

FINANCIAL INSTITUTIONS, INC. (Nasdaq: FISI)

First Quarter 2022 Earnings Presentation

April 27, 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)
- 48 banking locations in 14 contiguous counties in Western and Central New York State and a commercial loan production office in Ellicott City (Baltimore), Maryland
- 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, 2022

Assets:	$5.6 billion
Loans:	$3.7 billion
Deposits:	$5.0 billion
Shareholders' Equity:	$446.8 million
NPAs(1)/Total Assets:	0.17%
Employees:	>600
ROACE (TTM):	14.88%
ROATCE(2) (TTM):	17.66%
ROAA (TTM):	1.32%
Annualized Dividend Per Share:	$1.16
Closing Stock Price Per Share:	$30.13
Dividend Yield:	3.8%
Market Capitalization:	$461.0 million

(1) NPAs include nonaccrual loans, loans past due 90 days or more and still accruing, and foreclosed assets
(2) Refer to "Non-GAAP Reconciliation" in Appendix

Strategic Focus That Delivers Long-Term Value

Financial Institutions, Inc.

An innovative financial holding company providing banking services to its customers, communities and fintech partners

Delivering value to our **customers & communities**

- **Exceptional and results-driven community bank** with strong retail and commercial franchises
- **Strong Commercial Bank:** Loans (CRE, C&I, BBU[1]), Treasury Management, Fee Income, Presence in New York and Maryland; 55% of total loan portfolio
- **Well-Positioned Retail Bank:** Deposits, loans (Small business, consumer and residential), Fee Income, 48 banking locations across Western and Central New York
- **Rapidly growing Digital Bank:** Deposits, loans (Small business) and access to crypto[2] that levers strengths of fintech partners
- **Credit disciplined** (0.09% NCO 1Q22)
- **Leading full-service insurance agency** (SDN Insurance) and two **well-regarded investment advisory firms** (Courier Capital and HNP Capital)



Delivering value to **fintech & non-bank financial partners**

- **Launched Banking-as-a-Service line of business**[3] to provide fintechs and non-bank financials access to banking products, services and financial services expertise
- **Value-driven, disciplined approach to partnerships** by building a robust pipeline of opportunities that are complementary our values and risk appetite
- **Created "BaaS operating system"** that levers legacy and digital investments and infrastructure to deliver BaaS solutions to partners
- **Expertise in traditional and next-gen banking products and services** recognized leadership in lending (commercial, SBA, consumer), wholesale and retail payments, debit/credit sponsorship, AI decisioning, crypto currency, web3, and other unique product strategies
- **Positioned to grow BaaS fee income and generate deposits** by building momentum through 2022

(1) Business Banking Unit
(2) Pending regulatory feedback
(3) Launched 4Q 2021

BaaS presents a clear opportunity for Financial Institutions, Inc. to create new revenue opportunities and market differentiation

Business Overview

Our Banking-as-a-Service "operating system" enables fintechs and non-bank financials[2] to offer banking products and services to their end customers.

Financial Institutions, Inc. established **Corn Hill Innovation Labs, LLC[1] (CHIL)** to manage the daily operations of its BaaS/Digital Bank business, source opportunities and oversee partnerships.

Revenue Model

BaaS is a fee-based line of business driven by:

- BaaS service fees
- Interchange fees
- Advisory and servicing fees, e.g., Risk, Compliance, BSA/AML, Operations
- Other revenue sharing

Additionally, BaaS will generate lower-cost deposits and enhance loan diversification

Partnerships

Since January, we have been building a pipeline of opportunities that we anticipate translating into success and helping build momentum through 2022.

Using our strong risk management and third-party oversight frameworks, we are sourcing partners who:

- Have shared values and align to our risk appetite
- Appreciation for consumer and regulatory compliance
- Primarily focused on B2B and embedded finance opportunities

BaaS is an opportunity to bring together existing operational capabilities with ongoing digital investments to extend our customer base and enhance revenues, as well as provide complementary benefit to the enterprise.

(1) Corn Hill is the oldest residential neighborhood in Rochester, NY. A city rich in history of innovation and creative solutions. Pioneers in oil and gas, communication, optics, photography, computing, transportation, and suffrage all called Rochester home.
(2) Primarily wealth and investment advisory firms

First Quarter Key Statistics[1] and Highlights

- Net income of $15.0 million was $5.7 million lower than 2021
- Diluted earnings per share of $0.93 was $0.34 lower than 2021
  - Net income and earnings per share in the current period were negatively impacted by Q1 2022 provision for credit losses of $2.3 million as compared to a benefit of $2.0 million in Q1 2021.
  - Revenue related to Paycheck Protection Program ("PPP") loans was $2.5 million lower in Q1 2022 than in Q1 2021.
- Pre-tax pre-provision income[2] of $20.7 million was $3.3 million lower than 2021
- Net interest income of $39.6 million was $1.7 million, or 4.5%, higher than 2021
- Net interest margin ("NIM") of 3.11% was 18 basis points lower primarily as a result of lower fee accretion related to PPP loan forgiveness, the interest rate environment and excess liquidity
- Total loans at quarter-end were $3.73 billion, an increase of $54.2 million, or 1.5%, from 12/31/2021
  - Excluding PPP loans, total loans increased $78.2 million, or 2.2%, from 12/31/2021
- Common book value per share decreased 9.4% and tangible common book value per share[2] decreased 11.5% from 12/31/2021
  - Decreases primarily driven by decline in accumulated other comprehensive income associated with temporary unrealized losses in the available for sale securities portfolio (refer to slide 19)
- The Company bought back 461,191 common shares at an average price of $31.99 per share under its stock repurchase program, completing the program
- Five Star Bank launched a commercial lending platform in Baltimore and Washington, D.C.

(1) As compared to first quarter 2021, unless otherwise indicated
(2) Refer to "Non-GAAP Reconciliation" in Appendix

First Quarter 2022

Results Summary

($ in millions, except per share amounts)	1Q'21	4Q'21	**1Q'22**
Net interest income	$37.9	$40.9	**$39.5**
Noninterest income	12.9	11.6	11.3
Noninterest expense	(26.7)	(29.9)	(30.1)
Income tax expense	(5.4)	(4.2)	(3.4)
Preferred stock dividend	(0.4)	(0.4)	(0.4)
Net income available to common shareholders	$20.3	$19.2	$14.6
EPS diluted	$1.27	$1.21	$0.93
Return on average assets	1.66%	1.39%	1.09%
Return on average common equity	18.28%	15.81%	**12.8%**
Return on average tangible common equity[1]	21.88%	18.69%	**14.81%**
Net interest margin	3.29%	3.15%	**3.11%**
Efficiency ratio[2]	52.51%	56.76%	**59.06%**
Dividends per share	$0.27	$0.27	$0.29
Dividend yield (annualized)	3.62%	3.37%	**3.90%**

Commentary

- Net interest income increased $1.7MM from 1Q'21 as a result of the deployment of excess liquidity into investment securities and growth in loans, partially offset by lower PPP-related revenue. The decrease of $1.3MM from 4Q'21 was primarily the result of lower PPP-related revenue, partially offset by growth in investment securities and loans.
- Noninterest expense increased $3.4MM from 1Q'21 and $238K from 4Q'21 primarily due to higher salaries and employee benefits ($2.2MM and $505K, respectively) and computer and data processing expense ($858K and $27K, respectively).
- Effective tax rate was 18.7% compared to 20.5% for 1Q'21 and 17.7% for 4Q'21. 1Q'22 effective tax rate lower than 1Q'21 primarily due to higher pre-tax earnings in '21. Rates also vary as a result of tax credit investments.
- Provision for credit losses was a $2.3MM provision compared to benefits of $2.0MM in 1Q'21 and $1.2MM in 4Q'21. Provision returned to more normalized level due to impact of qualitative factors reflecting economic uncertainty, partially offset by low net charge-offs, national unemployment trends and reduction in overall specific reserve levels.

