

FINANCIAL INSTITUTIONS, INC. (Nasdaq: FISI)

Investor Presentation

November 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," "continues," "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 serving mix of consumer, business, municipal, healthcare and not-for-profit customers through:
  - 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)
- Positioned for growth through key initiatives, including Banking-as-a-Service (BaaS)
- 49 banking locations(4) in 14 contiguous counties in Western and Central New York State and a commercial loan production office in the Baltimore, MD region
- Experienced management team with extensive market knowledge and industry experience
- Generating consistent, strong operating results

Key Statistics as of September 30, 2022	
Assets:	$5.6 billion
Loans:	$3.9 billion
Deposits:	$4.6 billion
Shareholders' Equity:	$394.0 million
NPAs(1)/Total Assets:	0.15%
Employees:	~670
ROACE (TTM):	13.94%
ROATCE(2) (TTM):	16.70%
ROAA (TTM):	1.15%

Market and Valuation Data as of November 1, 2022	
Closing Stock Price Per Share:	$23.81
Market Capitalization:	$365.1 million
Annualized Dividend Per Share:	$1.16
Dividend Yield:	4.8%
Price/Tangible Common Book Value(3):	120%
Price/NTM Consensus EPS(3):	7.1x

(1) NPAs include nonaccrual loans, loans past due 90 days or more and still accruing, and foreclosed assets
(2) Refer to "Non-GAAP Reconciliation" in Appendix
(3) Per S&P Global Market Intelligence; NTM = next twelve months
(4) 48 branches and 1 motor branch in Olean, NY

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; 57% of total loan portfolio
- **Well-positioned retail bank:** Deposits, loans (small business, consumer and residential), fee income, 49 banking locations across Western and Central New York[2]
- **Rapidly growing digital bank:** Deposits, loans (small business) and access to crypto[3] that levers strengths of fintech partners
- **Credit disciplined:** NCOs to avg. loans 0.07% YTD
- **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, or BaaS, line of business**[4] 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 '22

(1) Business Banking Unit
(2) 48 branches and 1 motor branch in Olean, NY
(3) Pending regulatory feedback
(4) Launched 4Q'21

Serving Attractive Upstate New York Markets

Western and Central New York footprint is financially stable, with less "boom and bust" and demonstrated resilience through economic downturns, and downtown revitalizations well underway in Buffalo & Rochester

Well-positioned for growth in Buffalo & Rochester urban markets with ~$90B combined deposit markets(1)

- NY State's 2nd and 3rd largest MSAs, respectively, each with populations of >1MM
- Economy continues to evolve from manufacturing to healthcare, higher education, financial services, small business, technology and professional services
  - Significant college and university presence, including academic medical centers with robust research and development activities, such as University of Rochester and University at Buffalo
- Market disruption has created opportunity for our style of community banking, centered on personal service with local-leadership and decision-making power allowing for agility in responding to customer needs
- Five Star Bank's presence and brand awareness is growing, supported by refreshed brand and associated advertising campaign launched in 3Q'22

Market share leader in core legacy markets

- 1st or 2nd largest bank in 8 counties(1)
- Stable and reliable core deposits
- Role as trusted banker creates opportunity for fee-based services, including insurance and wealth management businesses, which diversify revenue



(1) FDIC deposit market share data for Buffalo-Cheektowaga and Rochester MSAs as of June 30, 2022
(2) 48 branches and 1 motor branch in Olean, NY

Strong Mid-Atlantic Performance & Opportunity

Launched commercial lending platform serving Baltimore and Washington, D.C. region in 1Q'22

- Consolidation in the market allowed us to bring on four-person team and capitalize on opportunities where a community banking approach provides a competitive advantage
- Loan production office located in the Baltimore suburb of Ellicott City

Mid-Atlantic team building relationships with very high-quality sponsors

- ~$69 million in outstandings since mid-February, including ~$41 million originated during 3Q'22
- Substantially tied to stabilized and mature mortgages with some construction lending
- Low average LTV of approximately 55% for portfolio
- Majority of loans are for office space in the Washington, D.C. metro that are largely located in heavy traffic areas near hospitals with fair amount of medial leasing and high occupancy level
- Strong pipeline, meaningfully contributing to Five Star's overall commercial lending pipeline

Success to-date of Mid-Atlantic team, together with strong track record of credit-disciplined loan growth and well-defined strategic and risk frameworks, give us confidence in this strategy as we continue to evaluate opportunities for growth.

