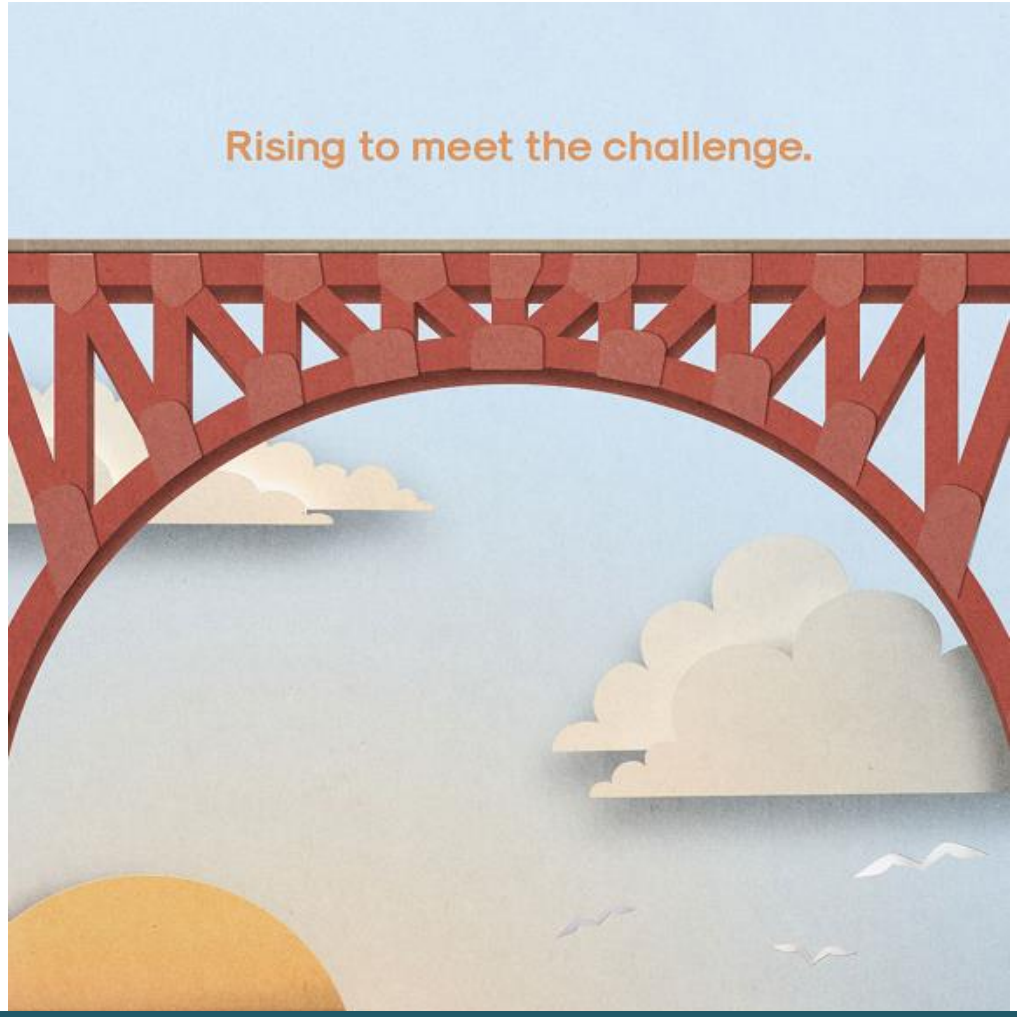


FINANCIAL INSTITUTIONS, INC. (Nasdaq: FISI)
First Quarter 2021 Earnings Presentation
April 28, 2021

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)
- 47[3] banking locations in 14 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 March 31, 2021

Assets:	$5.3 billion
Loans:	$3.7 billion
Deposits:	$4.7 billion
Shareholders' Equity:	$466.3 million
NPAs[1]/Total Assets:	0.24%
Employees:	~ 600
ROACE (TTM):	12.81%
ROATCE[2] (TTM):	15.40%
ROAA (TTM):	1.19%
Annualized Dividend Per Share:	$1.08
Closing Stock Price Per Share:	$30.29
Dividend Yield:	3.57%
Market Capitalization:	$479.5 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
(3) Reflects six branch closures in 2020 and one branch closure in 2021

First Quarter Key Statistics[1]

- Net income, earnings per share and pre-tax pre-provision income were the highest in Company history
  - Provision for credit losses significantly impacted net income and earnings per share; Q1 2020 provision of $13.9 million was driven by adoption of CECL and impact of COVID-19 pandemic compared to provision benefit of $2.0 million in Q1 2021 due to improvement in unemployment forecast (designated loss driver for CECL model) and positive trends in qualitative factors, resulting in release of credit loss reserves
    - Net income of $20.7 million was $19.6 million higher than 2020
    - Diluted earnings per share of $1.27 was $1.22 higher than 2020
  - Pre-tax pre-provision income[2] of $24.1 million was $8.7 million higher than 2020
- Net interest income of $37.9 million was $4.7 million, or 14.3%, higher than 2020
- Net interest margin ("NIM") of 3.29% was two basis points lower as a result of the interest rate environment (reflecting a flatter yield curve and lower rates), lower-yielding PPP loans and excess liquidity, partially offset by the impact of PPP loan origination fees
- Total loans at year-end were $3.65 billion, an increase of $417.2 million, or 12.9%, from 3/31/2020
  - As compared to the year earlier period, Commercial Business Loans were up 38.7%, Commercial Mortgage Loans were up 15.3%, Residential Real Estate Loans were up 3.8% and Consumer Indirect Loans were up 1.7%
  - Payroll Protection Program ("PPP") Loans are included in Commercial Business Loans; PPP balance at 3/31/2021, net of deferred fees was $255.6 million
- Common book value per share increased 7.6% from 3/31/2020
  - Tangible common book value per share[2] increased 9.1% from 3/31/2020

(1) As compared to first quarter 2020
(2) Refer to "Non-GAAP Reconciliation" in Appendix

First Quarter 2021

Results Summary

($ in millions, except per share amounts)	1Q'20	4Q'20	**1Q'21**
Net interest income	$33.1	$36.2	**$37.9**
Noninterest income	9.9	11.3	12.9
Noninterest expense	(27.6)	(26.5)	(26.7)
Income tax expense	(0.4)	(1.7)	(5.4)
Preferred stock dividend	(0.3)	(0.4)	(0.4)
Net income available to common shareholders	$0.8	$13.4	$20.3
EPS diluted	$0.05	$0.84	$1.27
Return on average assets	0.10%	1.10%	1.66%
Return on average common equity	0.72%	12.00%	**18.28%**
Return on average tangible common equity[1]	0.88%	14.38%	**21.88%**
Net interest margin	3.31%	3.13%	**3.29%**
Efficiency ratio[2]	64.26%	55.79%	**52.51%**
Dividends per share	$0.26	$0.26	$0.27
Dividend yield (annualized)	5.76%	4.60%	**3.62%**

Commentary

- Net interest income increased $4.7MM from 1Q'20 and $1.7MM from 4Q'20 as a result of the positive impact of PPP loan forgiveness and increases in loans and investment securities.
- Noninterest income increased $3.0MM from 1Q'20 primarily due to higher income from derivative instruments ($1.1MM), net gain on sale of loans ($826K), income from investments in limited partnerships ($642K) and investment advisory fees ($526K); and increased $1.6MM from 4Q'20 primarily due to higher income from derivative instruments ($971K) and income from investments in limited partnerships ($615K).
- Noninterest expense decreased $930K from 1Q'20 primarily due to lower salaries and employee benefits reflecting streamlining of retail branches ($549K) and lower professional services expense ($257K); and was relatively flat as compared to 4Q'20.
- Effective tax rate was 20.5% compared to 22.2% for 1Q'20 and 10.9% for 4Q'20. Rates vary primarily as a result of tax credit investments placed in service.

