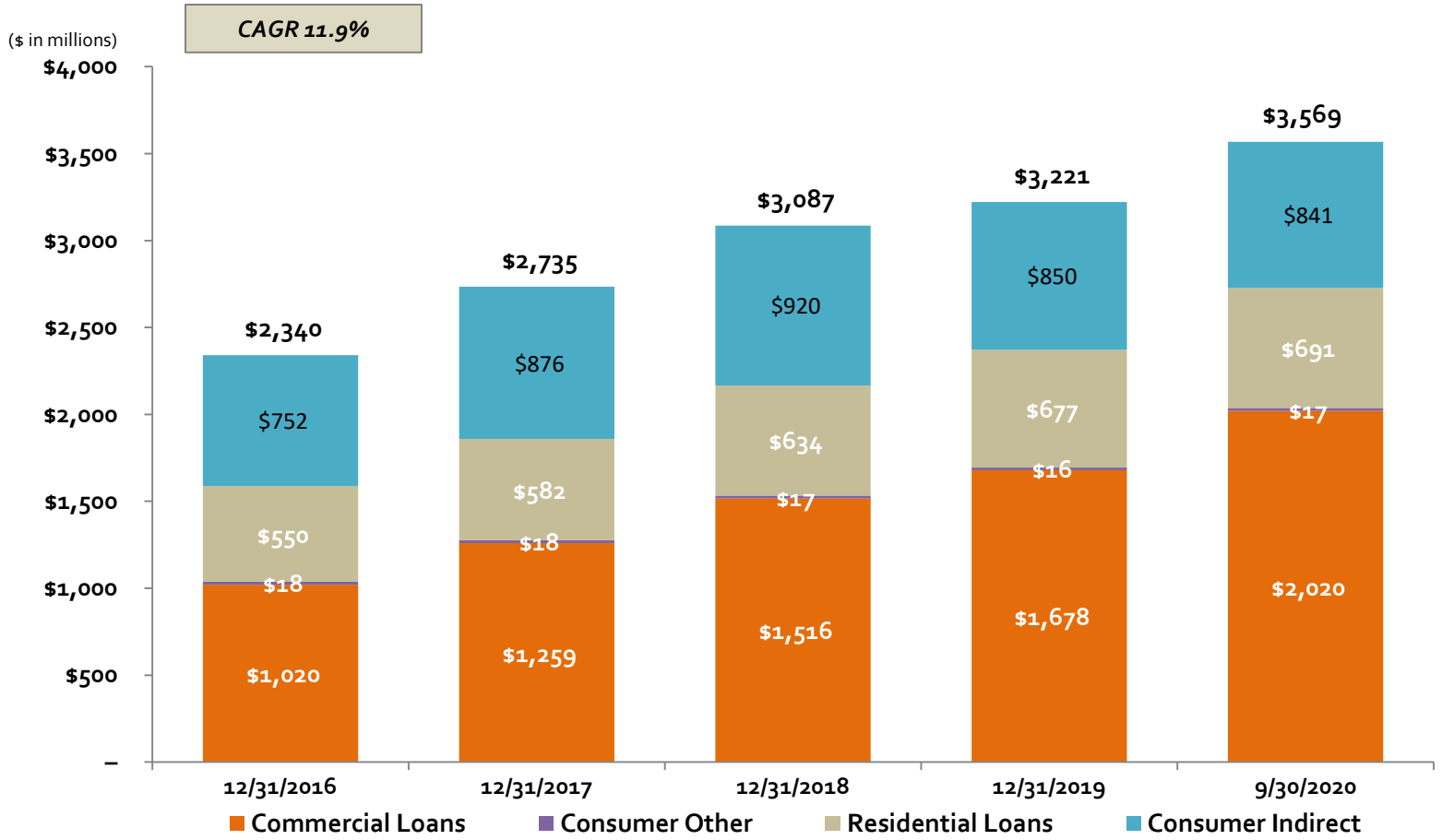


	2016	2017	2018	2019	2020 (YTD)
Security Yield(1)	2.45%	2.48%	2.33%(2)	2.39%(2)	2.40%(2)

(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 includes $264.1 million of PPP loans, net of deferred fees, at September 30, 2020



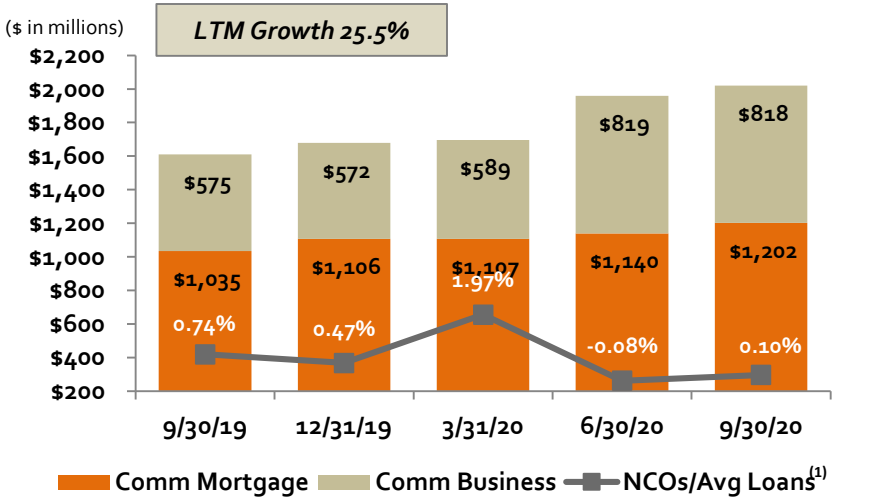
	2016	2017	2018	2019	2020 (YTD)
Loan Yield(1)	4.18%	4.22%	4.51%	4.77%	4.25%

