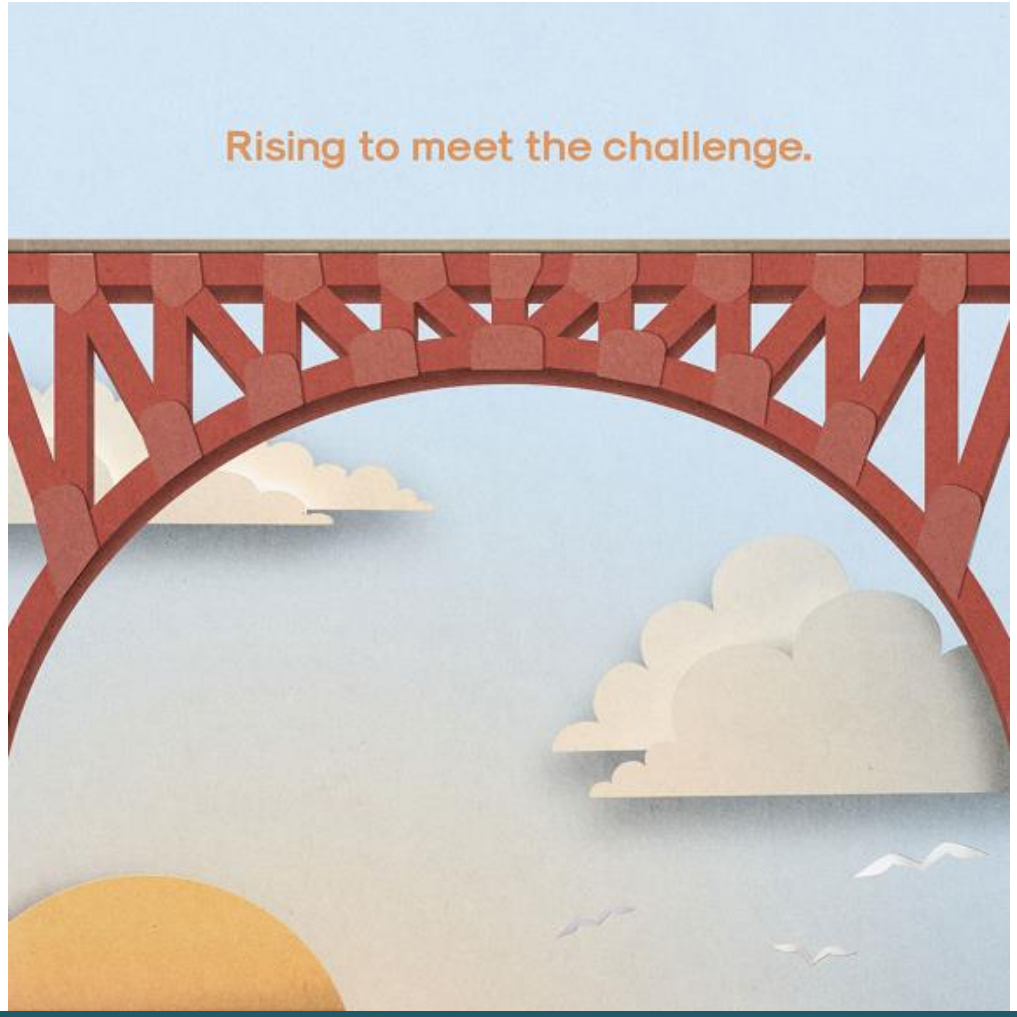


FINANCIAL INSTITUTIONS, INC. (Nasdaq: FISI)
Fourth Quarter and Year-End 2021 Earnings Presentation
January 31, 2022

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 December 31, 2021

Assets:	$5.5 billion
Loans:	$3.7 billion
Deposits:	$4.8 billion
Shareholders' Equity:	$505.1 million
NPAs(1)/Total Assets:	0.22%
Employees:	~ 600
ROACE (TTM):	16.29%
ROATCE(2) (TTM):	19.37%
ROAA (TTM):	1.46%
Annualized Dividend Per Share:	$1.08
Closing Stock Price Per Share:	$31.80
Dividend Yield:	3.34%
Market Capitalization:	$500.7 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

Fourth Quarter Key Statistics[1] and Highlights

- Net income of $19.6 million was $5.8 million higher than 2020
- Diluted earnings per share of $1.21 was $0.37 higher than 2020
  - Net income and earnings per share were positively impacted by Q4 2021 benefit for credit losses of $1.2 million as compared to provision of $5.5 million in Q4 2020
  - Continued improvement in national unemployment forecast, positive trends in qualitative factors and a reduction in specific reserves resulted in a release of overall credit loss reserves and corresponding benefit for credit losses in current quarter
- Pre-tax pre-provision income[2] of $22.6 million was $1.7 million higher than 2020
- Net interest income of $40.9 million was $4.7 million, or 13.0%, higher than 2020
- Net interest margin ("NIM") of 3.15% was two basis points higher primarily as a result of fee accretion related to PPP loan forgiveness partially offset by the interest rate environment (reflecting a flatter yield curve and lower rates) and excess liquidity
- Total loans at quarter-end were $3.68 billion, an increase of $84.3 million, or 2.3%, from 12/31/2020
  - Excluding PPP loans, total loans increased $276.9 million, or 8.3%, from 12/31/2020
- Common book value per share increased 10.2% from 12/31/2020
  - Tangible common book value per share[2] increased 11.6% from 12/31/2020
- The Company bought back approximately 102,000 common shares at an average price of $31.45 per share under its stock repurchase program

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

Fourth Quarter 2021

Results Summary

($ in millions, except per share amounts)	4Q'20	3Q'21	**4Q'21**
Net interest income	$36.2	$38.3	**$40.9**
Noninterest income	11.3	12.1	11.6
Noninterest expense	(26.5)	(29.2)	(29.9)
Income tax expense	(1.7)	(4.5)	(4.2)
Preferred stock dividend	(0.4)	(0.4)	(0.4)
Net income available to common shareholders	$13.4	$16.8	$19.2
EPS diluted	$0.84	$1.05	$1.22
Return on average assets	1.10%	1.27%	1.39%
Return on average common equity	12.00%	13.94%	**15.81%**
Return on average tangible common equity[1]	14.38%	16.50%	**18.69%**
Net interest margin	3.13%	3.07%	**3.15%**
Efficiency ratio[2]	55.79%	57.76%	**56.76%**
Dividends per share	$0.26	$0.27	$0.27
Dividend yield (annualized)	4.60%	3.49%	**3.37%**

Commentary

- Net interest income increased $4.7MM from 4Q'20 and $2.6MM from 3Q'21 as a result of the deployment of excess liquidity into investment securities, growth in loans, higher PPP revenue in connection with loan forgiveness, and a lower overall cost of funds.
- Noninterest expense increased $3.4MM from 4Q'20 and $728K from 3Q'21 primarily due to higher salaries and employee benefits ($1.9MM and $313K, respectively), occupancy and equipment expense ($621K and $35K, respectively) and computer and data processing expense ($929K and $373K).
- Effective tax rate was 17.7% compared to 10.9% for 4Q'20 and 21.0% for 3Q'21. 4Q'21 effective tax rate higher than 4Q'20 due to higher pre-tax earnings. Rates also vary as a result of tax credit investments placed in service in 4Q'21 and 4Q'20.
- (Benefit) provision for credit losses was a $1.2MM benefit compared to provision of $5.5MM in 4Q'20 and benefit of $541K in 3Q'21. Improvement in national unemployment forecast, positive trends in qualitative factors and a reduction in specific reserves resulted in a release of overall credit loss reserves and corresponding benefit for credit losses in 4Q'21 and 3Q'21.