[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 (1Q'20 – 1Q'21)

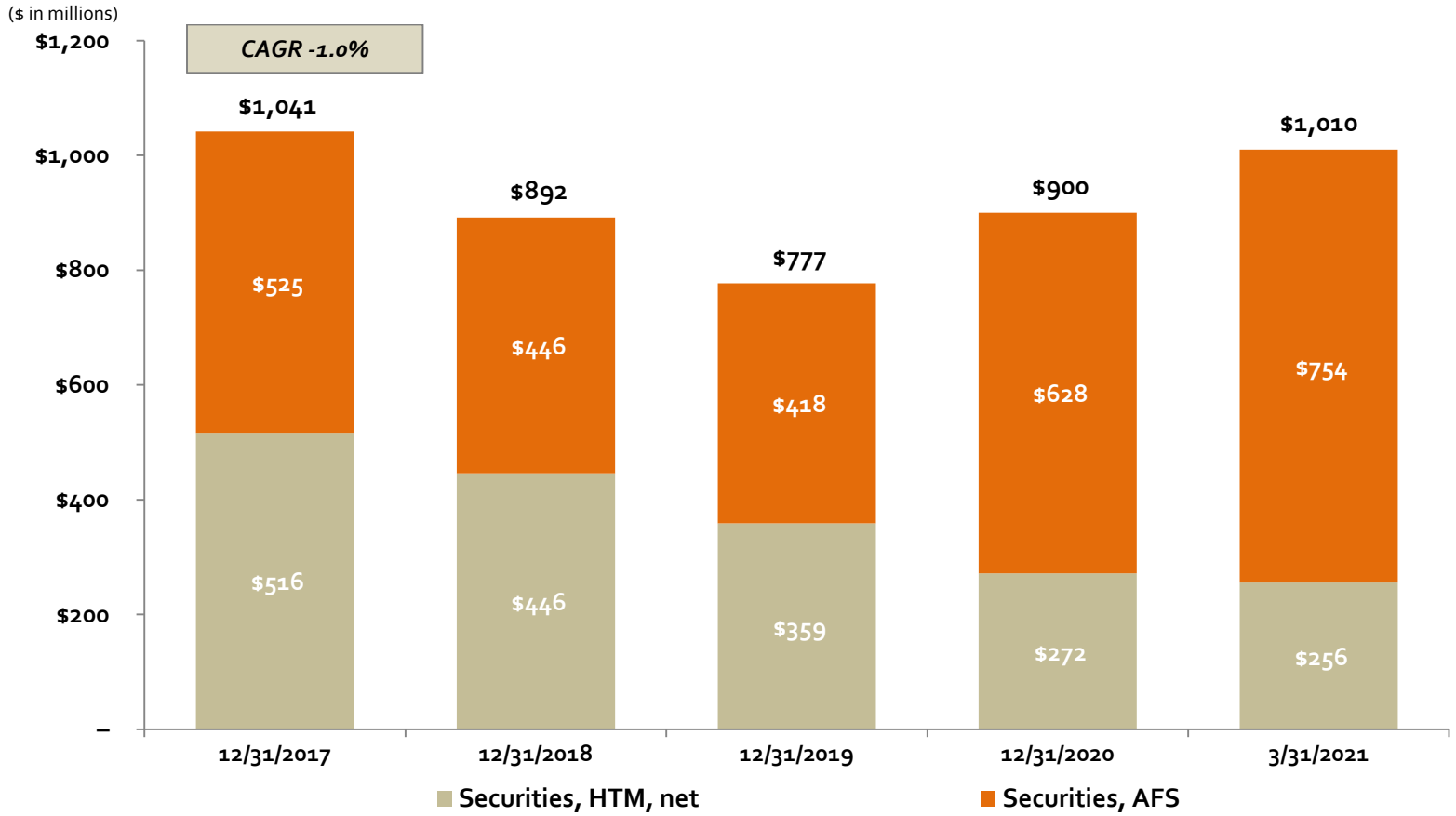
($ in millions, except per share amounts)

Earnings Summary	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21
Average interest-earning assets	$4,054	$4,274	$4,414	$4,635	$4,670
Net interest margin	3.31%	3.23%	3.22%	3.13%	3.29%
Net interest income	33.1	34.2	35.5	36.2	37.9
Noninterest income	9.9	9.7	12.2	11.3	12.9
Total revenue	$43.0	$43.9	$47.7	$47.5	$50.8
Noninterest expense	($27.6)	($26.6)	($28.5)	($26.5)	($26.7)
Pre-tax pre-provision income [(1)]	15.4	17.3	19.2	21.0	24.1
(Provision) benefit for credit losses	(13.9)	(3.7)	(4.0)	(5.5)	2.0
Pre-tax net income	1.5	13.6	15.2	15.5	26.1
Income tax expense	(0.4)	(2.5)	(2.9)	(1.7)	(5.4)
Net income	$1.1	$11.1	$12.3	$13.8	$20.7
Preferred stock dividends	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)
Net income available to common shareholders	$0.8	$10.8	$11.9	$13.4	$20.3
Earnings per share - diluted	$0.05	$0.67	$0.74	$0.84	$1.27
Weighted average common shares outstanding - diluted	16.1	16.0	16.1	16.1	16.0

(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.
- Beginning in 4Q'20, excess Federal Reserve cash balances reallocated to eligible agency mortgage backed securities.

