

FINANCIAL INSTITUTIONS, INC. (Nasdaq: FISI)

Second Quarter 2022 Earnings Presentation

July 28, 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 June 30, 2022

Assets:	$5.6 billion
Loans:	$3.8 billion
Deposits:	$4.8 billion
Shareholders' Equity:	$425.8 million
NPAs(1)/Total Assets:	0.12%
Employees:	650
ROACE (TTM):	14.22%
ROATCE(2) (TTM):	16.94%
ROAA (TTM):	1.22%
Annualized Dividend Per Share:	$1.16
Closing Stock Price Per Share:	$26.02
Dividend Yield:	4.5%
Market Capitalization:	$399.0 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** (-0.01% NCO YTDQ22)
- **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 to 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[1] to offer banking products and services to their end customers.

Financial Institutions, Inc. established **Corn Hill Innovation Labs, LLC[2] (CHIL)** to manage the daily operations of its BaaS/Digital Bank business, source opportunities and oversee partnerships.

Revenue Model

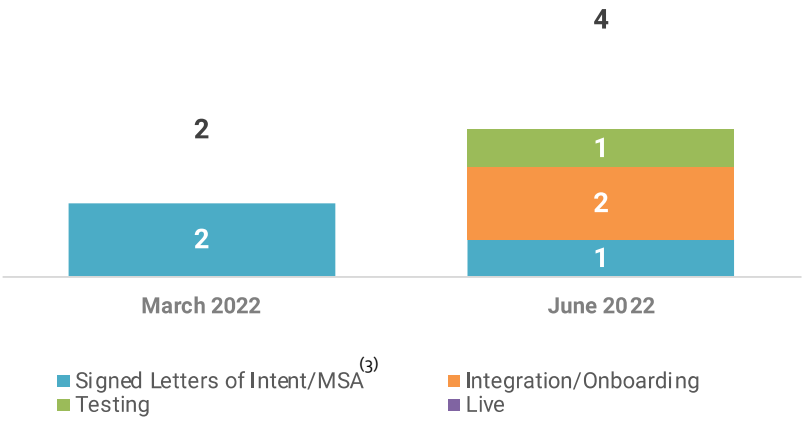
BaaS is a fee-based line of business driven by:

- 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.

Partnership Growth

Our pipeline is beginning to translate into success, and we anticipate growth through 2022 into 2023. Opportunities are now moving through the onboarding and testing phases with a number expected to go-live later this year.



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) Primarily wealth and investment advisory firms
(2) 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.
(3) MSA = master service agreement

Our fintech partnerships & investments are helping us identify best "bank ready" solutions for quick integration to benefit our customers and generate new revenue opportunities



1. Connectivity to the fintech ecosystem
2. Curated introductions to best-in-class, bank-ready fintechs
3. Extensive engagement & interaction with fintechs
4. Access to BaaS opportunities
5. Market intelligence & insight

Second Quarter Key Statistics[1] and Highlights

- Net income of $15.6 million, or $0.99 per diluted share, was $4.6 million, or $0.26 per diluted share, lower than 2Q'21. Primary drivers were:
  - 2Q'22 provision for credit losses of $0.6 million compared to a benefit of $4.6 million in 2Q'21. Release of credit loss reserves and low charge-offs resulted in prior year benefit.
  - Salaries and employee benefits expense was $2.4 million higher in 2Q'22 due to investments in personnel, higher stock-based compensation expense and annual merit increases.
  - $1.3 million of non-recurring restructuring charges recognized in 2Q'22 related to 2020 branch consolidation.
- Pre-tax pre-provision income[2] of $20.1 million was $0.9 million lower than 2021
  - Excluding non-recurring restructuring charges, adjusted pre-tax pre-provision income[2] was $21.3 million, an increase of $361 thousand from 2021.
- Net interest income of $41.6 million was $3.9 million, or 10.2%, higher than 2021. Average interest-earning assets were $273.8 million higher in 2Q'22 than 1Q'21.
  - Net interest margin ("NIM") of 3.19% was 13 basis points higher primarily due to the impact of 2022 interest rate increases and a lower level of Federal Reserve interest-earing cash.
- Sold a $31 million portfolio of indirect loans during the current quarter and recognized a gain of $586 thousand.
- Total loans at quarter-end were $3.76 billion, an increase of $30.4 million, or 0.08%, from 3/31/2022
  - Excluding PPP loans and the indirect loan sale, total loans increased 2.3% from the linked quarter
  - The ratio of annualized net charge-offs (recoveries) to average loans was (0.11)% in the current quarter, 0.09% in 1Q'22 and (0.04)% in 2Q'21.
- On June 13, 2022, the Company announced a stock repurchase program for up to 766,447 shares of common stock, or approximately 5% of outstanding common shares. No shares have been repurchased to-date.

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

Second Quarter 2022

Results Summary

($ in millions, except per share amounts)	2Q'21	1Q'21	**2Q'22**
Net interest income	$37.7	$39.5	**$41.6**
Noninterest income	10.2	11.3	11.4
Noninterest expense	(26.9)	(30.1)	(32.9)
Income tax expense	(5.4)	(3.4)	(3.9)
Preferred stock dividend	(0.4)	(0.4)	(0.4)
Net income available to common shareholders	$19.8	$14.6	$15.3
EPS diluted	$1.25	$0.93	$0.99
Return on average assets	1.52%	1.09%	1.12%
Return on average common equity	17.34%	12.49%	**14.64%**
Return on average tangible common equity[1]	20.69%	14.81%	**17.79%**
Net interest margin	3.06%	3.11%	**3.19%**
Efficiency ratio[2]	56.02%	59.06%	**61.91%**
Dividends per share	$0.27	$0.29	$0.29
Dividend yield (annualized)	3.61%	3.90%	**4.47%**

Commentary

- Net interest income increased $3.9MM from 2Q'21 and $2.0MM from 1Q'22 primarily as a result of higher average interest-earning assets, combined with the impact of a rising interest rate environment.
- Noninterest expense increased $5.9MM from 2Q'21 and $2.8MM from 1Q'22 primarily due to $1.3MM of non-recurring restructuring charges in the current quarter and higher salaries and employee benefits (variance of $2.4MM and $350K, respectively), computer and data processing expense ($1.1MM and $594K, respectively), and occupancy and equipment expense ($729K and $259K, respectively)
- Effective tax rate was 19.8% compared to 21.1% for 2Q'21 and 18.7% for 1Q'22. Rate fluctuates due to the level of pre-tax earnings and differs from statutory rates because of income items such as tax credit investments.
- Provision for credit losses was a $0.6MM provision compared to a benefit of $4.6MM in 2Q'21 and provision of $2.3MM in 1Q'22. Provision returned to a more normalized level in 2022 (excluding $2.0MM recovery in 2Q'22). 2Q'21 benefit was the result of improvement in national unemployment forecast, trends in qualitative factors and lower charge-offs, resulting in release of credit loss reserves/benefit for credit losses.