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

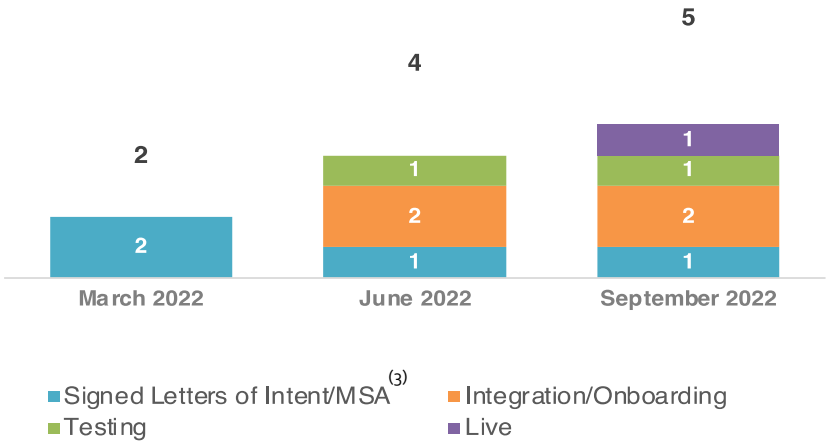
BaaS is a fee-based line of business driven by:

- 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.

Financial Institutions, Inc.

(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 which pioneers in oil and gas, optics, communication, photography, computing, transportation, and suffrage called 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

ALLOY LABS ALLIANCE

BankTech VENTURES

FinMain

BANKERS HELPING BANKERS

CASTLE CREEK CAPITAL

Mendon Venture Partners

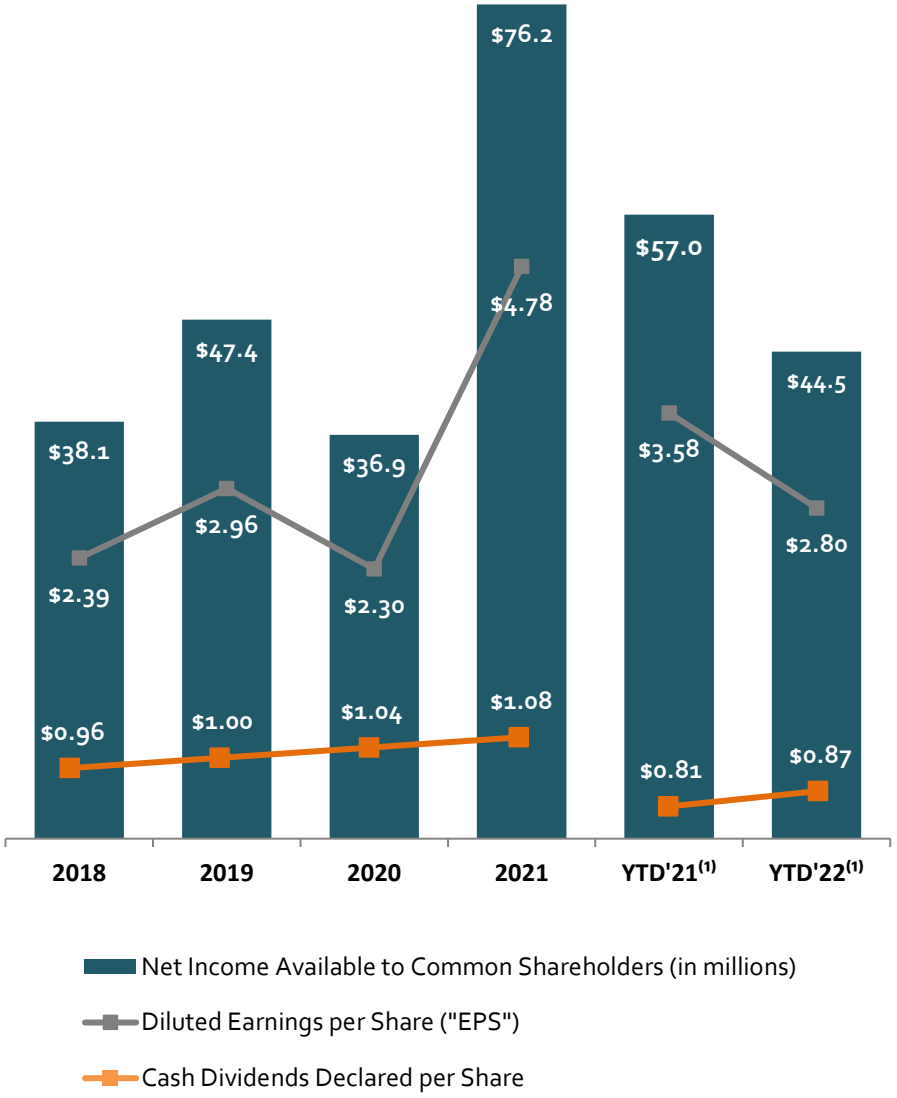
1. Connectivity to the fintech ecosystem
2. Curated introductions to best-in-class, bank-ready fintechs
3. Extensive engagement & interaction with fintechs
4. Access to BaaS opportunities
5. Market intelligence & insight

