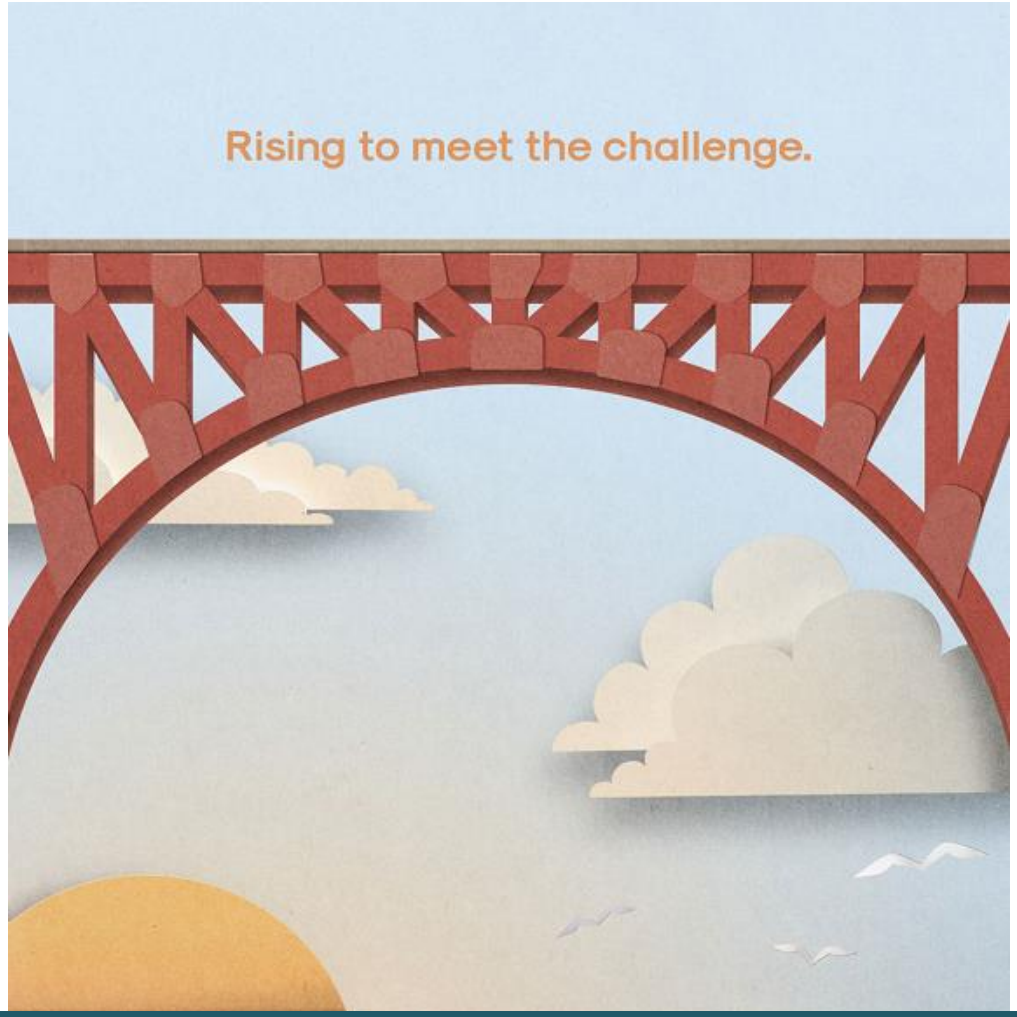


FINANCIAL INSTITUTIONS, INC. (Nasdaq: FISI)
Third Quarter 2021 Earnings Presentation
October 28, 2021

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)
- 49 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 September 30, 2021

Assets:	$5.6 billion
Loans:	$3.7 billion
Deposits:	$5.0 billion
Shareholders' Equity:	$494.0 million
NPAs(1)/Total Assets:	0.12%
Employees:	~ 600
ROACE (TTM):	15.33%
ROATCE(2) (TTM):	18.29%
ROAA (TTM):	1.38%
Annualized Dividend Per Share:	$1.08
Closing Stock Price Per Share:	$30.65
Dividend Yield:	3.52%
Market Capitalization:	$485.6 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

Third Quarter Key Statistics[1] and Highlights

- Net income of $17.2 million was $4.9 million higher than 2020
- Diluted earnings per share of $1.05 was $0.31 higher than 2020
  - Net income and earnings per share were positively impacted by Q3 2021 benefit for credit losses of $541 thousand as compared to provision of $4.0 million in Q3 2020
  - Continued improvement in national unemployment forecast, positive trends in qualitative factors and a relatively low level of net charge-offs resulted in the release of credit loss reserves and corresponding benefit for credit losses in current quarter
- Pre-tax pre-provision income[2] of $21.2 million was $1.9 million higher than 2020
- Net interest income of $38.3 million was $2.8 million, or 7.8%, higher than 2020
- Net interest margin ("NIM") of 3.07% was 15 basis points lower primarily as a result of the interest rate environment (reflecting a flatter yield curve and lower rates) and excess liquidity
- Total loans at quarter-end were $3.65 billion, an increase of $85.4 million, or 2.4%, from 9/30/2020
  - Excluding PPP loans, total loans increased $232.8 million, or 7.0%, from 9/30/2020
- Common book value per share increased 9.9% from 9/30/2020
  - Tangible common book value per share[2] increased 11.5% from 9/30/2020
- Bolt-on Acquisition — SDN insurance subsidiary acquired a Buffalo-based employee benefits and human resources advisory firm
- Five Star Bank subsidiary opened relocated branch in City of Elmira in downtown area undergoing revitalization

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

Third Quarter 2021

Results Summary

($ in millions, except per share amounts)	3Q'20	2Q'21	**3Q'21**
Net interest income	$35.5	$37.7	**$38.3**
Noninterest income	12.2	10.2	12.1
Noninterest expense	(28.5)	(26.9)	(29.2)
Income tax expense	(2.9)	(5.4)	(4.5)
Preferred stock dividend	(0.4)	(0.4)	(0.4)
Net income available to common shareholders	$11.9	$19.8	$16.8
EPS diluted	$0.74	$1.25	$1.05
Return on average assets	1.02%	1.52%	1.27%
Return on average common equity	10.82%	17.34%	**13.94%**
Return on average tangible common equity[1]	13.02%	20.69%	**16.50%**
Net interest margin	3.22%	3.06%	**3.07%**
Efficiency ratio[2]	60.12%	56.02%	**57.76%**
Dividends per share	$0.26	$0.27	$0.27
Dividend yield (annualized)	6.72%	3.61%	**3.49%**

Commentary

- Net interest income increased $2.8MM from 3Q'20 primarily as a result of growth in all categories of interest-earning assets; and increased $541K from 2Q'21 due to a shift of excess liquidity from interest-earning cash to investment securities, partially offset by less accretion of fees from PPP loans.
- Noninterest income decreased $134K from 3Q'20 primarily due to lower income from derivative instruments ($1.6MM) and gain on the sale of loans ($797K), partially offset by higher income from investments in limited partnerships ($799K), insurance income ($507), investment advisory fees ($526K) and company owned life insurance ($306K). Noninterest income increased $1.9MM from 2Q'21 primarily due to higher income from derivative instruments ($969K), insurance income ($717K) and income from investments in limited partnerships ($456K).
- Noninterest expense increased $694K from 3Q'20 and $2.2MM from 2Q'21 primarily due to higher salaries and employee benefits ($713K and $1.3MM, respectively), occupancy and equipment expense ($571K and $548K, respectively) and other expense ($495K higher than 3Q'20), combined with the impact of 3Q'20 non-recurring restructuring charges of $1.4MM.