[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

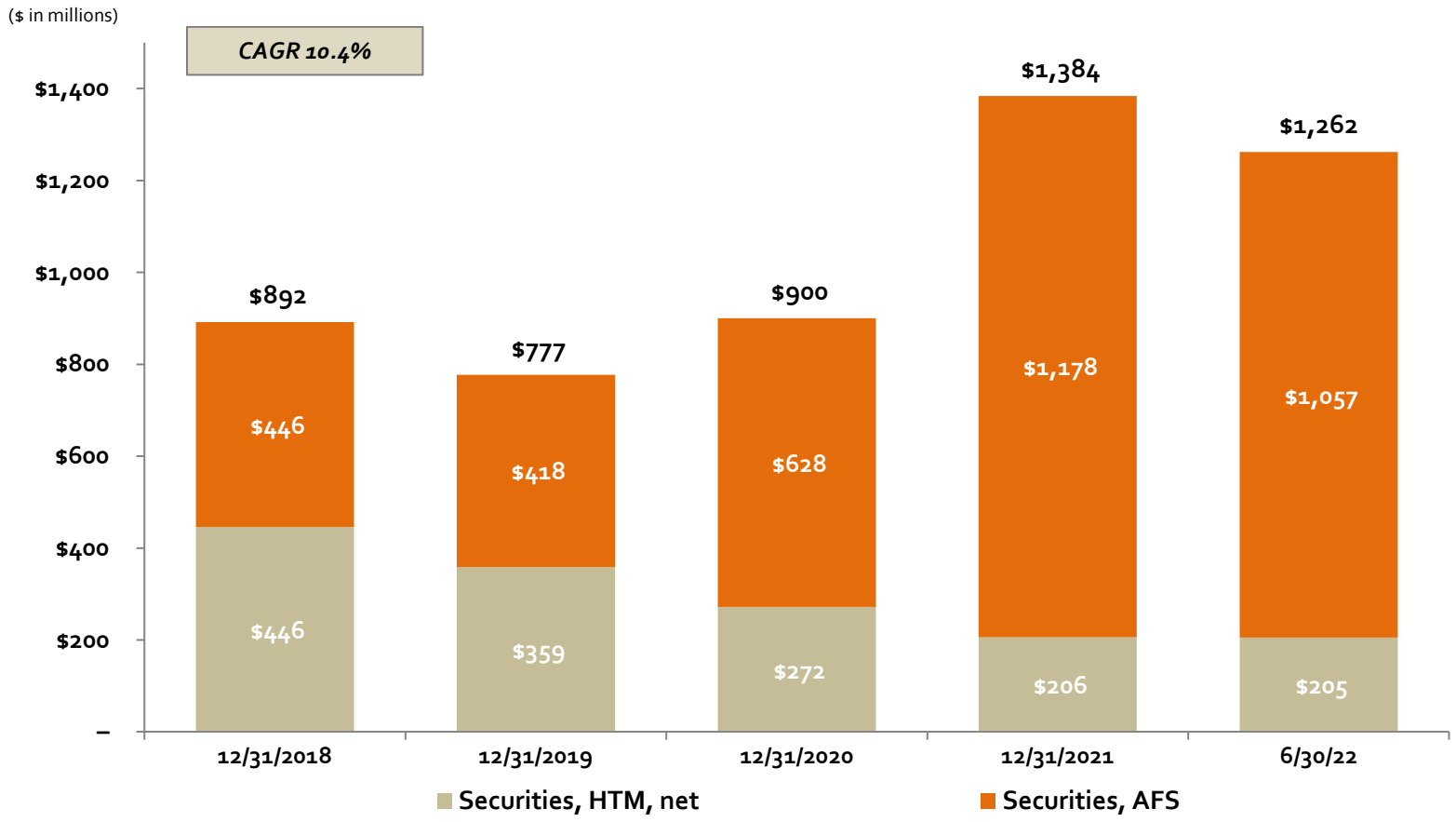
Quarterly Earnings Highlights (2Q'21 – 2Q'22)

($ in millions, except per share amounts)

Earnings Summary	2Q'21	3Q'21	4Q'21	1Q'22	2Q'22
Average interest-earning assets	$4,973	$4,967	$5,179	$5,167	**$5,247**
Net interest margin	3.06%	3.07%	3.15%	3.11%	**3.19%**
Net interest income	37.7	38.3	40.9	39.5	**41.6**
Noninterest income	10.2	12.1	11.6	11.3	**11.4**
Total revenue	**$47.9**	**$50.4**	**$52.5**	**$50.8**	**$53.0**
Noninterest expense	($26.9)	($29.2)	($29.9)	($30.1)	**($32.9)**
Pre-tax pre-provision income [(1)]	21.0	21.2	22.6	20.7	**20.1**
Benefit (provision) for credit losses	4.6	0.5	1.2	(2.3)	**(0.6)**
Pre-tax net income	25.6	21.7	23.8	18.4	19.5
Income tax expense	(5.4)	(4.5)	(4.2)	(3.4)	**(3.9)**
Net income	**$20.2**	**$17.2**	**$19.6**	**$15.0**	**$15.6**
Preferred stock dividends	(0.4)	(0.4)	(0.4)	(0.4)	**(0.4)**
Net income available to common shareholders	**$19.8**	**$16.8**	**$19.2**	**$14.6**	**$15.3**
Earnings per share - diluted	$1.25	$1.05	$1.21	$0.93	**$0.99**
Weighted average common shares outstanding - diluted	15.9	15.9	15.9	15.7	**15.4**

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

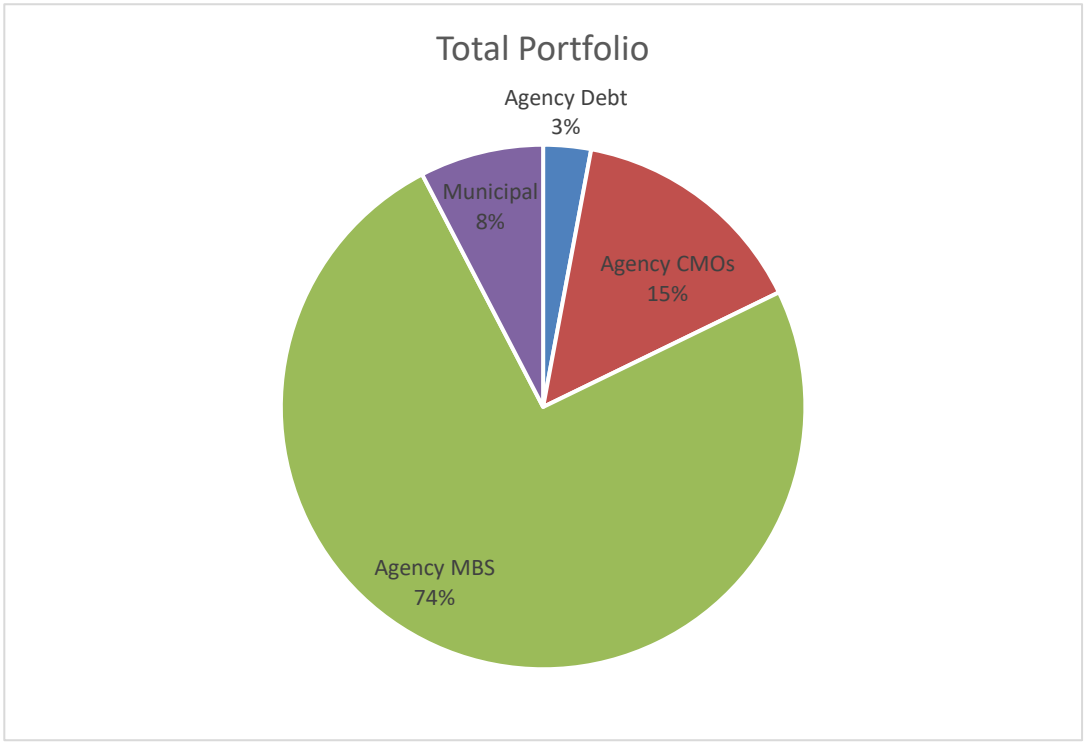
Securities Portfolio



	2018	2019	2020	2021	2022
Security Yield(1)	2.33%(2)	2.39%(2)	2.31%(2)	1.75%(2)	1.78%(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 6/30/2022



Security Type	TE Yield	Book Value ($ in millions)	Market Value ($ in millions)	Net Unrealized Gain(Loss) ($ in millions)
Agency Debt	2.35%	40.8	38.4	(2.5)
Agency CMOs	1.76%	206.3	188.1	(18.1)
Agency MBS	1.79%	1,035.2	925.5	(109.7)
Municipal	2.48%	106.0	100.5	(5.5)
	1.86%	**1,388.2**	**1,252.5**	**(135.8)**