FISI presents a compelling investment opportunity when perceived franchise challenges are put in context

Perceived Challenge	In Reality	Bottom Line
Indirect Auto Loans are a Risky Asset Class/FISI Portfolio is Oversized	• FISI's indirect business is a **Prime Lending Operation** with avg. portfolio FICO score of 715 • Strong network of ~**500 franchised new** auto dealers • **Natural risk dispersion** – many units and small loan size • **Consistent results** through several economic cycles – Annual charge-offs ranged 0.51%-0.87% for '08 to '20, exceptionally low in '21 at 0.14%; 0.41% YTD '22	• While current management team inherited asset class concentration, indirect remains a **core competency**, with **attractive risk-adjusted return profile** • Deployed excess liquidity in this loan product with short duration, strong credit performance and higher yield • Indirect portfolio **concentration has declined** with focus on growing relationship-based loan categories – 25.8% of loans compared to peak of 34.7% at 12/31/13
Large Municipal Deposits Portfolio Limits Yield on Interest-Earnings Assets	• **Diversified** among **321 municipalities** – No single relationship greater than $39 million(1) • NY **MULOC** program allows for collateralization of deposits with LOCs backed by loans, rather than lower-yielding securities – Allows for reduction of investment securities portfolio – **Funding higher-yielding loan growth** with proceeds	• Market share leader in core legacy counties, providing a unique competitive edge in servicing municipal entities that super regionals & small competitors do not/ cannot • Capitalizing on a **valuable deposit base** that spans 14-county footprint, limiting individual concentrations • MULOC program helps reconstitute earnings asset mix while managing liquidity
Sleepy Upstate NY Focus Inhibits Growth and Value Creation	• Headquartered in Warsaw with regional offices and **leadership** in **Rochester** and **Buffalo**. • Focused on expanding from <2% market share in combined Rochester/Buffalo MSAs; opened 6 **innovative financial solution centers** since '15 (2 in '21)	• Ability to utilize **low-cost deposits** from rural franchise to **fund higher growth metro franchise** • Focused on making **strategic talent hires since 2016,** many from key competitors • Impressive loan growth since Q3'16: *Comm Bus: +80%(2) Comm Mtg: +146% Residential: +19%*
Low TCE Ratio	• FISI historically manages to total, overall capital • Expect continued improvement in ratios as capital is generated through retention of earnings • **Well capitalized** across all regulatory capital metrics	• **Strong asset quality metrics:** 0.15% NPAs/Assets, 1.14% ALL/Loans and 517% ALL/NPL • TCE(3) at 9/30/22 was 5.46%, given decline in AOCI(4) associated with temporary unrealized losses in the available for sale securities portfolio

(1) Excludes reciprocal balances
(2) Excluding Paycheck Protection Program Loans
(3) Refer to "Non-GAAP Reconciliation" in Appendix
(4) Accumulated other comprehensive income