(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

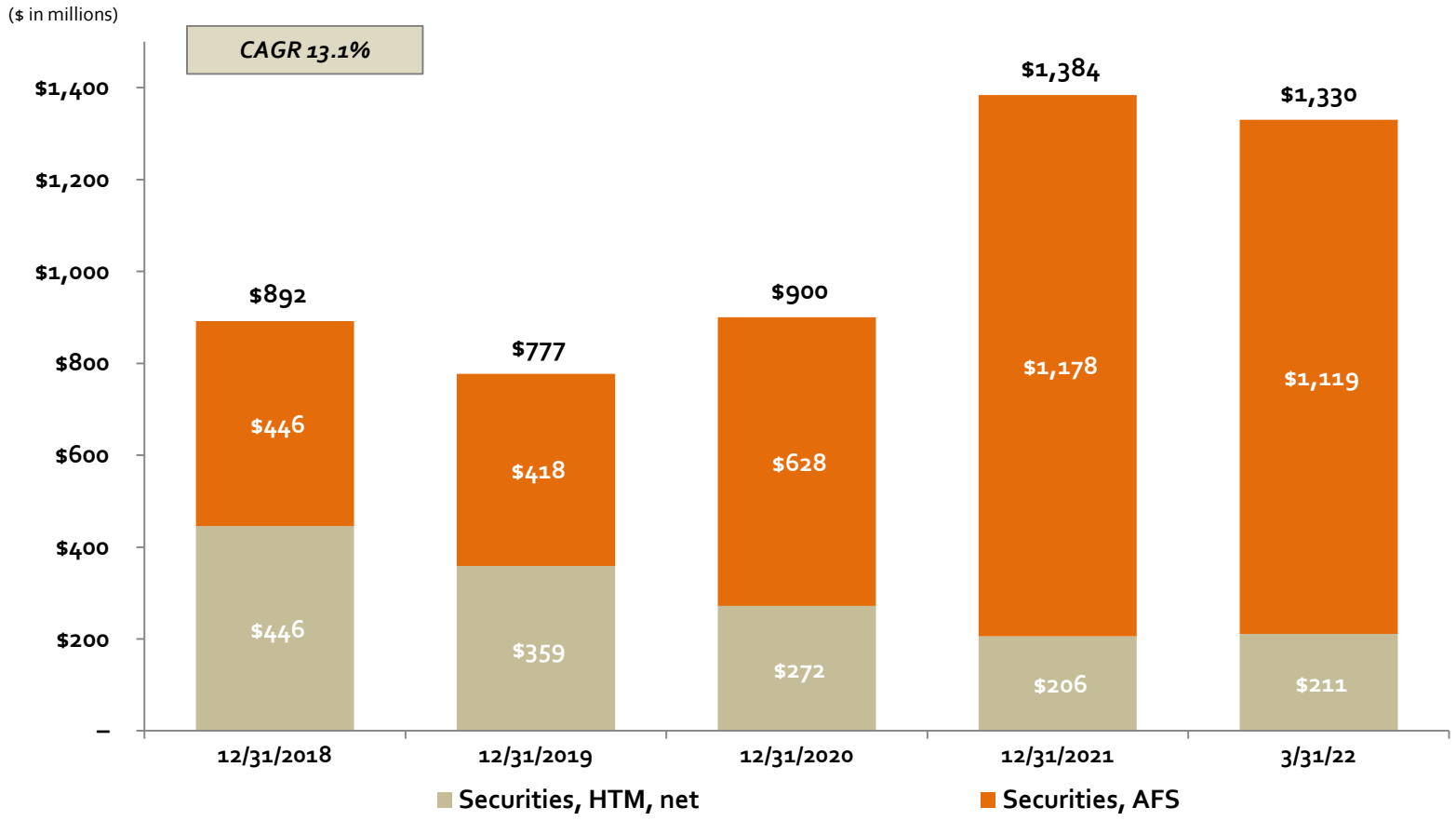
Quarterly Earnings Highlights (1Q'21 – Q'22)

($ in millions, except per share amounts)

Earnings Summary	1Q'21	2Q'21	3Q'21	4Q'21	1Q'22
Average interest-earning assets	$4,670	$4,973	$4,967	$5,179	**$5,167**
Net interest margin	3.29%	3.06%	3.07%	3.15%	**3.11%**
Net interest income	37.9	37.7	38.3	40.9	**39.5**
Noninterest income	12.9	10.2	12.1	11.6	**11.3**
Total revenue	**$50.8**	**$47.9**	**$50.4**	**$52.5**	**$50.8**
Noninterest expense	($26.7)	($26.9)	($29.2)	($29.9)	**($30.1)**
Pre-tax pre-provision income [(1)]	24.1	21.0	21.2	22.6	**20.7**
Benefit (provision) for credit losses	2.0	4.6	0.5	1.2	**(2.3)**
Pre-tax net income	26.1	25.6	21.7	23.8	18.4
Income tax expense	(5.2)	(5.4)	(4.5)	(4.2)	**(3.4)**
Net income	**$20.7**	**$20.2**	**$17.2**	**$19.6**	**$15.0**
Preferred stock dividends	(0.4)	(0.4)	(0.4)	(0.4)	**(0.4)**
Net income available to common shareholders	**$20.3**	**$19.8**	**$16.8**	**$19.2**	**$14.6**
Earnings per share - diluted	$1.27	$1.25	$1.05	$1.21	**$0.93**
Weighted average common shares outstanding - diluted	16.0	15.9	15.9	15.9	**15.7**

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

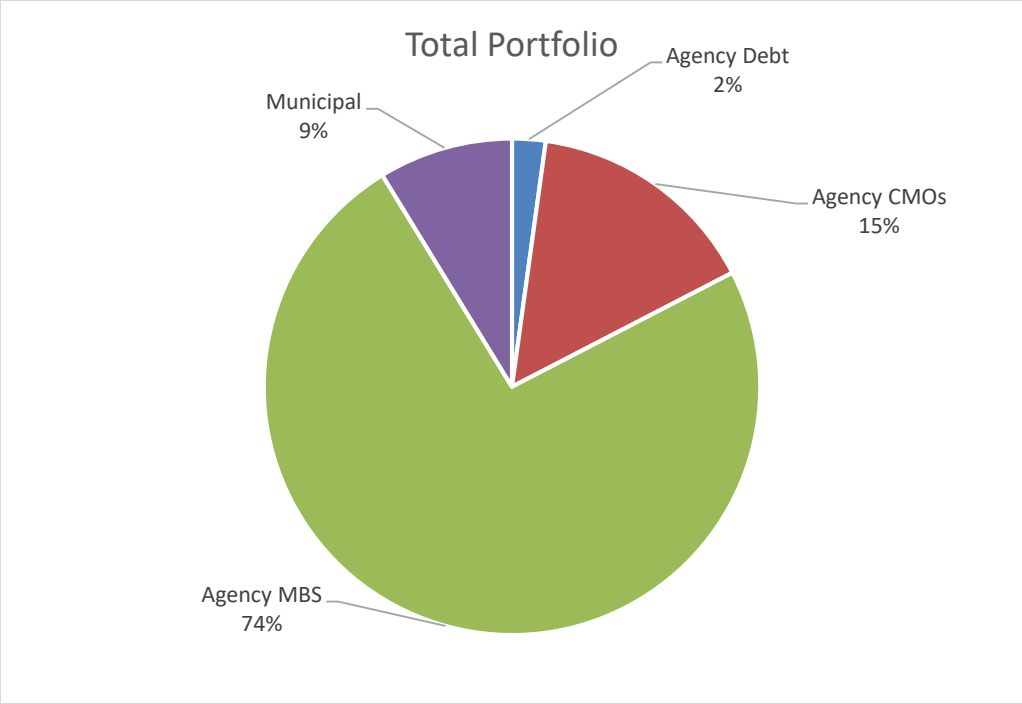
Securities Portfolio



	2018	2019	2020	2021	2022
Security Yield(1)	2.33%(2)	2.39%(2)	2.31%(2)	1.75%(2)	1.74%(2)

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

Securities Portfolio Composition at 3/31/2022



S&P Equivalent Muni Credit Rating Rating	Book Value ($ in millions)
AAA	12.8
AA+	18.2
AA	58.2
AA-	19.3
A+	7.9
A	0.9
A-	0.2
NR	6.0 (1)