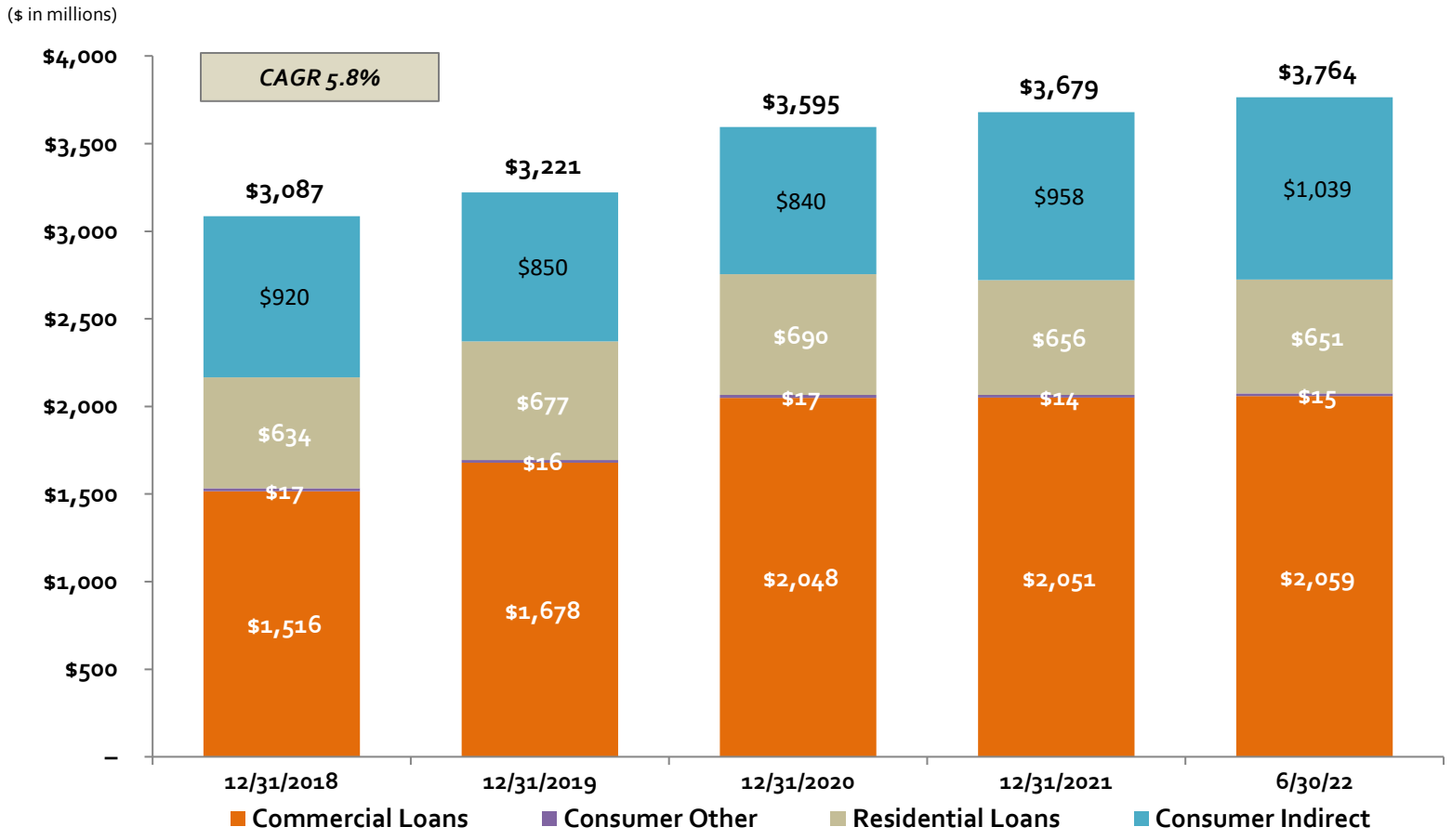
S&P Equivalent Muni Credit Rating	
Rating	Book Value ($ in millions)
AAA	11.2
AA+	17.8
AA	54.8
AA-	13.5
A+	0.9
A	0.3
A- [(1)]	-
NR	7.4

Portfolio Highlights	
Tax Equivalent Yield	1.86%
% AFS	85%
Average Life	6.07
Modified Duration	5.47

Portfolio Reconciliation ($ in Millions)	
Securities (amortized cost) ("AFS")	$1,183
Total Held to Maturity Securities (amortized cost)	$205
Total Book Value	$1,388
Less: Net Unrealized Losses on	($126)
Total Balance Sheet	$1,262

(1) $6.9MM Locally issued BANs and RANs and 3 General Obligation Bonds Totaling $.440MM

Total Loans



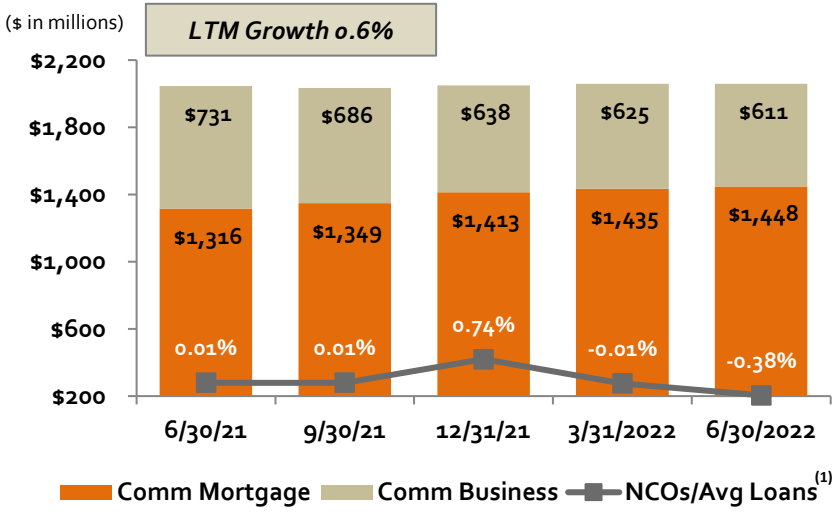
	2018	2019	2020	2021	2022 (YTD)
Loan Yield(1)	4.51%	4.77%	4.18%	4.05%	4.05%

(1) Average yield for the year/year-to-date (annualized)

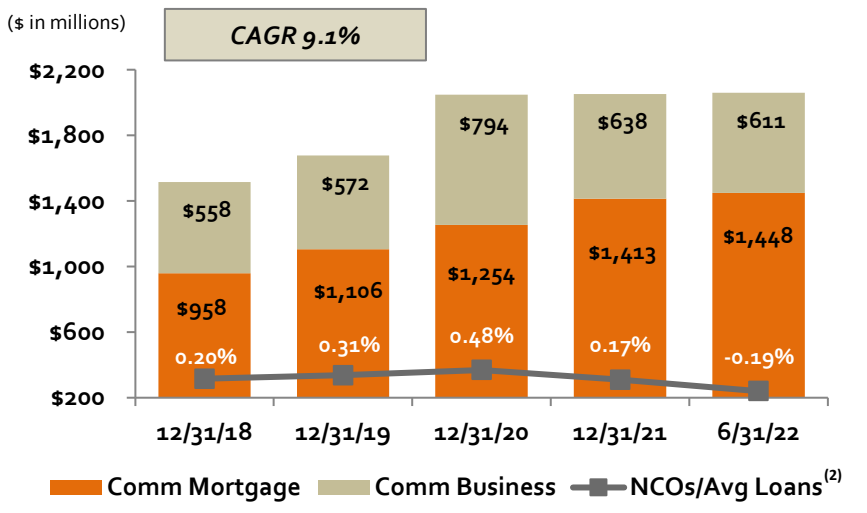
Commercial Banking

- PPP loans (net of deferred fees) included in commercial business loans below: $171.9 million at 6/30/21, $116.7 million at 9/30/21, $55.3 million at 12/31/21, $31.4 million at 3/31/22, and $8.9million at 6/30/22
- 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

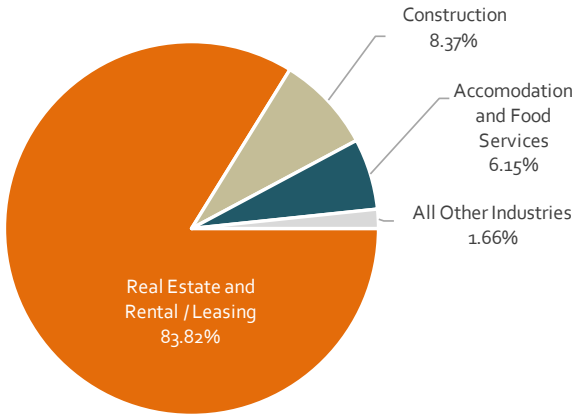


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

Commercial Loan Portfolio Detail

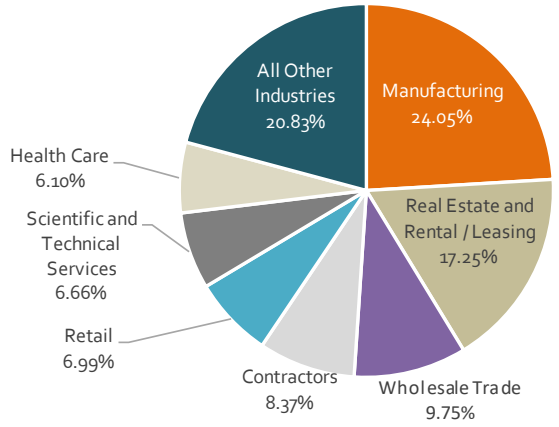
Commercial Real Estate Ttl Exposure[1] ($1.5Bn[2])