(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'20 – 3Q'21)

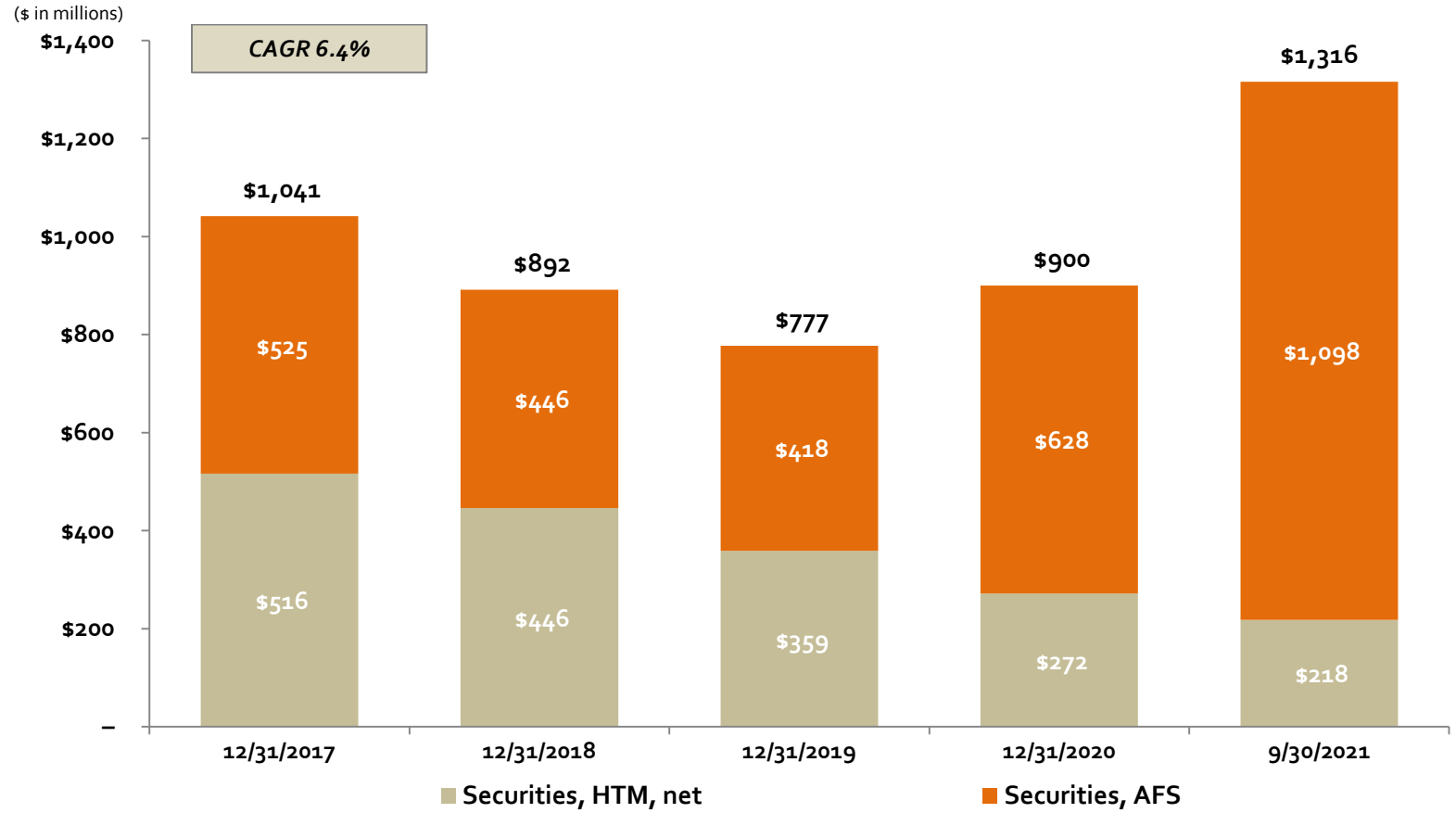
($ in millions, except per share amounts)

Earnings Summary	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21
Average interest-earning assets	$4,414	$4,635	$4,670	$4,973	$4,967
Net interest margin	3.22%	3.13%	3.29%	3.06%	3.07%
Net interest income	35.5	36.2	37.9	37.7	38.3
Noninterest income	12.2	11.3	12.9	10.2	12.1
Total revenue	$47.7	$47.5	$50.8	$47.9	$50.4
Noninterest expense	($28.5)	($26.5)	($26.7)	($26.9)	($29.2)
Pre-tax pre-provision income [1]	19.2	21.0	24.1	21.0	21.2
(Provision) benefit for credit losses	(4.0)	(5.5)	2.0	4.6	0.5
Pre-tax net income	15.2	15.5	26.1	25.6	21.7
Income tax expense	(2.9)	(1.7)	(5.4)	(5.4)	(4.5)
Net income	$12.3	$13.8	$20.7	$20.2	$17.2
Preferred stock dividends	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net income available to common shareholders	$11.9	$13.4	$20.3	$19.8	$16.8
Earnings per share - diluted	$0.74	$0.84	$1.27	$1.25	$1.05
Weighted average common shares outstanding - diluted	16.1	16.1	16.0	15.9	15.9

(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.

