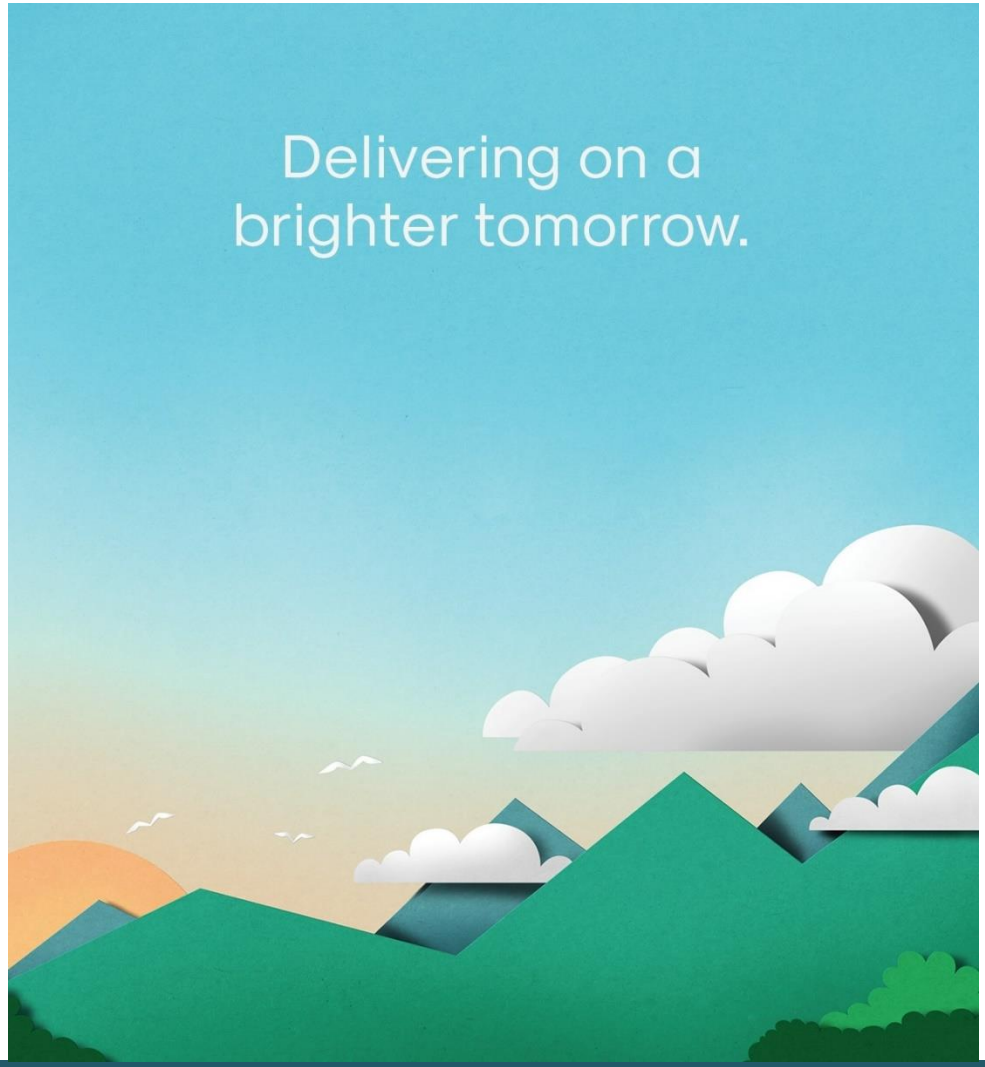


FINANCIAL INSTITUTIONS, INC. (Nasdaq: FISI)
Fourth Quarter and Year-End 2020 Earnings Presentation
January 28, 2021

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)
- 48[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 December 31, 2020

Assets:	$4.9 billion
Loans:	$3.6 billion
Deposits:	$4.3 billion
Shareholders' Equity:	$468.4 million
NPAs[1]/Total Assets:	0.25%
Employees:	~ 600
ROACE (TTM):	8.50%
ROATCE[2] (TTM):	10.25%
ROAA (TTM):	0.82%
Annualized Dividend Per Share:	$1.04
Closing Stock Price Per Share:	$22.50
Dividend Yield:	4.62%
Market Capitalization:	$360.9 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

Fourth Quarter Key Statistics[1]

- Net income, earnings per share and pre-tax pre-provision income were the highest in Company history
  - Net income of $13.8 million was $693 thousand, or 5.3% higher than 2019
  - Diluted earnings per share of $0.84 was $0.05, or 6.3% higher than 2019
  - Pre-tax pre-provision income[2] of $21.0 million was $4.9 million, or 30.6% higher than 2019
- Net interest income of $36.2 million was $3.0 million, or 9.1%, higher than 2019
- Net interest margin ("NIM") of 3.13% was 20 basis points lower as a result of the 2020 interest rate environment (reflecting a flatter yield curve and lower rates), lower-yielding PPP loans and excess liquidity
- Total loans at year-end were $3.60 billion, an increase of $374.2 million, or 11.6%, from 12/31/2019
  - As compared to the year earlier period, Commercial Business Loans were up 38.8%, Commercial Mortgage Loans were up 13.3%, Residential Real Estate Loans were up 4.8% and Consumer Indirect Loans were down 1.1%
  - Payroll Protection Program ("PPP") Loans are included in Commercial Business Loans; PPP balance at 12/31/2020, net of deferred fees was $248.0 million
- Common book value per share increased 6.7% from 12/31/2019
  - Tangible common book value per share [2] increased 8.6% from 12/31/2019

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

Fourth Quarter 2020

Results Summary

	4Q'19	3Q'20	**4Q'20**
Net interest income	$33.2	$35.5	**$36.2**
Noninterest income	9.7	12.2	11.3
Noninterest expense	(26.8)	(28.5)	(26.5)
Income tax expense	(0.3)	(2.9)	(1.7)
Preferred stock dividend	(0.4)	(0.4)	(0.4)
Net income available to common shareholders	$12.7	$11.9	$13.4
EPS diluted	$0.79	$0.74	$0.84
Return on average assets	1.21%	1.02%	1.10%
Return on average common equity	12.02%	**10.82%**	**12.00%**
Return on average tangible common equity[1]	14.64%	**13.02%**	**14.38%**
Net interest margin	3.33%	**3.22%**	**3.13%**
Efficiency ratio[2]	62.05%	**60.12%**	**55.79%**
Dividends per share	$0.25	$0.26	$0.26
Dividend yield (annualized)	3.09%	**6.72%**	**4.60%**

Commentary

- Net interest income increased $3.0MM from 4Q'19 and $682K from 3Q'20 as a result of increases in loans and investment securities combined with heightened Federal Reserve interest-earning cash; partially offset by lower net interest margin due to rate environment, lower-yielding PPP loans and excess liquidity.
- Noninterest income increased $1.7MM from 4Q'19 primarily due to higher net gain on sale of loans ($1.3MM) and income from investment in limited partnerships ($380K); and decreased $881K from 3Q'20 due to lower income from derivative instruments ($1.0MM), insurance income ($479K) and gain on investment securities ($404K).
- Noninterest expense was relatively flat as compared to 4Q'19 and $1.9MM lower than 3Q'20 primarily due to 3rd quarter non-recurring charges totaling $1.6MM (related to with branch closures and staff reductions) and lower salaries and benefits in the 4th quarter, partially due to the branch closures/staffing reductions.
- Effective tax rate was 10.9% compared to 2.3% for 4Q'19 and 19.3% for 3Q'20. Rates vary primarily as a result of tax credit investments placed in service in 4Q'20 and 4Q'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 (4Q'19 – 4Q'20)