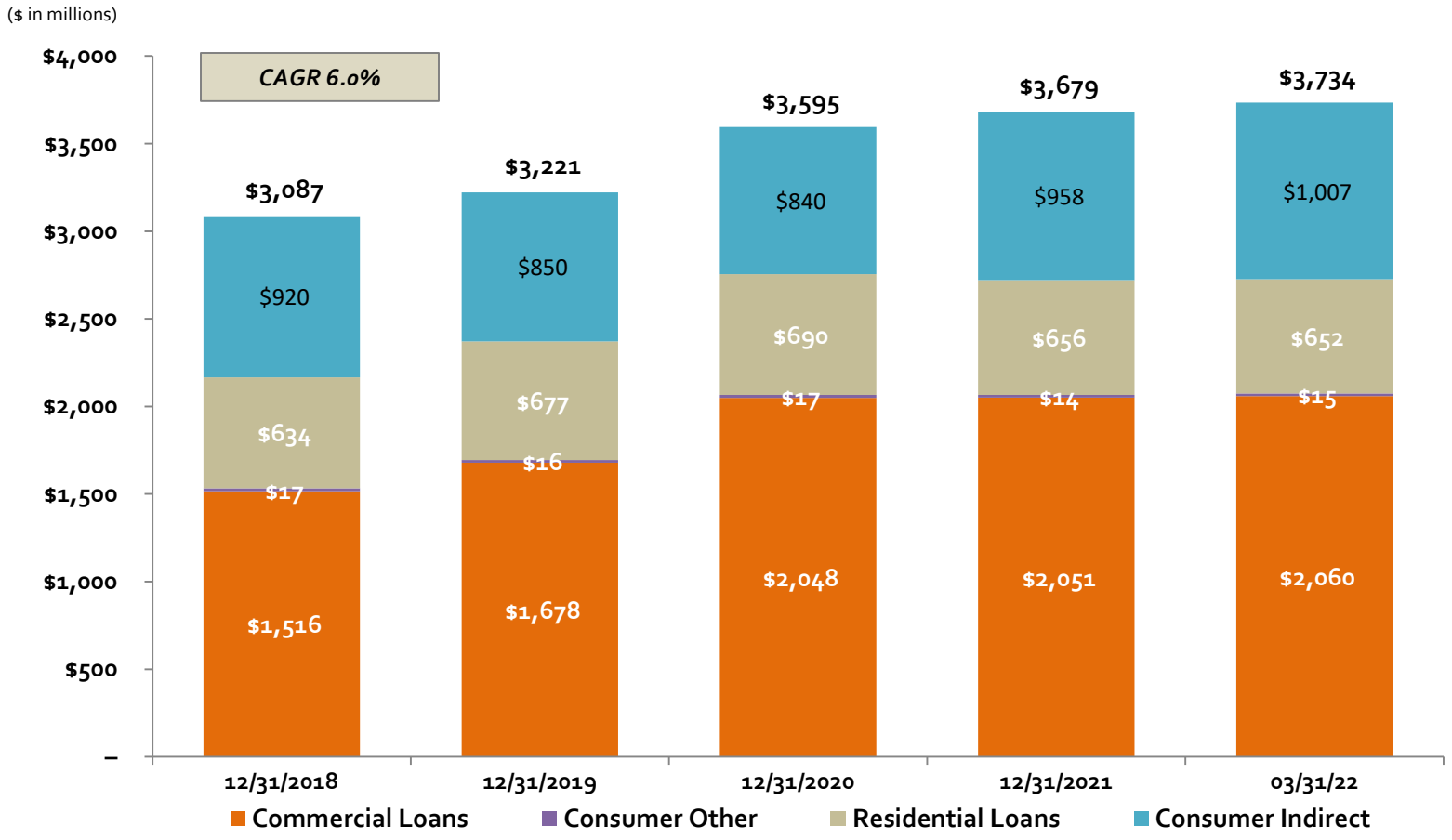
Portfolio Highlights	
Tax Equivalent Yield	1.80%
% AFS	85%
Average Life	5.89
Modified Duration	5.31

Security Type	TE Yield	Book Value ($ in millions)	Market Value ($ in millions)	Net Unrealized Gain(Loss) ($ in millions)
Agency Debt	1.91%	30.8	29.3	1.5
Agency CMOs	1.75%	214.7	203.3	11.4
Agency MBS	1.73%	1,042.9	972.2	70.7
Municipal	2.47%	123.5	120.9	2.6
	1.80%	**1,411.9**	**1,325.7**	**86.2**

Portfolio Reconciliation	($ in millions)
Total Available for Sale Securities (amortized cost) ("AFS")	1,201
Total Held to Maturity Securities (amortized cost)	211
Total Book Value	**1,412**
Less: Net Unrealized Losses on AFS Portfolio	(82)
Total Balance Sheet Investment Securities	**1,330**

(1) Locally issued BANs and RANs

Total Loans



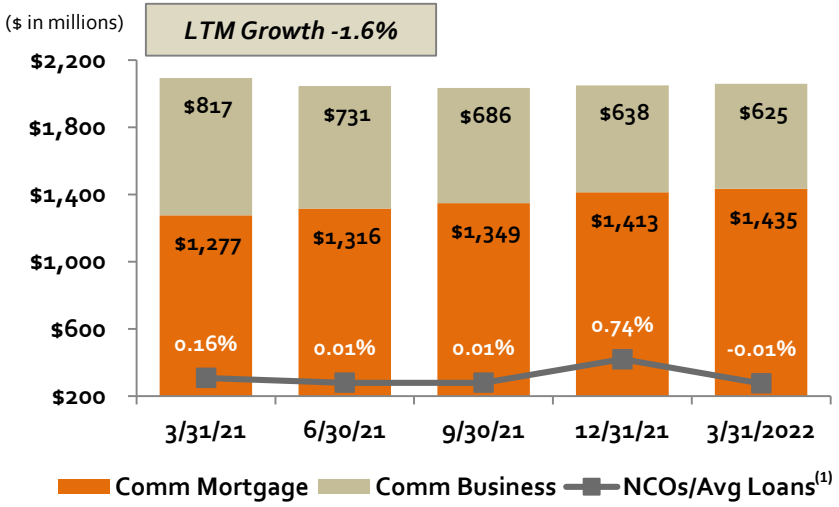
	2018	2019	2020	2021	2022
Loan Yield(1)	4.51%	4.77%	4.18%	4.05%	3.97%

(1) Average yield for the period

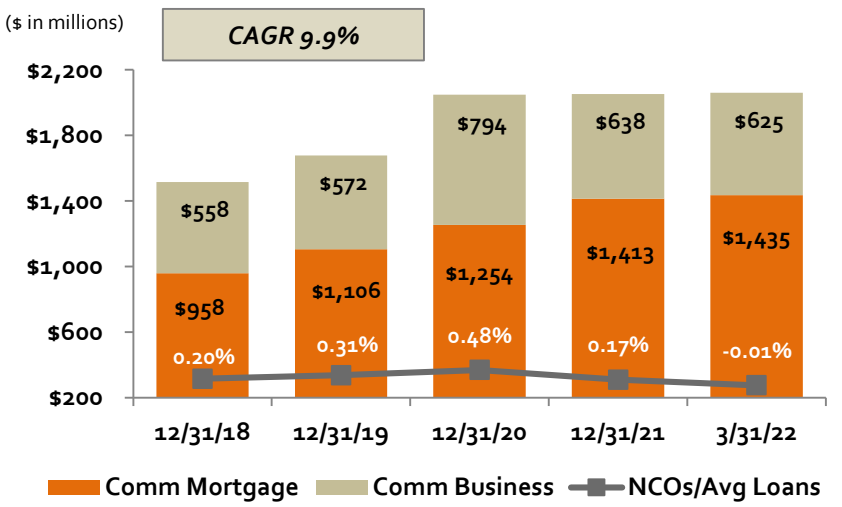
Commercial Banking

- PPP loans (net of deferred fees) included in commercial business loans below: $255.6 million at 3/31/21, $171.9 million at 6/30/21, $116.7 million at 9/30/21, $55.3 million at 12/31/21, and $31.4 million at 3/31/22.
- 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