[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'20 – 4Q'21)

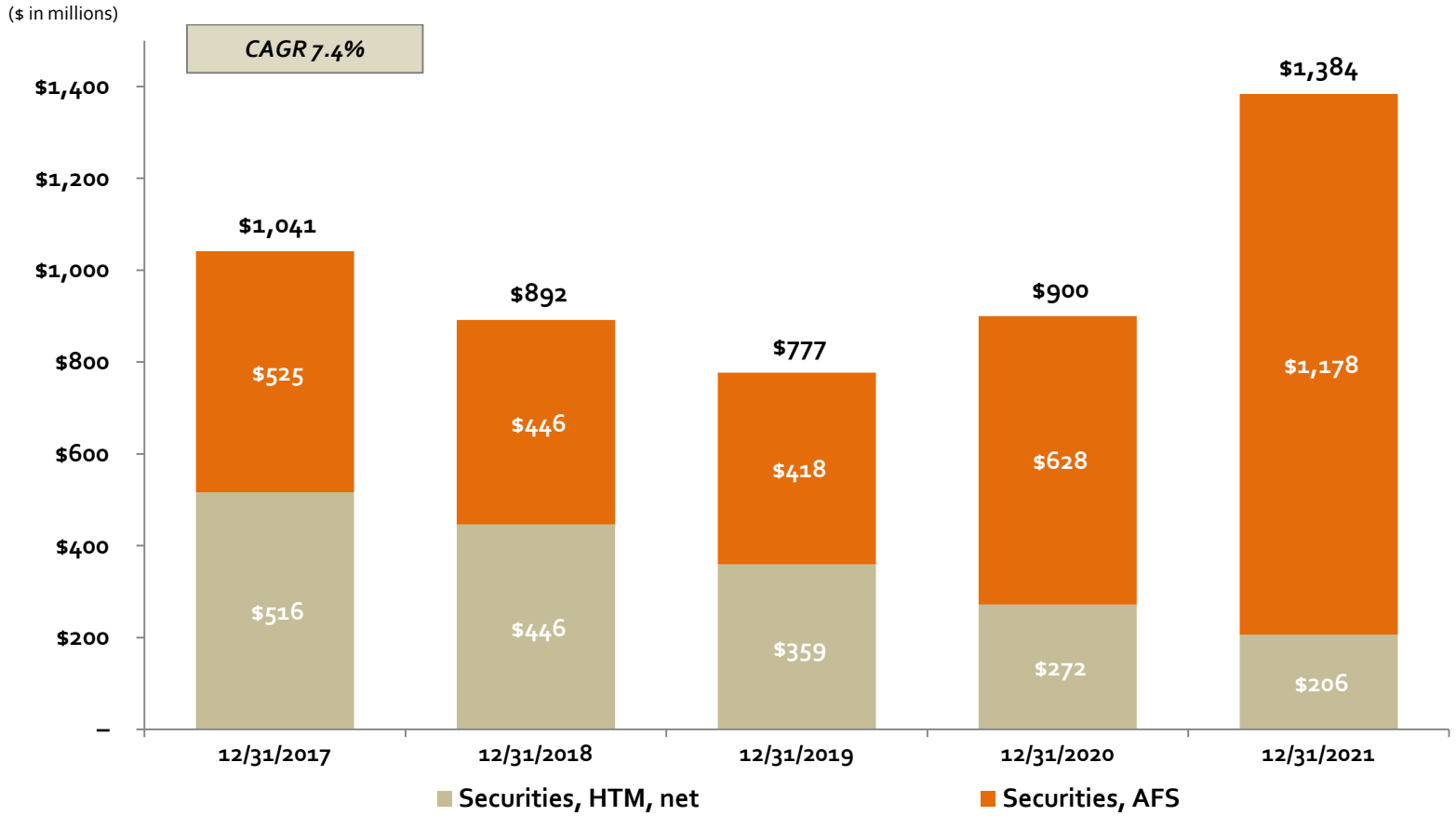
($ in millions, except per share amounts)

Earnings Summary	4Q'20	1Q'21	2Q'21	3Q'21	4Q'21
Average interest-earning assets	$4,635	$4,670	$4,973	$4,967	$5,179
Net interest margin	3.13%	3.29%	3.06%	3.07%	3.15%
Net interest income	36.2	37.9	37.7	38.3	40.9
Noninterest income	11.3	12.9	10.2	12.1	11.6
Total revenue	$47.5	$50.8	$47.9	$50.4	$52.5
Noninterest expense	($26.5)	($26.7)	($26.9)	($29.2)	($29.9)
Pre-tax pre-provision income [(1)]	21.0	24.1	21.0	21.2	22.6
(Provision) benefit for credit losses	(5.5)	2.0	4.6	0.5	1.2
Pre-tax net income	15.5	26.1	25.6	21.7	23.8
Income tax expense	(1.7)	(5.4)	(5.4)	(4.5)	(4.2)
Net income	$13.8	$20.7	$20.2	$17.2	$19.6
Preferred stock dividends	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net income available to common shareholders	$13.4	$20.3	$19.8	$16.8	$19.2
Earnings per share - diluted	$0.84	$1.27	$1.25	$1.05	$1.22
Weighted average common shares outstanding - diluted	16.1	16.0	15.9	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.