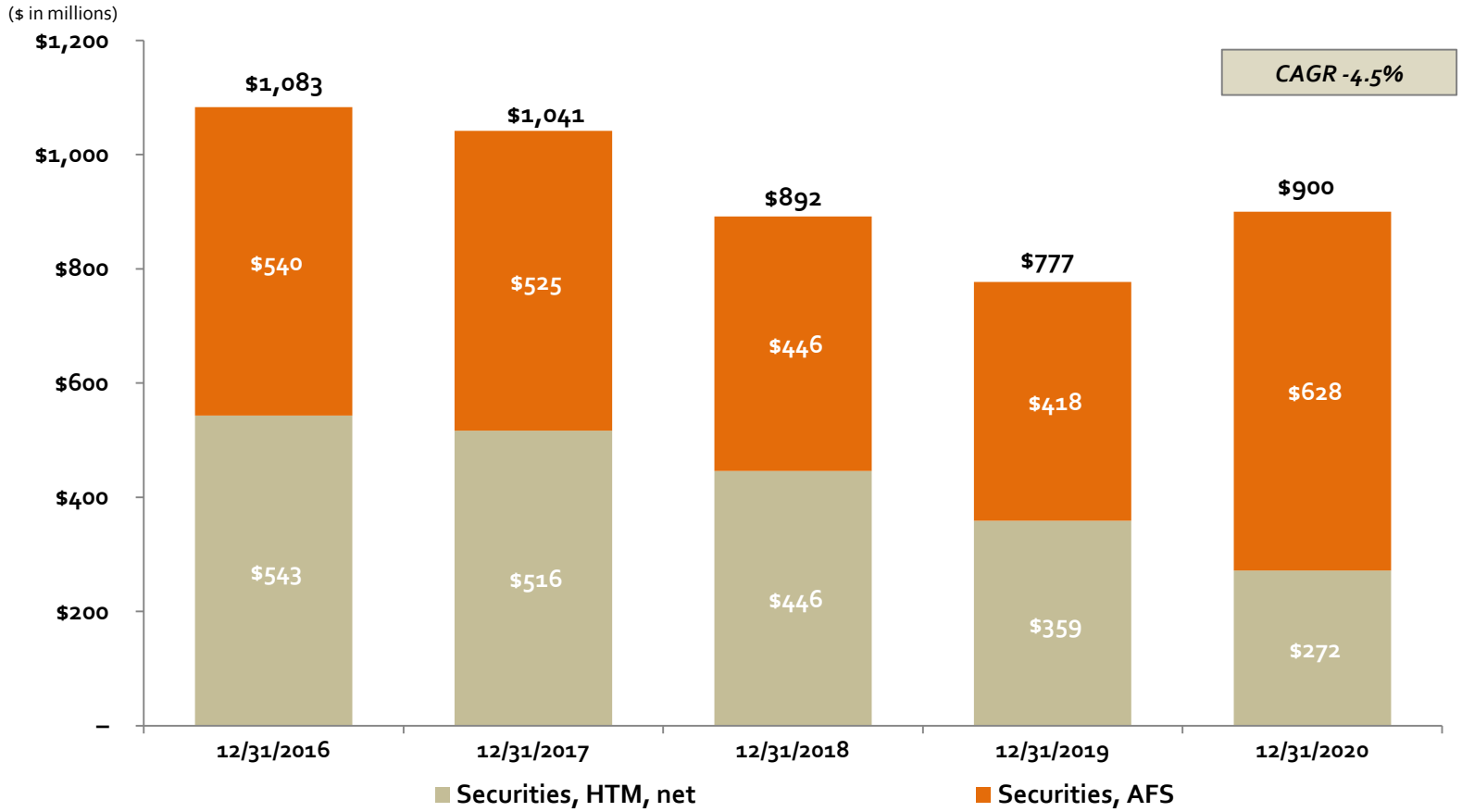
($ in millions, except per share amounts)

Earnings Summary	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20
Average interest-earning assets	$3,994	$4,054	$4,274	$4,414	$4,635
Net interest margin	3.33%	3.31%	3.23%	3.22%	3.13%
Net interest income	33.2	33.1	34.2	35.5	36.2
Noninterest income	9.7	9.9	9.7	12.2	11.3
Total revenue	**$42.9**	**$43.0**	**$43.9**	**$47.7**	**$47.5**
Noninterest expense	($26.8)	($27.6)	($26.6)	($28.5)	($26.5)
Pre-tax pre-provision income [1]	16.1	15.4	17.3	19.2	21.0
Provision for credit losses	(2.7)	(13.9)	(3.7)	(4.0)	(5.5)
Pre-tax net income	13.4	1.5	13.6	15.2	15.5
Income tax expense	(0.3)	(0.4)	(2.5)	(2.9)	(1.7)
Net income	**$13.1**	**$1.1**	**$11.1**	**$12.3**	**$13.8**
Preferred stock dividends	(0.4)	(0.3)	(0.3)	(0.4)	(0.4)
Net income available to common shareholders	**$12.7**	**$0.8**	**$10.8**	**$11.9**	**$13.4**
Earnings per share - diluted	$0.79	$0.05	$0.67	$0.74	$0.84
Weighted average common shares outstanding - diluted	16.1	16.1	16.0	16.1	16.1

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

Securities Portfolio

- Initiative launched in 2018 to convert low-yield, low-risk weighted investment securities into higher-yielding loans. Initiative completed in 3Q'19.
- In 4Q'20, excess Federal Reserve cash balances were reallocated to eligible agency mortgage backed securities.