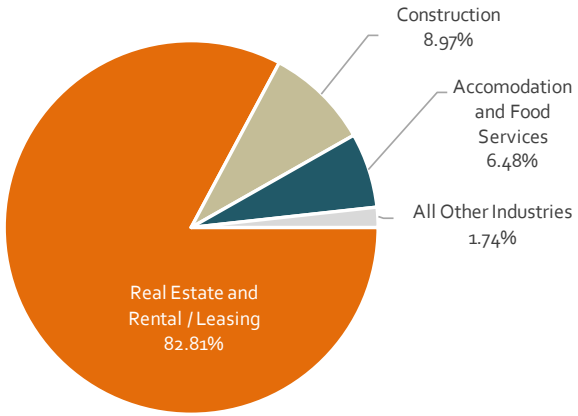


(1) For the quarter (annualized)
(2) For the year

Commercial Loan Portfolio Detail

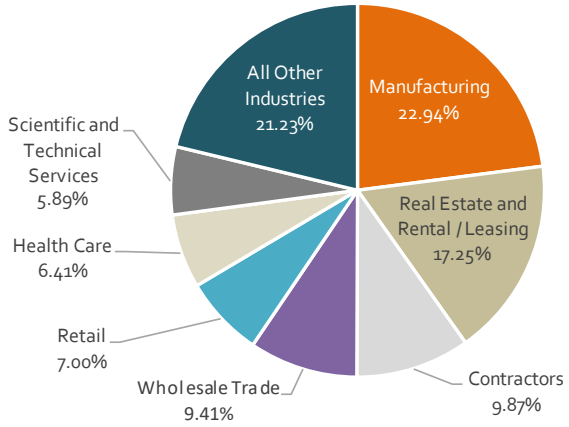
Commercial Real Estate Ttl Exposure(1) ($1.4Bn(2))

As of March 31, 2022



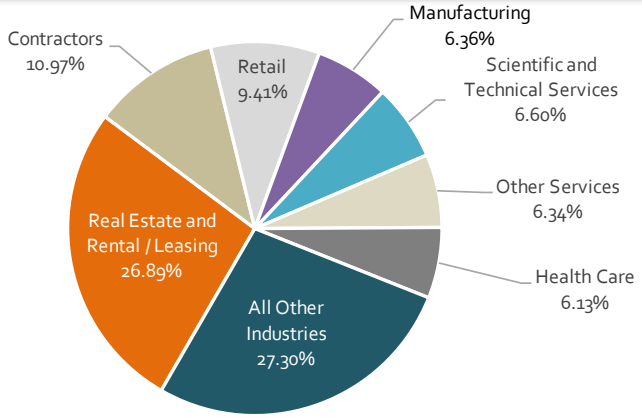
Commercial & Industrial Ttl Exposure(1) ($1.1Bn(2))

As of March 31, 2022



Business Banking Ttl Exposure(1) ($188MM(2))

As of March 31, 2022



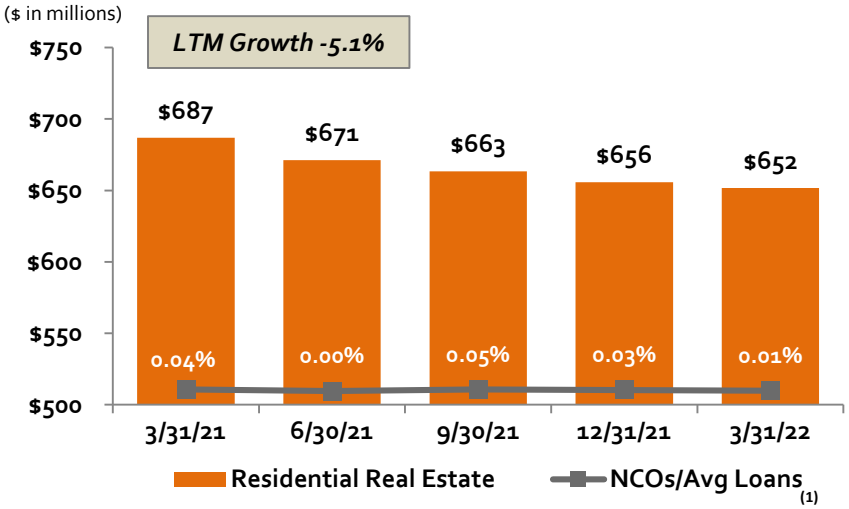
- **The vast majority of the commercial loan portfolio is within the Bank's footprint**

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

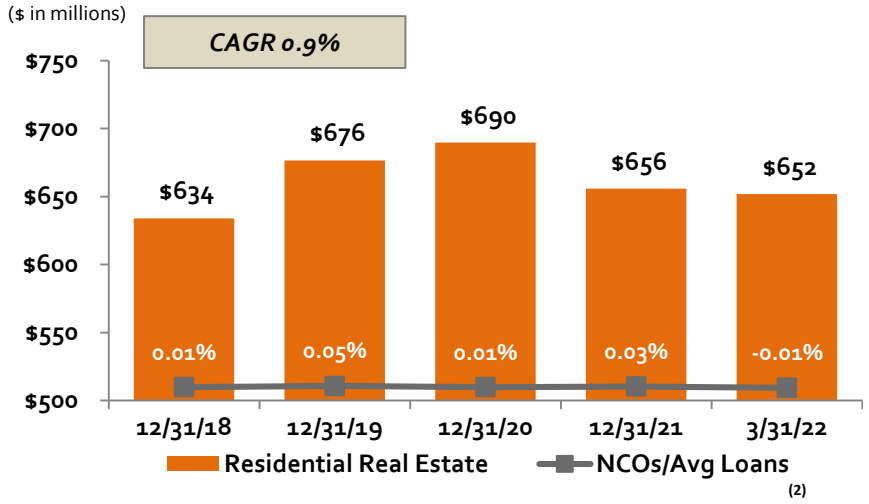
Residential Real Estate Loans and Lines

- 2021 decline was 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

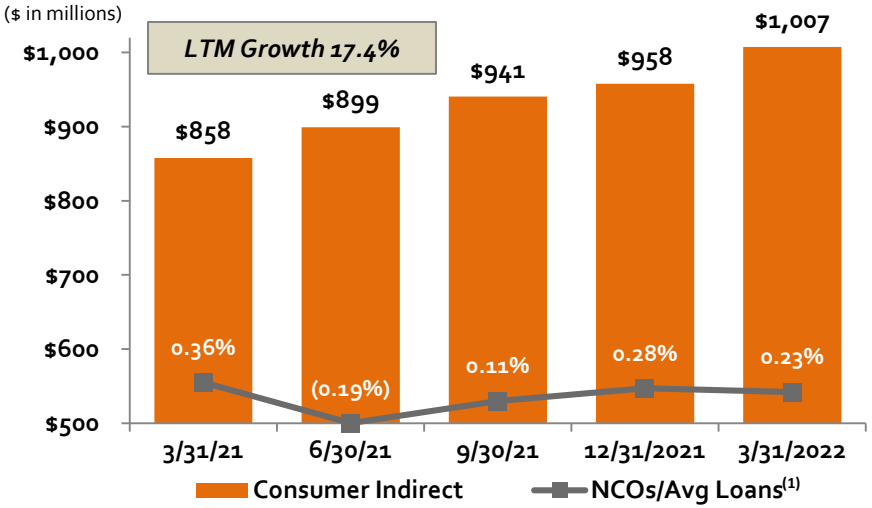


(1) For the quarter (annualized)
(2) For the year

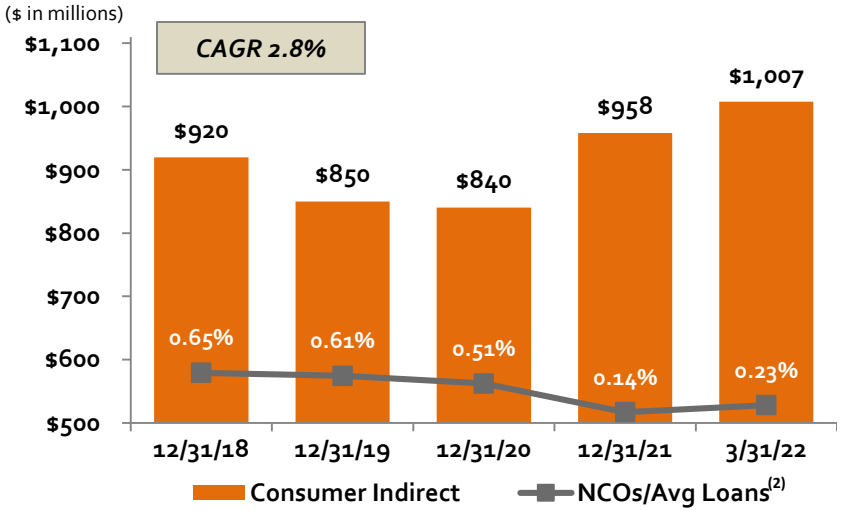
Consumer Indirect Lending

- $1.01 billion portfolio at March 31, 2022
  - Portfolio represents 27.0% 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