(1) Average yield for the period

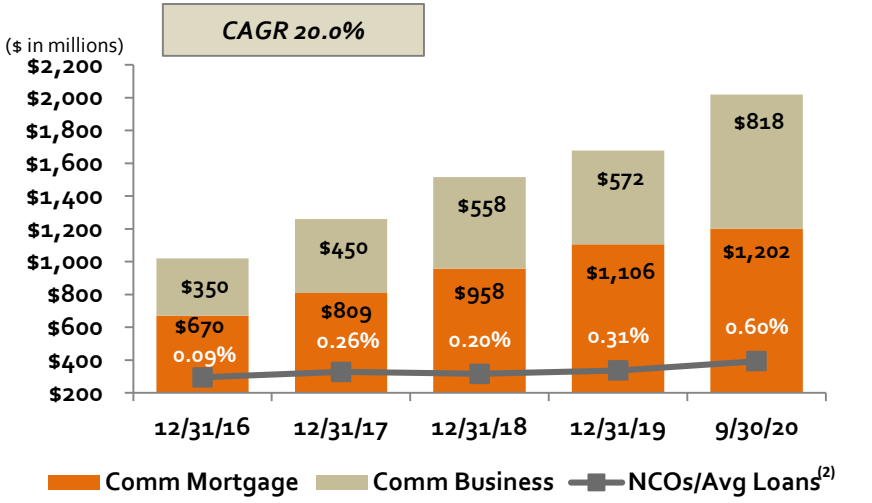
Commercial Banking

- Growth in 3Q'20 reflects soft C&I origination environment
- 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
- 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