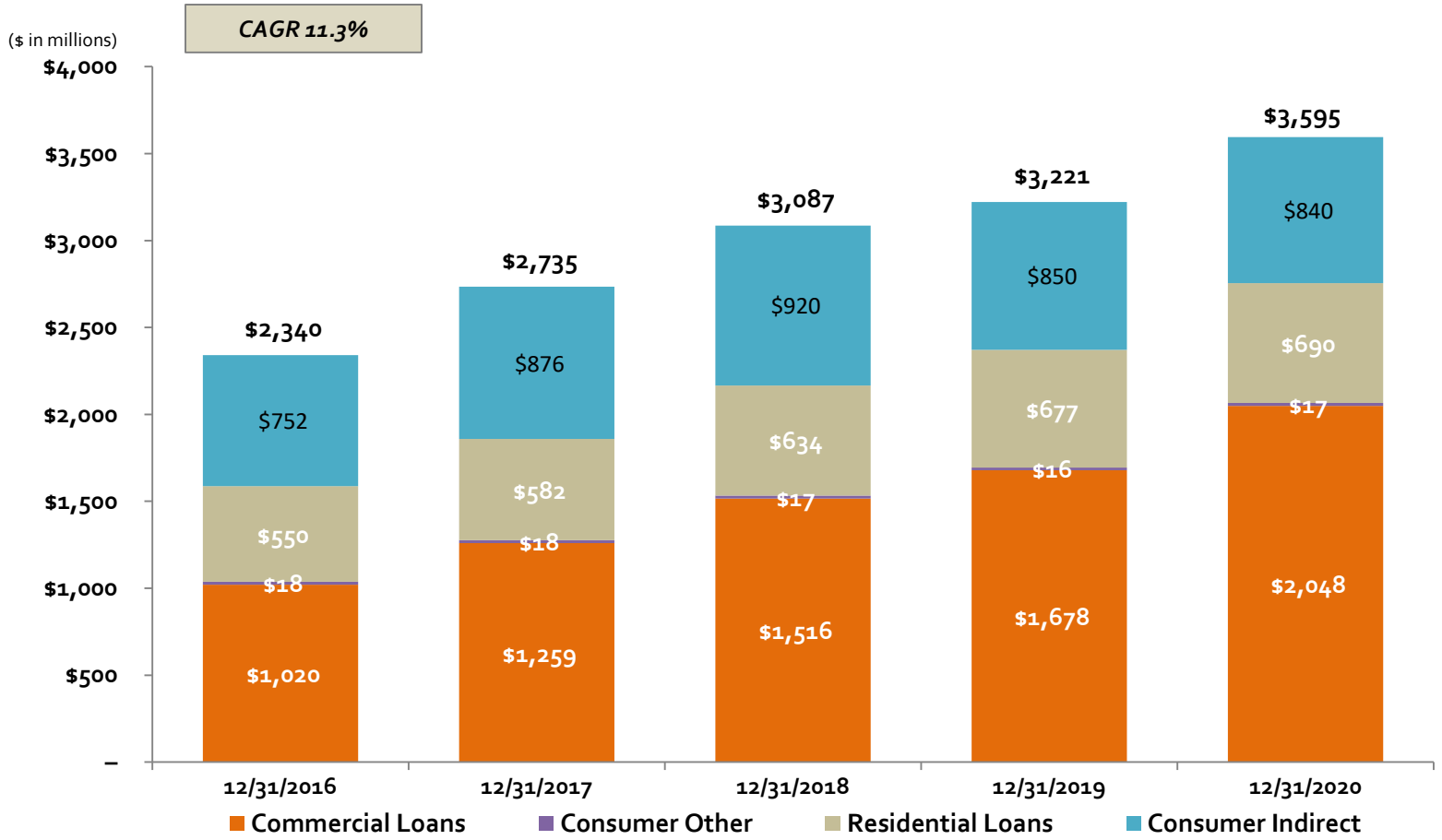


	2016	2017	2018	2019	2020
Security Yield(1)	2.45%	2.48%	2.33%(2)	2.39%(2)	2.31%(2)

(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 $248.0 million of PPP loans, net of deferred fees, at December 31, 2020



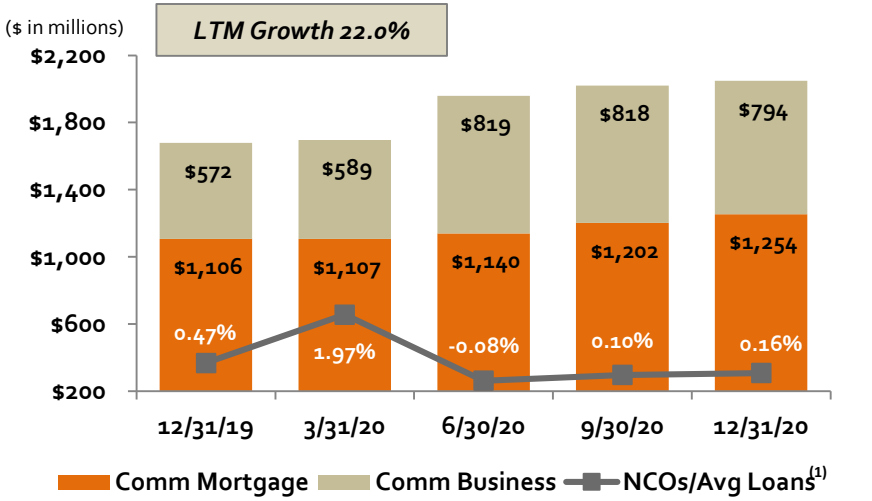
	2016	2017	2018	2019	2020
Loan Yield(1)	4.18%	4.22%	4.51%	4.77%	4.18%

(1) Average yield for the period

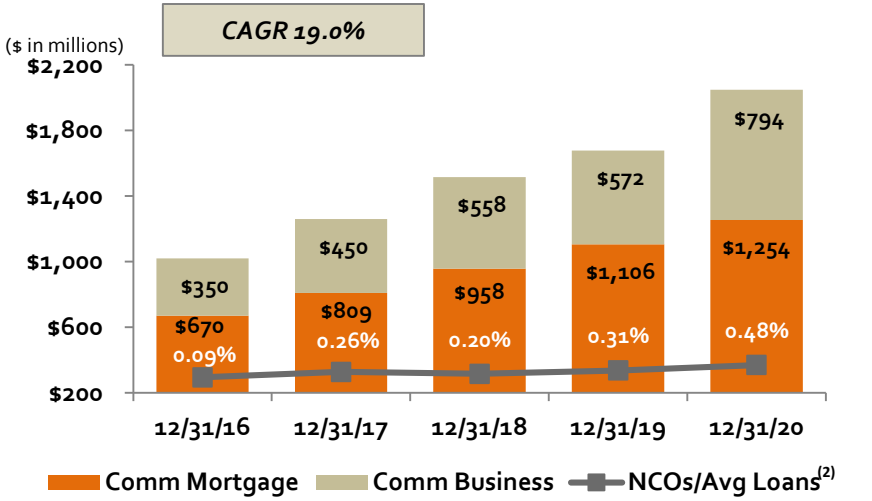
Commercial Banking

- Growth in 3Q'20 and 4Q'20 reflect soft loan origination environment
- Growth in 2Q'20 commercial business 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
- Growth has been driven by 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

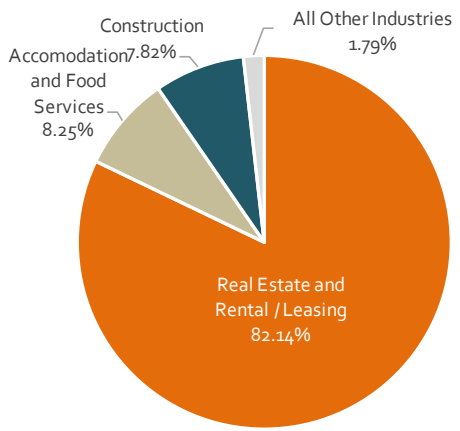


(1) For the quarter (annualized)
(2) For the year

Commercial Loan Portfolio Detail

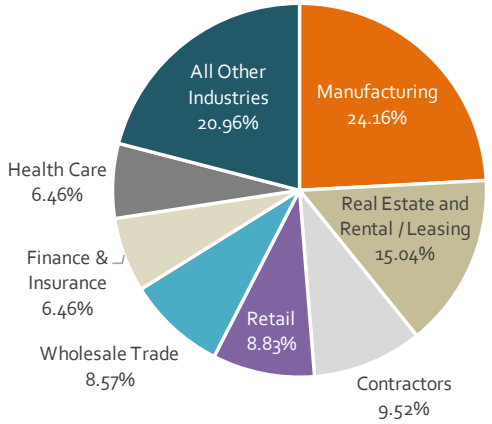
Commercial Real Estate Ttl Exposure[1] ($1.2Bn[2])