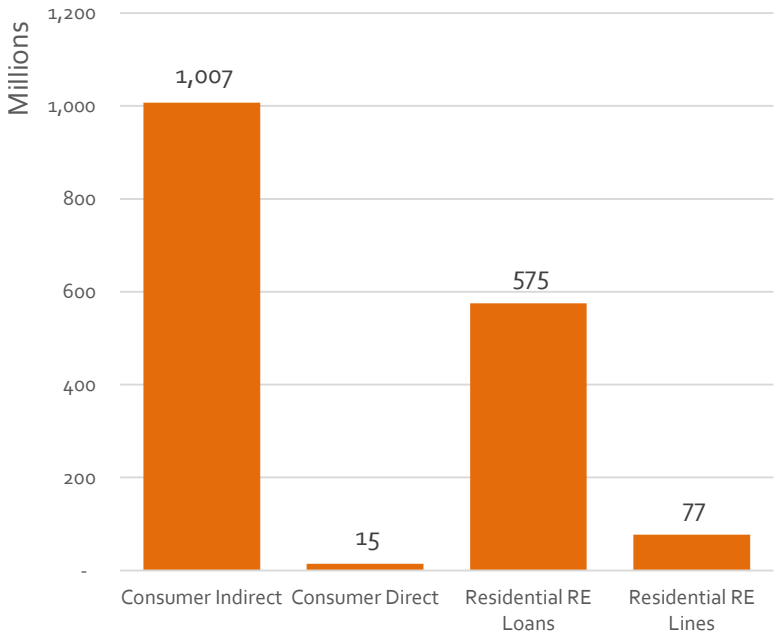
Consumer Indirect – Annual



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

Consumer & Residential Loan Portfolio Detail

Consumer Lending Portfolio
As of March 31, 2022



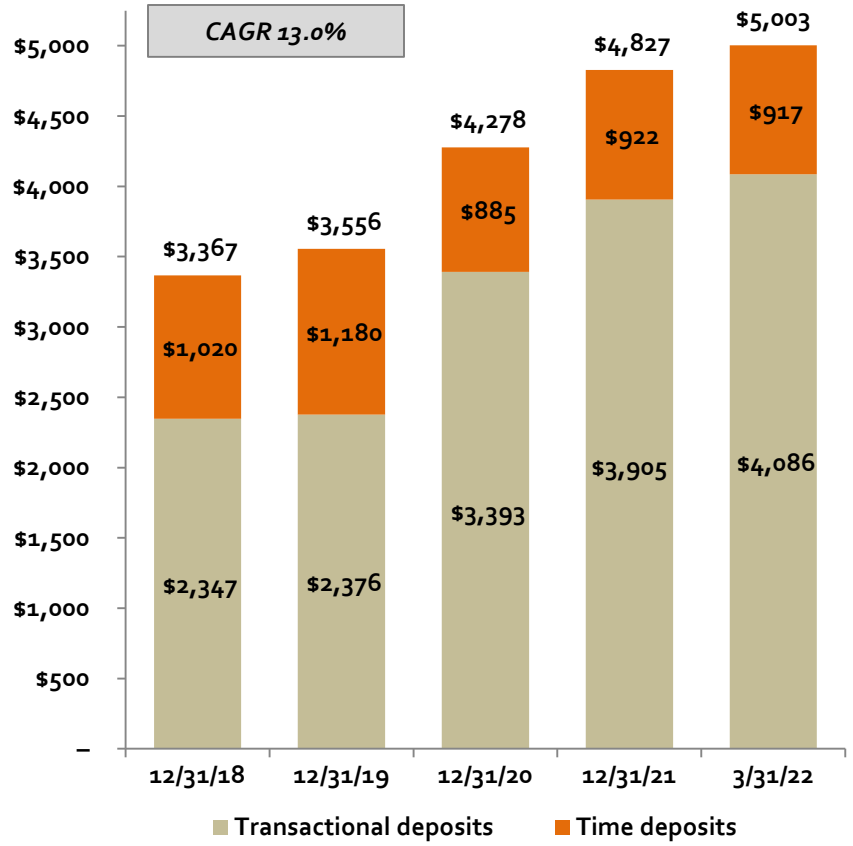
Consumer Lending Portfolio Metrics
As of March 31, 20212

	% of Ttl. Loan Portfolio ($3.7Bn)	# of Loans	Wt. Avg FICO Score (at origination)	Avg. Loan Balance
Consumer Indirect	27.0%	47,592	715	$19,720
Consumer Direct	0.4%	11,228	734	$1,66
Residential Real Estate Loans	15.4%	6,744	737	$93,993
Residential Home Equity Lines of Credit (HELOCs)	2.1%	3,255	769	$21,553

Deposit Growth

Deposits (by account type)

($ in millions)



Commentary

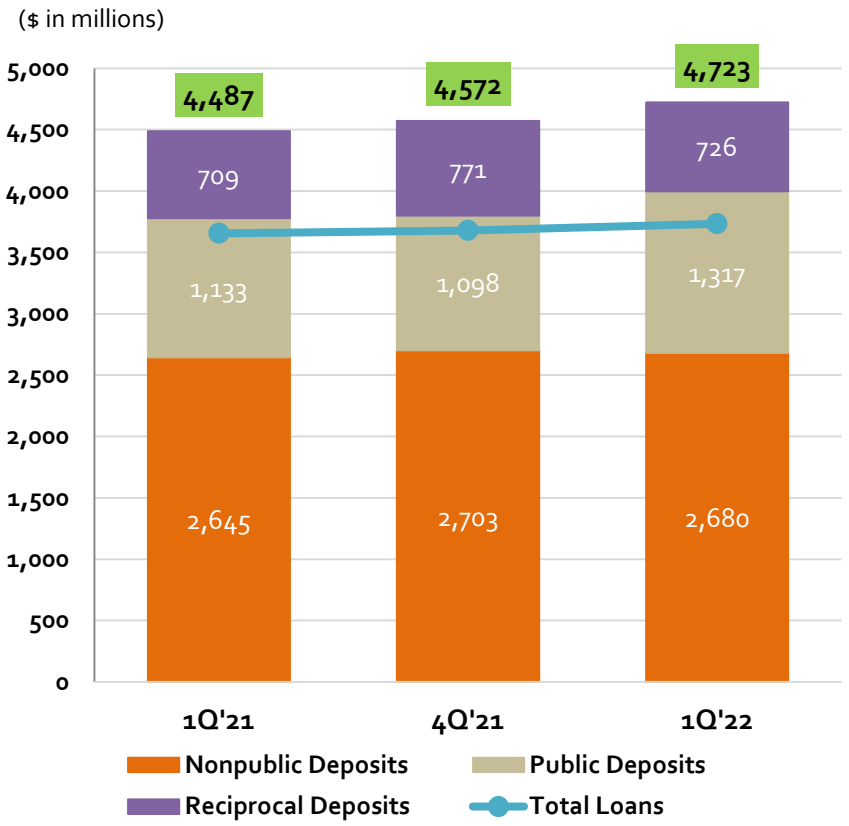
- Opportunities for growth
  - Combined Rochester and Buffalo markets represent attractive deposit market of $96 billion
  - Current FSB market share is less than 2%
  - Expansion of Digital Banking accessibility
- We offer a variety of public (municipal) deposit products to the towns, villages, counties and school districts within our market
  - Deposits are seasonal /low cost funding source
  - Comprised 26% of deposits at 3/31/22 compared to 23% of deposits at 12/31/21
  - FSB currently has 326 municipal customers