As of June 30, 2022



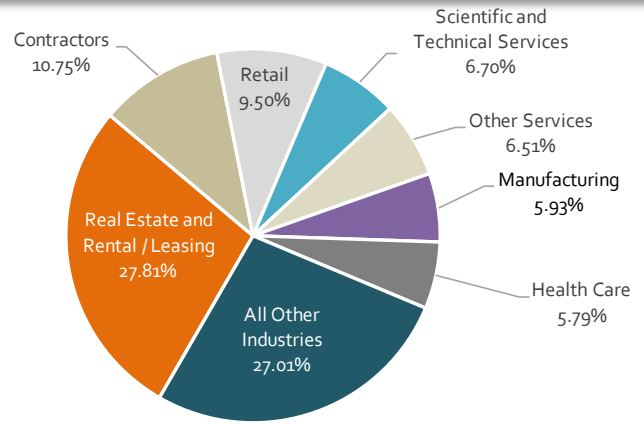
Commercial & Industrial Ttl Exposure[1] ($1.1Bn[2])

As of June 30, 2022



Business Banking Ttl Exposure[1] ($185MM[2])

As of June 30, 2022



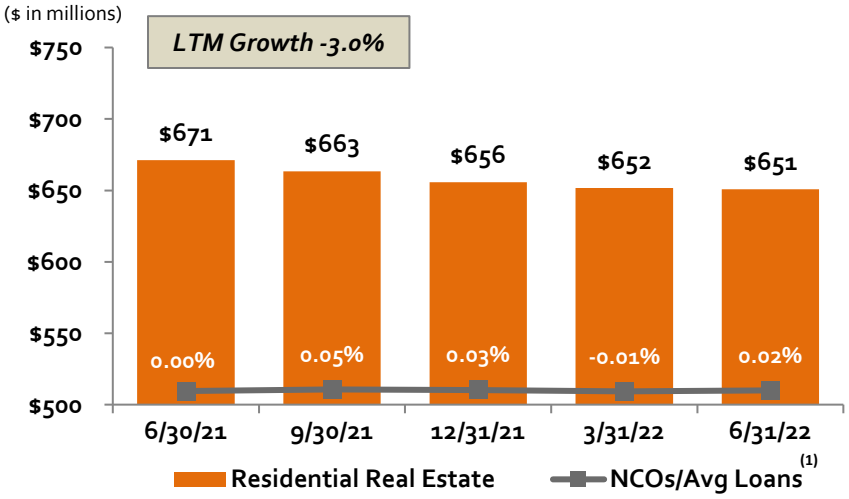
- **The vast majority of the commercial loan portfolio is within the Bank's footprint which now includes its newest Mid-Atlantic region, following the Company's entry into the Baltimore/Washington D.C. region in 1Q'22**

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

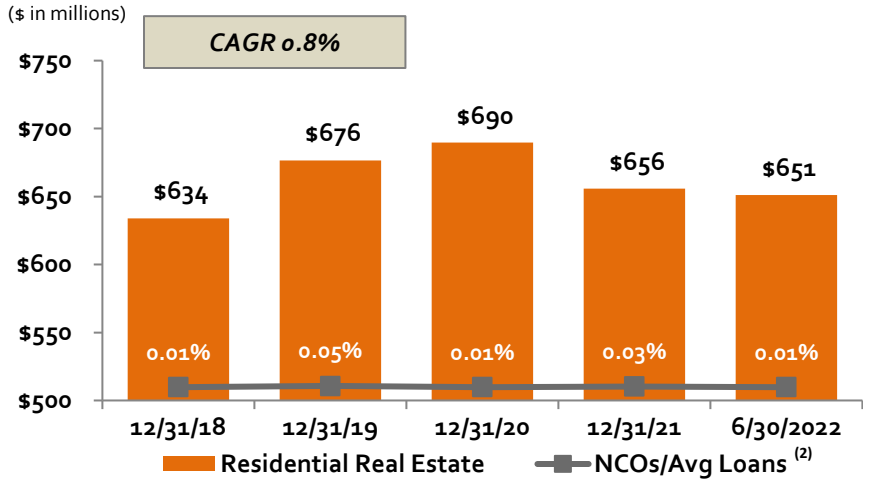
Residential Real Estate Loans and Lines

- 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

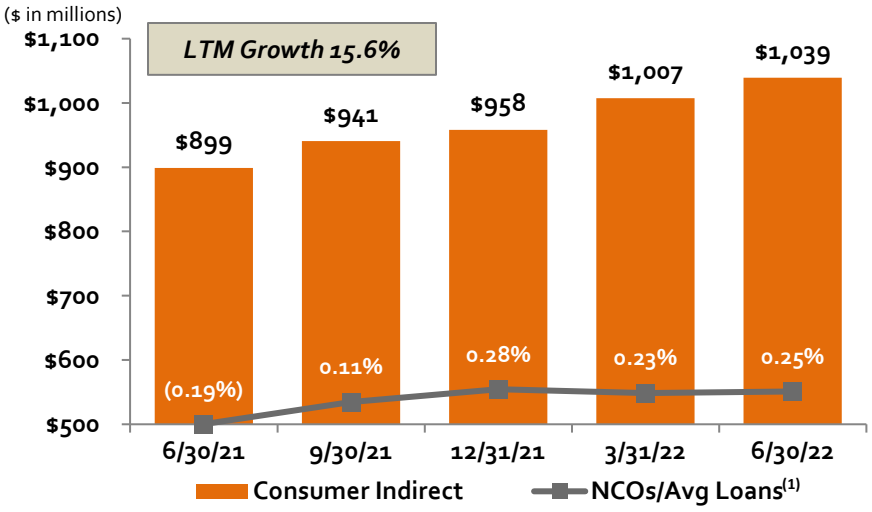


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

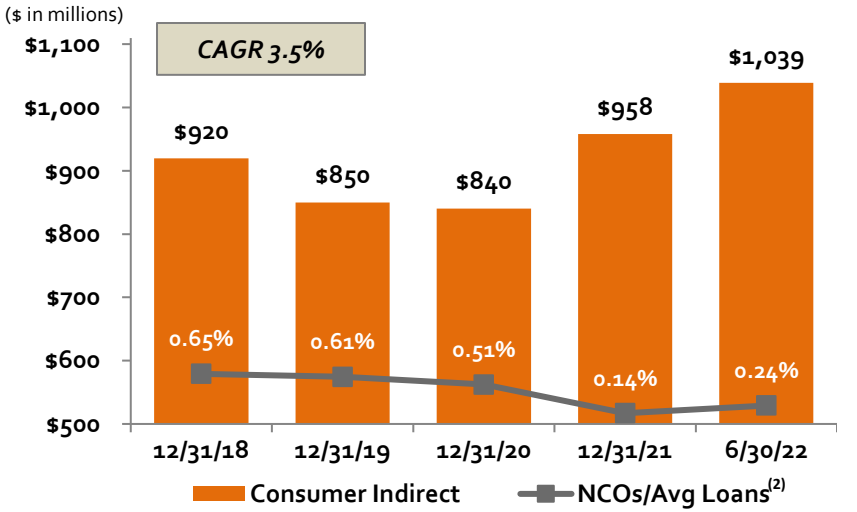
Consumer Indirect Lending

- $1.04 billion portfolio at June 30, 2022
  - Portfolio represents 27.6% of total loans, down from 29.8% at 12/31/18 and peak of 35% at 12/31/13
  - Sold $31.3MM pool of loans in 2Q'22 and recognized a gain of $586K
  - 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
  - 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 716
- 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