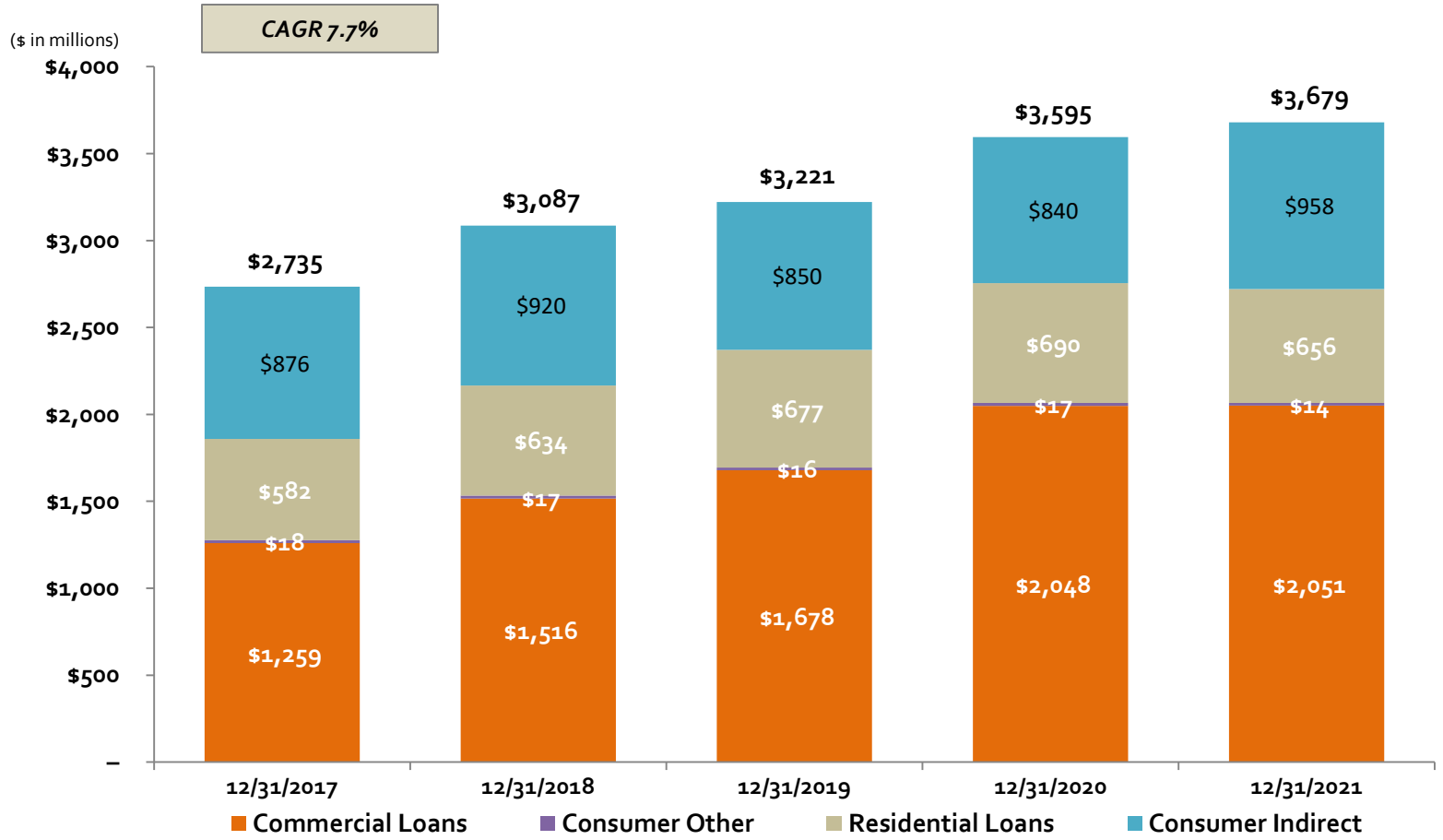


	2017	2018	2019	2020	2021
Security Yield(1)	2.48%	2.33%(2)	2.39%(2)	2.31%(2)	1.75%(2)

(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 12/31/2021 was $55.3 million



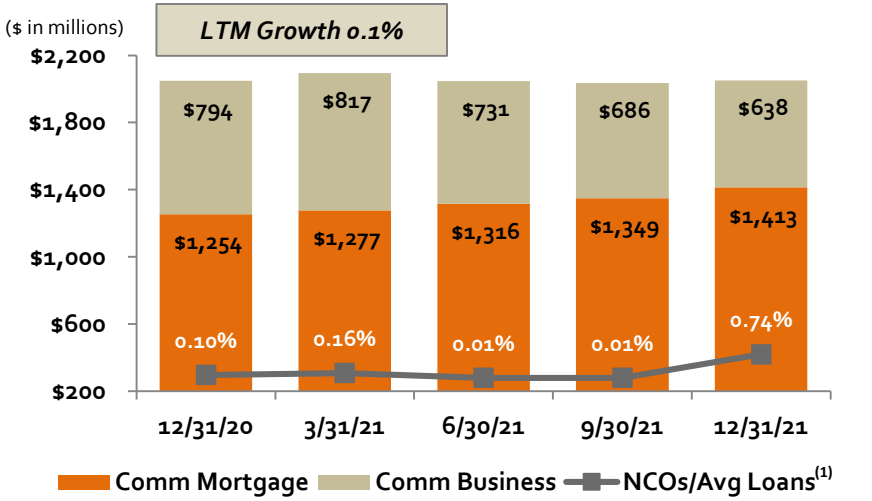
	2017	2018	2019	2020	2021
Loan Yield(1)	4.22%	4.51%	4.77%	4.18%	4.05%

(1) Average yield for the period

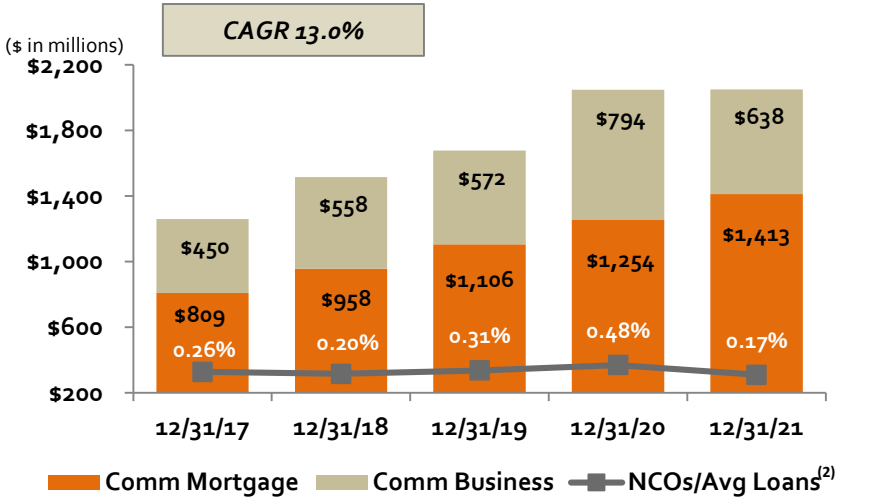
Commercial Banking

- PPP loans (net of deferred fees) included in commercial business loans below: $248.0 at 12/31/20, $255.6 million at 3/31/21, $171.9 million at 6/30/21, $116.7 million at 9/30/21 and $55.3 million at 12/31/21.
- 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

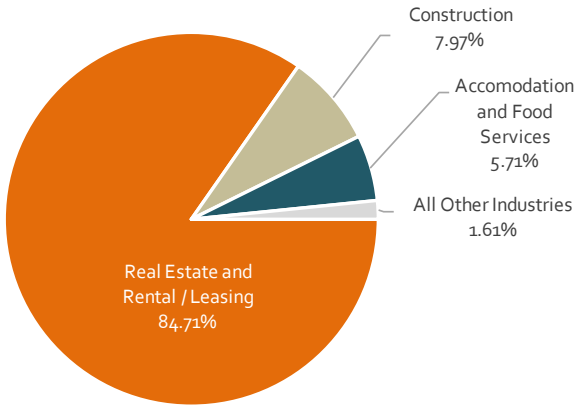


(1) For the quarter (annualized)
(2) For the year

Commercial Loan Portfolio Detail

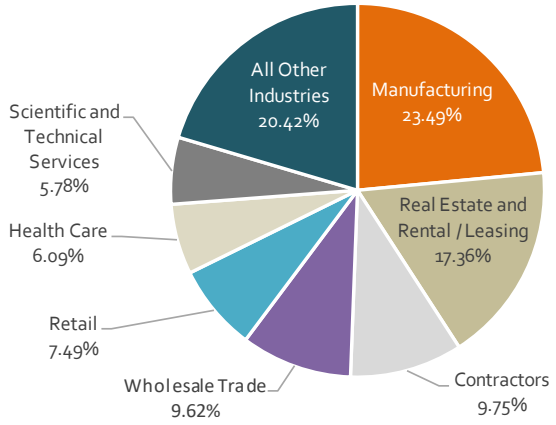
Commercial Real Estate Ttl Exposure[1] ($1.4Bn[2])