As of December 31, 2020



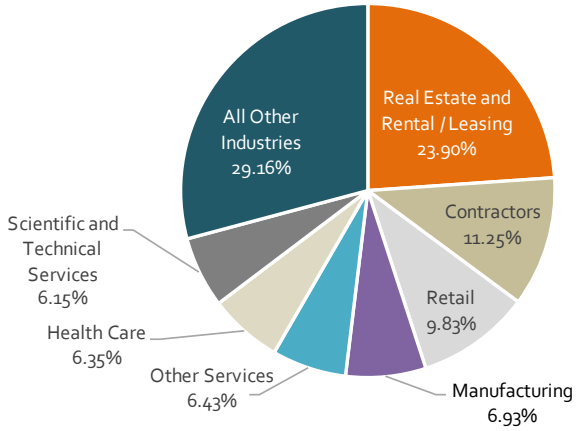
Commercial & Industrial Ttl Exposure[1] ($1.0Bn[2])

As of December 31, 2020



Business Banking Ttl Exposure[1] ($199MM[2])

As of December 31, 2020



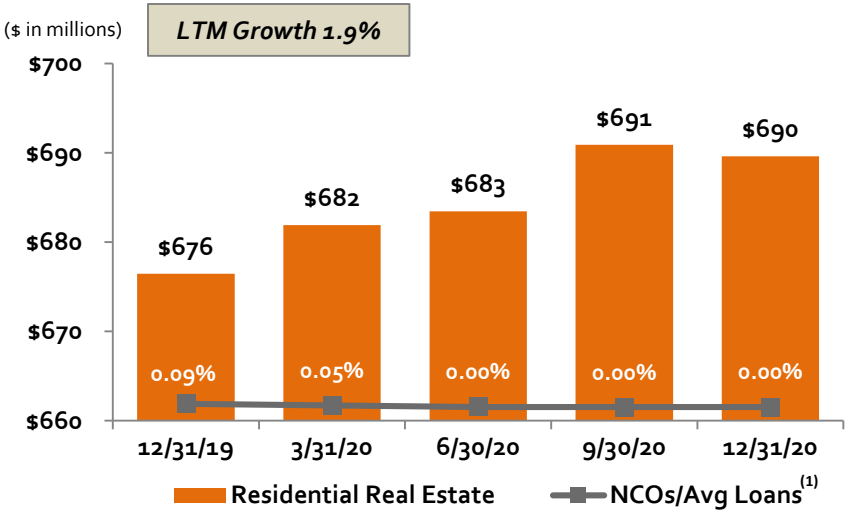
- **The vast majority of the commercial loan portfolio is within the Bank's footprint**

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

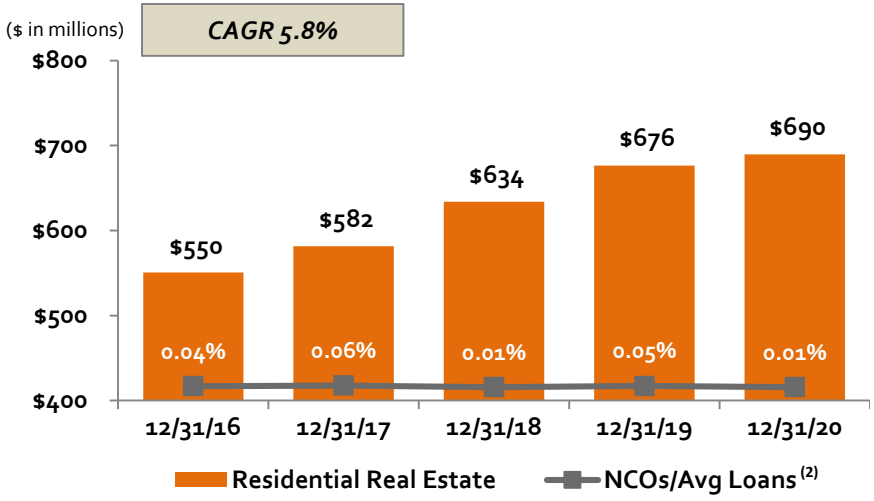
Residential Real Estate Loans and Lines

- 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

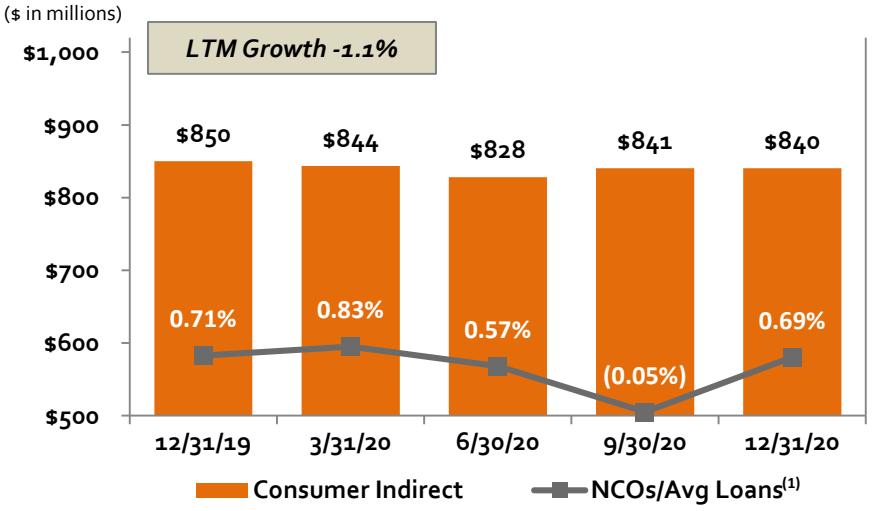


(1) For the quarter (annualized)
(2) For the year

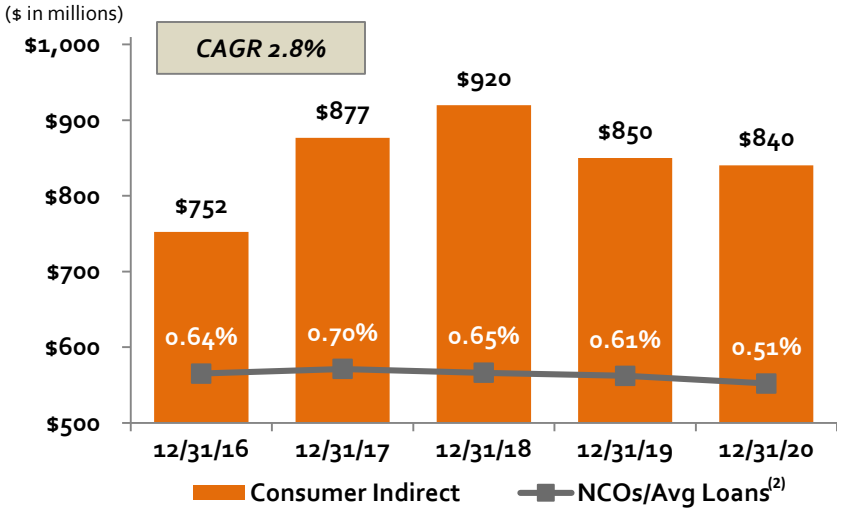
Consumer Indirect Lending

- $840.4 million Portfolio at December 31, 2020
  - Portfolio represents 23.4% 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 722 with 5% 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