Net Income, Earnings and Dividends



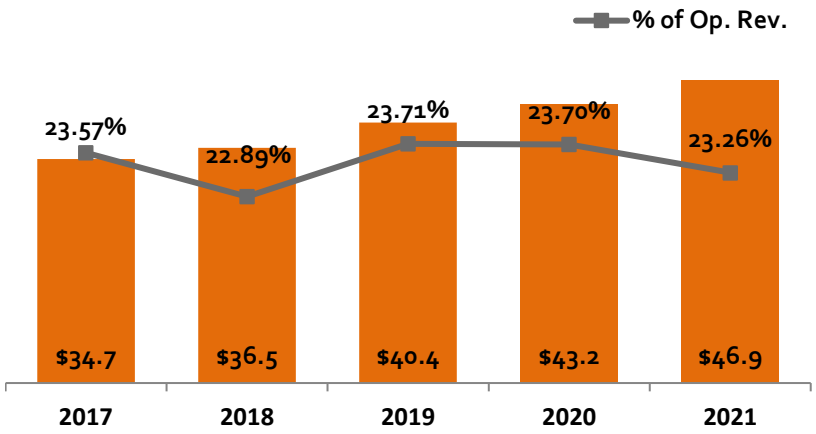
- Net income for the first nine months of 2022 was $44.5 million, or $2.80 per diluted share. YTD 2022 results include $7.2 million in provision for credit losses, compared to a benefit of $7.1 million in the prior year period. Noninterest expense increased $13.0 million year-over-year, driven by higher salaries and employee benefits expenses as well as strategic investments in technology, including digital banking initiatives, a customer relationship management solution across all lines of business, and BaaS initiatives
- 2021 results reflect an $8.3 million benefit for credit losses as compared to a $27.2 million provision for credit losses in 2020. Improvement in the national unemployment forecast, positive trends in qualitative factors, a reduction in specific reserves and lower net charge-offs resulted in the release of overall credit loss reserves and a corresponding benefit for credit losses in each quarter of 2021.
- Consistent growth in annual pre-tax pre-provision income(2)
  - 2018 $58.5 million
  - 2019 $67.5 million
  - 2020 $72.9 million
  - 2021 $88.9 million
  - YTD'21(1) $66.2 million
  - YTD'22(1) $63.7 million

(1) For the first nine months
(2) Refer to "Non-GAAP Reconciliation" in Appendix

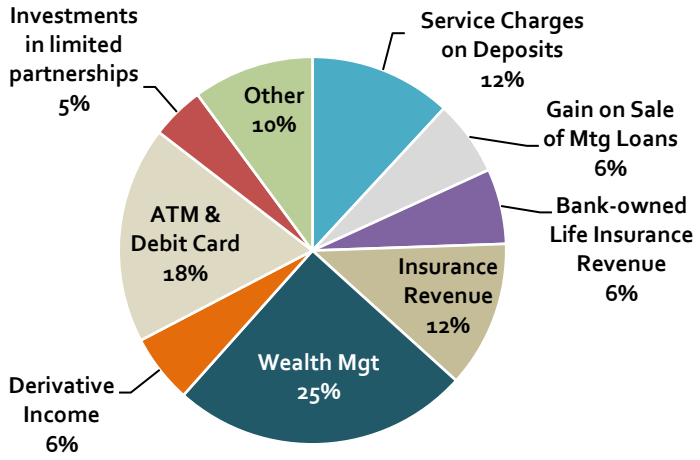
Revenue Diversification → Growing Noninterest Income

Noninterest Income

($ in millions)



2021 Noninterest Income Breakdown



Commentary

- Significant sources of noninterest income:
  - Investment advisory revenue
  - ATM and debit card fees
  - Insurance income
- Bolstered insurance and investment advisory businesses through successful acquisitions:
  - Acquired Buffalo-based insurance broker in 2014 which was renamed SDN Insurance Agency, LLC
    - In February 2021, acquired Rochester-based Landmark Group, an independent insurance brokerage firm
    - In August 2021, acquired Buffalo-based North Woods Capital Benefits LLC, employee benefits and human resources advisory firm
  - Acquired Buffalo-based asset management firm Courier Capital in 2016
    - Courier acquired registered investment advisor Robshaw & Julian Associates, Inc. in 2017
  - Acquired Rochester-based registered investment advisor HNP Capital, LLC, in 2018