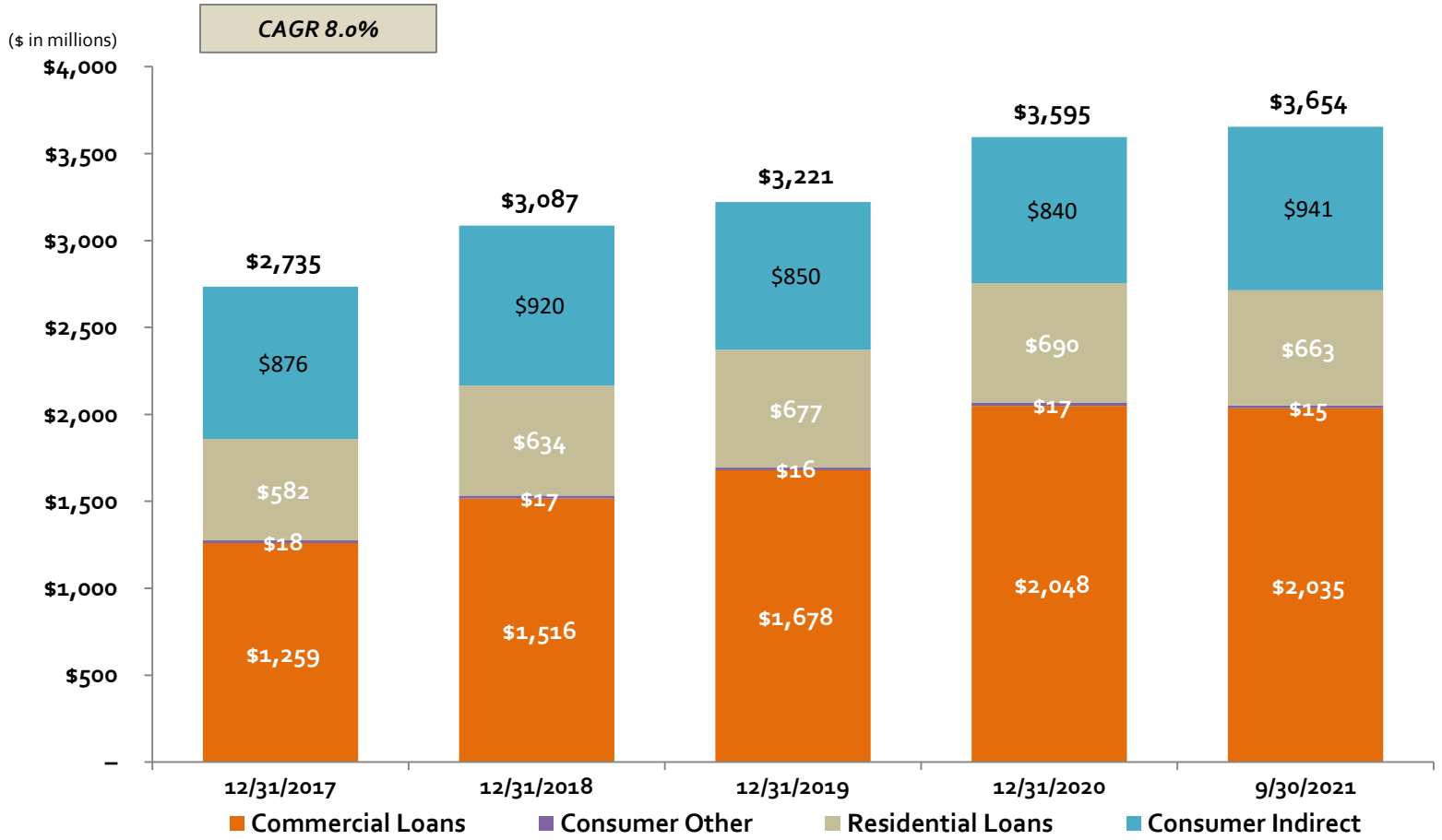


	2017	2018	2019	2020	2021 (YTD)
Security Yield(1)	2.48%	2.33%(2)	2.39%(2)	2.31%(2)	1.79%(2)

(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)
- PPP loans (net of deferred fees) at 9/30/2021 was $116.7 million



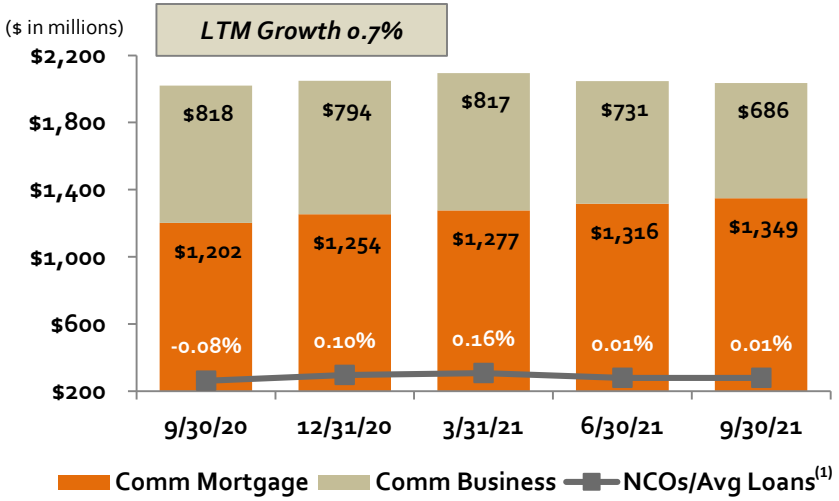
	2017	2018	2019	2020	2021 (YTD)
Loan Yield(1)	4.22%	4.51%	4.77%	4.18%	4.02%

(1) Average yield for the period

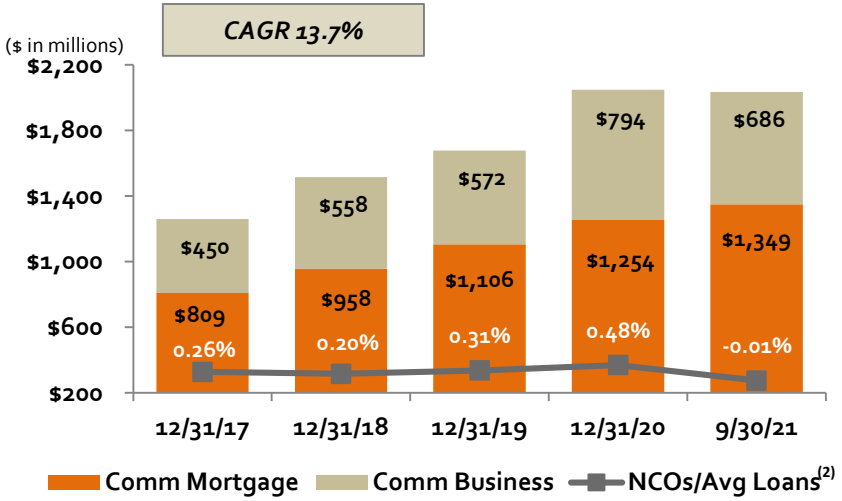
Commercial Banking

- PPP loans (net of deferred fees) included in commercial business loans below: $264.1 million at 9/30/20, $248.0 at 12/31/20, $255.6 million at 3/31/21, $171.9 million at 6/30/21 and $116.7 million at 9/30/21.
- 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