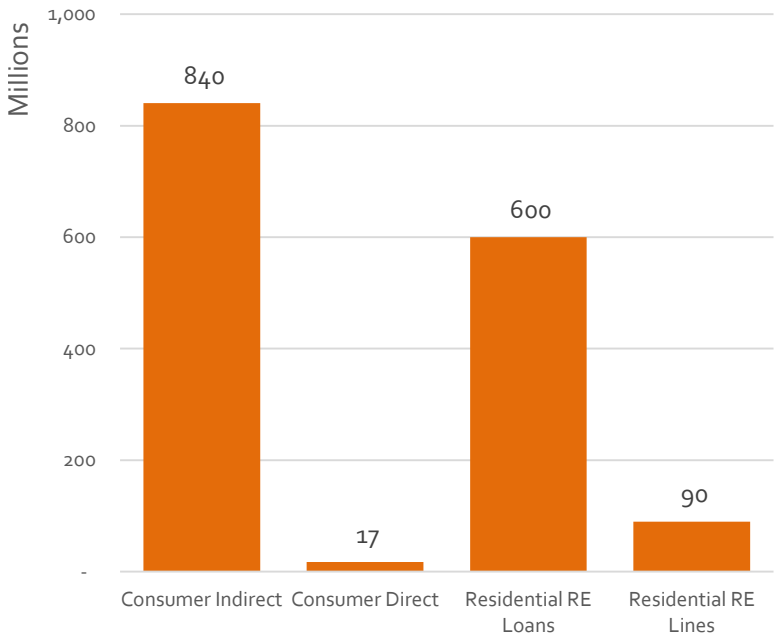
Consumer Indirect – Annual



(1) For the quarter (annualized)
(2) For the year

Consumer & Residential Loan Portfolio Detail

Consumer Lending Portfolio
As of December 31, 2020

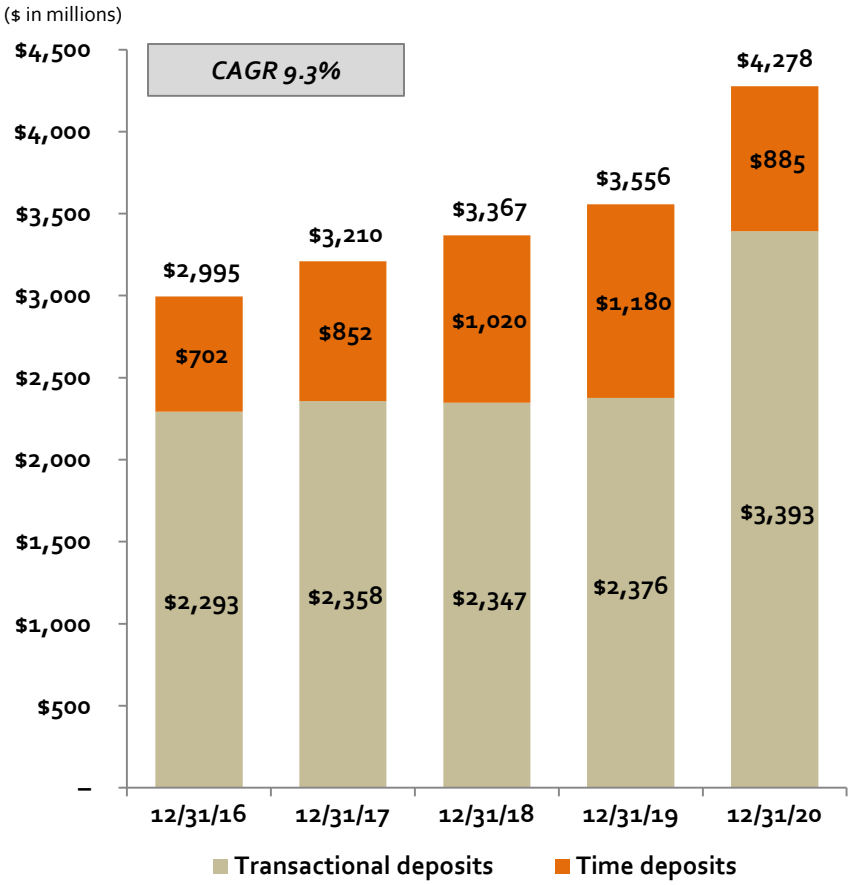


Consumer Lending Portfolio Metrics
As of December 31, 2020

	% of Ttl. Loan Portfolio ($3.6Bn)	# of Loans	Wt. Avg FICO Score (at origination)	Avg. Loan Balance
Consumer Indirect	23.4%	46,568	722	$17,340
Consumer Direct	0.4%	11,738	729	$1,321
Residential Real Estate Loans	16.7%	7,173	737	$81,657
Residential Home Equity Lines of Credit (HELOCs)	2.5%	3,501	769	$23,341

Deposit Growth

Deposits (by account type)



	2016	2017	2018	2019	2020
Cost of Deposits(1)	0.29%	0.35%	0.57%	0.82%	0.44%

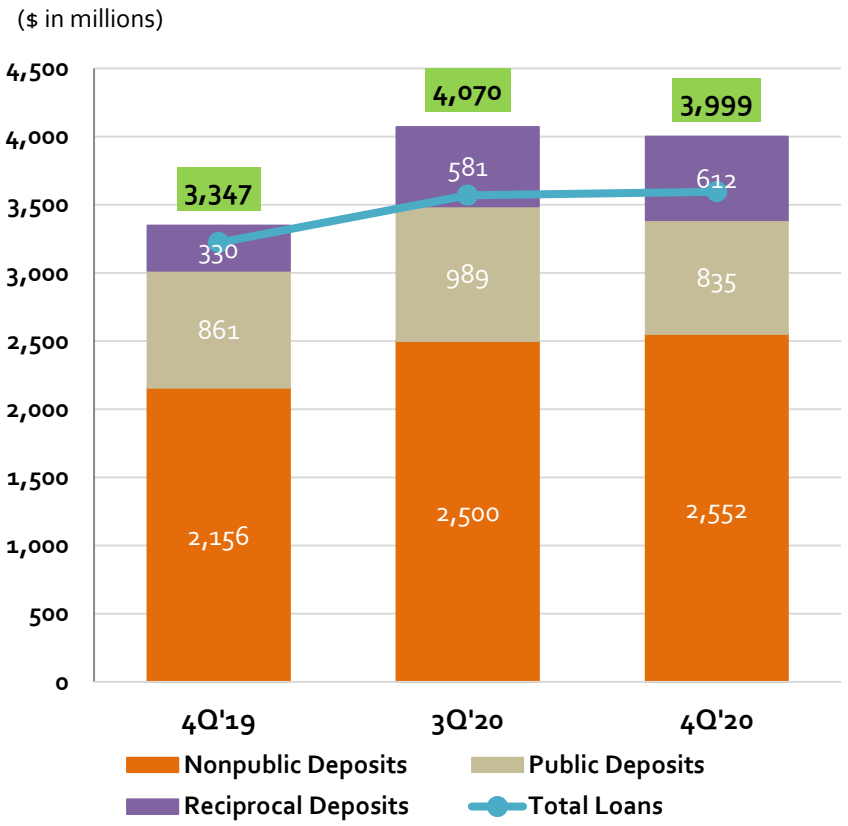
Commentary

- 2020 increase driven by growth in non-public demand and reciprocal deposit portfolios
- Opportunities for growth
  - Combined Rochester and Buffalo markets represent attractive deposit market of $84 billion
  - Current FSB market share is less than 2%
- 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 20% of deposits at 12/31/20 compared to 24% of deposits at 12/31/19
  - FSB currently has 319 municipal customers