Third Quarter Key Statistics(1) and Highlights

- Net income of $13.9 million, or $0.88 per diluted share, was $3.3 million, or $0.17 per diluted share, lower than 3Q'21. Primary drivers were:
  - 3Q'22 provision for credit losses of $4.3 million compared to a benefit of $541 thousand in 3Q'21, which largely offset year-over-year net interest income growth.
  - Salaries and employee benefits expense was $2.2 million higher in 3Q'22 primarily due to investments in personnel and wage pressures driven by the current competitive labor market, coupled with an increase in health insurance benefits due to higher medical claims.
- Net interest income of $43.1 million was $4.8 million, or 12.5%, higher than 2021. Average interest-earning assets were $264 million higher in 3Q'22 than 3Q'21.
  - Net interest margin ("NIM") of 3.28% was 21 basis points higher primarily due to the impact of 2022 interest rate increases and a lower level of Federal Reserve interest-earning cash.
- Noninterest income of $12.7 million included a non-recurring $2.0 million enhancement from the surrender and redeployment of $25.5 million in cash surrender value of company owned life insurance, which offset approximately $1.5 million of incremental income taxes during the most recent quarter associated with the transaction. $0.5 million of incremental taxes remain and are expected to be recorded in 4Q'22.
- Total loans at quarter-end were $3.87 billion, an increase of $102.8 million, or 2.7%, from June 30, 2022.
  - Excluding Paycheck Protection Program ("PPP") loans, total loans increased 2.9% from the linked quarter.
  - Commercial loans totaled $2.20 billion at quarter-end, an increase of $139.2 million, or 6.8%, from 6/30/22, as solid growth in Upstate New York was supported by strong contributions from the Mid-Atlantic team added earlier this year.

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

Third Quarter 2022

Results Summary

($ in millions, except per share amounts)	3Q'21	2Q'22	**3Q'22**
Net interest income	$38.3	$41.6	**$43.1**
Noninterest income	12.1	11.4	**12.7**
Noninterest expense	(29.2)	(32.9)	**(32.8)**
Income tax expense	(4.5)	(3.9)	**(4.7)**
Preferred stock dividend	(0.4)	(0.4)	**(0.4)**
Net income available to common shareholders	$16.8	$15.3	**$13.5**
EPS diluted	$1.05	$0.99	**$0.88**
Return on average assets	1.27%	1.12%	**0.98%**
Return on average common equity	13.94%	14.64%	**12.72%**
Return on average tangible common equity(1)	16.50%	17.79%	**15.43%**
Net interest margin	3.07%	3.19%	**3.28%**
Efficiency ratio(2)	57.76%	61.91%	**58.78%**
Dividends per share	$0.27	$0.29	**$0.29**
Dividend yield (annualized)	3.49%	4.47%	**4.78%**

Commentary

- Net interest income increased $4.8MM from 3Q'21 and $1.5MM from 2Q'22 primarily as a result of higher average interest-earning assets, combined with the impact of a rising interest rate environment.
- Noninterest expense increased $3.7MM from 3Q'21 and was relatively flat with 2Q'22. The YoY increase was primarily due to higher salaries and employee benefits (variance of $2.2MM) and computer and data processing expense ($828K) between periods.
- Effective tax rate was 25.4% compared to 21.0% for 3Q'21 and 19.8% for 2Q'22. The 3Q'22 rate was impacted by incremental taxes associated with the company owned life insurance surrender and redeploy strategy, which were offset by a non-recurring enhancement recorded as noninterest income.
- Provision for credit losses was $4.3MM compared to a benefit of $541K in 3Q'21 and provision of $563K in 2Q'22. Provision returned to a more normalized level in 2022 (excluding a $2.0MM recovery in 2Q'22) due to an increase in the national unemployment forecast and qualitative factors reflecting economic uncertainty associated with higher interest rates and global political unrest, partially offset by and a 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 (3Q'21 – 3Q'22)