As of December 31, 2021



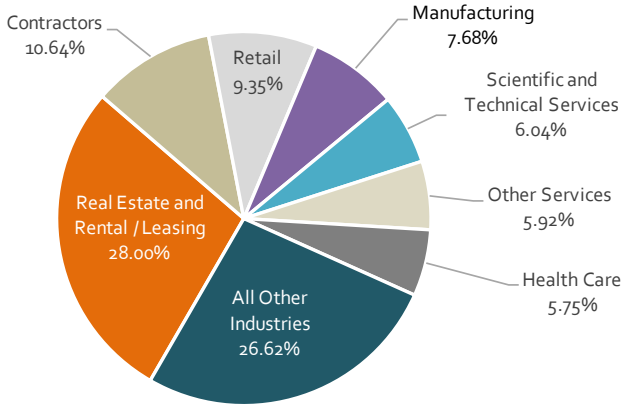
Commercial & Industrial Ttl Exposure[1] ($1.1Bn[2])

As of December 31, 2021



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

As of December 31, 2021



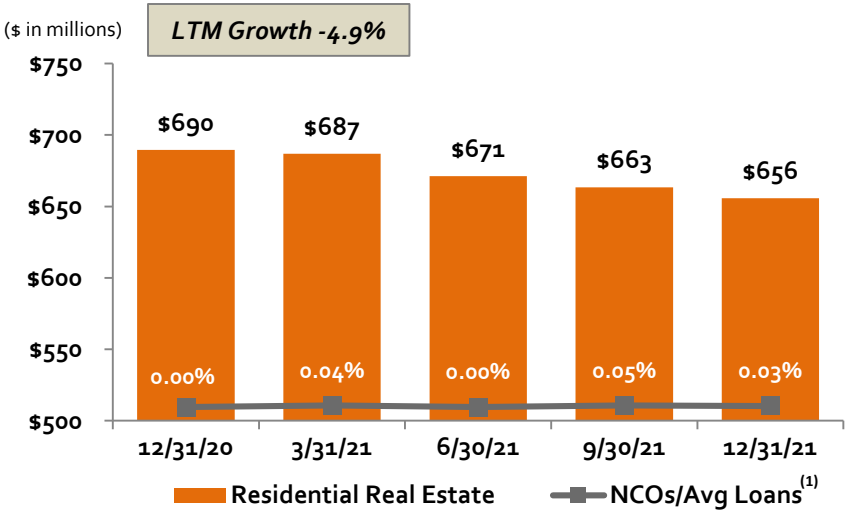
- **The vast majority of the commercial loan portfolio is within the Bank's footprint**

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

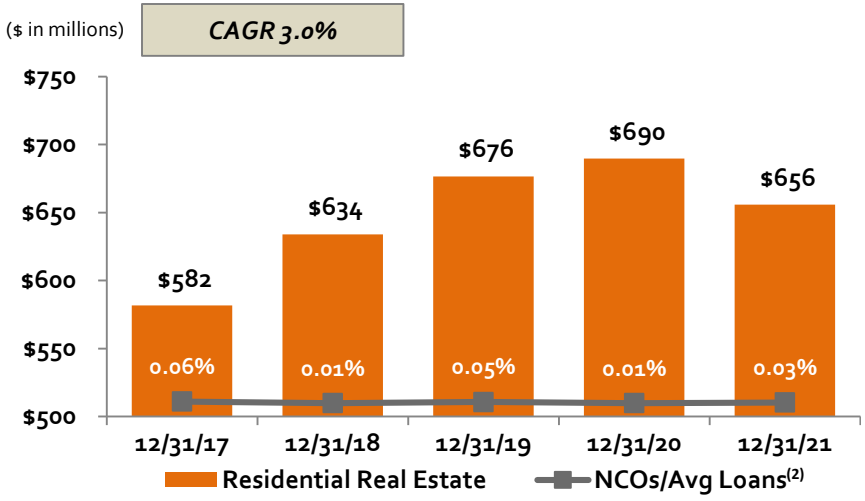
Residential Real Estate Loans and Lines

- 2021 decline is the result of 1) normalization as compared to highs experienced in 2020, 2) tight local housing market and 3) personnel turnover
- 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

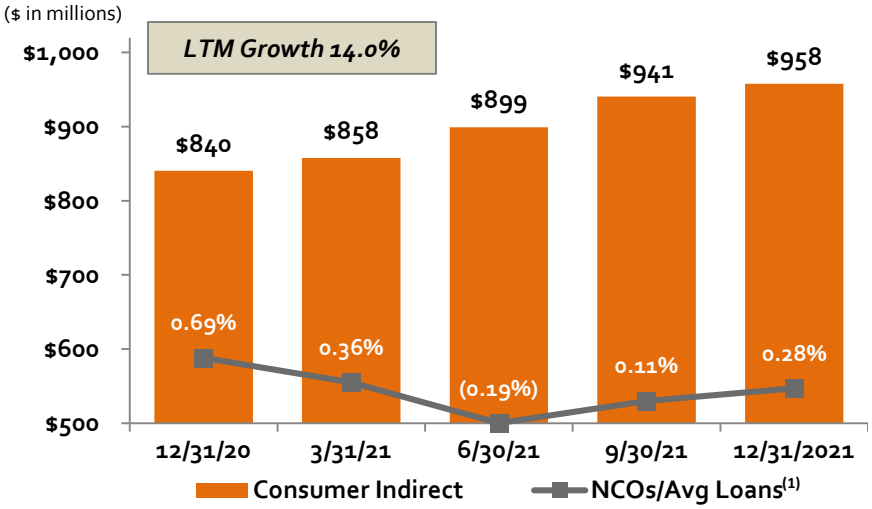


(1) For the quarter (annualized)
(2) For the year

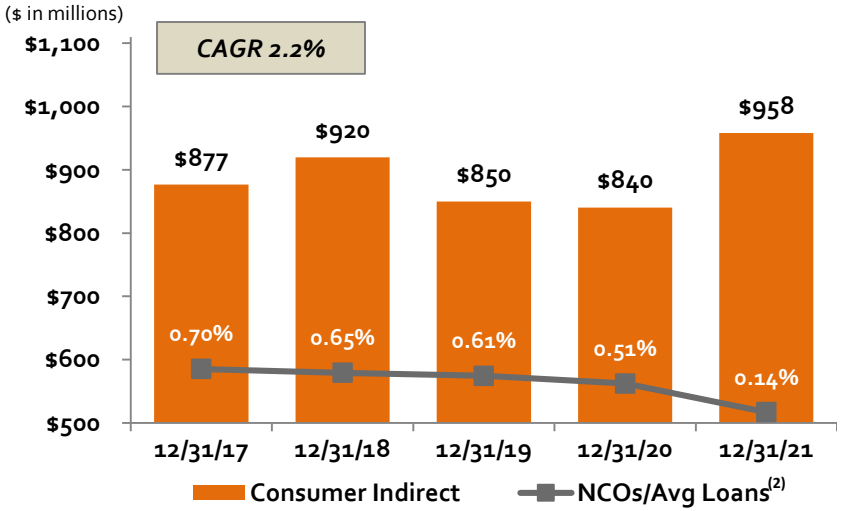
Consumer Indirect Lending

- $958.0 million portfolio at December 31, 2021
  - Portfolio represents 26.0% 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 715
- 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