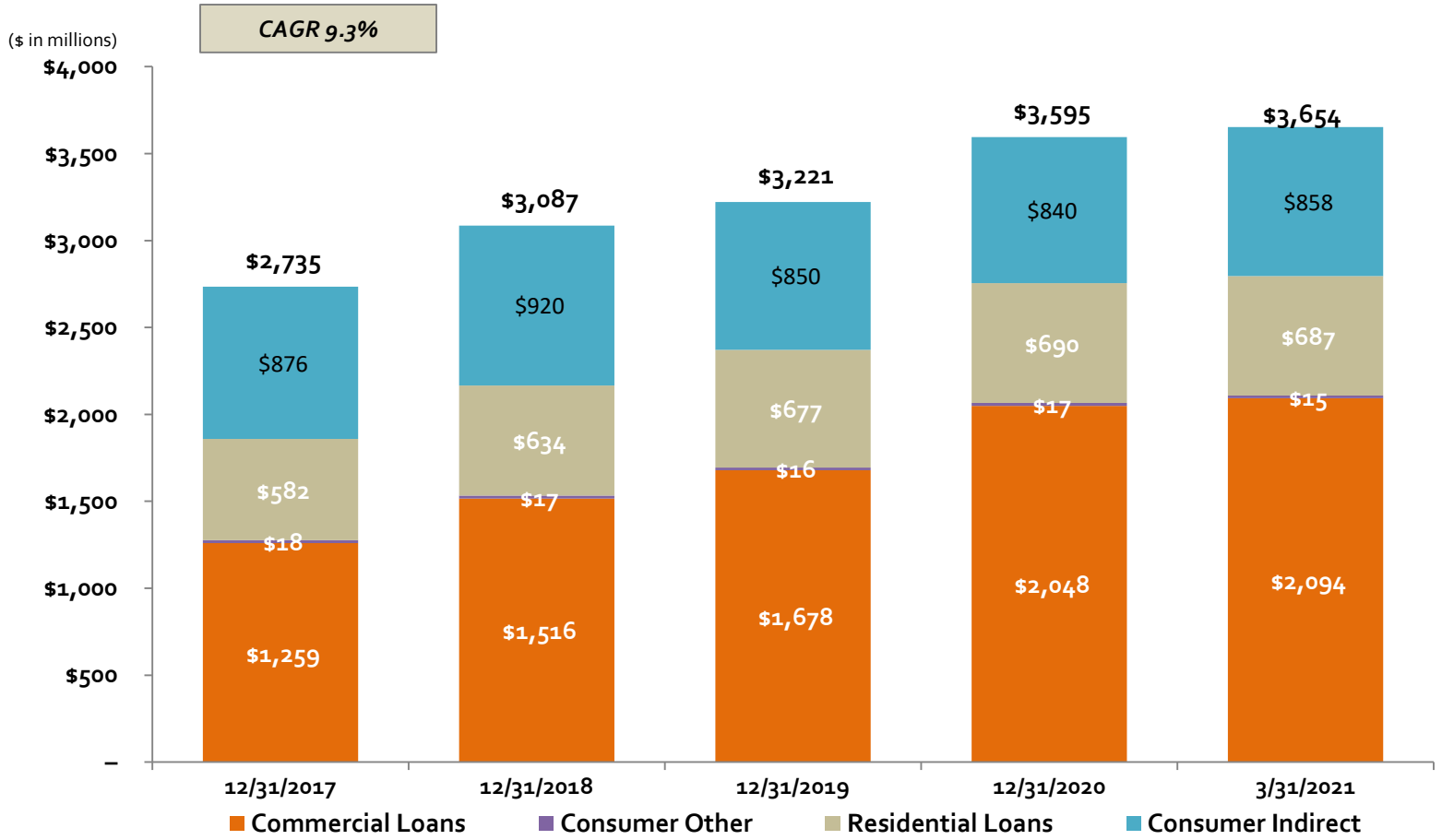


	2017	2018	2019	2020	2021 (YTD)
Security Yield(1)	2.48%	2.33%(2)	2.39%(2)	2.31%(2)	1.91%(2)

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

Total Loans

- 2020 Commercial Loan growth includes $248.0 million of PPP loans net of deferred fees; March 31, 2021 balance of PPP loans net of deferred fees was $255.6 million



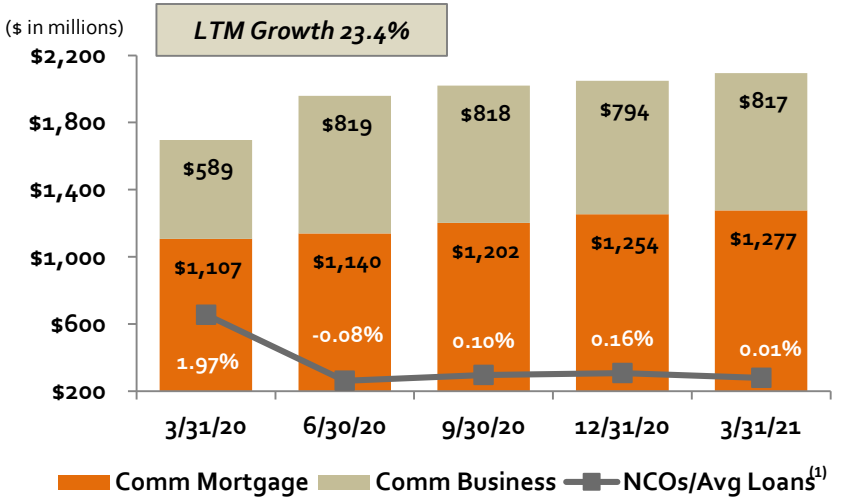
	2017	2018	2019	2020	2021 (YTD)
Loan Yield[1]	4.22%	4.51%	4.77%	4.18%	4.13%

(1) Average yield for the period

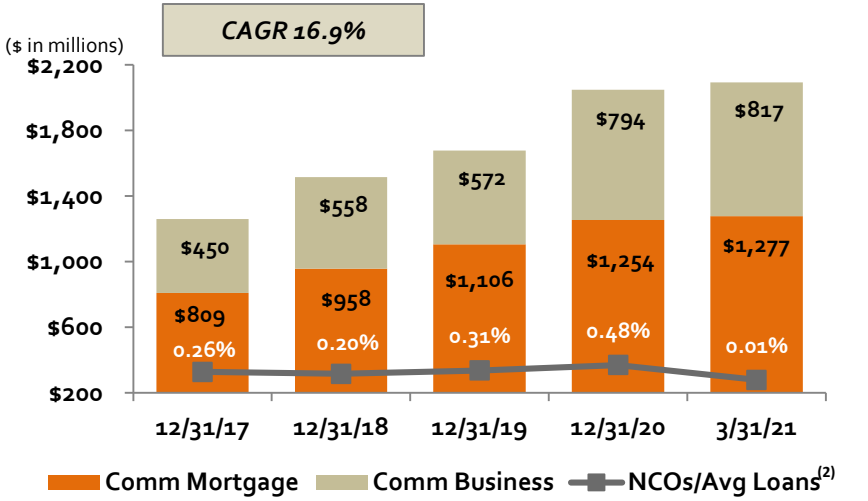
Commercial Banking

- 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
- Excluding PPP loans, loan growth subsequent to 1Q'20 (especially commercial business) reflects soft loan origination environment
- Growth from 2017 forward 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

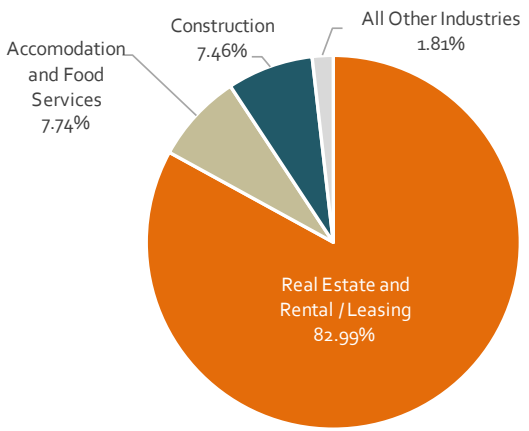


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

Commercial Loan Portfolio Detail

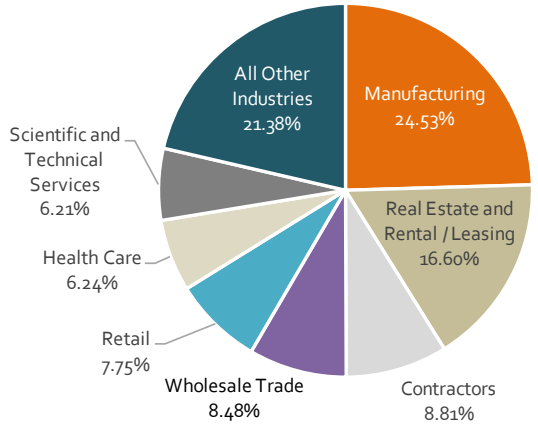
Commercial Real Estate Ttl Exposure(1) ($1.3Bn(2))