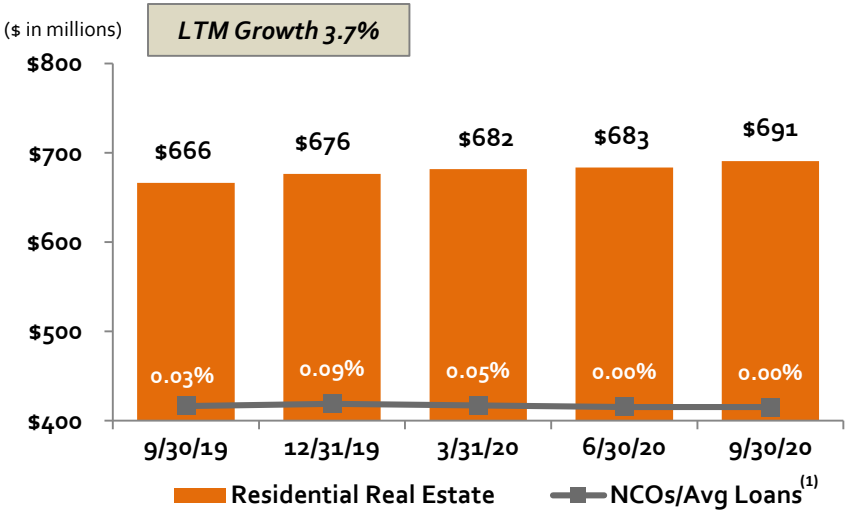


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

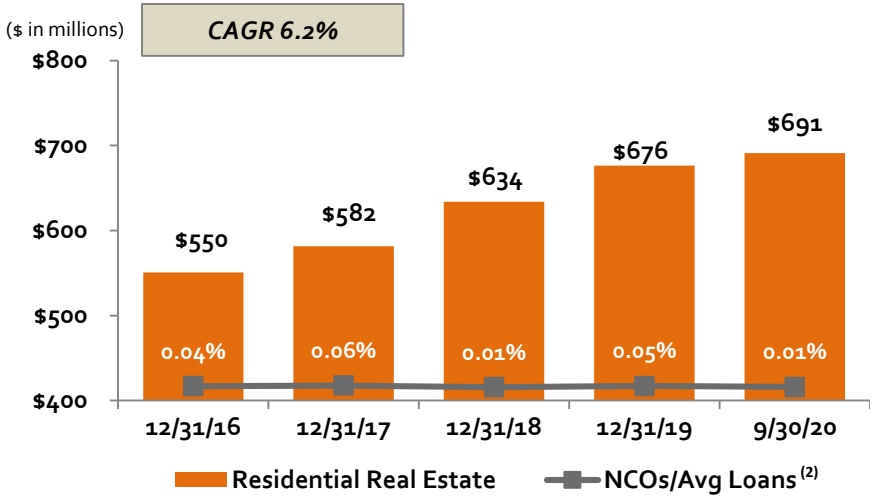
Residential Real Estate Loans and Lines

- 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

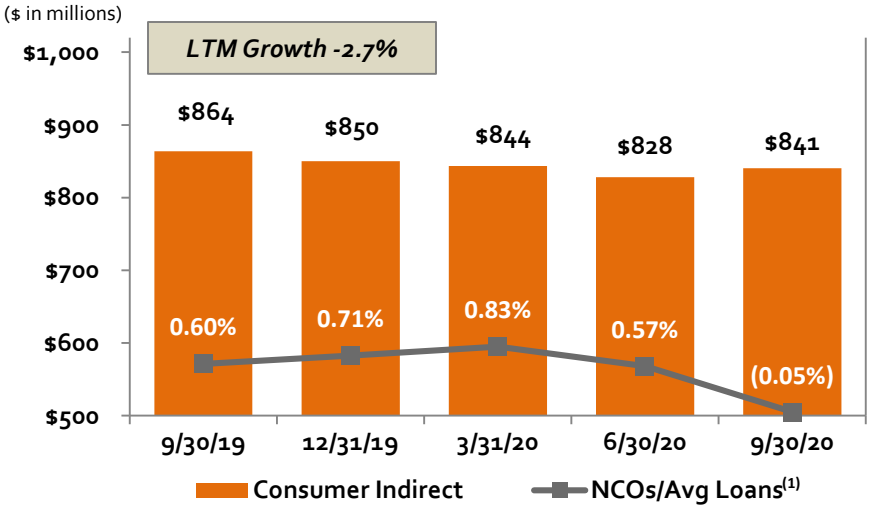


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

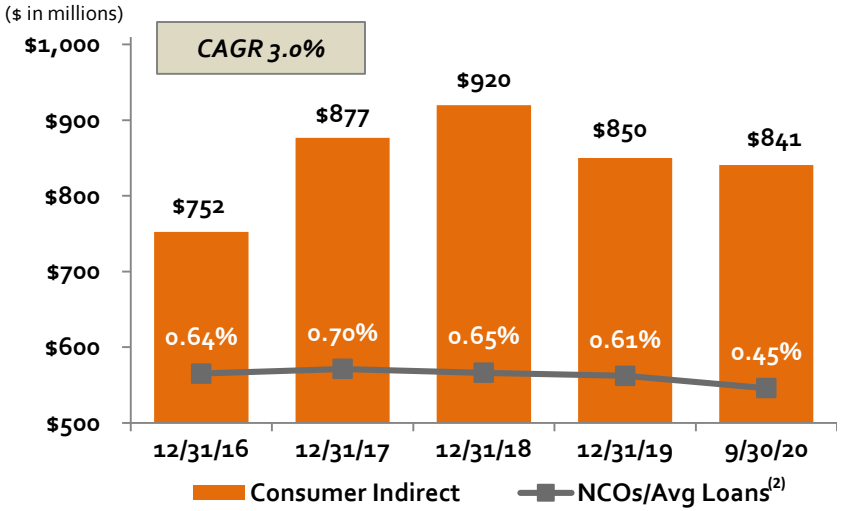
Consumer Indirect Lending

- $841 Million Portfolio at September 30, 2020
  - Portfolio represents 23.6% 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 723 with 4% under 630
- Dealer network of nearly 500 franchised new automobile dealerships
- Relatively Short Duration – Approximately 3 years
- Natural Risk Dispersion – Small Loan Size
- Demonstrated track record of consistent performance through economic expansions, recessions and stagnation

Consumer Indirect – Quarterly



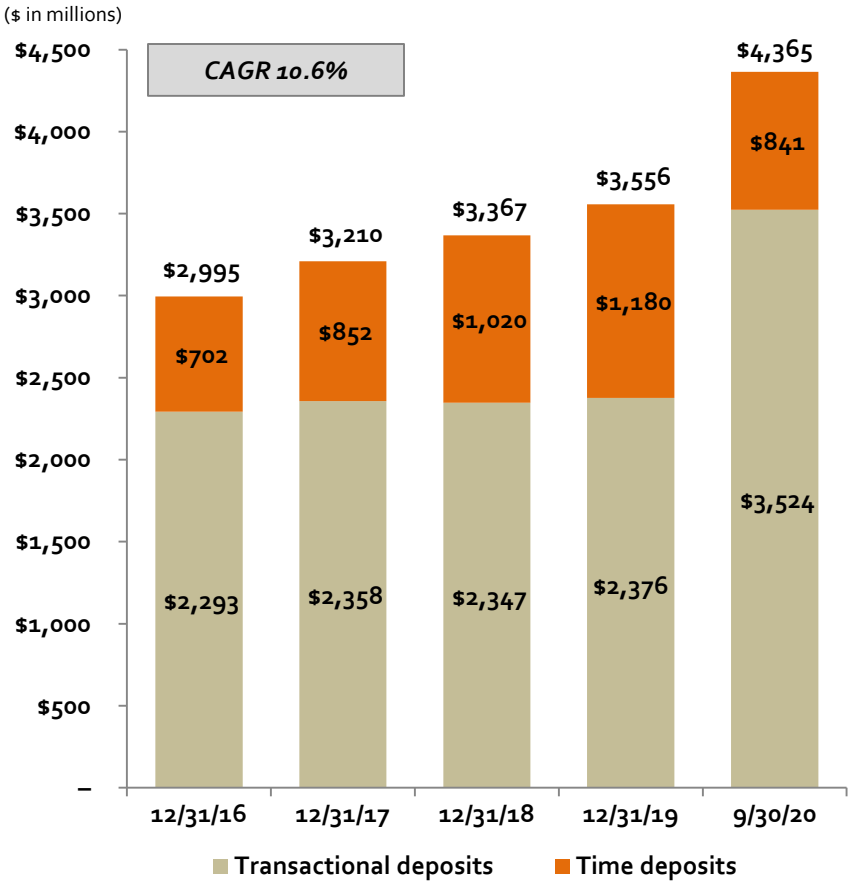
Consumer Indirect – Annual



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

Deposit Growth

Deposits (by account type)