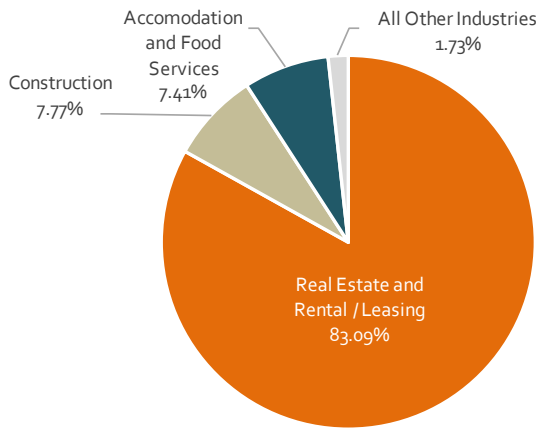


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

Commercial Loan Portfolio Detail

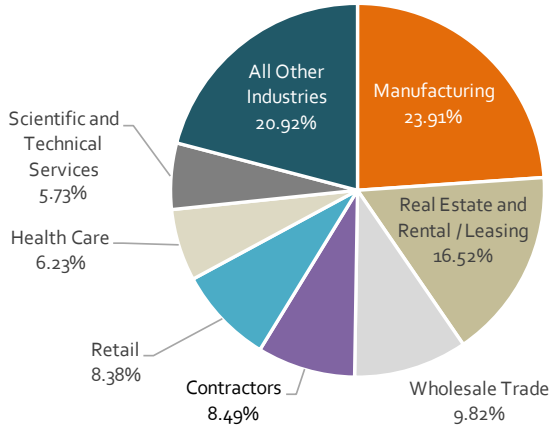
Commercial Real Estate Ttl Exposure(1) ($1.3Bn(2))

As of September 30, 2021



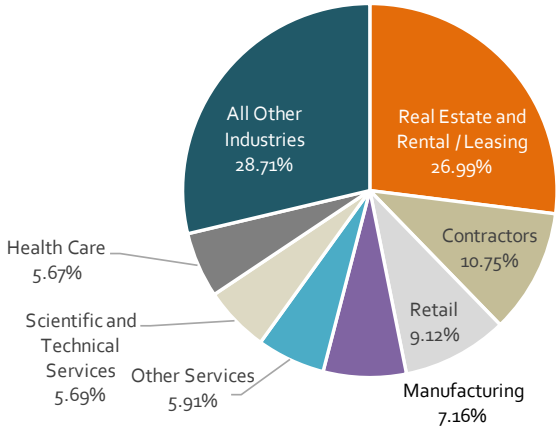
Commercial & Industrial Ttl Exposure(1) ($1.1Bn(2))

As of September 30, 2021



Business Banking Ttl Exposure(1) ($196MM(2))

As of September 30, 2021



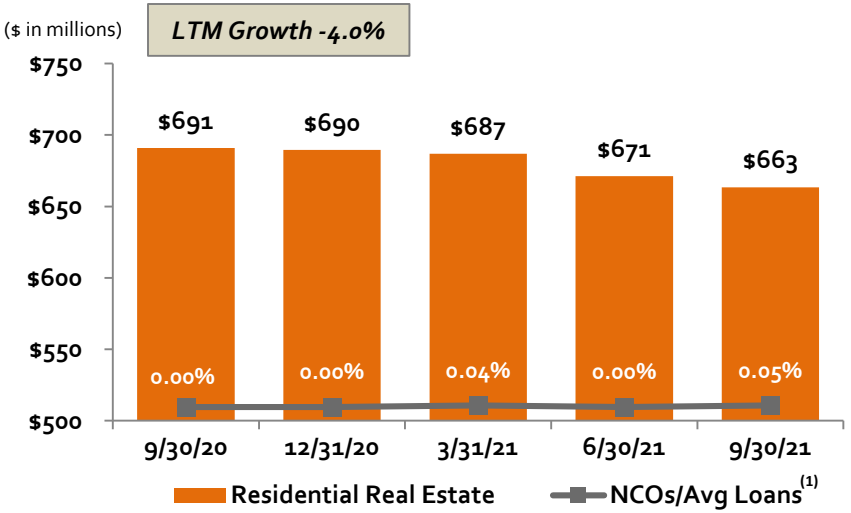
- **The vast majority of the commercial loan portfolio is within the Bank's footprint**

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

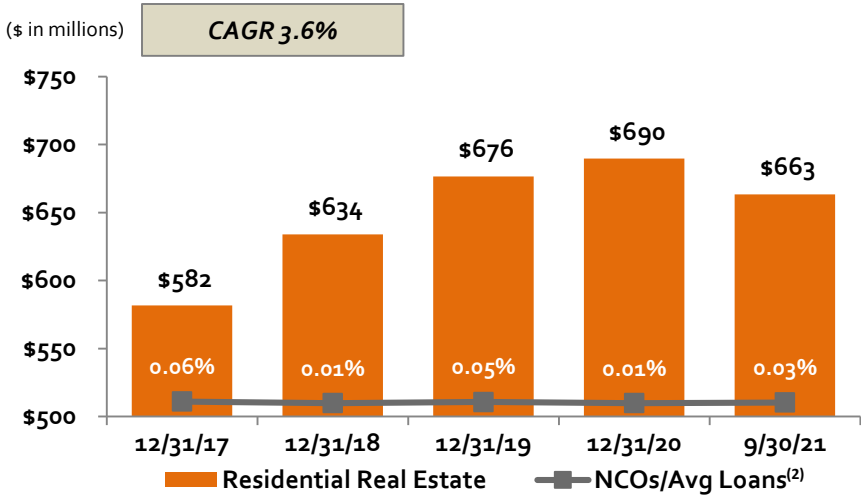
Residential Real Estate Loans and Lines

- 2021 decline is the result of 1) increased efficiency in the secondary marketing function, 2) tight local housing market and 3) pandemic-fueled migration to the suburbs in 2020 and early 2021 has slowed
- 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