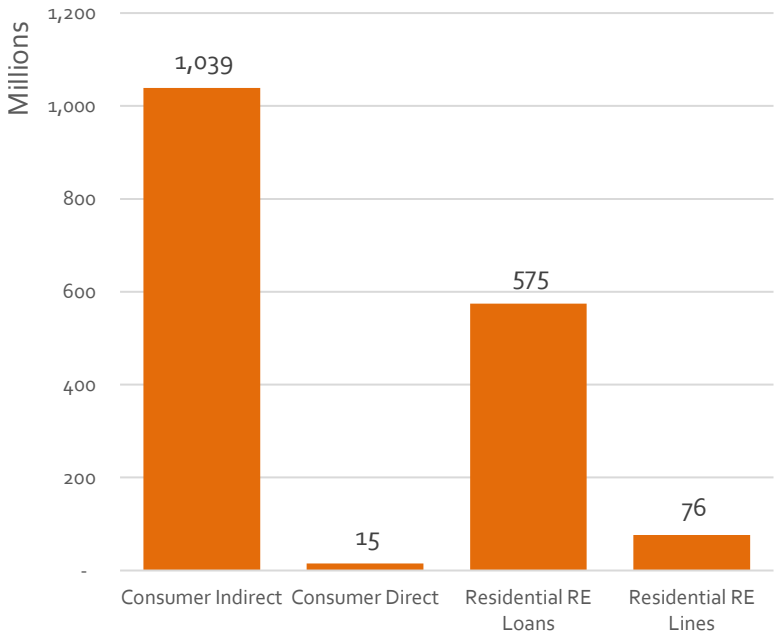
Consumer Indirect – Annual



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

Consumer & Residential Loan Portfolio Detail

Consumer Lending Portfolio
As of June 30, 2022

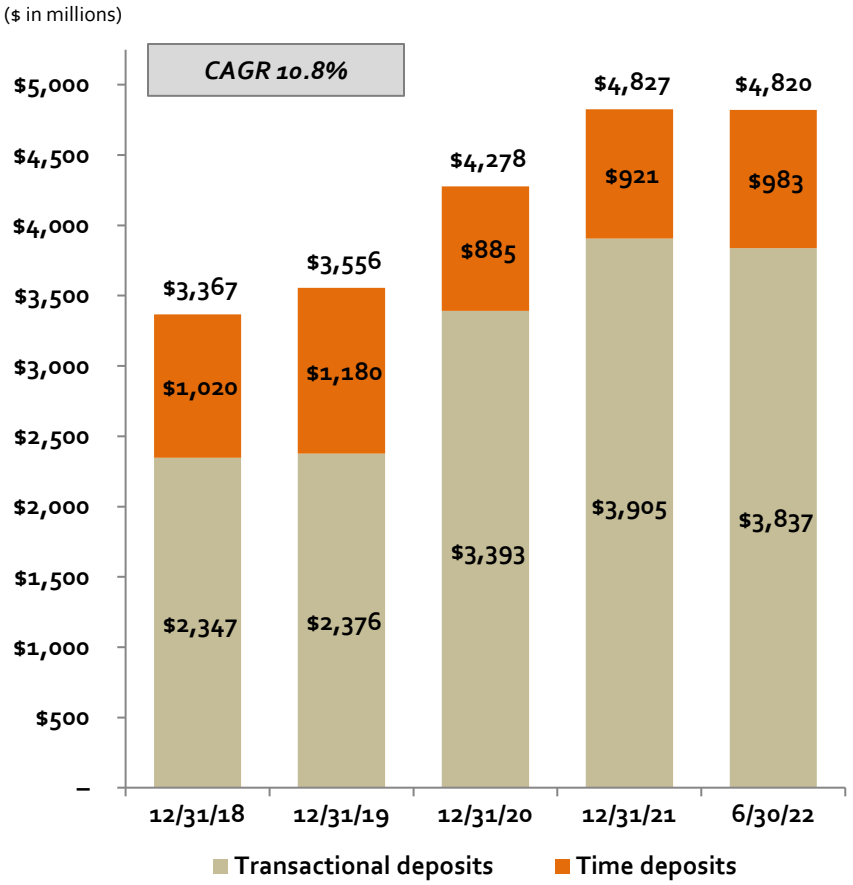


Consumer Lending Portfolio Metrics
As of June 30, 2022

	% of Ttl. Loan Portfolio ($3.76Bn)	# of Loans	Wt. Avg FICO Score (at origination)	Avg. Loan Balance
Consumer Indirect	27.6%	47,410	716	$20,542
Consumer Direct	0.4%	11,167	735	$1,173
Residential Real Estate Loans	15.3%	6,658	737	$94,950
Residential Home Equity Lines of Credit (HELOCs)	2.0%	3,251	769	$21,432

Deposit Growth

Deposits (by account type)



Commentary

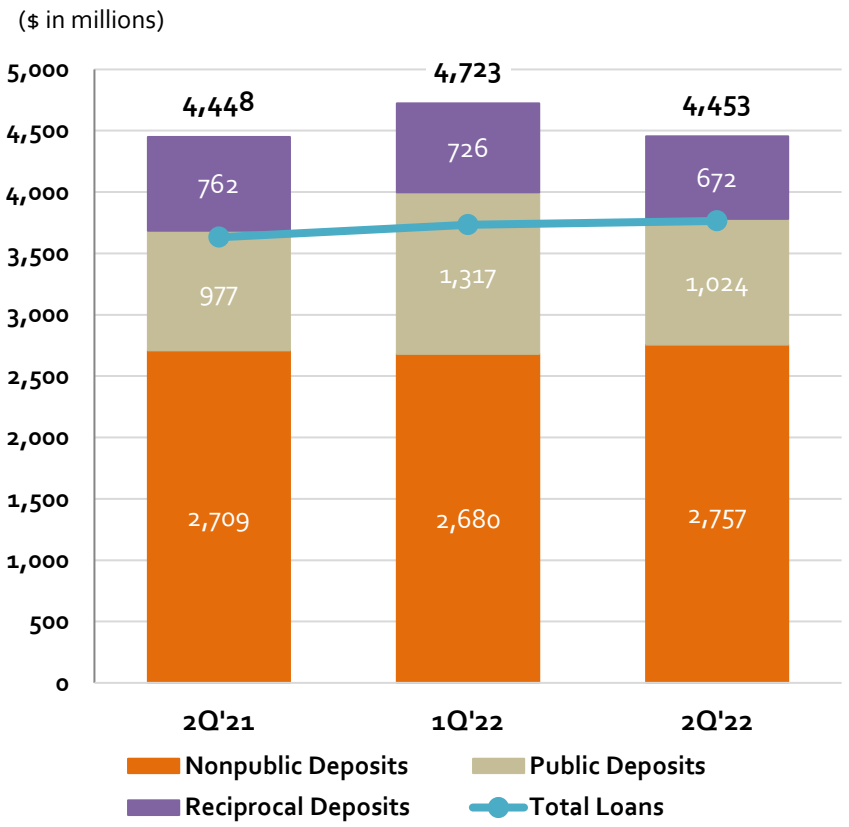
- Opportunities for growth
  - Combined Rochester and Buffalo markets represent attractive deposit market of $96 billion
  - Current FSB market share is less than 2%
  - Expansion of Digital Banking accessibility
- We offer a variety of public (municipal) deposit products to the towns, villages, counties and school districts within our market
  - Deposits are seasonal /low-cost funding source
  - Comprised 21% of deposits at 6/30/22, compared to 26% of deposits at 3/31/22, reflecting seasonal decline
  - FSB currently has 322 municipal customers

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

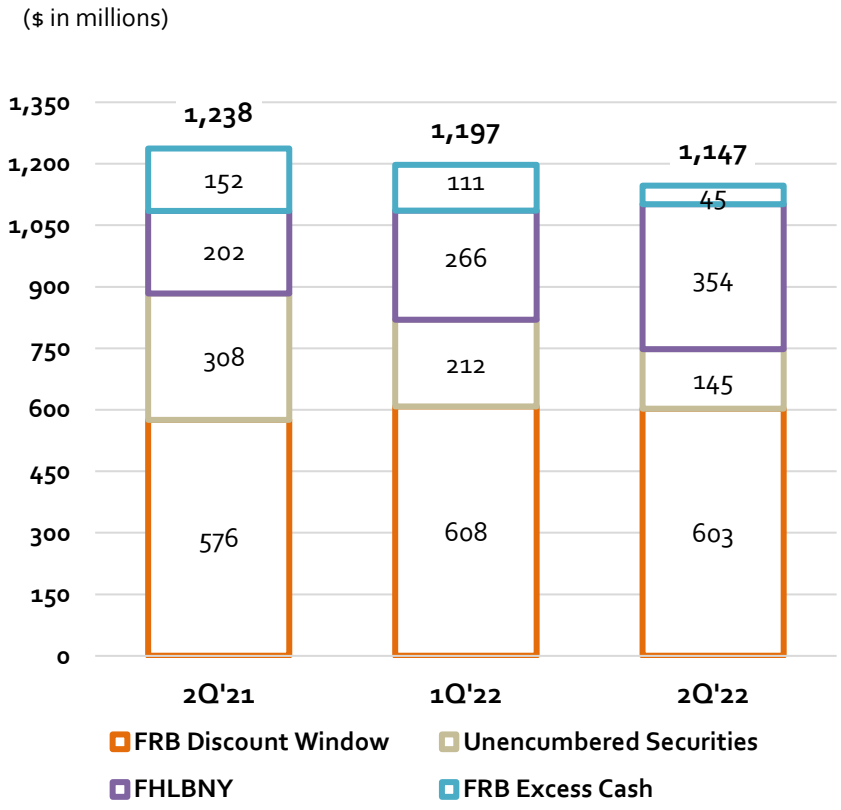
(1) For the year/year-to-date (annualized)