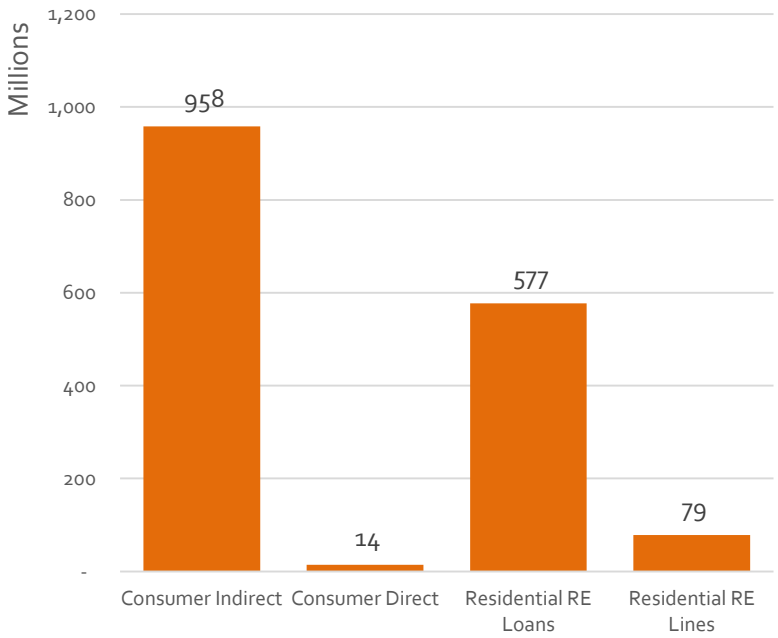
Consumer Indirect – Annual



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

Consumer & Residential Loan Portfolio Detail

Consumer Lending Portfolio
As of December 31, 2021

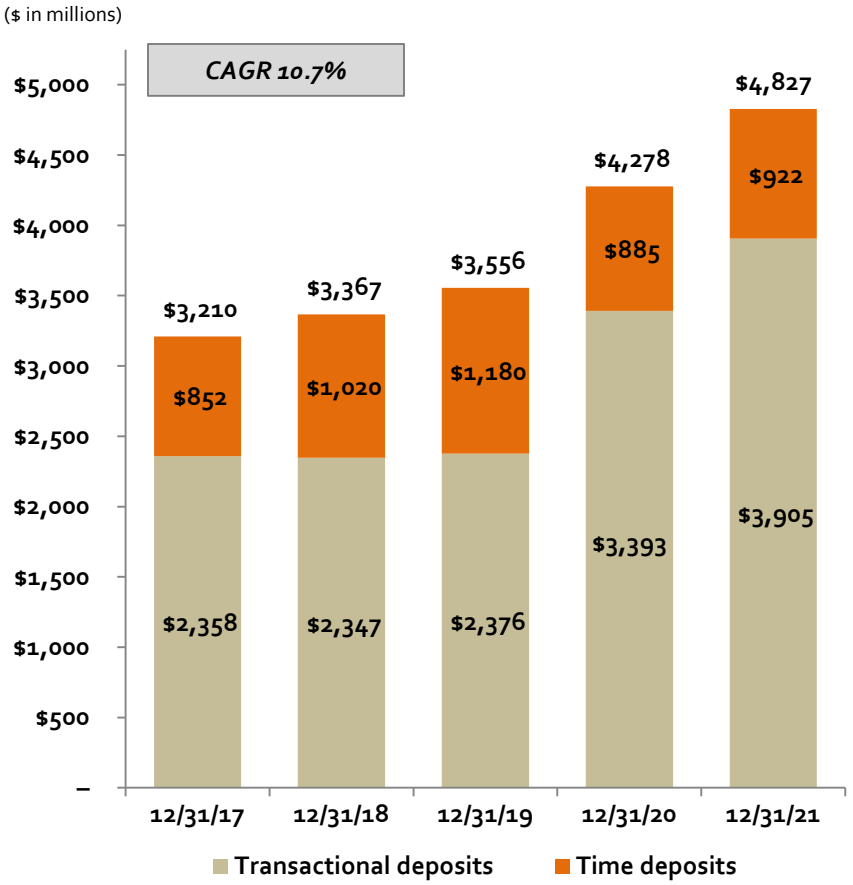


Consumer Lending Portfolio Metrics
As of December 31, 2021

	% of Ttl. Loan Portfolio ($3.7Bn)	# of Loans	Wt. Avg FICO Score (at origination)	Avg. Loan Balance
Consumer Indirect	26.0%	47,333	715	$19,262
Consumer Direct	0.4%	11,303	733	$1,171
Residential Real Estate Loans	15.7%	6,822	737	$93,433
Residential Home Equity Lines of Credit (HELOCs)	2.2%	3,274	769	$21,888

Deposit Growth

Deposits (by account type)



Commentary

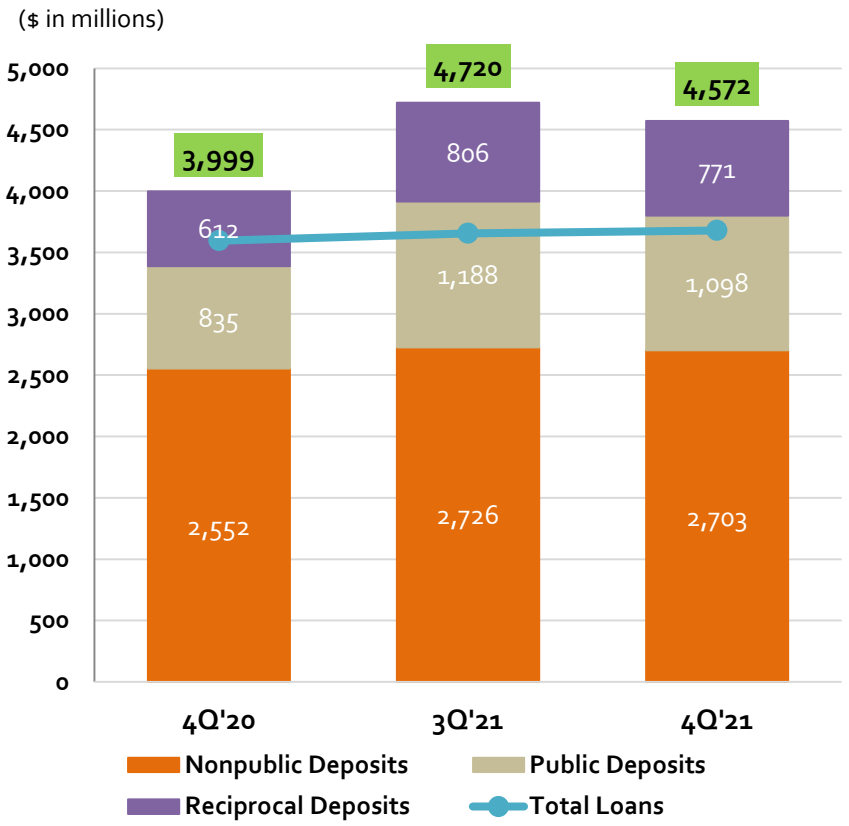
- 2021 increase driven by growth in non-public, public and reciprocal deposits
- 2020 increase driven by growth in non-public demand and reciprocal deposits
- Opportunities for growth
  - Combined Rochester and Buffalo markets represent attractive deposit market of $96 billion
  - Current FSB market 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 23% of deposits at 12/31/21 compared to 20% of deposits at 12/31/20
  - FSB currently has 326 municipal customers