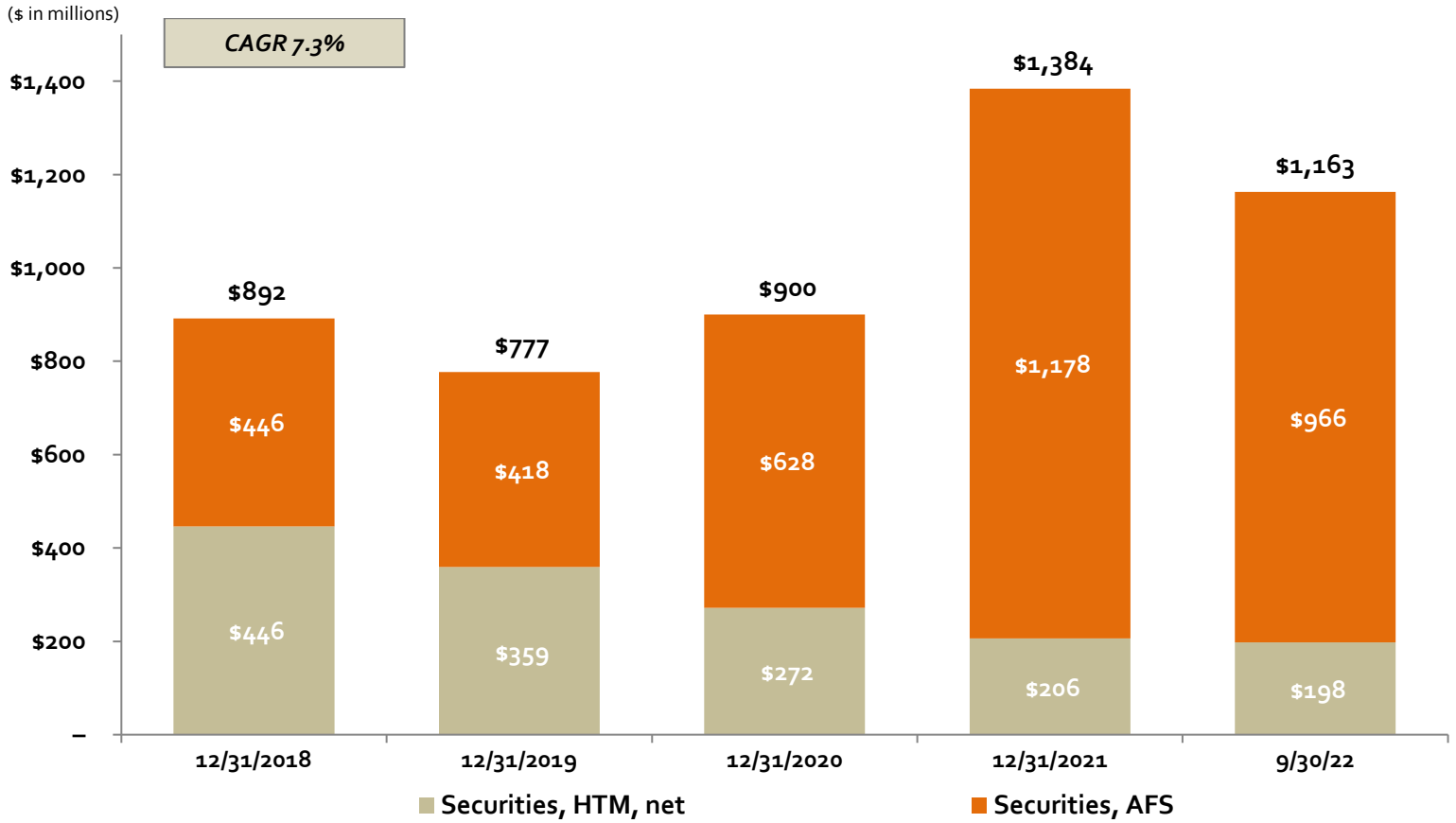
($ in millions, except per share amounts)