As of March 31, 2021



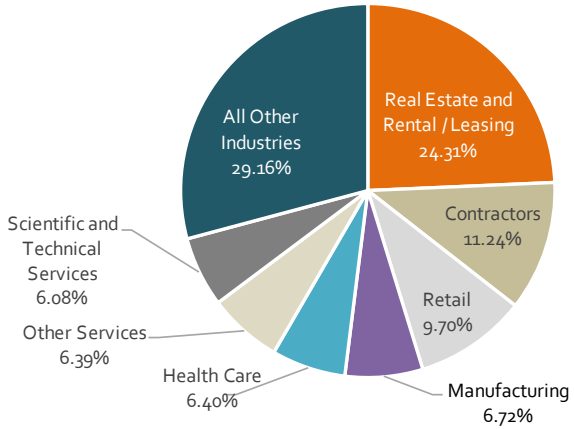
Commercial & Industrial Ttl Exposure(1) ($1.1Bn(2))

As of March 31, 2021



Business Banking Ttl Exposure(1) ($198MM(2))

As of March 31, 2021



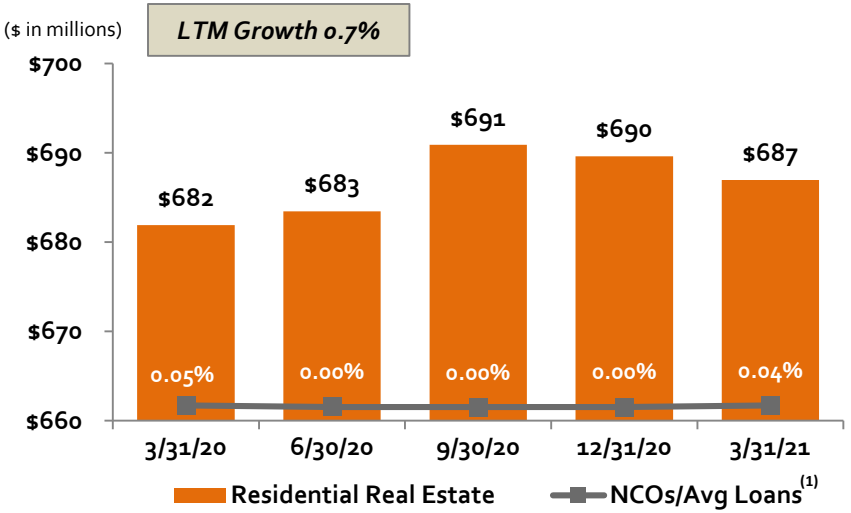
- **The vast majority of the commercial loan portfolio is within the Bank's footprint**

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

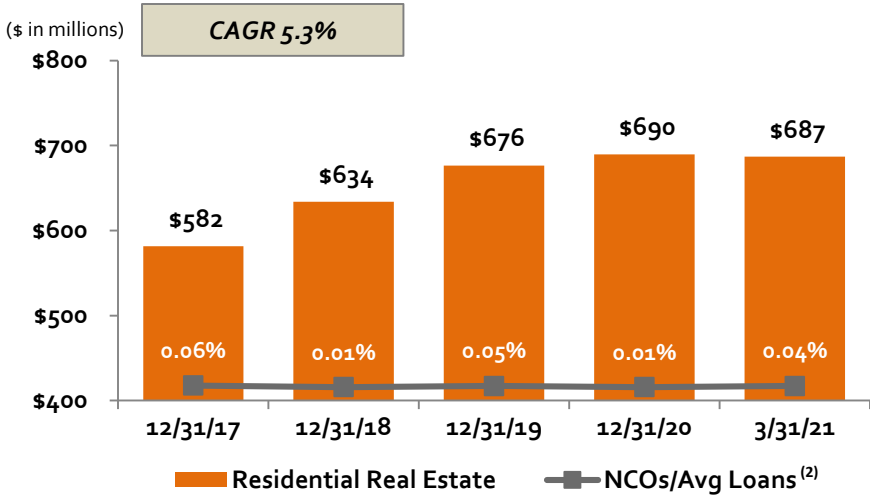
Residential Real Estate Loans and Lines

- 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

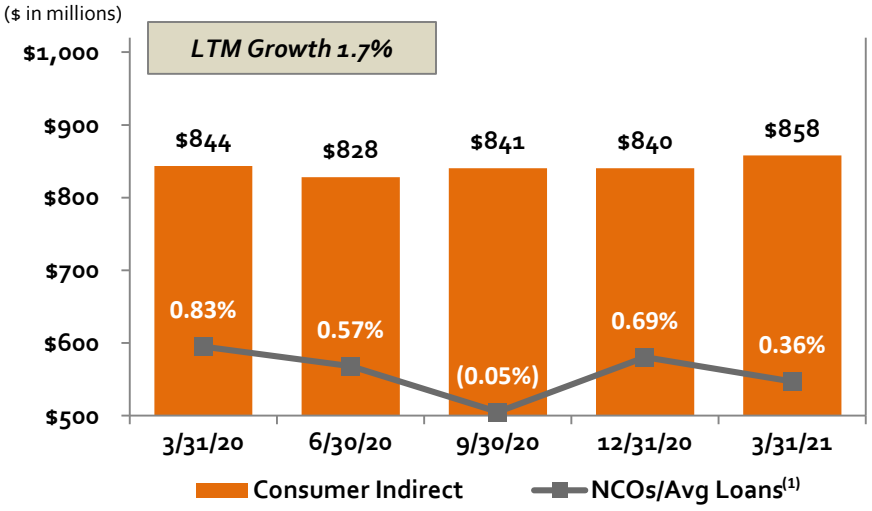


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

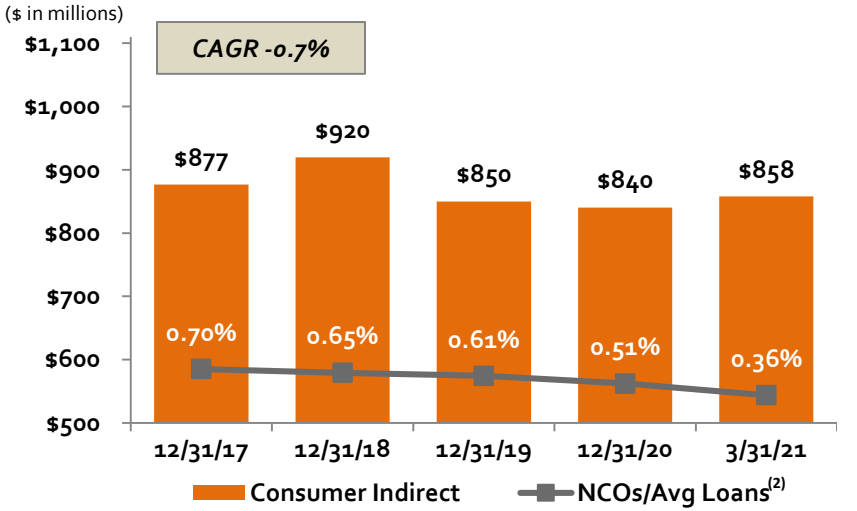
Consumer Indirect Lending

- $857.8 million portfolio at March 31, 2021
  - Portfolio represents 23.5% of total loans, down from 29.8% at 12/31/18 and peak of 35% at 12/31/13
  - Growth subsequent to 2018 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 720 with approximately 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