	2017	2018	2019	2020	2021
Cost of Deposits(1)	0.35%	0.57%	0.82%	0.44%	0.17%

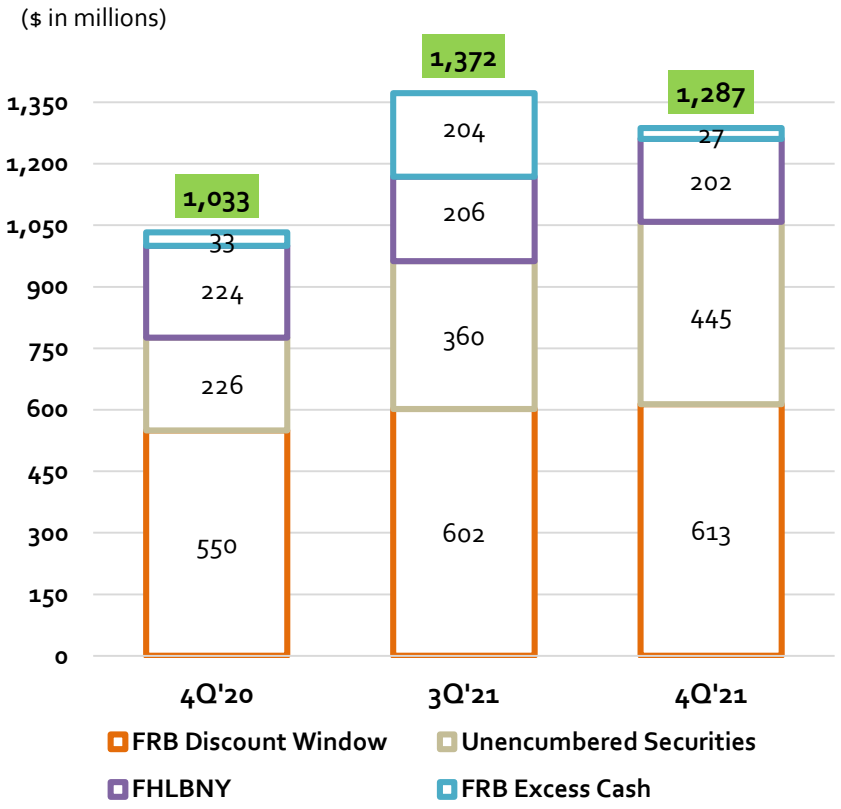
(1) For the year

Key Liquidity Metrics

Deposit Mix (1)



Available Committed Liquidity

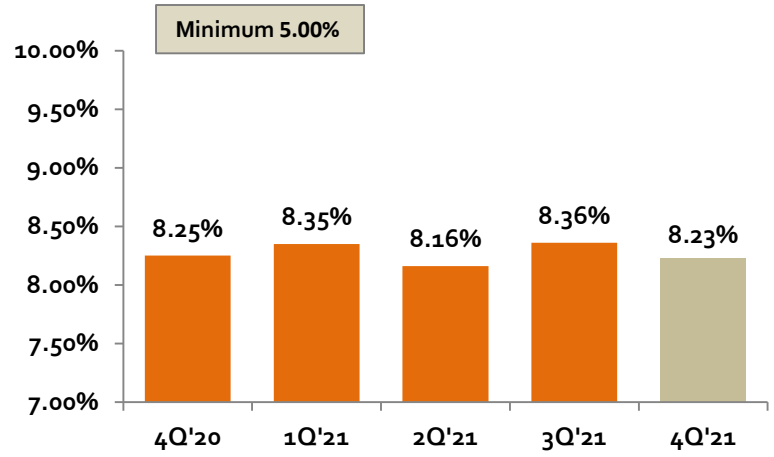


- Diverse deposit gathering capabilities and eligible collateral support a robust liquidity position:
  - Core nonpublic deposits anchor our deposit base; loan to deposit ratio of 76% at 4Q'21
  - 4Q'21 available committed liquidity remains strong and stable, as supported through ample unencumbered collateral in the securities portfolio, borrowing capacity at the FHLB NY and tertiary liquidity through the FRB discount window
  - The increase in security collateral is reflective of seasonal public deposit outflows coupled with growth in securities

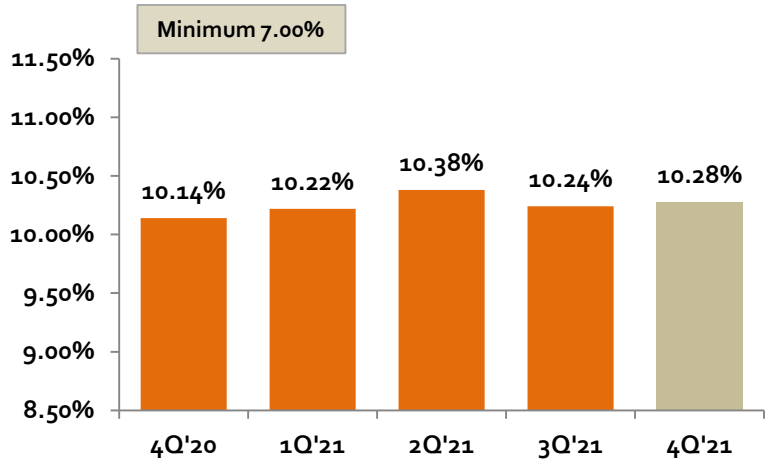
(1) Excluding Brokered Deposits

Capital Ratios

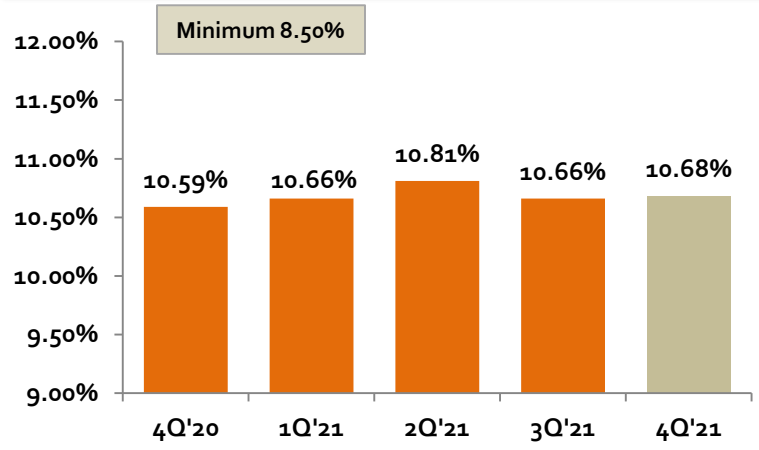
Leverage Ratio [1]