	2018	2019	2020	2021	2022
Cost of Deposits[1]	0.57%	0.82%	0.44%	0.17%	0.14%

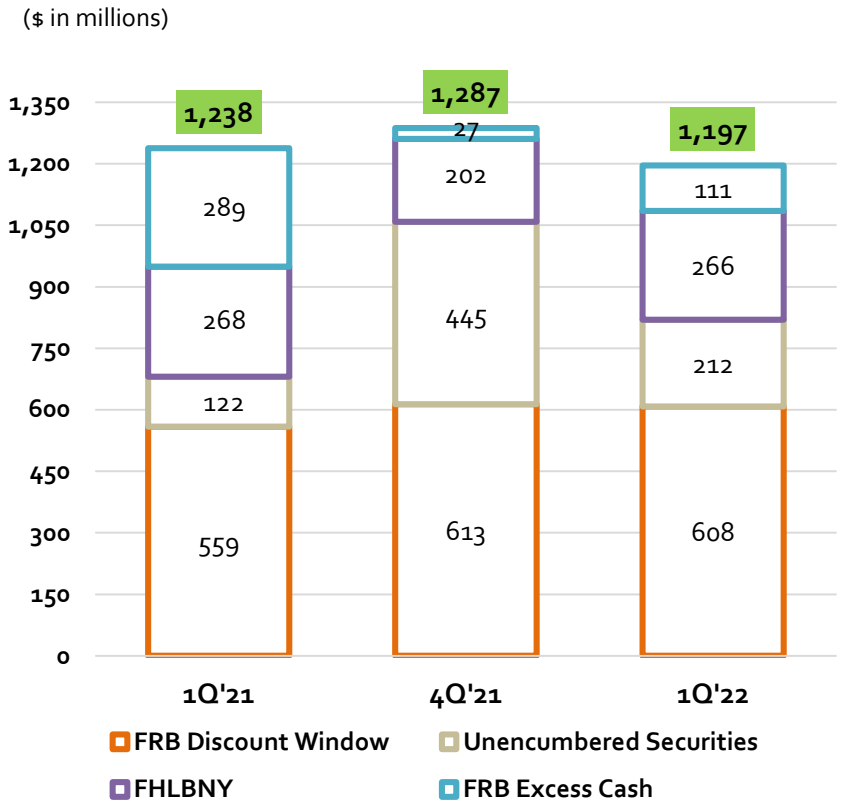
(1) For the year

Key Liquidity Metrics

Deposit Mix (1)



Available Committed Liquidity

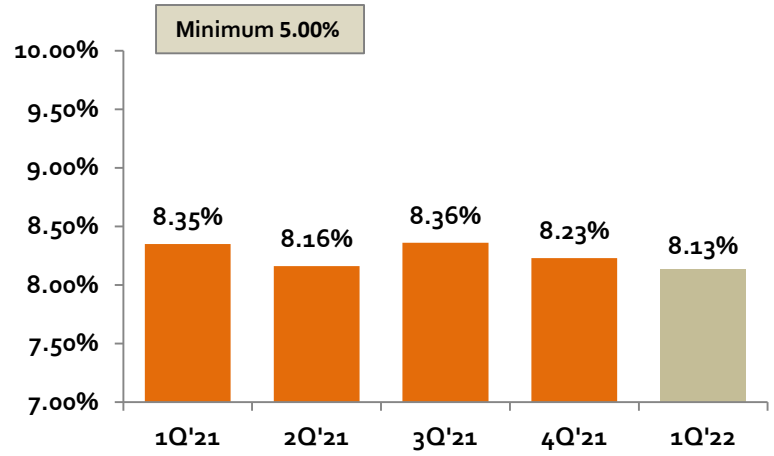


- Diverse deposit gathering capabilities and eligible collateral support a robust liquidity position:
  - Core nonpublic deposits anchor our deposit base; loan to deposit ratio of 75% at 1Q'22
  - 1Q'22 available committed liquidity remains strong and stable, as supported through ample unencumbered collateral in the securities portfolio, borrowing capacity at the FHLB NY and tertiary liquidity through the FRB discount window
  - The decrease in security collateral is reflective of seasonal public deposit inflows that occurred at quarter end.

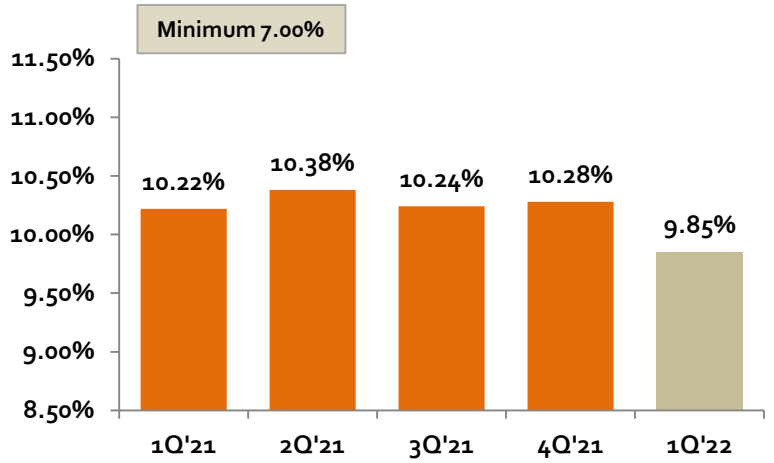
(1) Excluding Brokered Deposits

Capital Ratios

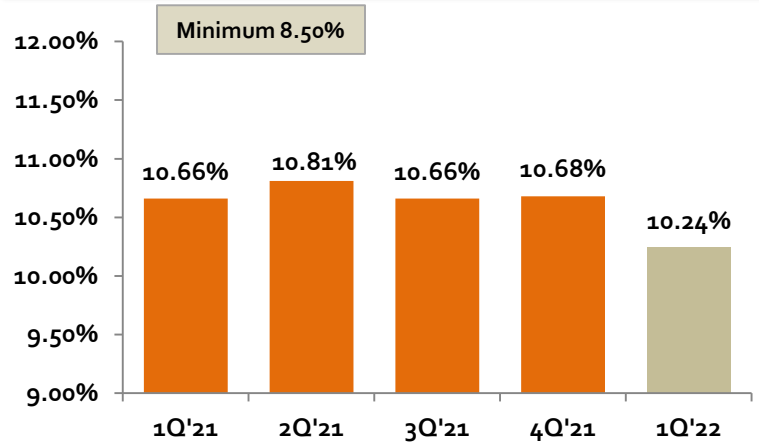
Leverage Ratio [1]



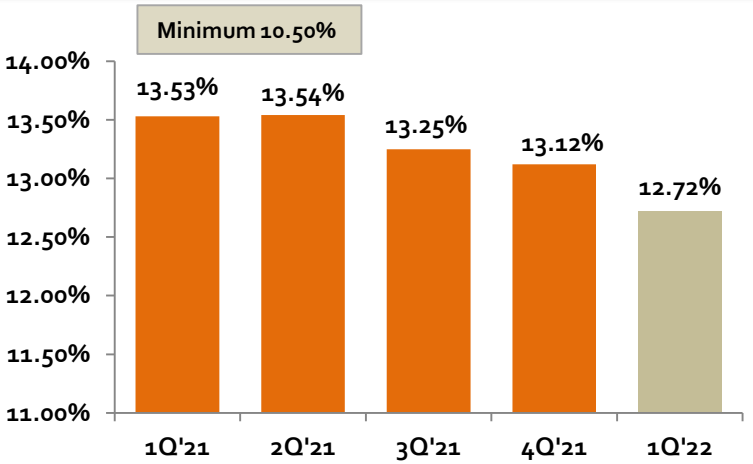
Common Equity Tier 1 Capital Ratio [1]



Tier 1 Capital Ratio [1]