	2016	2017	2018	2019	2020 (YTD)
Cost of Deposits[1]	0.29%	0.35%	0.57%	0.82%	0.51%

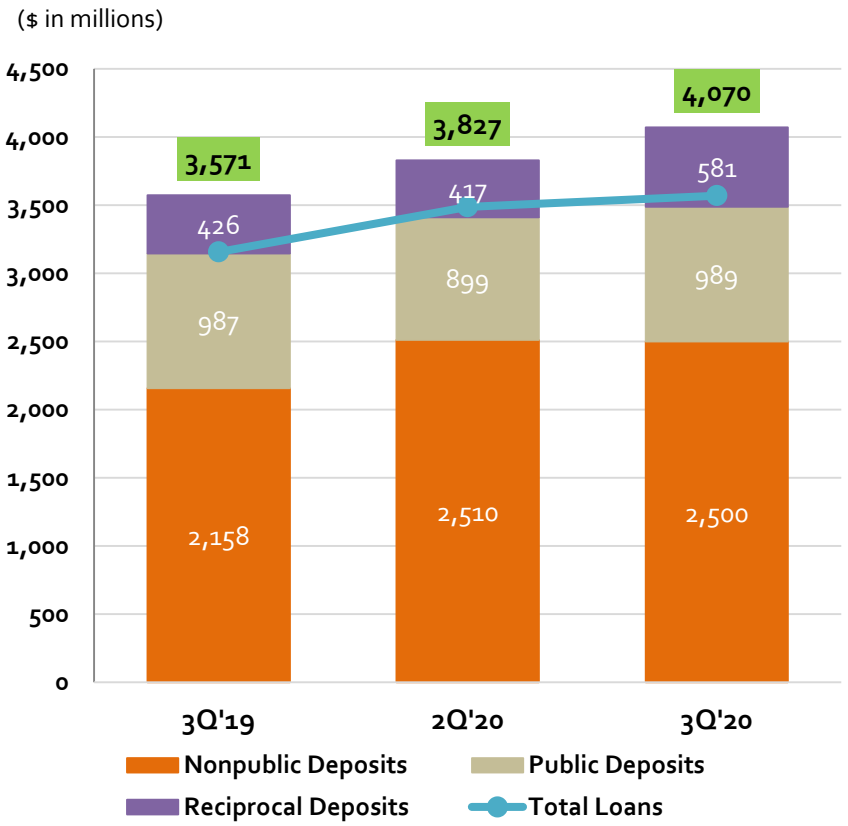
Commentary

- 2020 increase driven by growth in non-public demand and the reciprocal and brokered deposits portfolios
  - $100 million of lower cost brokered deposits used to pay off maturing Federal Home Loan Bank term advance in 3Q'20
- 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 /low cost funding source
  - Comprised 23% of deposits at 9/30/20 compared to 24% of deposits at 12/31/19
  - FSB currently has 313 municipal customers

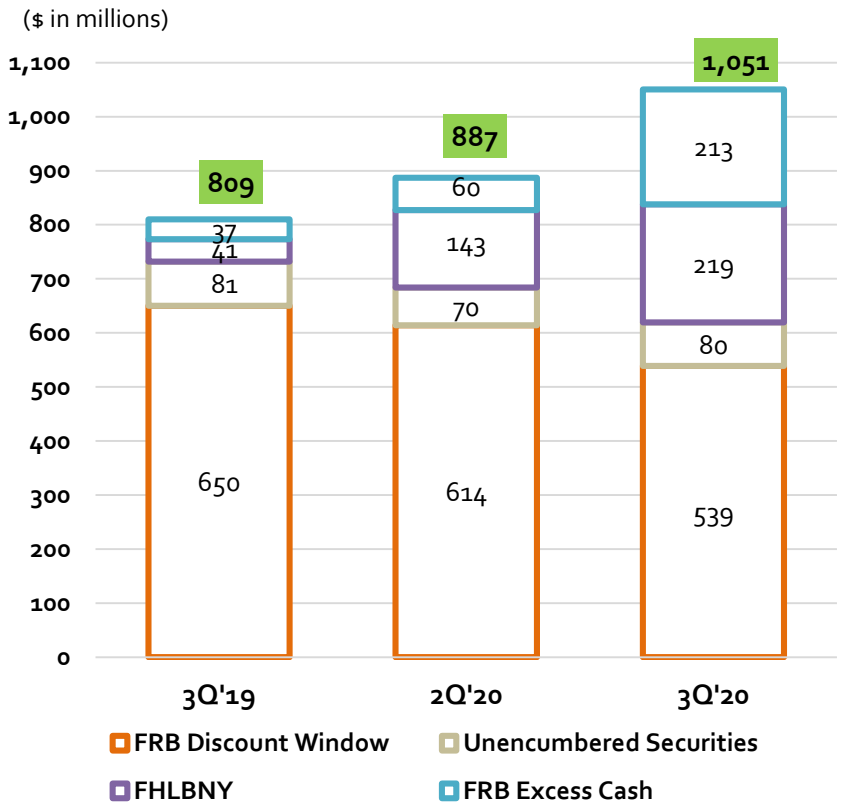
(1) For the year/year-to-date (annualized)

Key Liquidity Metrics

Deposit Mix (1)



Available Committed Liquidity



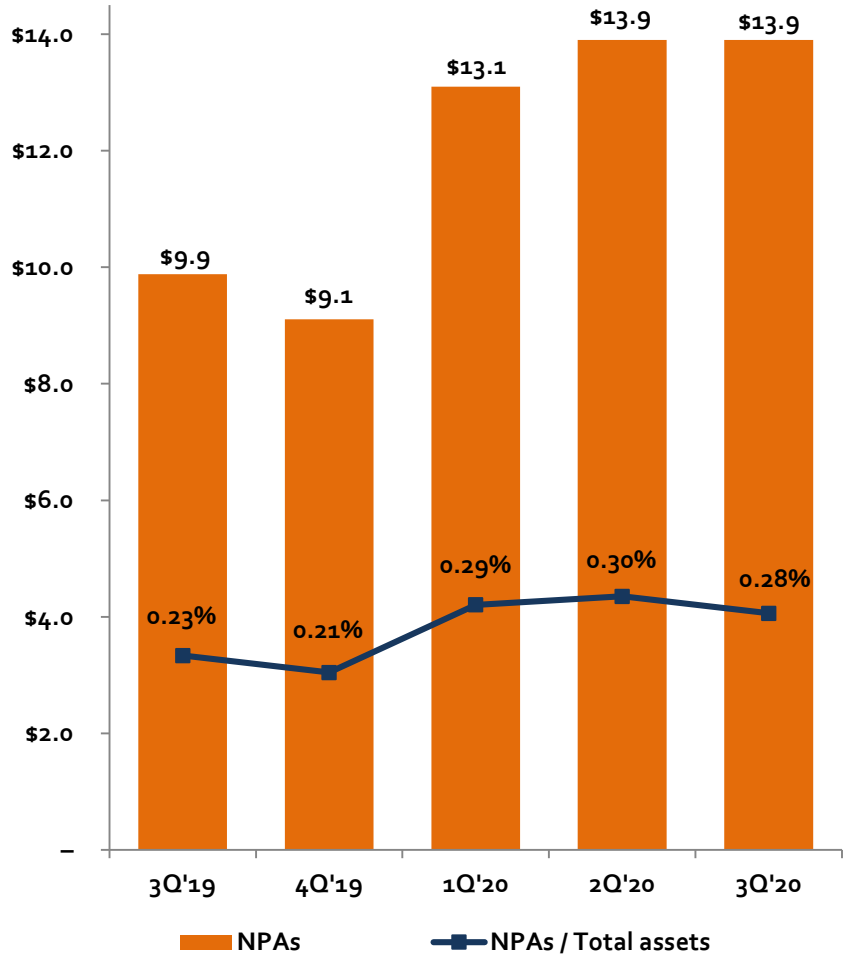
- Diverse deposit gathering capabilities
  - Core nonpublic deposits anchor our deposit base; 81.8% 3Q'20 loan to deposit ratio
  - 3Q'20 available committed liquidity remains strong and stable, representing reduced reliance on FHLB advances
  - The increased FRB Excess Cash position is reflective of seasonal public and reciprocal deposit growth