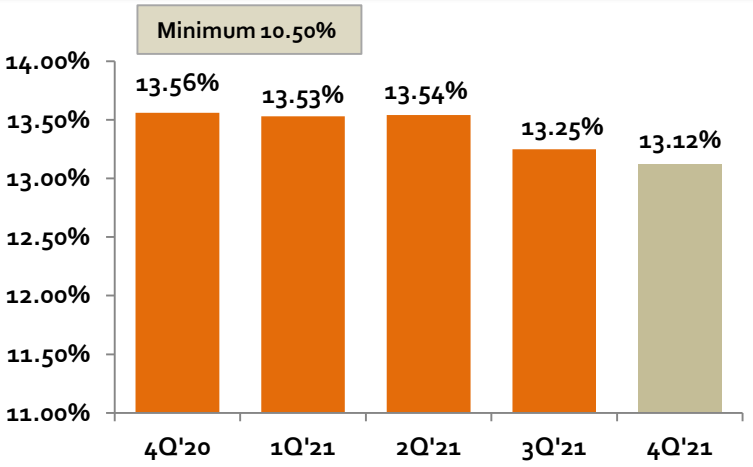
Common Equity Tier 1 Capital Ratio [1]



Tier 1 Capital Ratio [1]



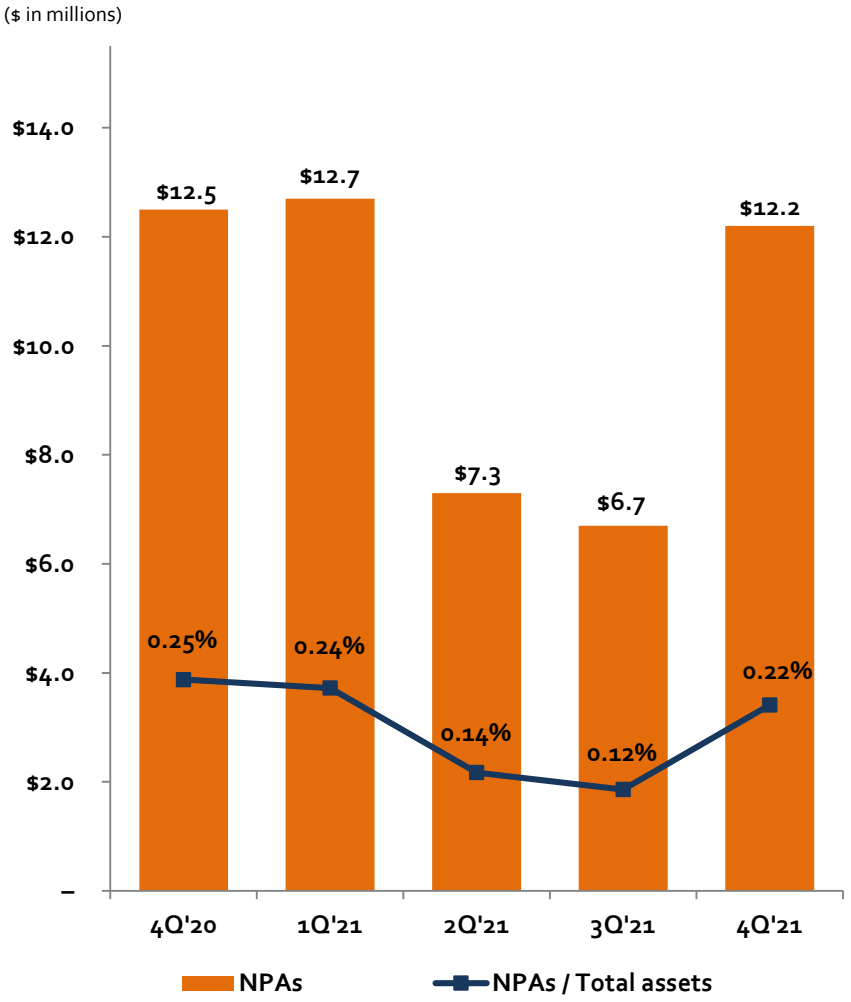
Total Risk-Based Capital Ratio [1]



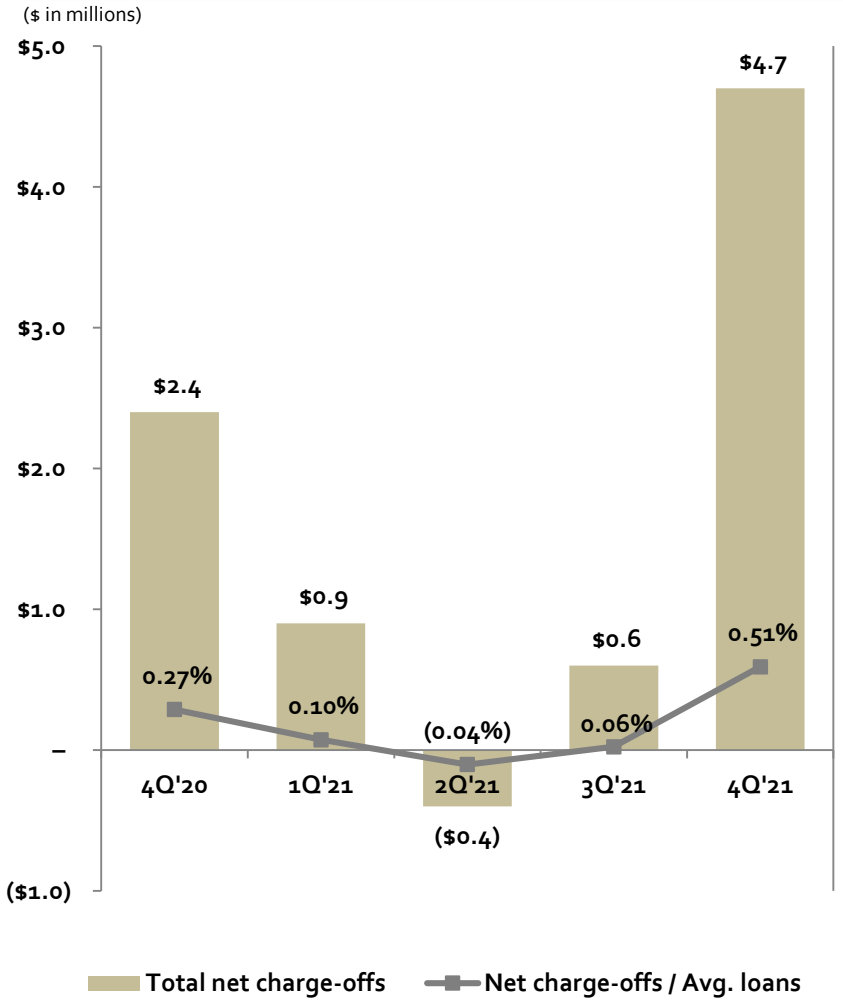
[1] Minimum capital ratios based on January 2019 fully phased-in Basel III requirements.