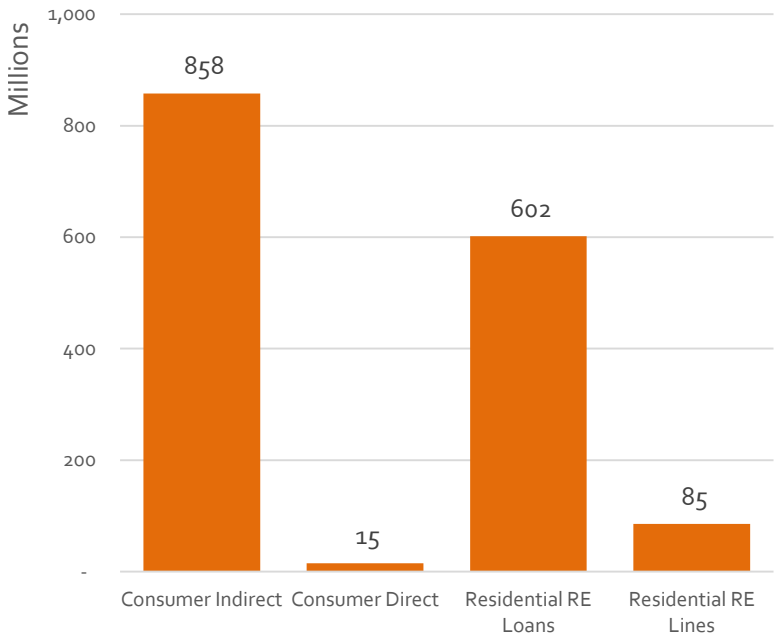
Consumer Indirect – Annual



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

Consumer & Residential Loan Portfolio Detail

Consumer Lending Portfolio
As of March 31, 2021

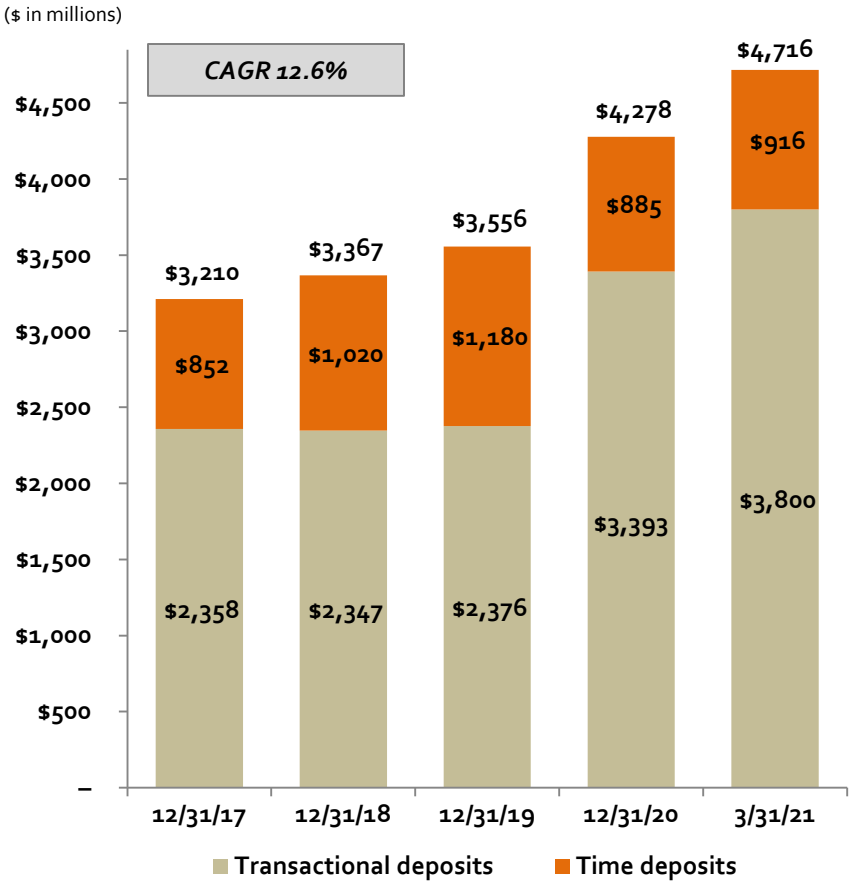


Consumer Lending Portfolio Metrics
As of March 31, 2021

	% of Ttl. Loan Portfolio ($3.7Bn)	# of Loans	Wt. Avg FICO Score (at origination)	Avg. Loan Balance
Consumer Indirect	23.5%	46,260	720	$17,620
Consumer Direct	0.4%	12,607	728	$1,172
Residential Real Estate Loans	16.5%	6,999	737	$83,906
Residential Home Equity Lines of Credit (HELOCs)	2.3%	3,879	768	$22,521

Deposit Growth

Deposits (by account type)



	2017	2018	2019	2020	2021
Cost of Deposits(1)	0.35%	0.57%	0.82%	0.44%	0.20%

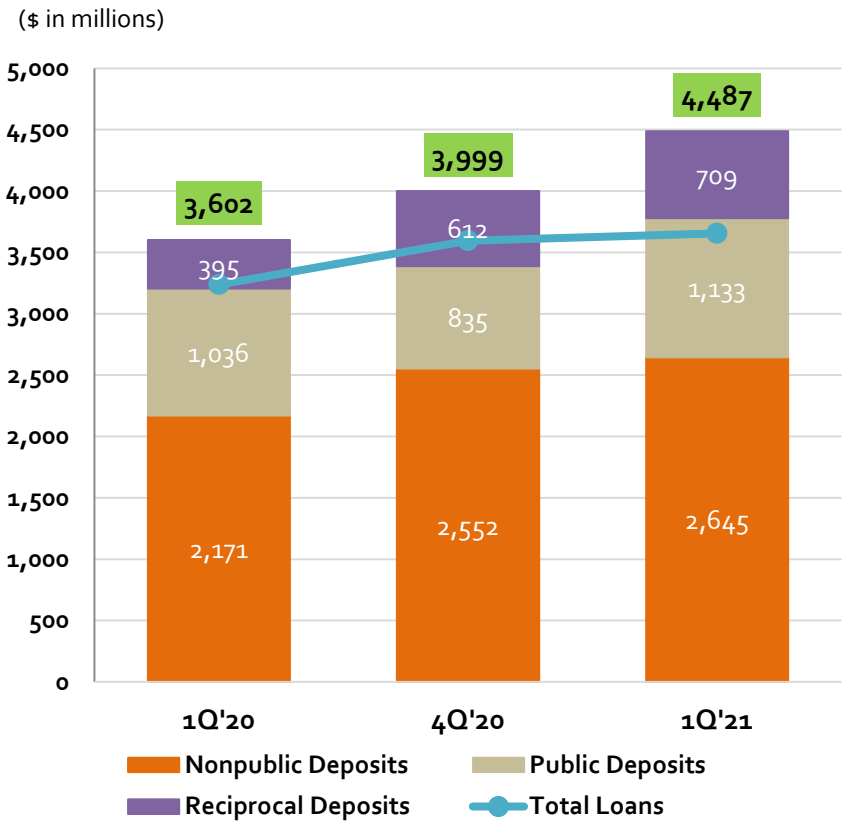
Commentary

- 1Q'21 increase due to seasonal increase in public deposits combined with growth in the non-public and reciprocal deposit portfolios
- 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 24% of deposits at 3/31/21 compared to 20% of deposits at 12/31/20
  - FSB currently has 320 municipal customers