(1) Excluding Brokered Deposits

Asset Quality

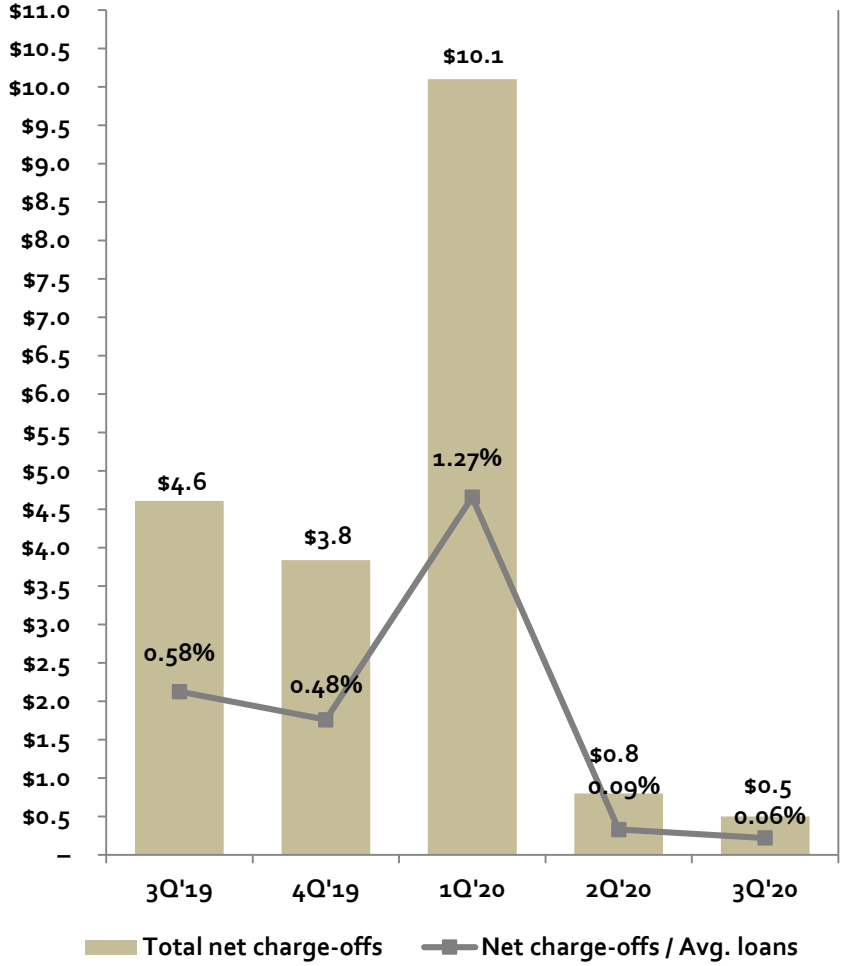
Non-Performing Assets

($ in millions)



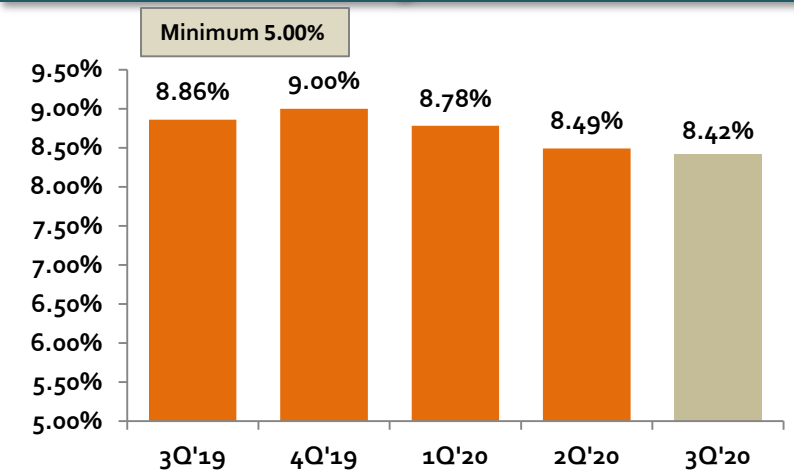
Net Charge-Offs

($ in millions)