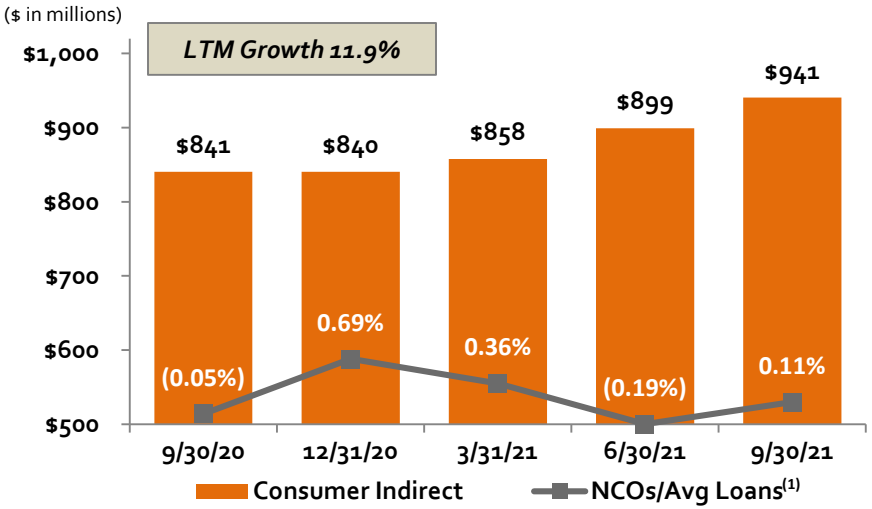


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

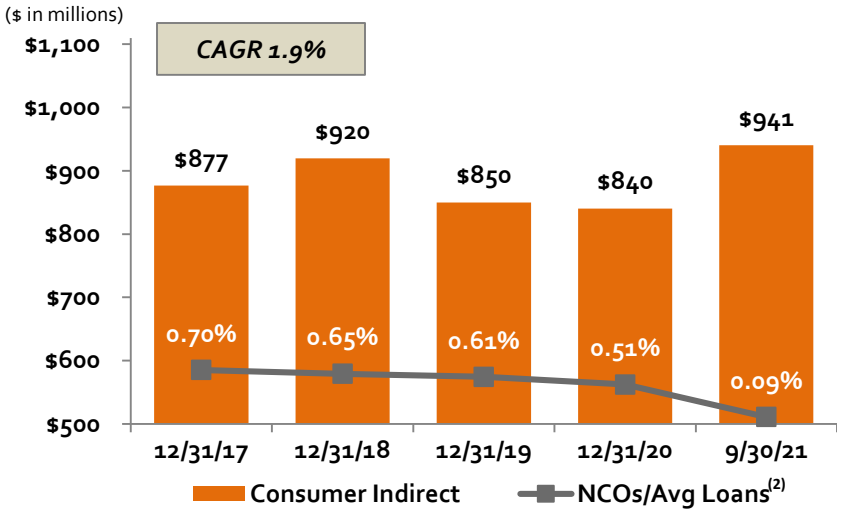
Consumer Indirect Lending

- $940.5 million portfolio at September 30, 2021
  - Portfolio represents 25.7% of total loans, down from 29.8% at 12/31/18 and peak of 35% at 12/31/13
  - Growth in the portfolio is the result of consumer demand for automobiles
  - Company is well-positioned to take advantage of the market opportunity given its deep history and experience in this line of business
  - Growth has enabled us to deploy excess liquidity in a loan product with short duration, strong credit performance and relatively higher yield characteristics
- Prime lending operation with average portfolio FICO score of approximately 717
- Dealer network of nearly 500 franchised new automobile dealerships
- Relatively short duration of approximately 3 years and natural risk dispersion due to small loan size
- Demonstrated track record of consistent performance through economic expansions, recessions and stagnation

Consumer Indirect – Quarterly



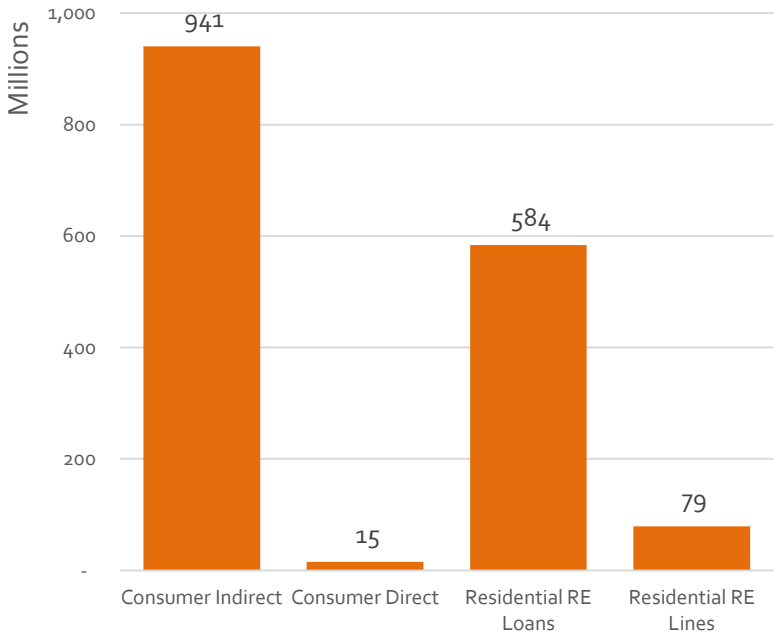
Consumer Indirect – Annual



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

Consumer & Residential Loan Portfolio Detail

Consumer Lending Portfolio
As of September 30, 2021



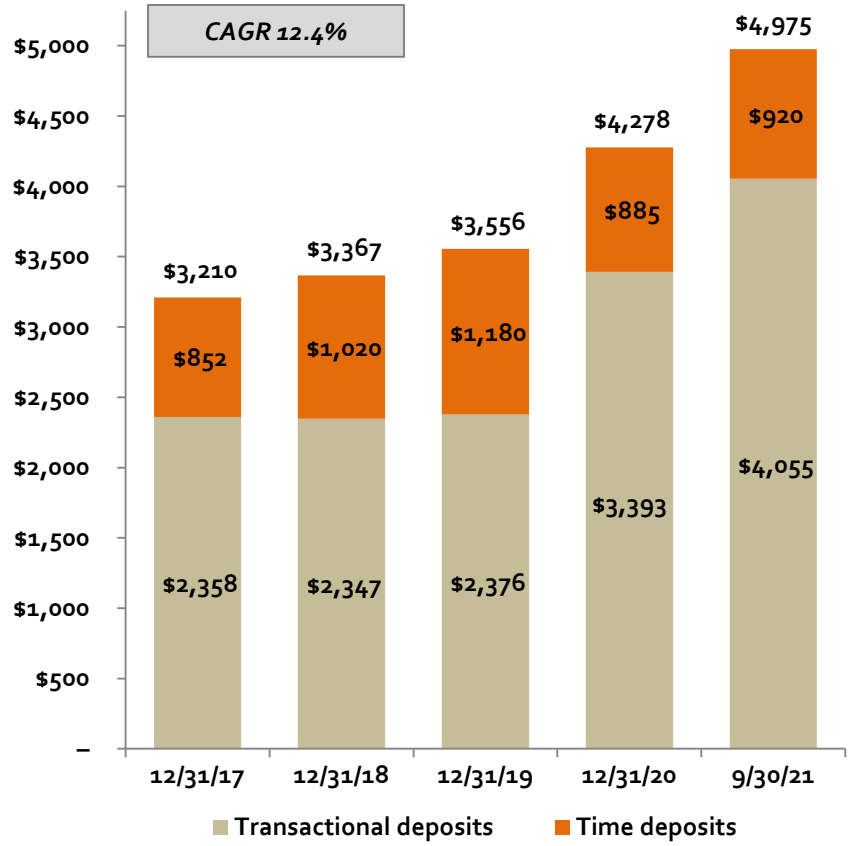
Consumer Lending Portfolio Metrics
As of September 30, 2021