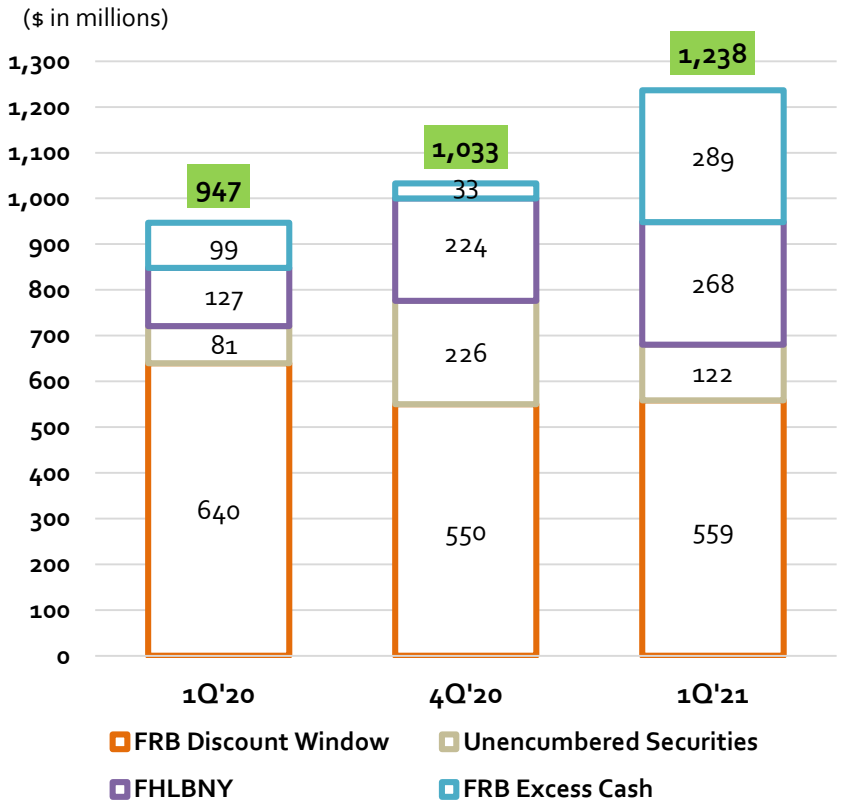
(1) For the year/year-to-date (annualized)

Key Liquidity Metrics

Deposit Mix (1)



Available Committed Liquidity

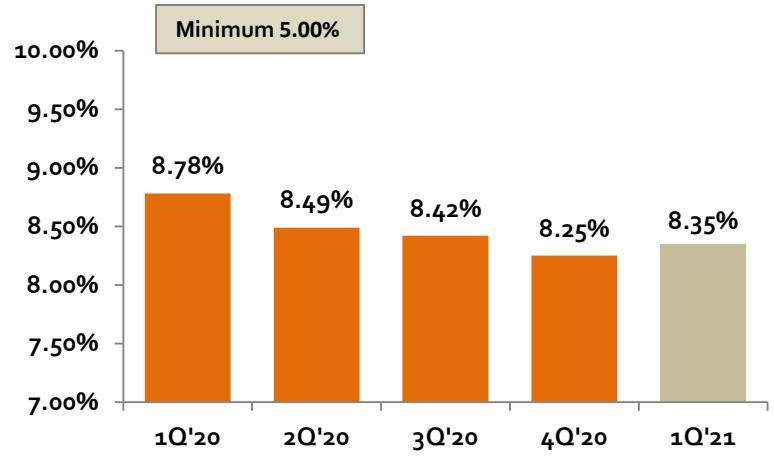


- Diverse deposit gathering capabilities
  - Core nonpublic deposits anchor our deposit base; loan to deposit ratio of 77.5% at 1Q'21
  - 1Q'21 available committed liquidity remains strong and stable, representing reduced reliance on FHLB advances and increased FRB Excess Cash
  - The increase in FRB Excess Cash is reflective of seasonal public deposit inflows at quarter-end

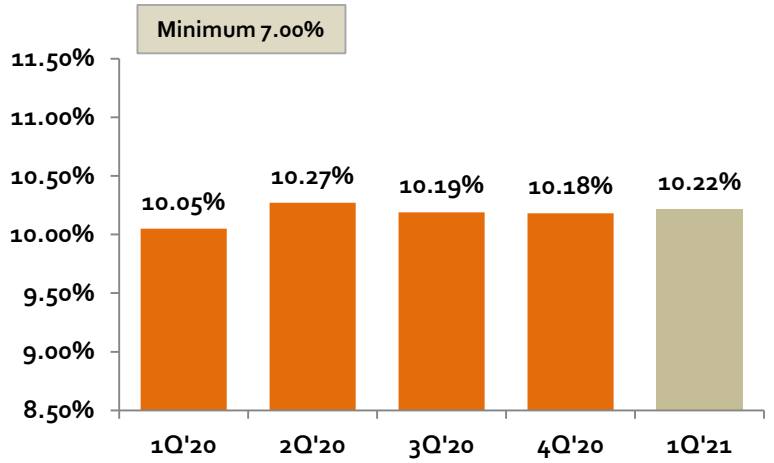
(1) Excluding Brokered Deposits

Capital Ratios

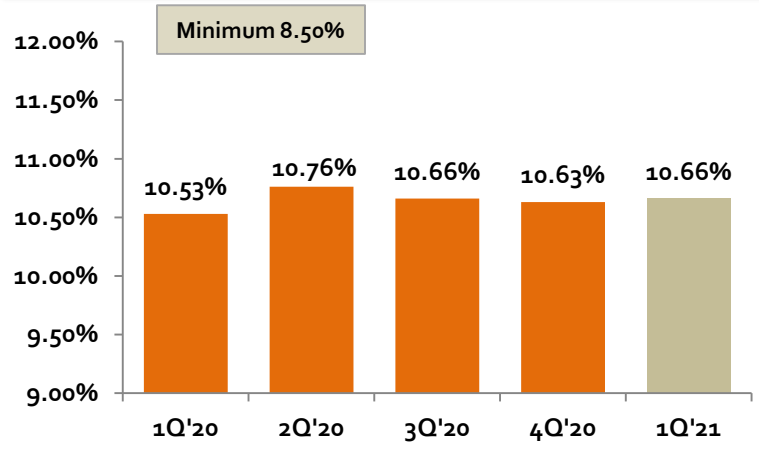
Leverage Ratio [1]



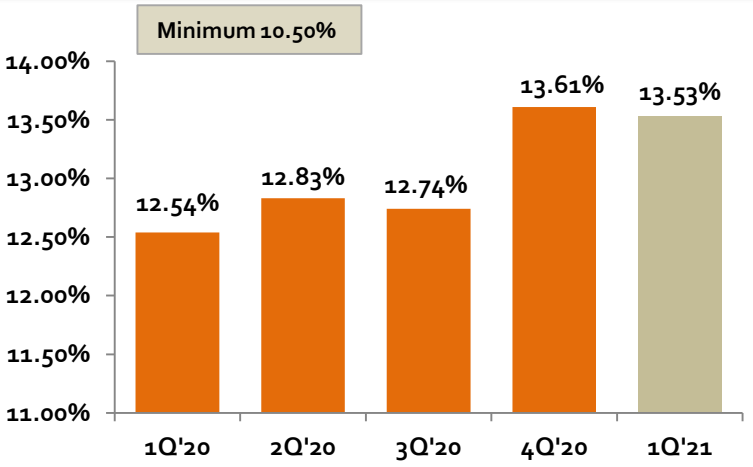
Common Equity Tier 1 Capital Ratio [1]