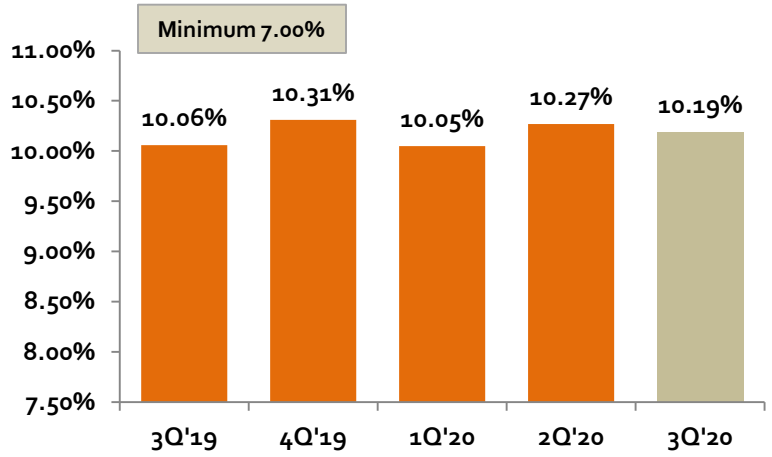


Capital Ratios

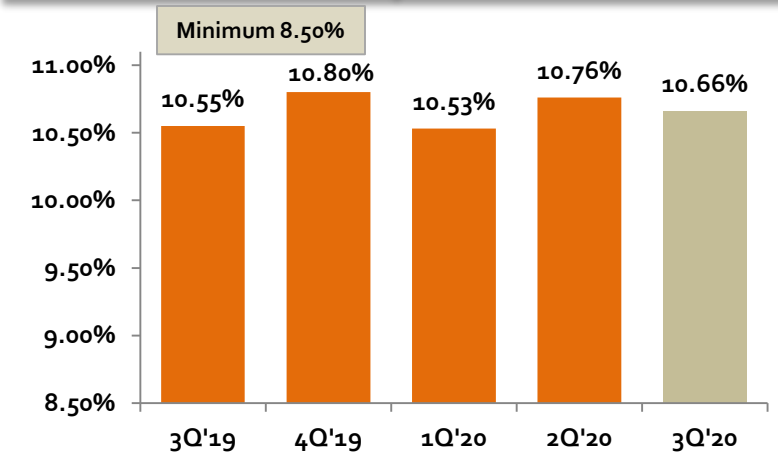
Leverage Ratio [1]



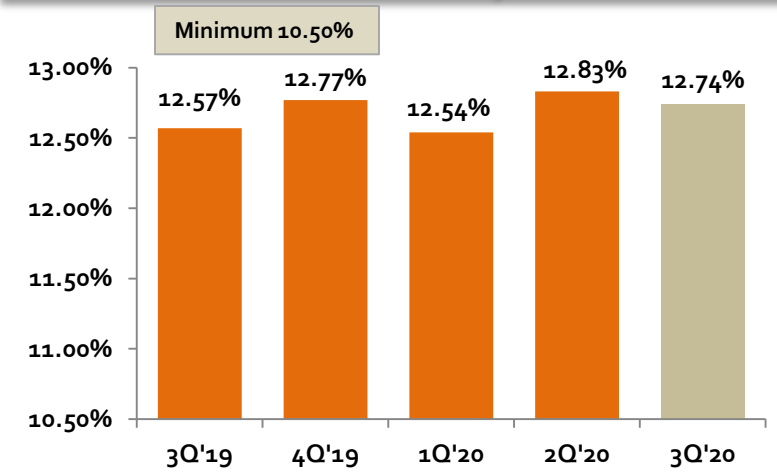
Common Equity Tier 1 Capital Ratio [1]



Tier 1 Capital Ratio [1]

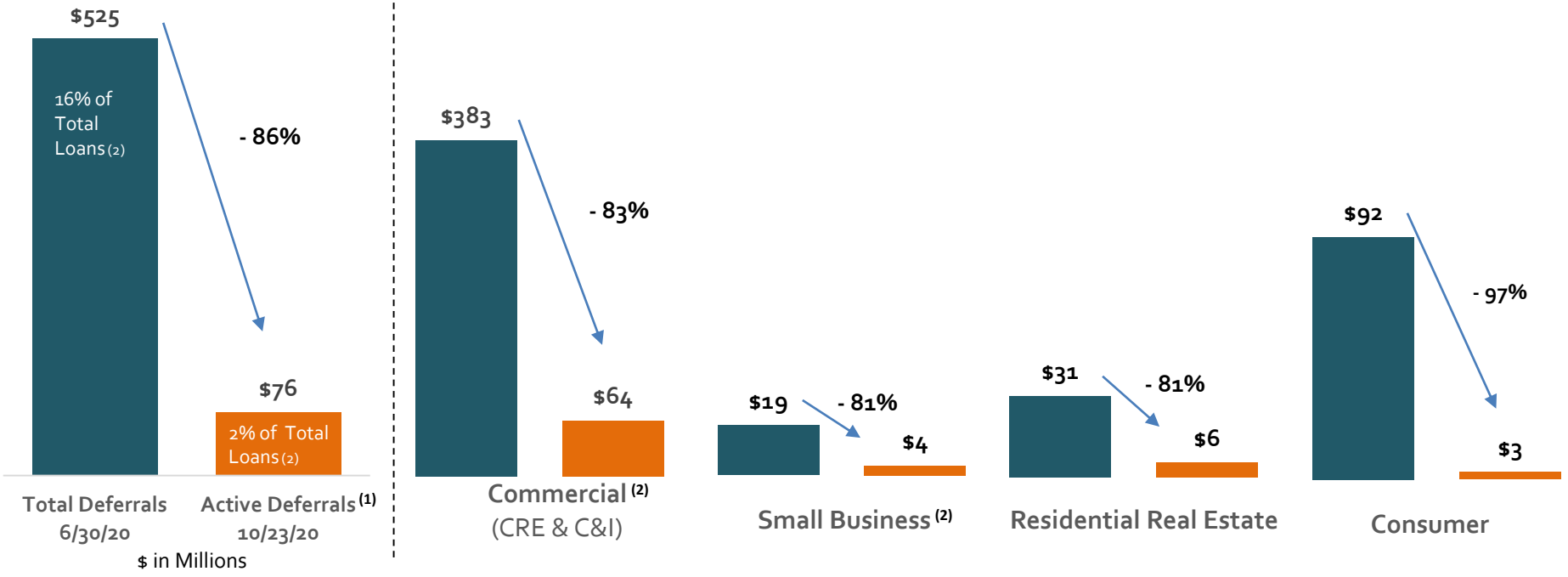


Total Risk-Based Capital Ratio [1]



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

Modification Trend Improving
Deferrals Down 86% at 10/23/20 Compared to 6/30/20



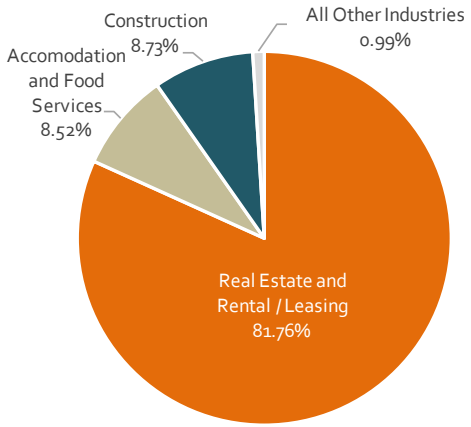
- Modification trend showing significant improvement
- Substantially all balances coming off of deferral are paying as agreed
- Long-term credit performance of these customers is unknown at this time