	% of Ttl. Loan Portfolio ($3.7Bn)	# of Loans	Wt. Avg FICO Score (at origination)	Avg. Loan Balance
Consumer Indirect	25.7%	47,093	717	$18,834
Consumer Direct	0.4%	11,404	729	$1,214
Residential Real Estate Loans	16.0%	6,930	737	$82,596
Residential Home Equity Lines of Credit (HELOCs)	2.2%	3,305	769	$21,830

Deposit Growth

Deposits (by account type)

($ in millions)



Commentary

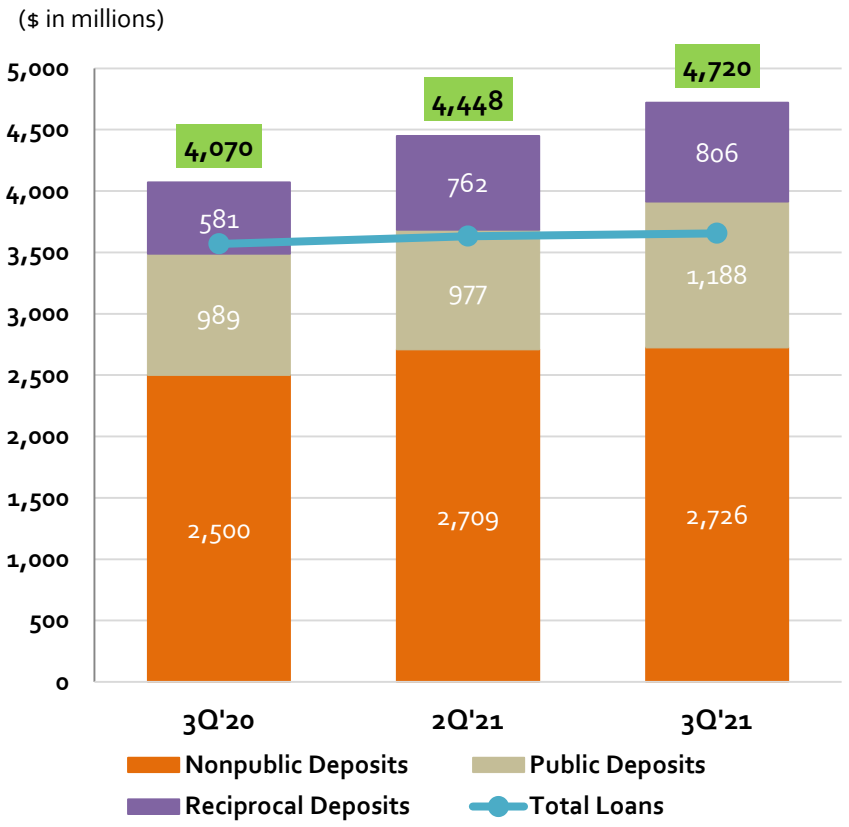
- 2021 increase driven by growth in non-public, public and reciprocal deposits
- 2020 increase driven by growth in non-public demand and reciprocal deposits
- Opportunities for growth
  - Combined Rochester and Buffalo markets represent attractive deposit market of $96 billion
  - Current FSB market 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 9/30/21 compared to 20% of deposits at 12/31/20
  - FSB currently has 325 municipal customers

	2017	2018	2019	2020	2021
Cost of Deposits[1]	0.35%	0.57%	0.82%	0.44%	0.18%

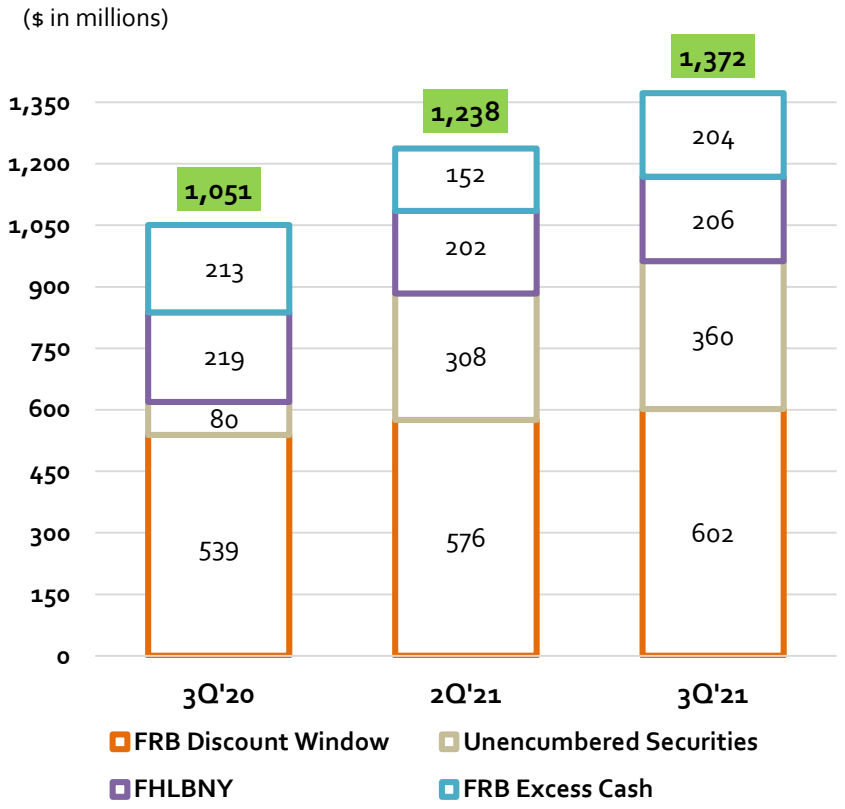
(1) For the year/year-to-date (annualized)

Key Liquidity Metrics

Deposit Mix (1)



Available Committed Liquidity

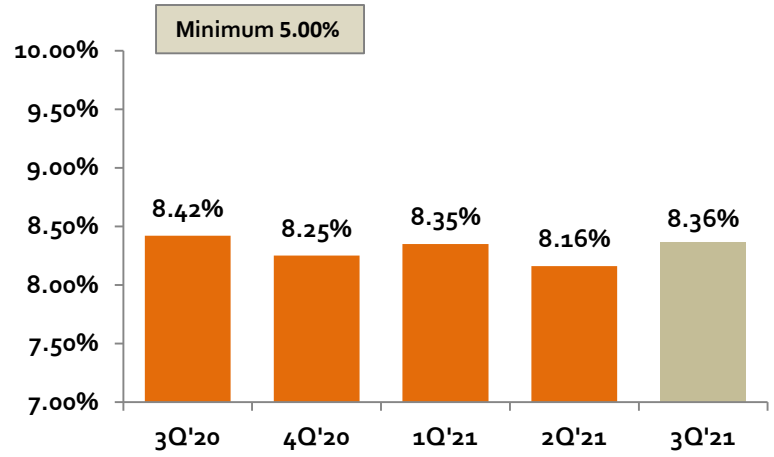


- Diverse deposit gathering capabilities and eligible collateral support a robust liquidity position:
  - Core nonpublic deposits anchor our deposit base; loan to deposit ratio of 73% at 3Q'21
  - 3Q'21 available committed liquidity remains strong and stable, representing reduced reliance on FHLB advances, an increase in collateral eligible securities and excess FRB Cash
  - The increase in security collateral is reflective of seasonal public deposits coupled with growth in securities