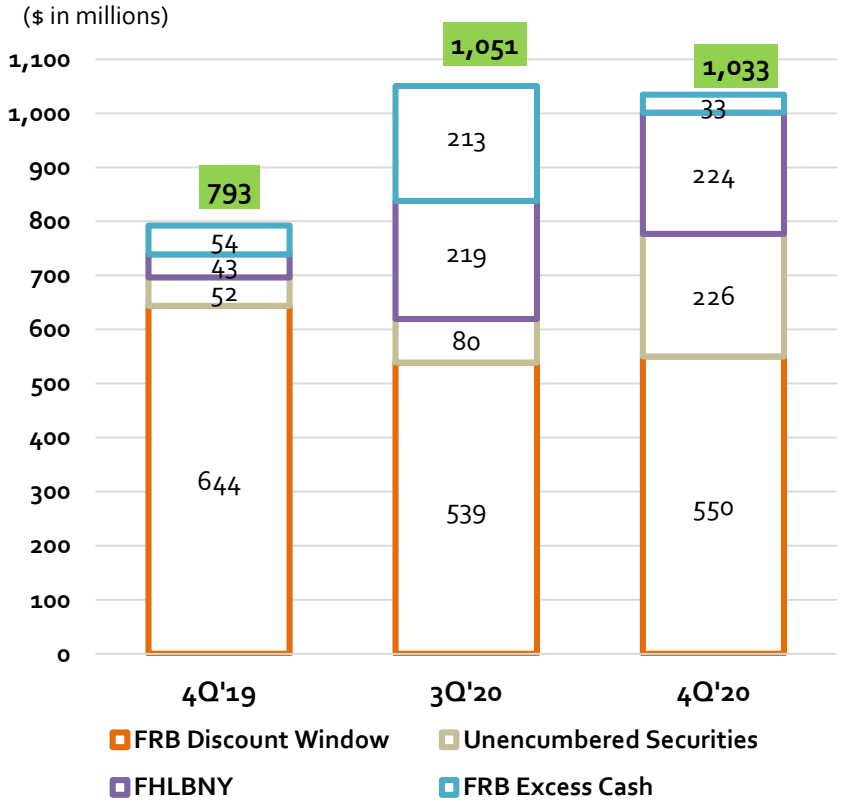
(1) For the year

Key Liquidity Metrics

Deposit Mix (1)



Available Committed Liquidity

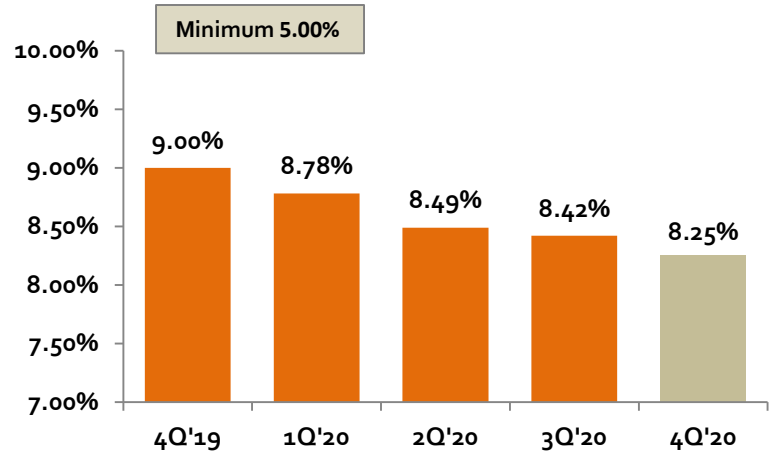


- Diverse deposit gathering capabilities
  - Core nonpublic deposits anchor our deposit base; loan to deposit ratio of 84.0% at 4Q'20
  - 4Q'20 available committed liquidity remains strong and stable, representing reduced reliance on FHLB advances
  - Decline in FRB Excess Cash reflects deployment of excess funds into investment securities, coupled with seasonal public deposit outflows at quarter-end

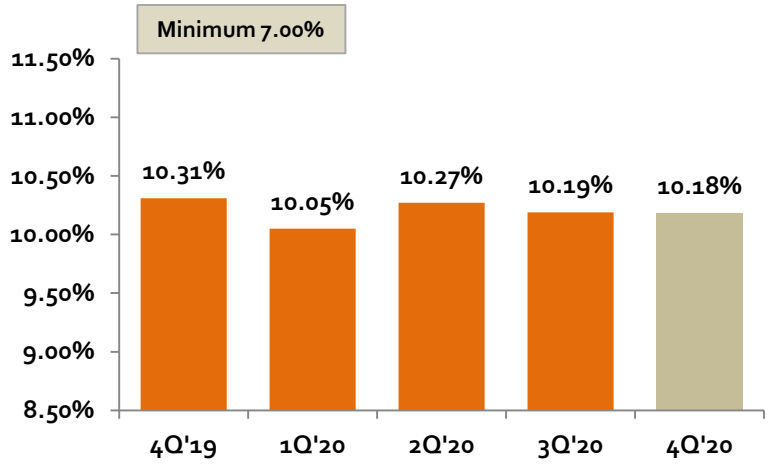
(1) Excluding Brokered Deposits

Capital Ratios

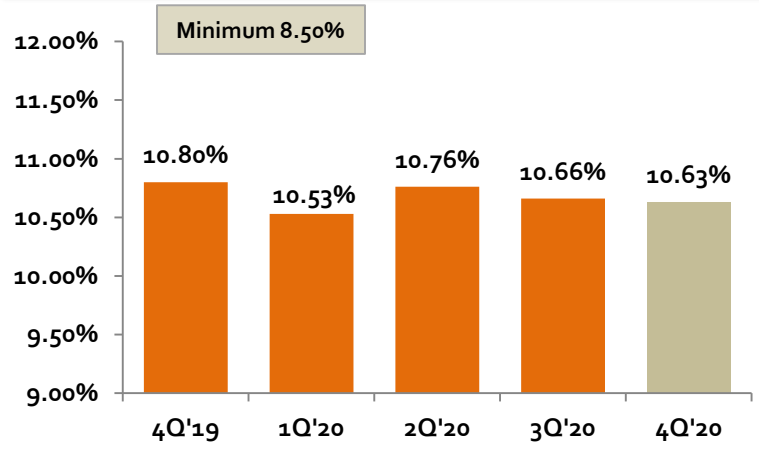
Leverage Ratio (1)



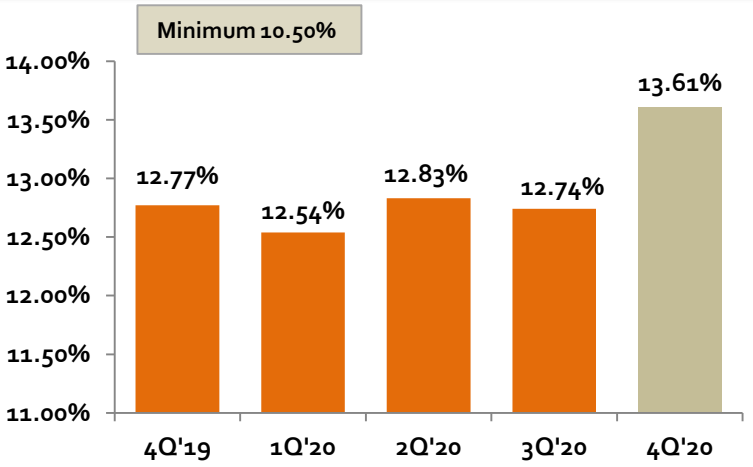
Common Equity Tier 1 Capital Ratio (1)