Key Liquidity Metrics

Deposit Mix (1)



Available Committed Liquidity

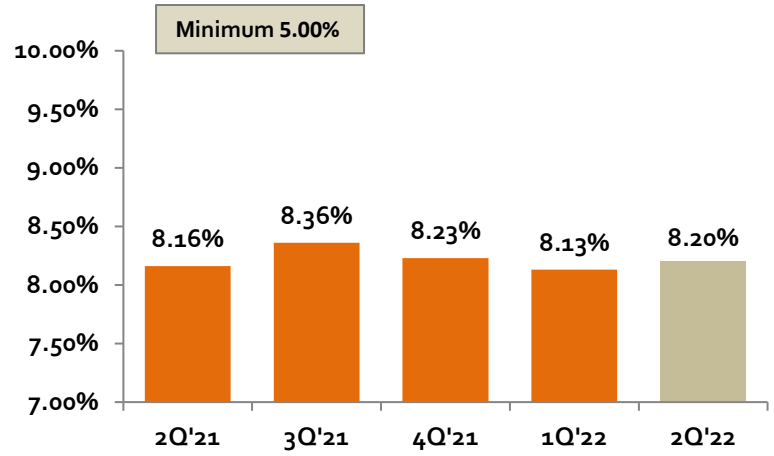


- Diverse deposit gathering capabilities and eligible collateral support a robust liquidity position:
  - Non-public deposits anchor our deposit base and increased 2.9% over 1Q22; loan to deposit ratio of 78% at 2Q'22
  - 2Q'22 available committed liquidity remains strong, as supported through unencumbered collateral in the securities portfolio, borrowing capacity at the FHLB, access to brokered deposits & tertiary liquidity via the FRB discount window
  - The decrease in unencumbered securities is reflective of a transfer to the FHLB NY, resulting in increased FHLB capacity.

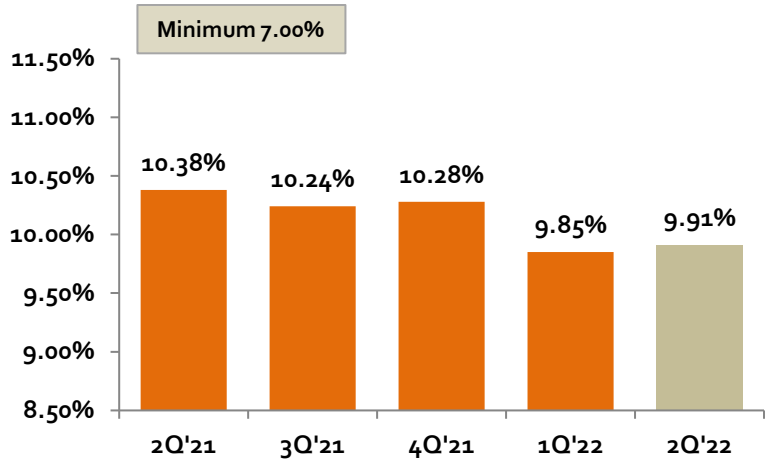
(1) Excluding Brokered Deposits

Capital Ratios

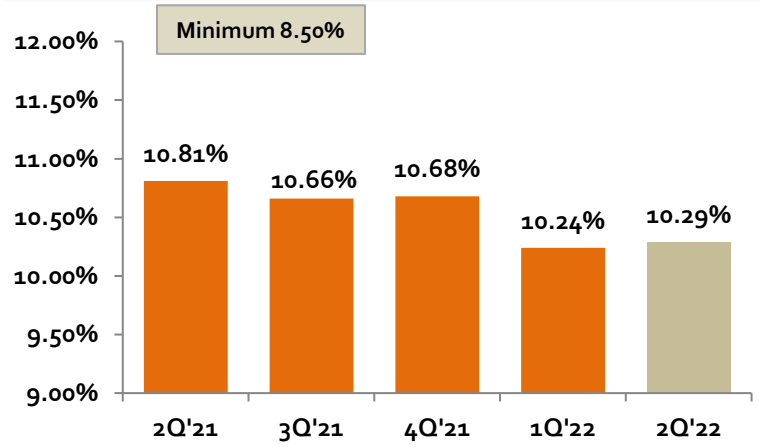
Leverage Ratio (1)



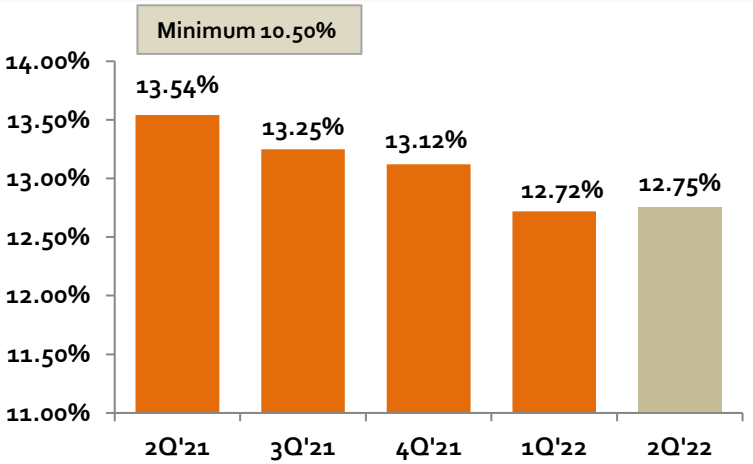
Common Equity Tier 1 Capital Ratio (1)



Tier 1 Capital Ratio (1)



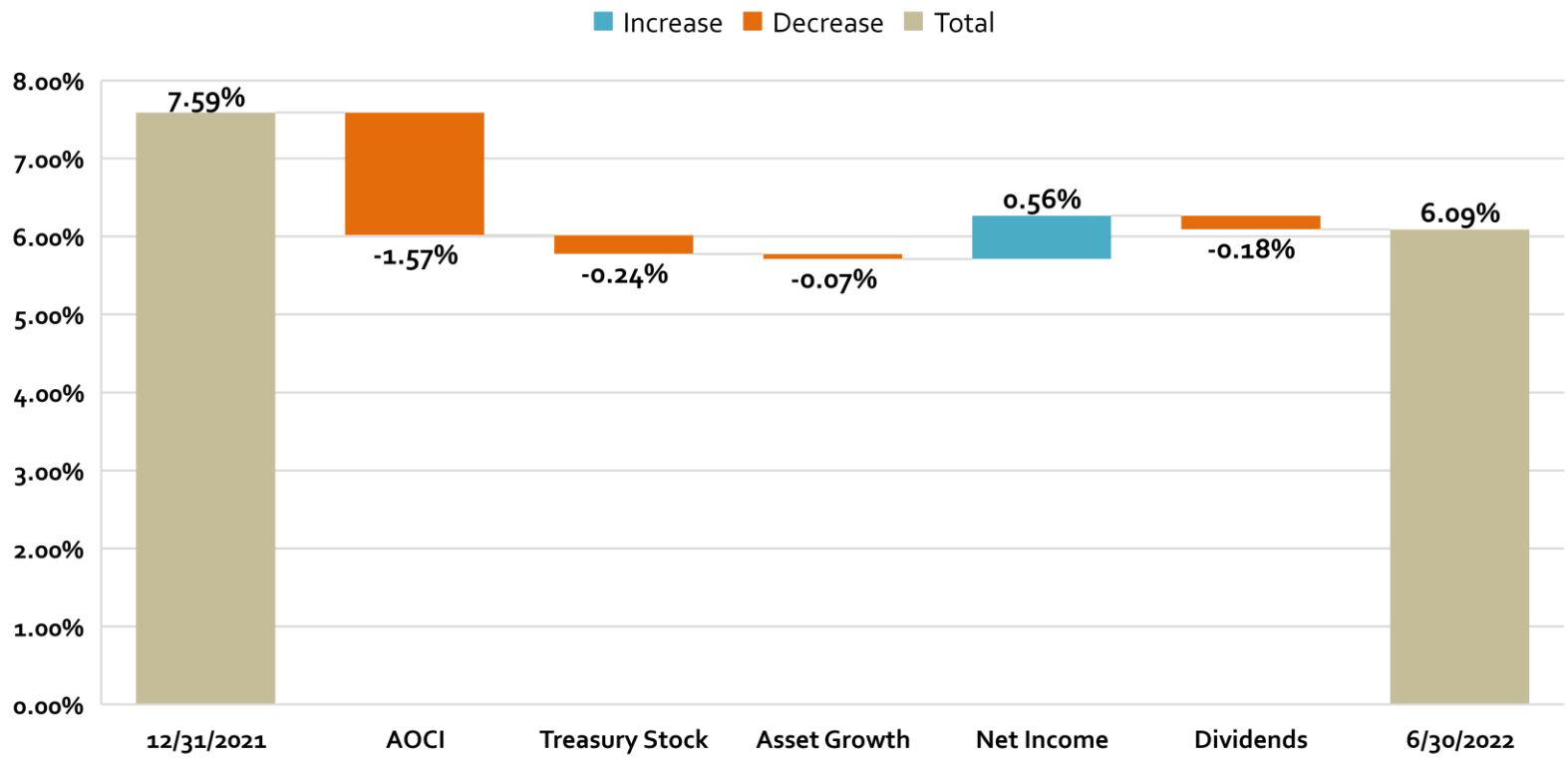
Total Risk-Based Capital Ratio (1)