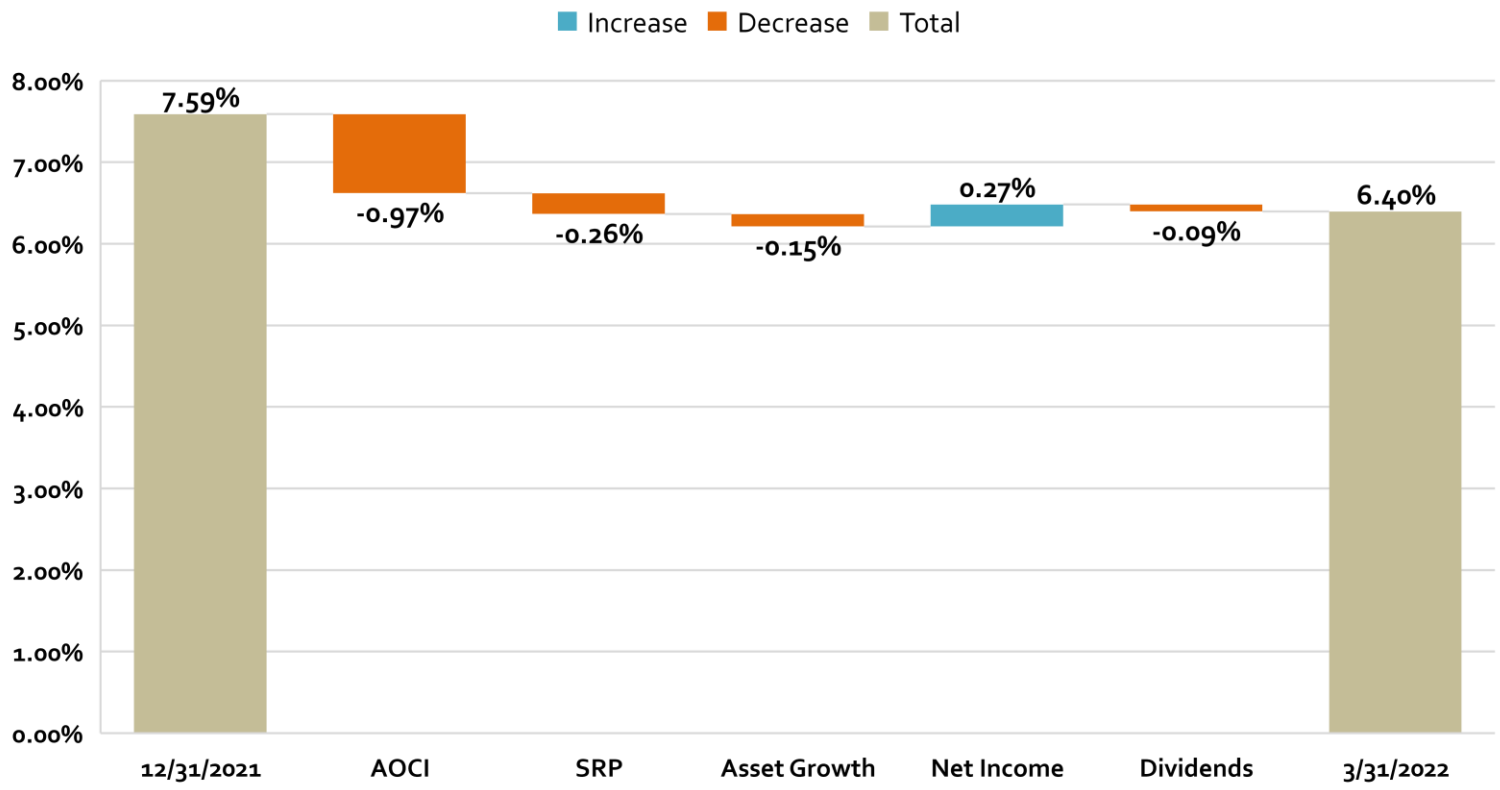
Total Risk-Based Capital Ratio [1]



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

Quarterly Change in TCE[1]

Tangible Common Equity to Tangible Assets (TCE) [1]



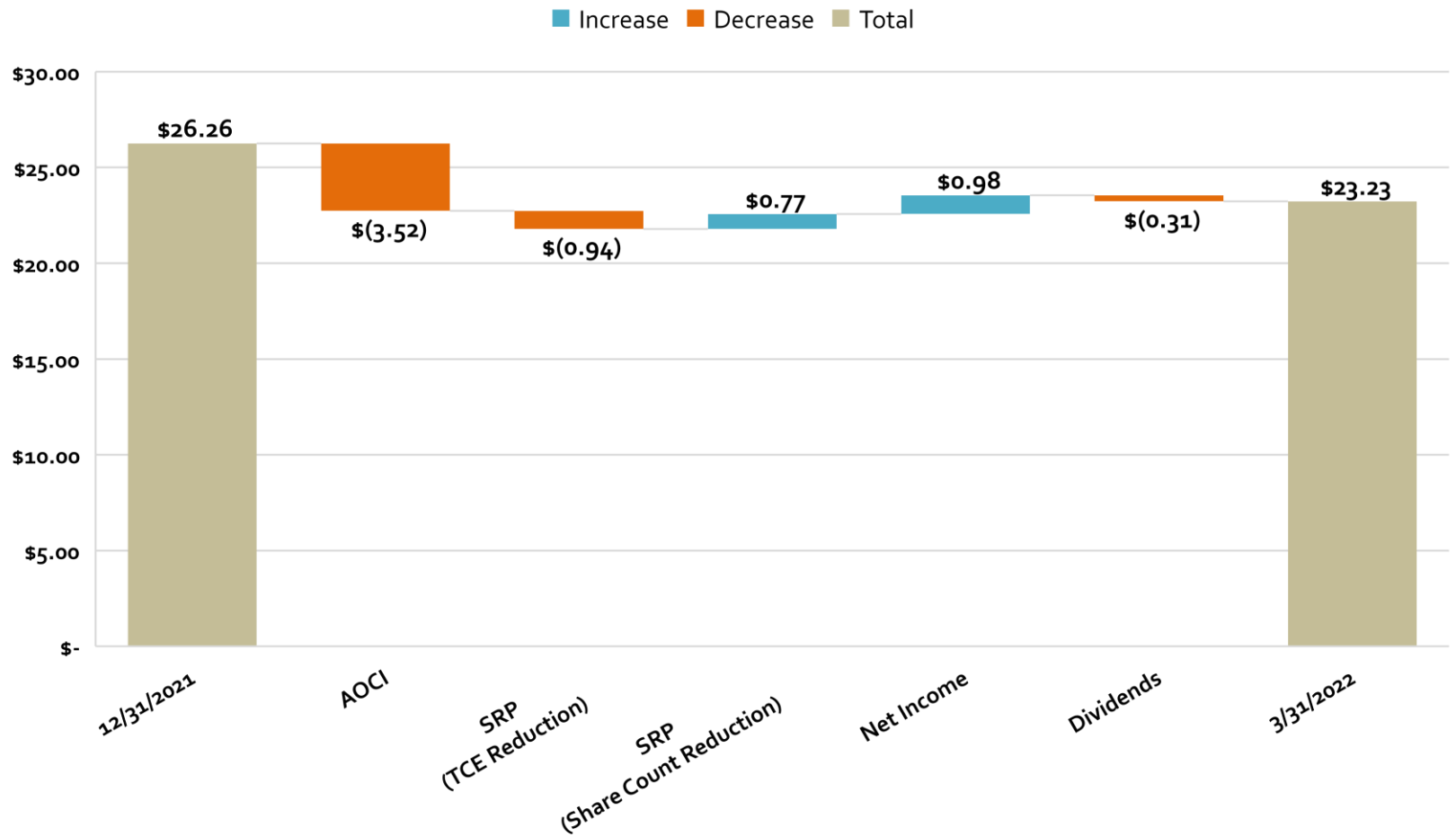
AOCI = Accumulated other comprehensive income (loss). Q1 2022 decrease was the result of an increase in the unrealized loss position of the available for sale securities portfolio, driven by interest rates. The Company believes that no component of the portfolio is impaired as it is primarily guaranteed by the U.S. Government, and the securities are expected to mature at terminal value equivalent to par.

SRP = Stock Repurchase Program

[1] Tangible common equity to tangible assets – see Appendix for reconciliation of non-GAAP Financial measures for the computation of this non-GAAP measure.

Quarterly Change in TCBV(1)

Tangible Common Book Value Per Share (1)



AOCI = Accumulated other comprehensive income (loss). Q1 2022 decrease was the result of an increase in the unrealized loss position of the available for sale securities portfolio, driven by interest rates. The Company believes that no component of the portfolio is impaired as it is primarily guaranteed by the U.S. Government, and the securities are expected to mature at terminal value equivalent to par.