Tier 1 Capital Ratio (1)



Total Risk-Based Capital Ratio (1)

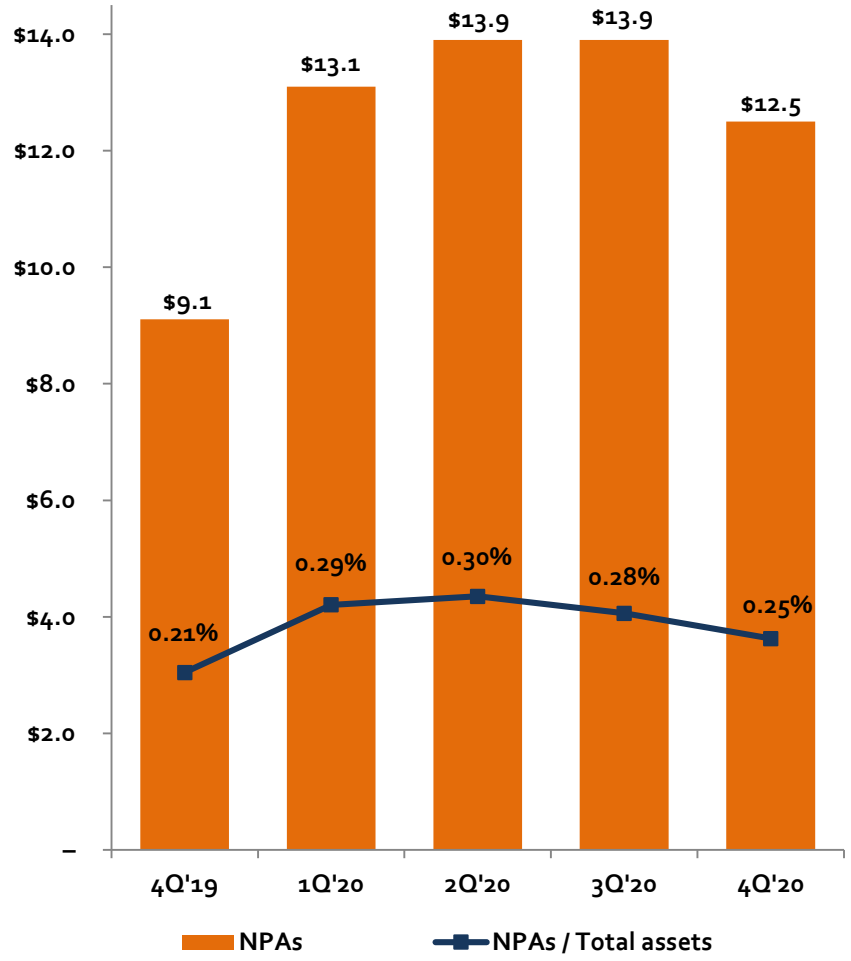


(1) Minimum capital ratios based on January 2019 fully phased-in Basel III requirements.

Asset Quality

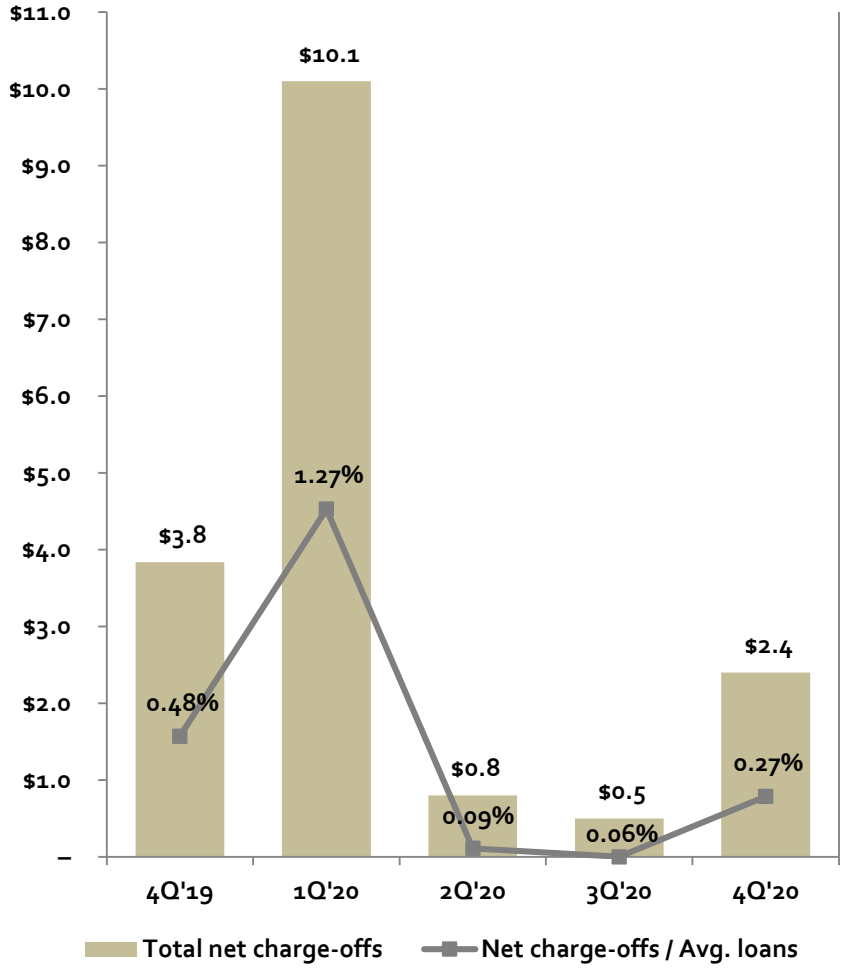
Non-Performing Assets

($ in millions)



Net Charge-Offs

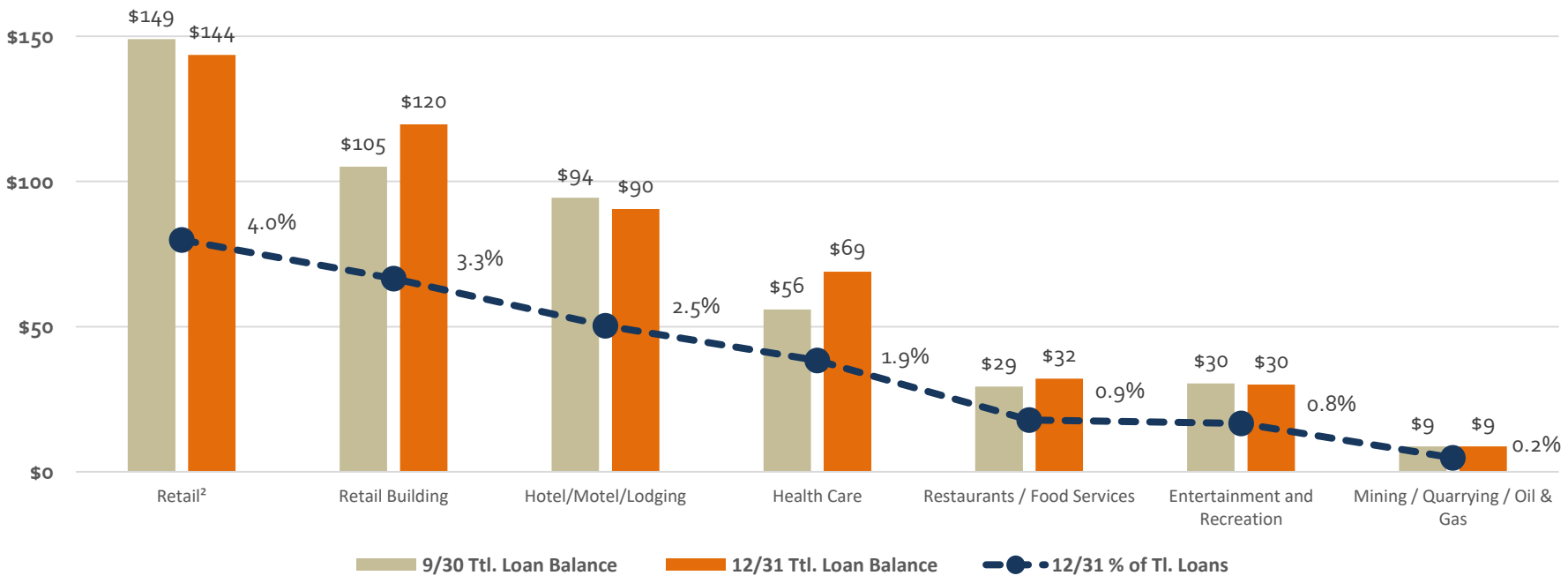
($ in millions)