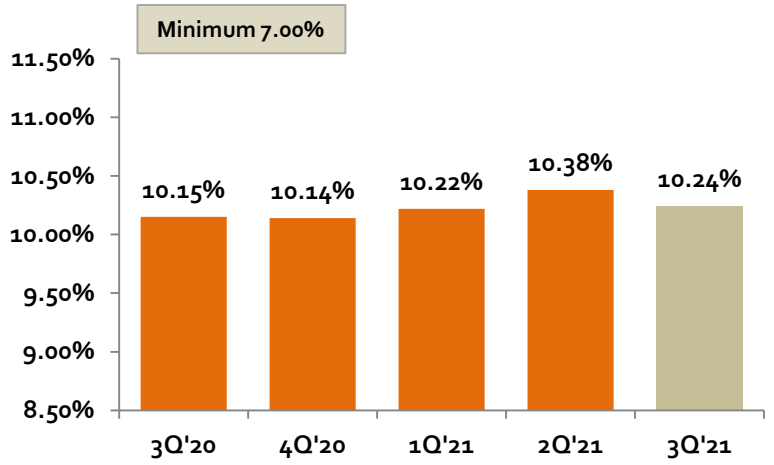
(1) Excluding Brokered Deposits

Capital Ratios

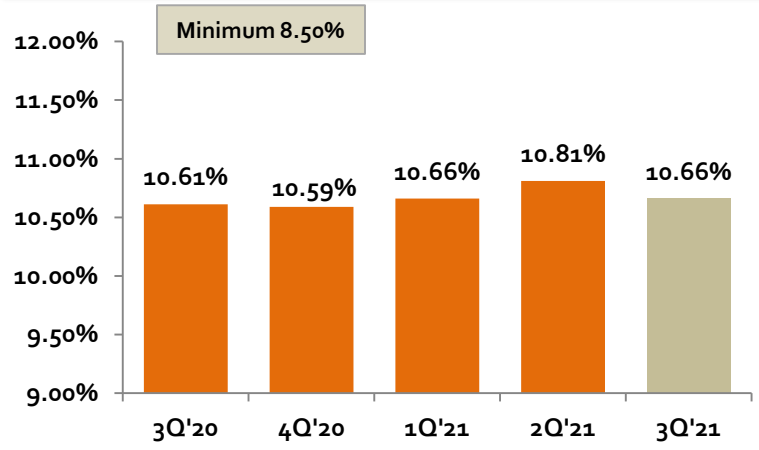
Leverage Ratio [1]



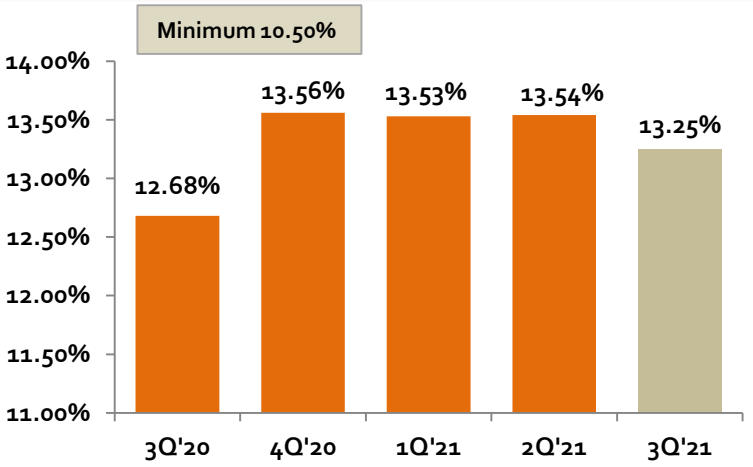
Common Equity Tier 1 Capital Ratio [1]



Tier 1 Capital Ratio [1]



Total Risk-Based Capital Ratio [1]



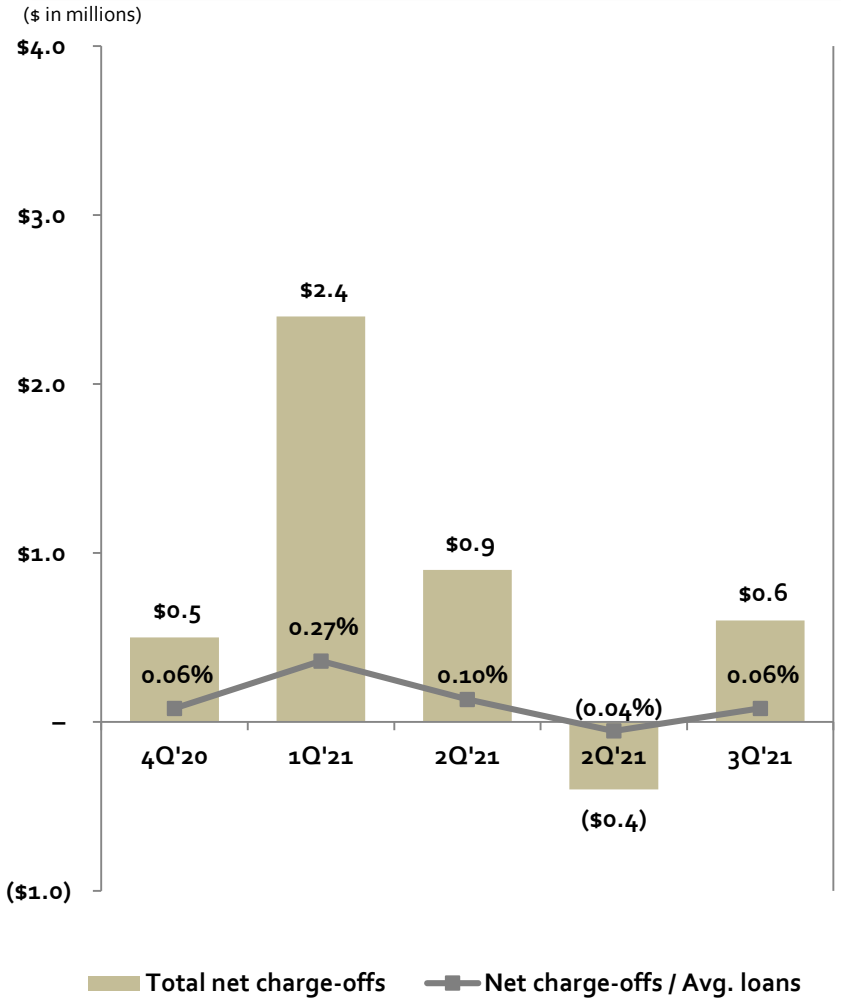
[1] Minimum capital ratios based on January 2019 fully phased-in Basel III requirements.