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

Year-to-Date Change in TCE[1]

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



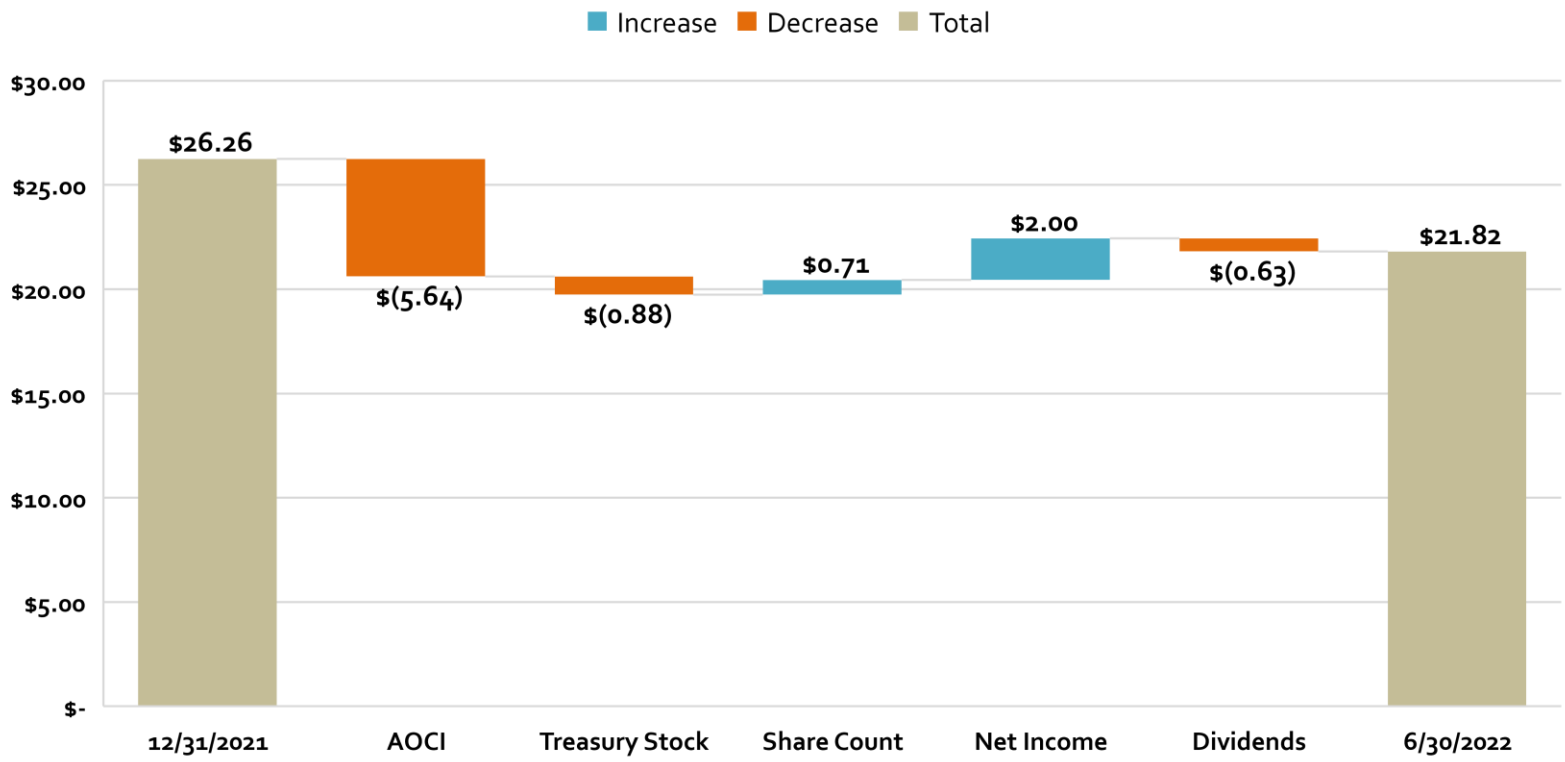
AOCI = Accumulated other comprehensive income (loss). Decrease was the result of an increase in the unrealized loss position of the available for sale securities portfolio, driven by interest rates. The Company believes that no component of the portfolio is impaired as it is primarily guaranteed by the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

Treasury Stock = Reflects impact of the Company's stock repurchase program and stock-based compensation awards.

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

Year-to-Date Change in TCBV[1]

Tangible Common Book Value Per Share [1]



AOCI = Accumulated other comprehensive income (loss). 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.

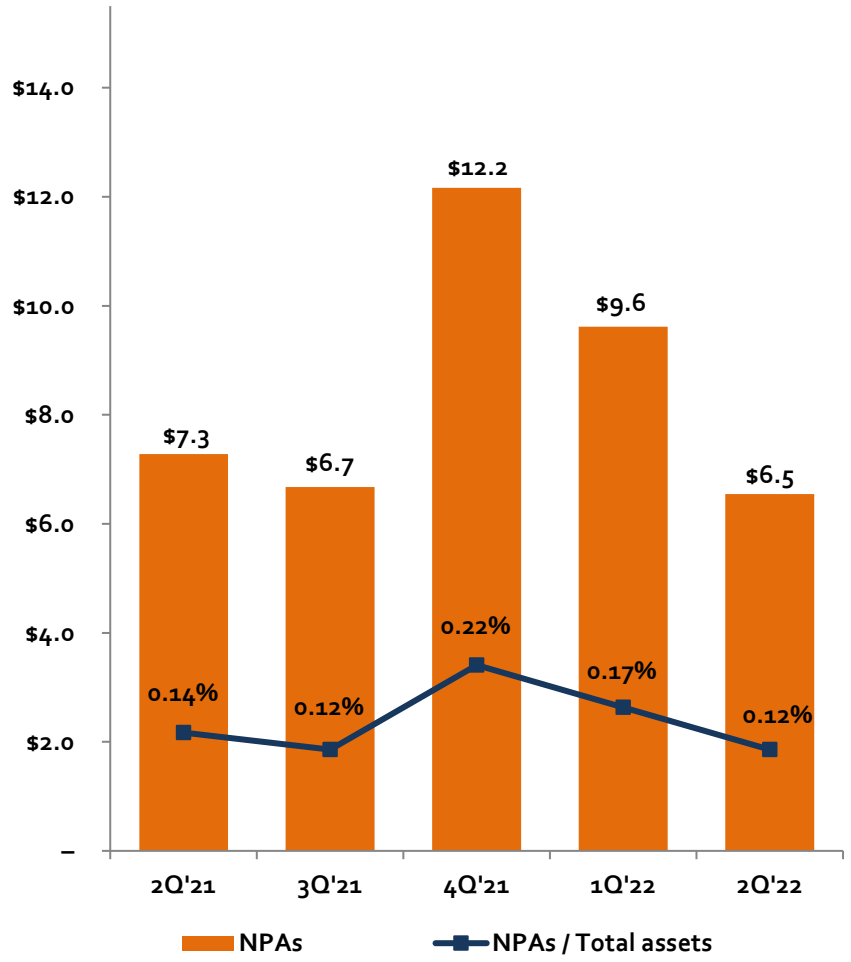
Treasury Stock = Reflects impact of the Company's stock repurchase program and stock-based compensation awards.

[1] Tangible common book value per share – see Appendix for reconciliation of non-GAAP Financial measures for the computation of this non-GAAP measure.