Asset Quality

Non-Performing Assets

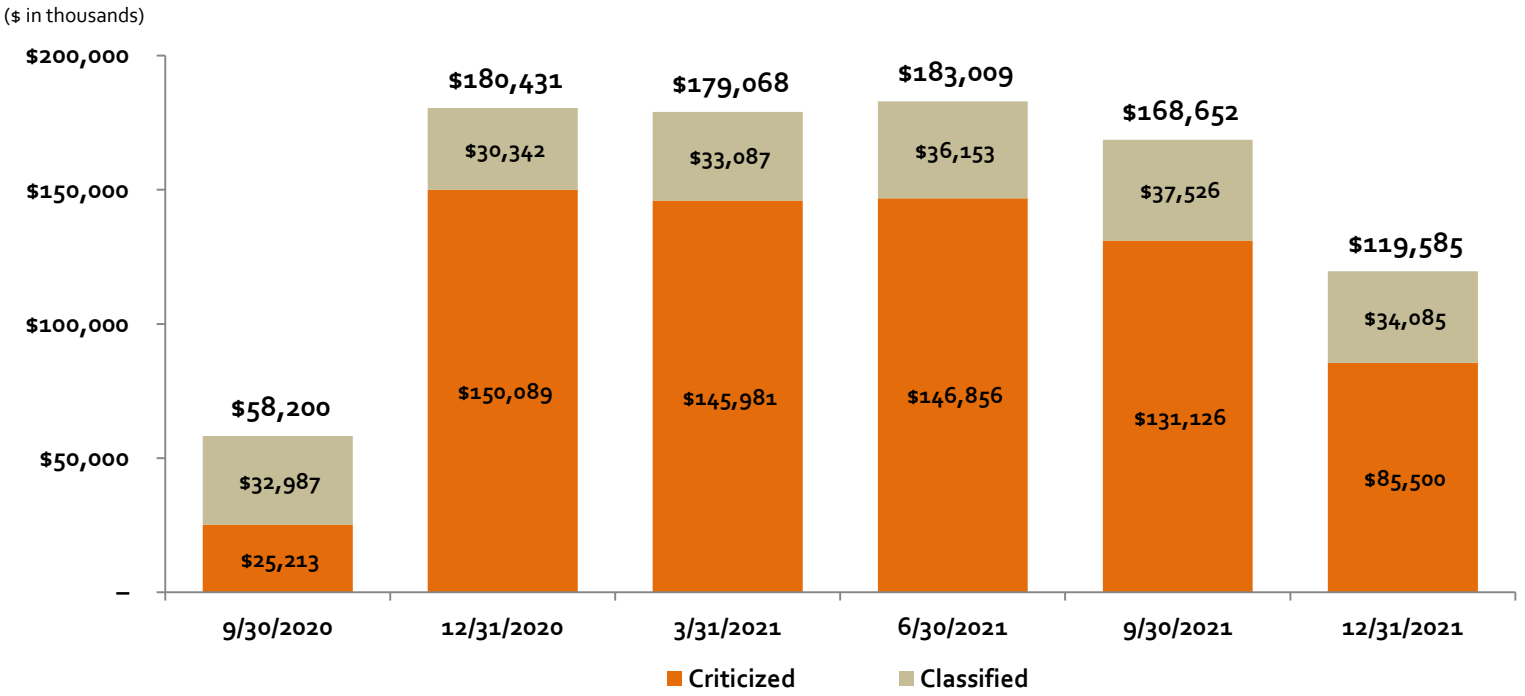


Net Charge-Offs



Criticized and Classified Assets

- 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.
- At 12/31/2021, the at-risk COVID loan pool was approximately $75 million. Driving the $52 million decrease were credits that returned to full-paying status and upgraded to pass-rated: $19 million in 3Q'21 and $33 million in 4Q'21.
- The at-risk COVID loan pool specific reserve at 12/31/2021 was $5.3 million, a $1.4 million decrease from 9/30/2021.
- One commercial mortgage loan (not included in the at-risk COVID loan pool) was downgraded to non-performing status in 4Q'21. The related $3.8 million partial charge-off contributed $3.8 million of the decrease in total specific reserves.



	9/30/2020	12/31/2020	3/31/2021	6/30/2021	9/30/2021	12/31/2021
Total Specific Reserves	$1.4MM	$9.6MM	$13.5MM	$13.3MM	$11.3MM	$5.8MM

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)	12/31/2020	3/31/2021	6/30/2021	9/30/2021	12/31/2021	2020	2021
Computation of ending tangible common equity:							
Common shareholders' equity	$ 451,035			$ 476,721	$ 487,850		
Less: Goodwill and other intangible assets, net	73,789			74,659	74,400		
Tangible common equity	377,246			402,062	413,450		
Computation of ending tangible assets:							
Total assets	$ 4,912,306			$ 5,623,193	$ 5,520,779		
Less: Goodwill and other intangible assets, net	73,789			74,659	74,400		
Tangible assets	4,838,517			5,548,534	5,446,379		
Tangible common equity to tangible assets[1]	7.80%			7.25%	7.59%		
Common shares outstanding	16,042			15,842	15,747		
Tangible common book value per share[2]	$ 23.52			$ 25.38	$ 26.26		
Computation of average tangible common equity:							
Average common equity	$ 445,515			$ 478,582	$ 483,112	$ 433,908	$ 468,085
Less: Average goodwill and other intangible assets, net	73,942			74,470	74,544	74,364	74,411
Average tangible common equity	371,573			404,112	408,568	359,544	393,674
Computation of average tangible assets:							
Average assets	$ 4,992,886			$ 5,368,054	$ 5,582,987	$ 4,693,225	$ 5,335,808
Less: Average goodwill and other intangible assets, net	73,942			74,470	74,544	74,364	74,411
Average tangible assets	4,918,944			5,293,584	5,508,443	4,618,861	5,261,397
Net income available to common shareholders	13,435			16,811	19,247	36,871	76,237
Return on average tangible common equity[3]	14.38%			16.50%	18.69%	10.25%	19.37%
Pre-tax pre-provision income:							
Net income	$ 13,800	$ 20,710	$ 20,200	$ 17,175	$ 19,612		
Add: Income tax expense	1,688	5,347	5,400	4,553	4,225		
Add: Provision (benefit) for credit losses	5,495	(1,981)	(4,622)	(541)	(1,192)		
Pre-tax pre-provision income	$ 20,983	$ 24,076	$ 20,978	$ 21,187	$ 22,645		

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.