Asset Quality

Non-Performing Assets

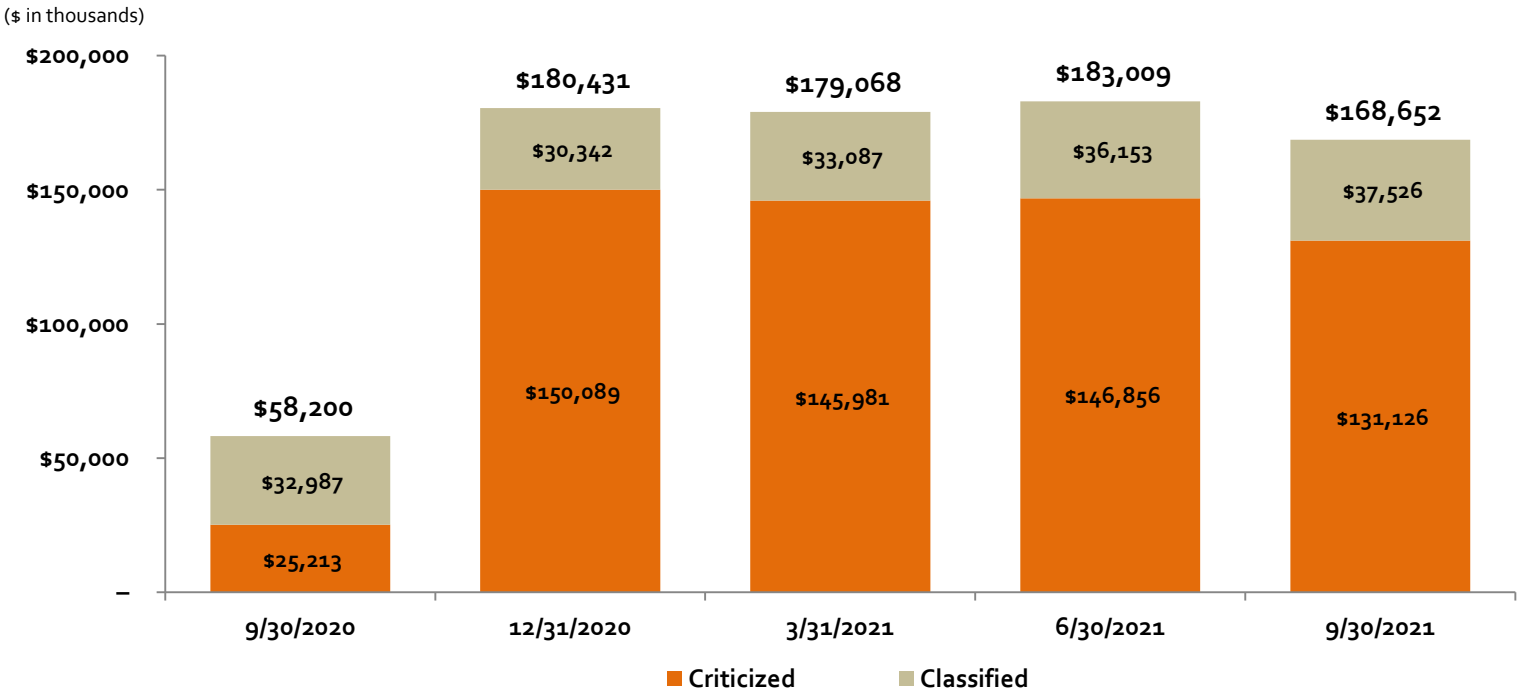


Net Charge-Offs



Criticized and Classified Assets

- In an effort to address the impact of COVID-19 on our most at-risk exposures, approximately $127 million of commercial loans were downgraded to criticized status in 4Q'20 and a specific reserve of $4.7 million was established.
  - In 1Q'21, the reserve was increased by $2.4 million to $7.1 million. The majority of the increase was related to one credit relationship that is stabilizing.
  - As of September 30, 2021, approximately $108 million of COVID-19 impacted credits remain in the criticized or classified asset class and the specific reserve on these credits totaled $6.7 million.
- As illustrated in the graph below, criticized and classified levels remain stable in comparison to year-end



	9/30/2020	12/31/2020	3/31/2021	6/30/2021	9/30/2021
Total Specific Reserves	$1.4MM	$9.6MM	$13.5MM	$13.3MM	$11.3MM

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)	9/30/2020	12/31/2020	3/31/2021	6/30/2021	9/30/2021	9/30/2021
Computation of ending tangible common equity:						
Common shareholders' equity	$ 439,033			$ 469,834	$ 476,721	$ 476,721
Less: Goodwill and other intangible assets, net	74,062			74,262	74,659	74,659
Tangible common equity	364,971			395,572	402,062	402,062
Computation of ending tangible assets:						
Total assets	$ 4,959,201			$ 5,295,102	$ 5,623,193	$ 5,623,193
Less: Goodwill and other intangible assets, net	74,062			74,262	74,659	74,659
Tangible assets	4,885,139			5,220,840	5,548,534	5,548,534
Tangible common equity to tangible assets[(1)]	7.47%			7.58%	7.25%	7.25%
Common shares outstanding	16,038			15,842	15,842	15,842
Tangible common book value per share[(2)]	$ 22.76			$ 24.97	$ 25.38	$ 25.38
Computation of average tangible common equity:						
Average common equity	$ 437,948			$ 458,868	$ 478,582	$ 458,608
Less: Average goodwill and other intangible assets, net	74,220			74,412	74,470	74,259
Average tangible common equity	363,728			384,456	404,112	384,349
Computation of average tangible assets:						
Average assets	$ 4,775,333			$ 5,340,745	$ 5,368,054	$ 5,187,070
Less: Average goodwill and other intangible assets, net	74,220			74,412	74,470	74,259
Average tangible assets	4,701,113			5,266,333	5,293,584	5,112,811
Net income available to common shareholders	11,908			19,834	16,811	70,294
Return on average tangible common equity[(3)]	13.02%			20.69%	16.50%	18.29%
Pre-tax pre-provision income:						
Net income	$ 12,273	$ 13,800	$ 20,710	$ 20,200	$ 17,175	
Add: Income tax expense	2,940	1,688	5,347	5,400	4,553	
Add: Provision (benefit) for credit losses	4,028	5,495	(1,981)	(4,622)	(541)	
Pre-tax pre-provision income	$ 19,241	$ 20,983	$ 24,076	$ 20,978	$ 21,187	

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.