Asset Quality

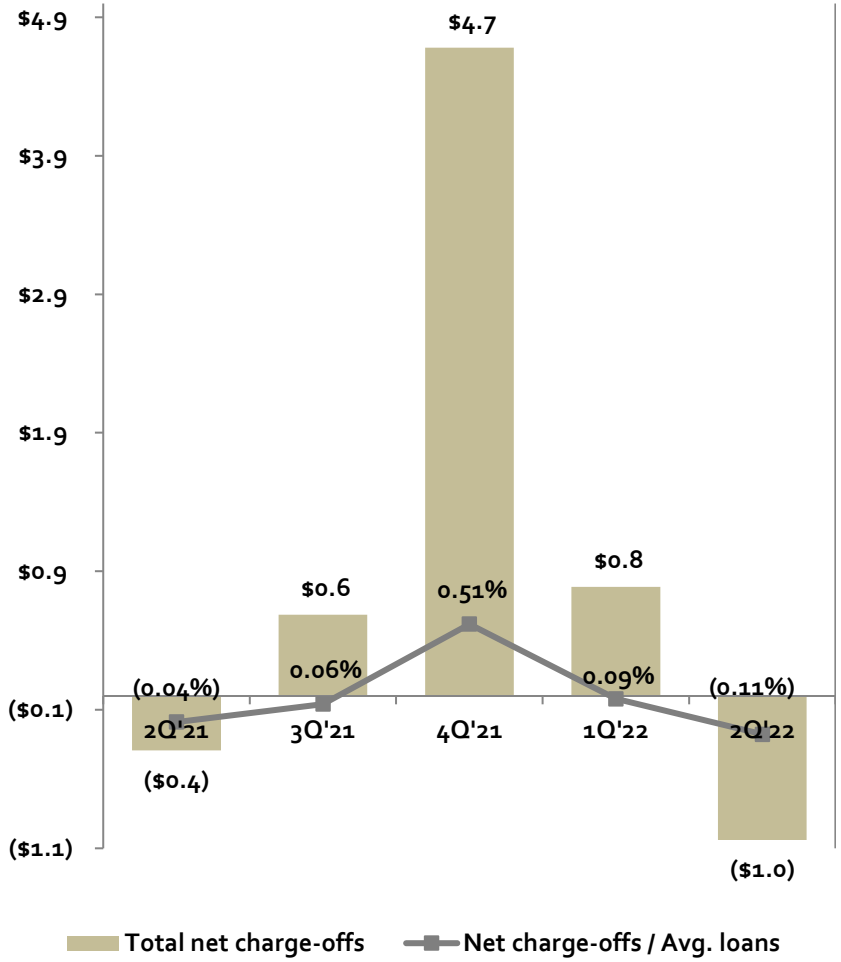
Non-Performing Assets

($ in millions)



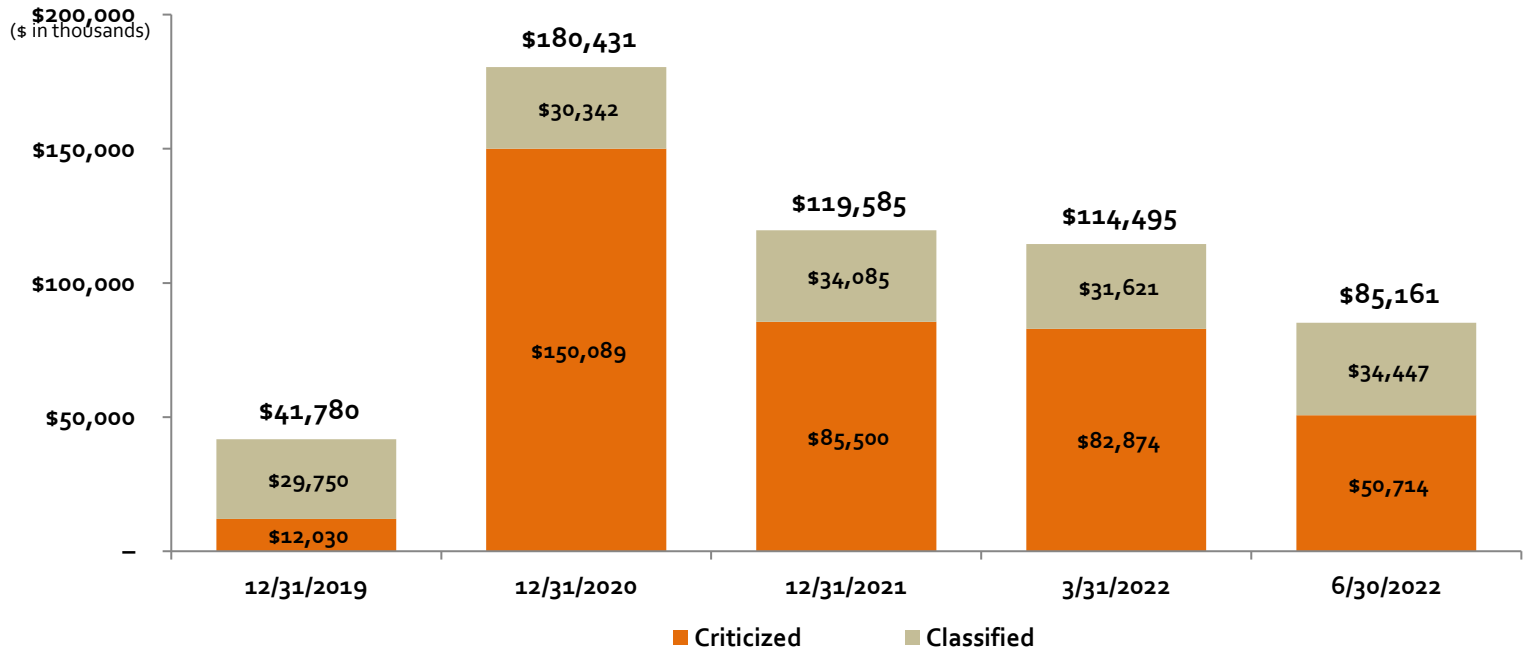
Net Charge-Offs

($ in millions)



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 6/30/22, there were no loans remaining in the COVID-19 at-risk pool. Criticized and classified assets include $26 million and $20 million, respectively, of loans previously included in the COVID-19 at-risk pool. We are now managing these credits as part of our standard loan monitoring process.



	12/31/2019	12/31/2020	12/31/2021	3/31/2022	6/30/2022
Total Specific Reserves	$0.7MM	$9.6MM	$5.8MM	$4.7MM	$2.9MM

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)	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022	6/30/2022
Computation of ending tangible common equity:						
Common shareholders' equity	$ 469,834				$ 408,509	
Less: Goodwill and other intangible assets, net	74,262				73,897	
Tangible common equity	395,572				334,612	
Computation of ending tangible assets:						
Total assets	$ 5,295,102				$ 5,568,198	
Less: Goodwill and other intangible assets, net	74,262				73,897	
Tangible assets	5,220,840				5,494,301	
Tangible common equity to tangible assets[1]	7.58%				6.09%	
Common shares outstanding	15,842				15,334	
Tangible common book value per share[2]	$ 24.97				$ 21.82	
Computation of average tangible common equity:						
Average common equity	$ 458,868	$ 478,582	$ 483,112	$ 474,560	$ 418,632	$ 463,722
Less: Average goodwill and other intangible assets, net	74,412	74,470	74,544	74,287	74,037	74,335
Average tangible common equity	384,456	404,112	408,568	400,273	344,595	389,387
Computation of average tangible assets:						
Average assets	$ 5,340,745	$ 5,368,054	$ 5,582,987	$ 5,560,316	$ 5,598,217	$ 5,527,394
Less: Average goodwill and other intangible assets, net	74,412	74,470	74,544	74,287	74,037	74,335
Average tangible assets	5,266,333	5,293,584	5,508,443	5,486,029	5,524,180	5,453,059
Net income available to common shareholders	19,834	16,811	19,247	14,618	15,283	65,959
Return on average tangible common equity[3]	20.69%	16.50%	18.69%	14.81%	17.79%	16.94%
Pre-tax pre-provision income:						
Net income	$ 20,200	$ 17,175	$ 19,612	$ 14,983	$ 15,648	
Add: Income tax expense	5,400	4,553	4,225	3,443	3,859	
Add: Provision (benefit) for credit losses	(4,622)	(541)	(1,192)	2,319	563	
Pre-tax pre-provision income	$ 20,978	$ 21,187	$ 22,645	$ 20,745	$ 20,070	
Add: Restructuring charges					1,269	
Adjusted pre-tax pre-provision income					$ 21,339	
Total loans excluding PPP loans:						
Total loans			$ 3,679,436		$ 3,764,018	
Less: PPP loans			55,344		8,910	
Total loans excluding PPP loans			$ 3,624,092		$ 3,755,108	

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.