Tier 1 Capital Ratio [1]



Total Risk-Based Capital Ratio [1]

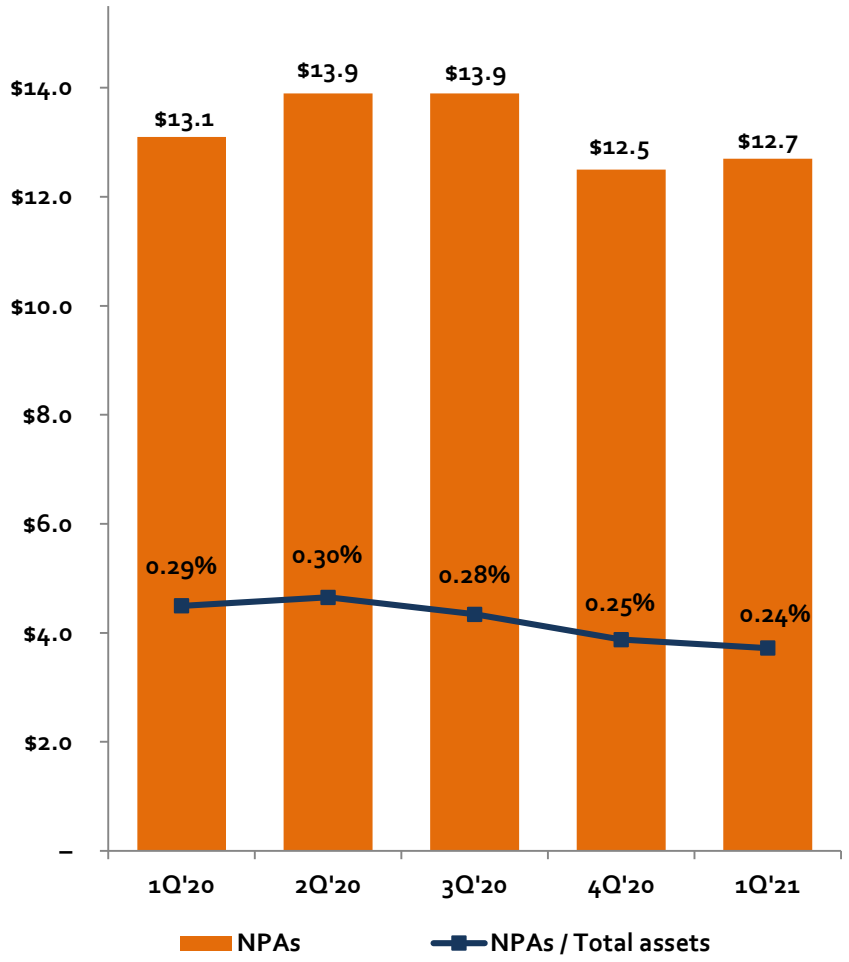


[1] Minimum capital ratios based on January 2019 fully phased-in Basel III requirements.

Asset Quality

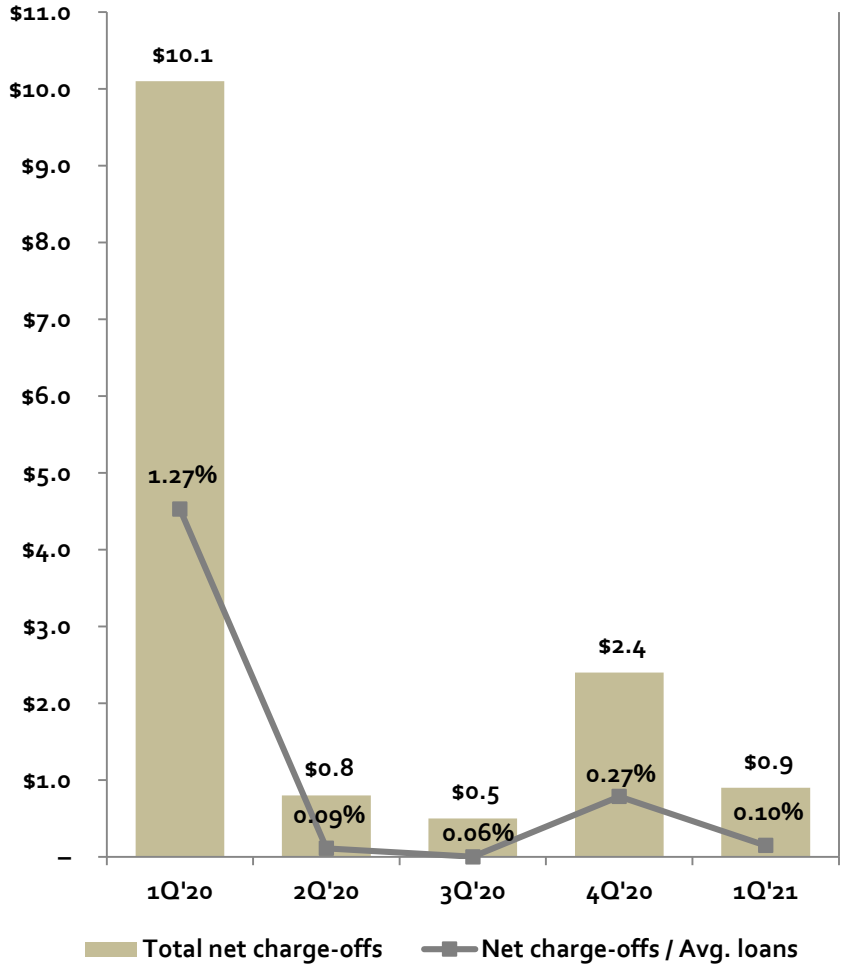
Non-Performing Assets

($ in millions)