(1) Active deferrals includes loans where deferral period has not yet expired
(2) Excludes PPP loans

Commercial Loan Portfolio Detail

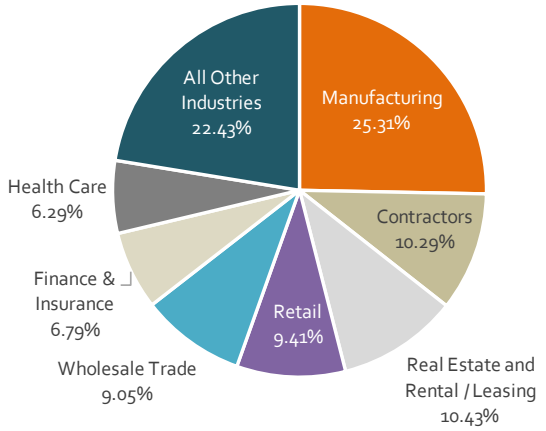
Commercial Real Estate Ttl Exposure[1] ($1.2Bn[2])

As of September 30, 2020



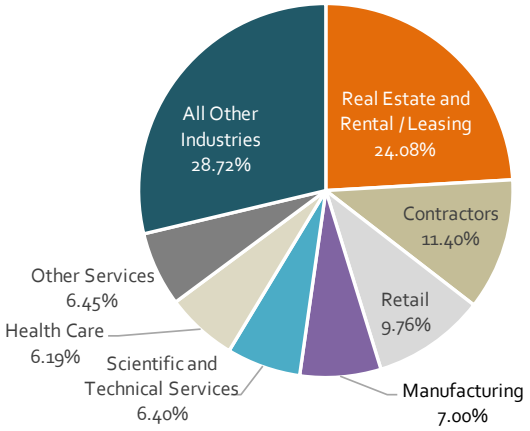
Commercial & Industrial Ttl Exposure[1] ($979MM[2])

As of September 30, 2020



Business Banking Ttl Exposure[1] ($201MM[2])

As of September 30, 2020

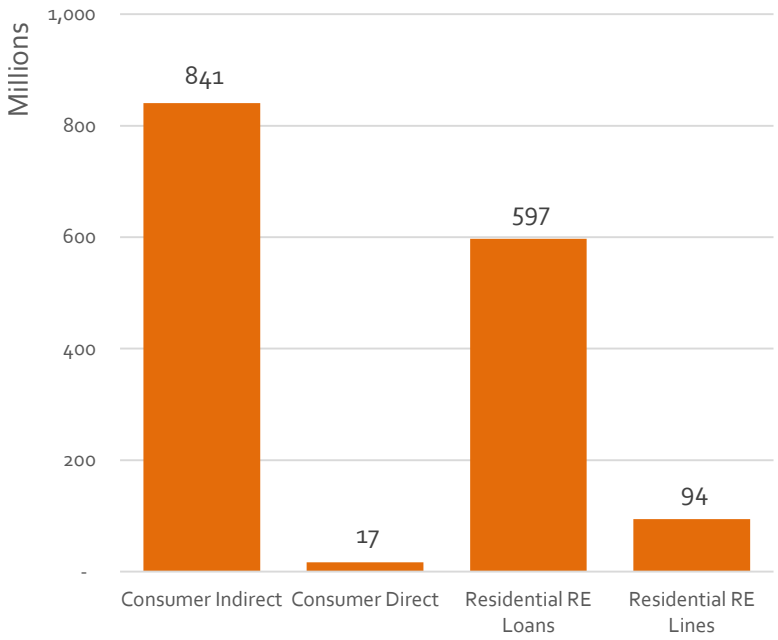


- **The vast majority of the commercial loan portfolio is within the Bank's footprint**

(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 September 30, 2020



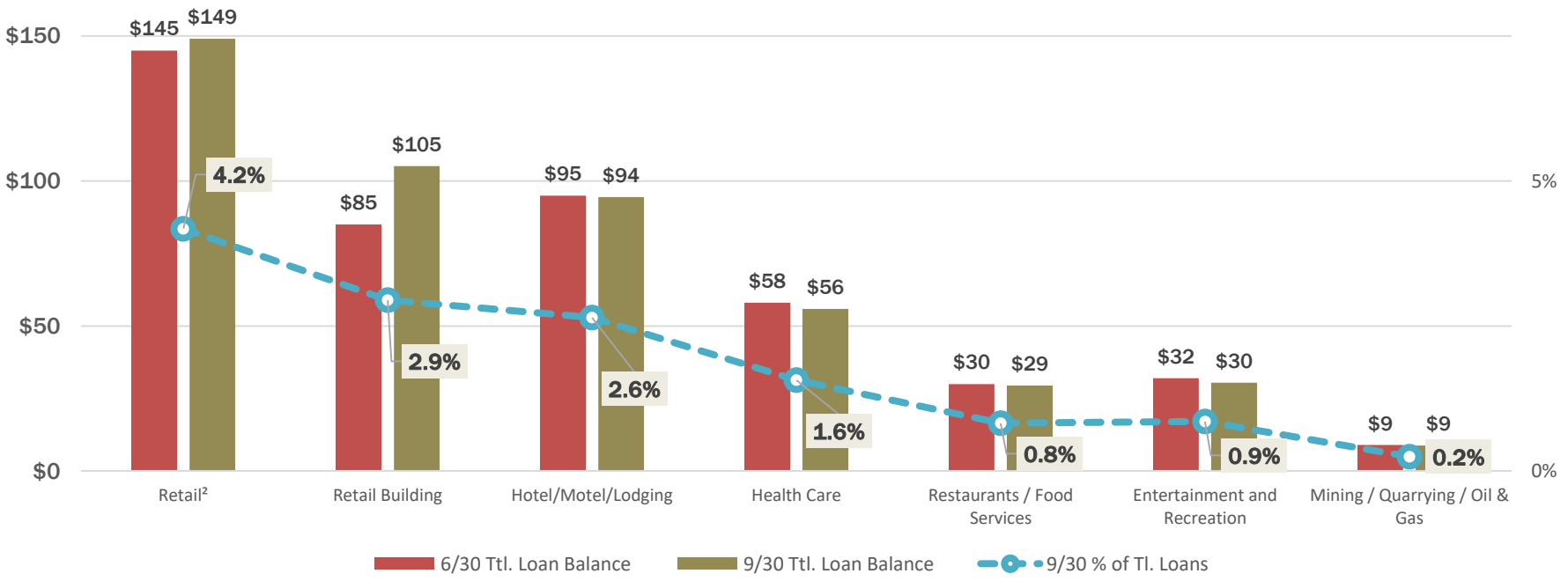
Consumer Lending Portfolio Metrics
As of September 30, 2020