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 remain within policy limits
- Tier I represents most impacted industries (retail, hotels/lodging, restaurants, etc.)
- Exposure to industries most impacted remains relatively stable; new loans in these industries are subject to tightened lending standards and limited to strong credits

Tier I Commercial Loan Portfolio – Outstanding Loan Balances (3Q vs. 4Q) and % Ttl. Loan Portfolio ($MMs)[1]

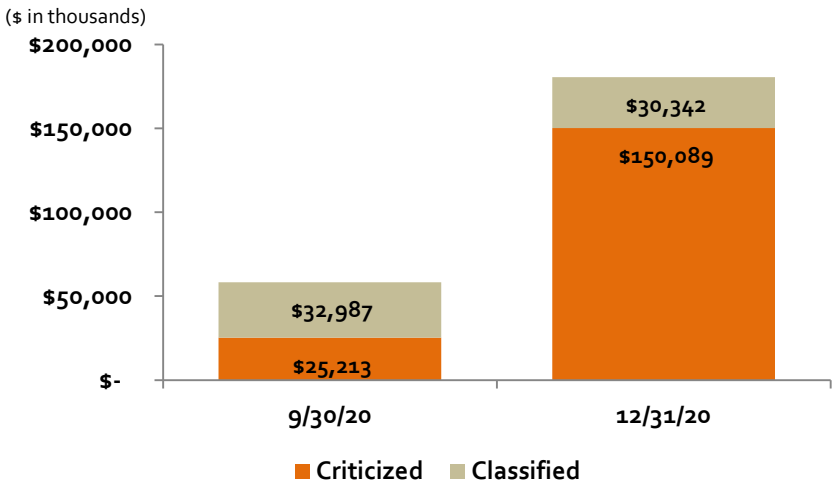


(1) All balances exclude PPP loans
(2) Retail includes Gas Stations/Convenience Stores previously disclosed separately

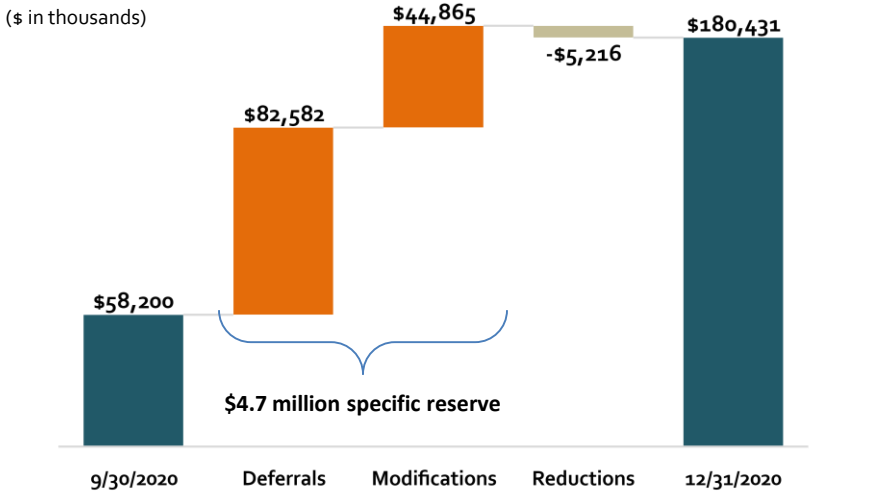
Criticized and Classified Assets

- In an effort to address the impact of COVID-19 on our most at-risk exposures, ~$127 Million of commercial loans were downgraded to criticized status in 4Q'20
  - ~$82 Million of the downgrades were loans on extended deferral, which represents a significant portion of the commercial loans on active deferral at year-end; the balance of commercial deferrals at 12/31/20 of ~$17 Million represents loans with deferral period expirations in 1Q'21 and an expected return to active payment status
  - ~$45 Million of the downgrades were loans not on deferral, but with modification attributes; these loans are current with respect to payment status
- While we are cautiously optimistic that these credits will normalize post-pandemic, a subset of these loans was determined to have unique characteristics and analyzed specifically for allowance for credit loss purposes; the specific reserve established in 4Q'20 for this subset of loans totaled $4.7 million

Criticized and Classified Assets



4Q'20 Change in Criticized and Classified



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,					Year to Date	
($ in thousands, except per share data)	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020	2019	2020
Computation of ending tangible common equity:							
Common shareholders' equity	$ 421,619			$ 439,033	$ 451,035		
Less: Goodwill and other intangible assets, net	74,923			74,062	73,789		
Tangible common equity	346,696			364,971	377,246		
Computation of ending tangible assets:							
Total assets	$ 4,384,178			$ 4,959,201	$ 4,912,306		
Less: Goodwill and other intangible assets, net	74,923			74,062	73,789		
Tangible assets	4,309,255			4,885,139	4,838,517		
Tangible common equity to tangible assets[1]	8.05%			7.47%	7.80%		
Common shares outstanding	16,003			16,038	16,042		
Tangible common book value per share[2]	$ 21.66			$ 22.76	$ 23.52		
Computation of average tangible common equity:							
Average common equity	$ 420,472			$ 437,948	$ 445,515	$ 403,689	$ 433,908
Less: Average goodwill and other intangible assets, net	75,093			74,220	73,942	75,557	74,364
Average tangible common equity	345,379			363,728	371,573	328,132	359,544
Computation of average tangible assets:							
Average assets	$ 4,299,342			$ 4,775,333	$ 4,992,886	$ 4,285,825	$ 4,693,225
Less: Average goodwill and other intangible assets, net	75,093			74,220	73,942	75,557	74,364
Average tangible assets	4,224,249			4,701,113	4,918,944	4,210,268	4,618,861
Net income available to common shareholders	12,742			11,908	13,435	47,401	36,871
Return on average tangible common equity[3]	14.64%			13.02%	14.38%	14.45%	10.25%
Pre-tax pre-provision income:							
Net income	$ 13,107	$ 1,127	$ 11,132	$ 12,273	$ 13,800		
Add: Income tax expense	312	322	2,441	2,940	1,688		
Add: Provision for credit losses	2,653	13,915	3,746	4,028	5,495		
Pre-tax pre-provision income	$ 16,072	$ 15,364	$ 17,319	$ 19,241	$ 20,983		

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.