Net Charge-Offs

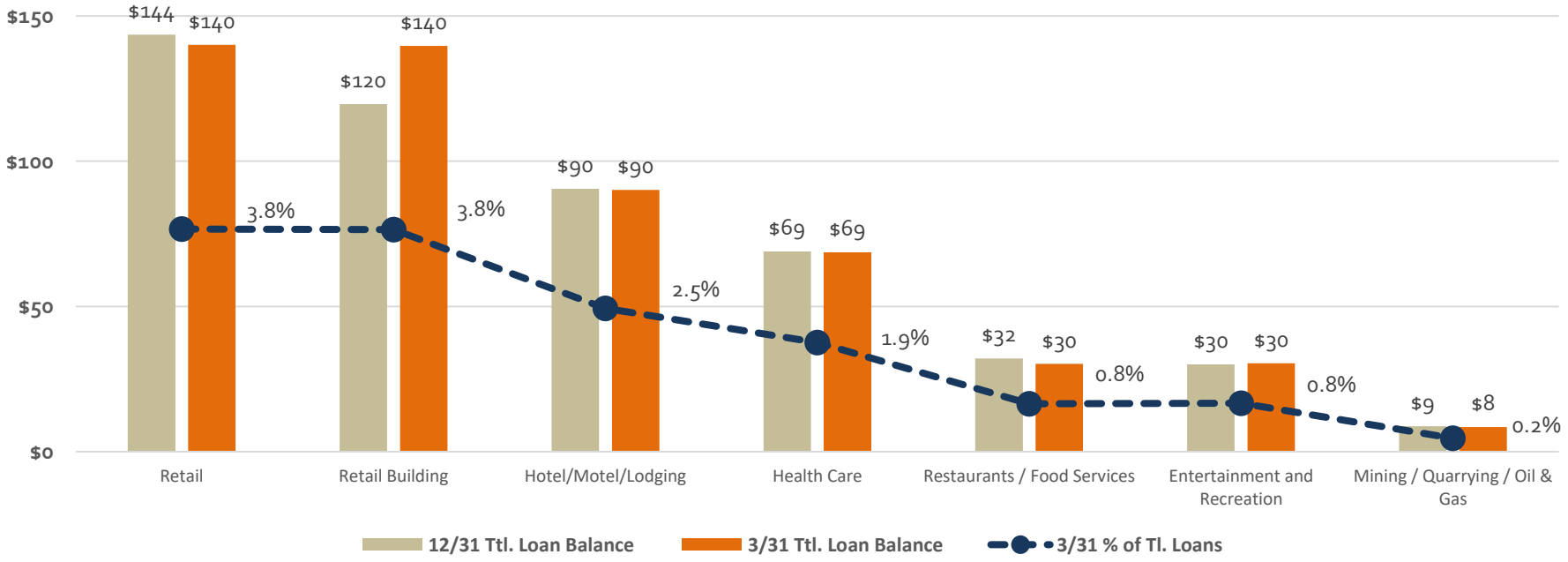
($ in millions)



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

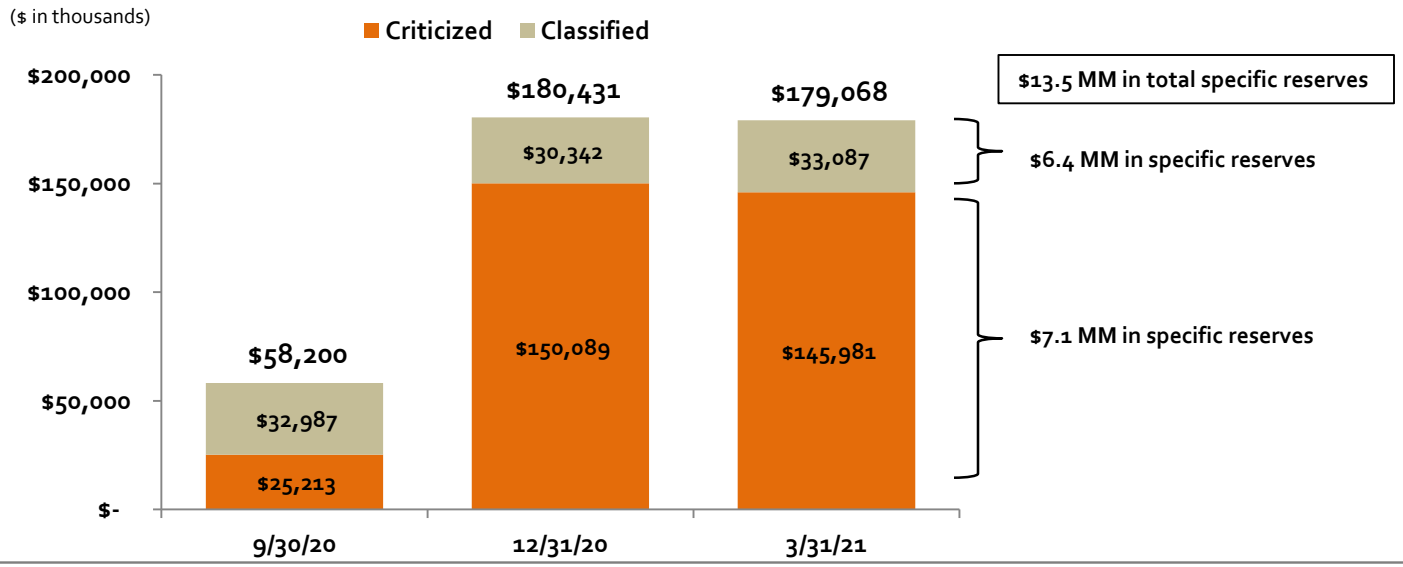
Tier I Commercial Loan Portfolio – Outstanding Loan Balances (4Q'20 vs. 1Q'21) and % Ttl. Loan Portfolio ($MMs)[1]



(1) All balances exclude PPP loans

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 and ~$45 million of the downgrades were loans not on deferral, but with modification attributes
- The specific reserve established in 4Q'20 for these criticized loans totaled $4.7 million
  - In 1Q'21, additional specific reserves of $2.4 million were placed on this pool, increasing the specific reserve to $7.1 million; $1.9 million related to one credit relationship with a payment delinquency that was subsequently rectified
  - We remain cautiously optimistic that the loans on extended deferral and those with modification attributes will stabilize; however, we do not plan to release specific reserves until the credits return to normal paying status
- Specific reserves for classified loans was increased by $1.5 million to $6.4 million at 1Q'21, as a result of one downgrade due to deterioration of credit quality; this loan was not subject to COVID deferral in 4Q'20
- As illustrated in the graph below, criticized and classified levels remain stable in comparison to year-end



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)	3/31/2020	6/30/2020	9/30/2020	12/31/2020	3/31/2021	3/31/2021
Computation of ending tangible common equity:						
Common shareholders' equity	$ 422,065			$ 451,035	$ 448,962	$ 448,962
Less: Goodwill and other intangible assets, net	74,629			73,789	74,528	74,528
Tangible common equity	347,436			377,246	374,434	374,434
Computation of ending tangible assets:						
Total assets	$ 4,471,768			$ 4,912,306	$ 5,329,056	$ 5,329,056
Less: Goodwill and other intangible assets, net	74,629			73,789	74,528	74,528
Tangible assets	4,397,139			4,838,517	5,254,528	5,254,528
Tangible common equity to tangible assets[(1)]	7.90%			7.80%	7.13%	7.13%
Common shares outstanding	16,020			16,042	15,829	15,829
Tangible common book value per share[(2)]	$ 21.69			$ 23.52	$ 23.66	$ 23.66
Computation of average tangible common equity:						
Average common equity	$ 423,888			$ 445,515	$ 451,311	$ 440,698
Less: Average goodwill and other intangible assets, net	74,797			73,942	74,214	74,219
Average tangible common equity	349,091			371,573	377,097	366,479
Computation of average tangible assets:						
Average assets	$ 4,376,125			$ 4,992,886	$ 5,045,180	$ 4,859,066
Less: Average goodwill and other intangible assets, net	74,797			73,942	74,214	74,219
Average tangible assets	4,301,328			4,918,944	4,970,966	4,784,847
Net income available to common shareholders	762			13,435	20,345	56,454
Return on average tangible common equity[(3)]	0.88%			14.38%	21.88%	15.40%
Pre-tax pre-provision income:						
Net income	$ 1,127	$ 11,132	$ 12,273	$ 13,800	$ 20,710	
Add: Income tax expense	322	2,441	2,940	1,688	5,347	
Add: Provision (benefit) for credit losses	13,915	3,746	4,028	5,495	(1,981)	
Pre-tax pre-provision income	$ 15,364	$ 17,319	$ 19,241	$ 20,983	$ 24,076	

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.