	% of Ttl. Loan Portfolio ($3.6Bn)	# of Loans	Wt. Avg FICO Score (at origination)	Avg. Loan Balance
Consumer Indirect	23.6%	46,688	723	$17,221
Consumer Direct	0.5%	11,808	728	$1,288
Residential Real Estate Loans	16.7%	7,207	737	$92,130
Residential Home Equity Lines of Credit (HELOCs)	2.6%	3,584	769	$23,866

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, 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.)

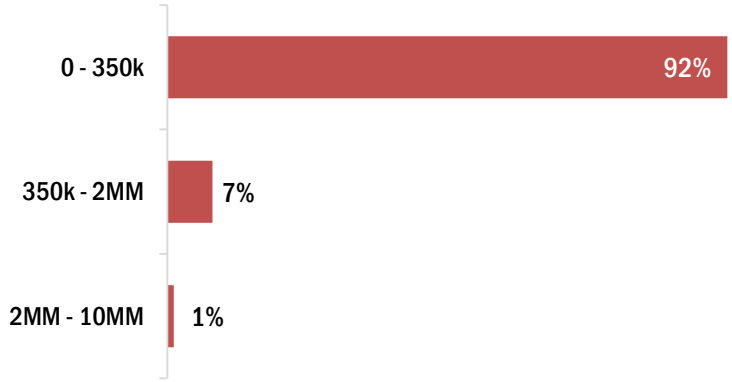
Tier I Commercial Loan Portfolio – Outstanding Loan Balances (2Q vs. 3Q) and % Ttl. Loan Portfolio ($MMs)[1]



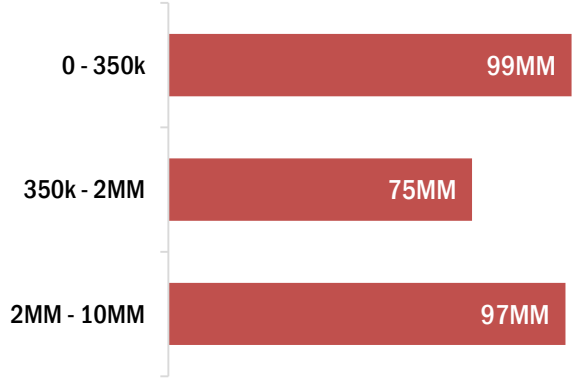
(1) All balances exclude PPP loans
(2) Retail includes Gas Stations/Convenience Stores previously disclosed separately

SBA Payroll Protection Program ("PPP") Loans

Funded PPP Loan Volumes (No. Units by SBA Loan Size)
As of September 30, 2020



Funded PPP Loans ($ by Loan Size)
As of September 30, 2020



- 1,736 funded PPP loans for a total of $271 MM as of September 30, 2020
- Median loan amount ~$150k. ~92% of loans are for less than $350K

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)	9/30/2019	12/31/2019	3/31/2020	6/30/2020	9/30/2020	9/30/2020
Computation of ending tangible common equity:						
Common shareholders' equity	$ 415,289			$ 430,717	$ 439,033	$ 439,033
Less: Goodwill and other intangible assets, net	75,225			74,342	74,062	74,062
Tangible common equity	340,064			356,375	364,971	364,971
Computation of ending tangible assets:						
Total assets	$ 4,332,737			$ 4,680,930	$ 4,959,201	$ 4,959,201
Less: Goodwill and other intangible assets, net	75,225			74,342	74,062	74,062
Tangible assets	4,257,512			4,606,588	4,885,139	4,885,139
Tangible common equity to tangible assets[1]	7.99%			7.74%	7.47%	7.47%
Common shares outstanding	15,997			16,038	16,038	16,038
Tangible common book value per share[2]	$ 21.26			$ 22.22	$ 22.76	$ 22.76
Computation of average tangible common equity:						
Average common equity	$ 412,073			$ 428,111	$ 437,948	$ 427,613
Less: Average goodwill and other intangible assets, net	75,401			74,504	74,220	74,653
Average tangible common equity	336,672			353,607	363,728	352,960
Computation of average tangible assets:						
Average assets	$ 4,260,810			$ 4,624,360	$ 4,775,333	$ 4,518,891
Less: Average goodwill and other intangible assets, net	75,401			74,504	74,220	74,653
Average tangible assets	4,185,409			4,549,856	4,701,113	4,444,238
Net income available to common shareholders	12,468			10,766	11,908	36,178
Return on average tangible common equity[3]	14.69%			12.25%	13.02%	10.25%
Pre-tax pre-provision income:						
Net income	$ 12,833	$ 13,107	$ 1,127	$ 11,132	$ 12,273	
Add: Income tax expense	4,281	312	322	2,441	2,940	
Add: Provision for credit losses	1,844	2,653	13,915	3,746	4,028	
Pre-tax pre-provision income	$ 18,958	$ 16,072	$ 15,364	$ 17,319	$ 19,241	

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.