SRP = Stock Repurchase Program

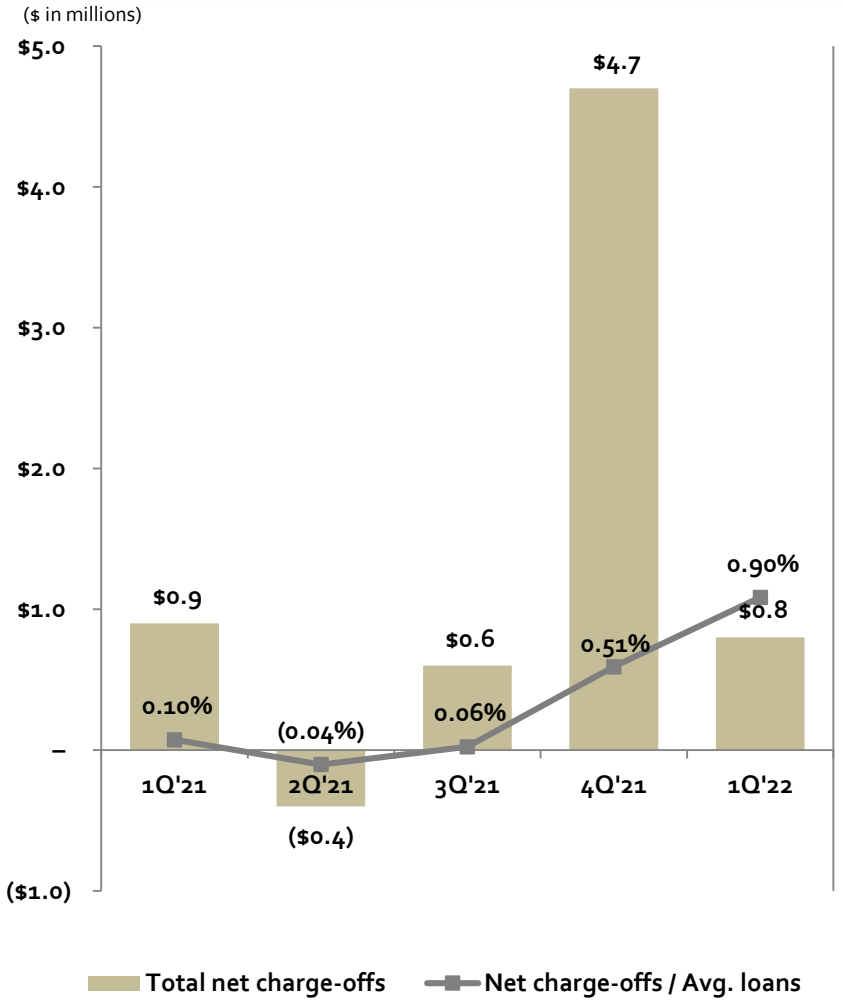
(1) Tangible common equity to tangible assets – see Appendix for reconciliation of non-GAAP Financial measures for the computation of this non-GAAP measure.

Asset Quality

Non-Performing Assets

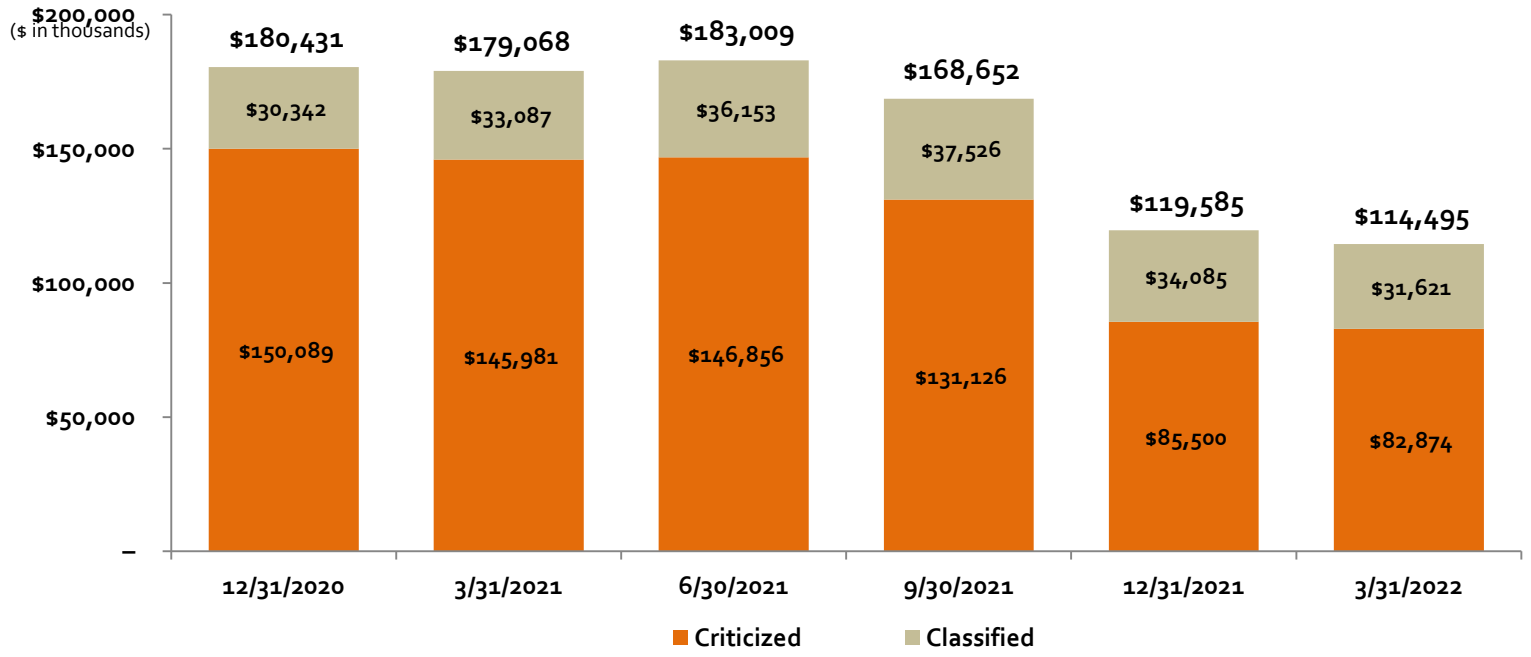


Net Charge-Offs



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 3/31/22, the remaining balance of COVID-19 at-risk exposures included in criticized and classified loans totaled $64 million; all but one of these credits have returned to paying status and the majority are expected to be upgraded in future quarters upon achievement of current payment status for several months.
- Two loan relationships totaling approximately $17 million are being monitored closely and we have retained a specific reserve totaling $2.8 million on these credits.



	12/31/2020	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022
Total Specific Reserves	$9.6MM	$13.5MM	$13.3MM	$11.3MM	$5.8MM	$4.7MM

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)	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	3/31/2022
Computation of ending tangible common equity:						
Common shareholders' equity	$ 448,962	$ 469,834	$ 476,721	$ 487,850	$ 429,554	
Less: Goodwill and other intangible assets, net	74,528	74,262	74,659	74,400	74,146	
Tangible common equity	374,434	395,572	402,062	413,450	355,408	
Computation of ending tangible assets:						
Total assets	$ 5,329,056	$ 5,295,102	$ 5,623,193	$ 5,520,779	$ 5,630,498	
Less: Goodwill and other intangible assets, net	74,528	74,262	74,659	74,400	74,146	
Tangible assets	5,254,528	5,220,840	5,548,534	5,446,379	5,556,352	
Tangible common equity to tangible assets[(1)]	7.13%	7.58%	7.25%	7.59%	6.40%	
Common shares outstanding	15,829	15,842	15,842	15,747	15,299	
Tangible common book value per share[(2)]	$ 23.66	$ 24.97	$ 25.38	$ 26.26	$ 23.23	
Computation of average tangible common equity:						
Average common equity	$ 451,311	$ 458,868	$ 478,582	$ 483,112	$ 474,560	$ 473,781
Less: Average goodwill and other intangible assets, net	74,214	74,412	74,470	74,544	74,287	74,428
Average tangible common equity	377,097	384,456	404,112	408,568	400,273	399,352
Computation of average tangible assets:						
Average assets	$ 5,045,180	$ 5,340,745	$ 5,368,054	$ 5,582,987	$ 5,560,316	$ 5,463,026
Less: Average goodwill and other intangible assets, net	74,214	74,412	74,470	74,544	74,287	74,428
Average tangible assets	4,970,966	5,266,333	5,293,584	5,508,443		5,388,597
Net income available to common shareholders	20,345	19,834	16,811	19,247	14,618	70,510
Return on average tangible common equity[(3)]	21.88%	20.69%	16.50%	18.69%	14.81%	17.66%
Pre-tax pre-provision income:						
Net income	$ 20,710	$ 20,200	$ 17,175	$ 19,612	$ 14,983	
Add: Income tax expense	5,347	5,400	4,553	4,225	3,443	
Add: Provision (benefit) for credit losses	(1,981)	(4,622)	(541)	(1,192)	2,319	
Pre-tax pre-provision income	$ 24,076	$ 20,978	$ 21,187	$ 22,645	$ 20,745	

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.