Earnings Summary	3Q'21	4Q'21	1Q'22	2Q'22	3Q'22
Average interest-earning assets	$4,967	$5,179	$5,167	$5,247	**$5,231**
Net interest margin	3.07%	3.15%	3.11%	3.19%	**3.28%**
Net interest income	38.3	40.9	39.5	41.6	**43.1**
Noninterest income	12.1	11.6	11.3	11.4	**12.7**
Total revenue	**$50.4**	**$52.5**	**$50.8**	**$53.0**	**$55.7**
Noninterest expense	($29.2)	($29.9)	($30.1)	($32.9)	**($32.8)**
Pre-tax pre-provision income [1]	21.2	22.6	20.7	20.1	**22.9**
Pre-PPP adjusted pre-tax pre-provision income [1]	19.8	20.0	19.7	20.5	**20.6**
Benefit (provision) for credit losses	0.5	1.2	(2.3)	(0.6)	**(4.3)**
Pre-tax net income	21.7	23.8	18.4	19.5	**18.6**
Income tax expense	(4.5)	(4.2)	(3.4)	(3.9)	**(4.7)**
Net income	**$17.2**	**$19.6**	**$15.0**	**$15.6**	**$13.9**
Preferred stock dividends	(0.4)	(0.4)	(0.4)	(0.4)	**(0.4)**
Net income available to common shareholders	**$16.8**	**$19.2**	**$14.6**	**$15.3**	**$13.5**
Earnings per share - diluted	$1.05	$1.21	$0.93	$0.99	**$0.88**
Weighted average common shares outstanding - diluted	15.9	15.9	15.7	15.4	**15.4**

(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 and completed in 3Q'19.
- Beginning in 4Q'20, excess Federal Reserve cash balances reallocated to eligible agency mortgage-backed securities.



	2018	2019	2020	2021	2022
Security Yield(1)	2.33%(2)	2.39%(2)	2.31%(2)	1.75%(2)	1.79%(2)

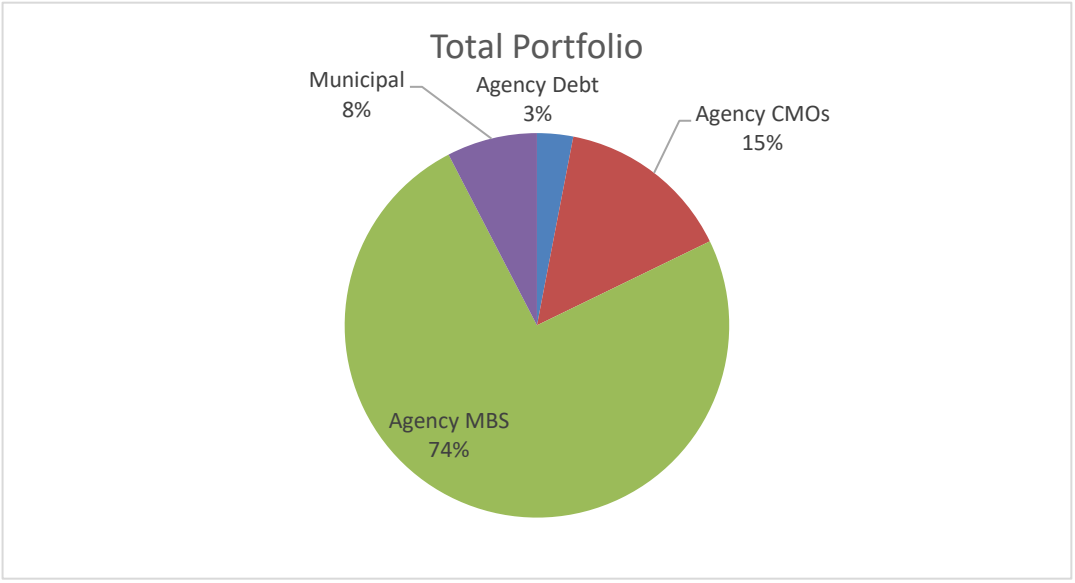
(1) Average yield (tax equivalent basis) for the period
(2) Decrease due to lower federal tax rate beginning in 2018

Securities Portfolio Composition at 9/30/2022

Portfolio Reconciliation ($ in Millions)	
Securities (amortized cost) ("AFS")	$1,150
Total Held to Maturity Securities (amortized cost) ("HTM")	$198
Total Book Value	$1,347
Less: Net Unrealized Losses on AFS Portfolio	($184)
Total Balance Sheet Investment Securities	$1,163

Portfolio Reconciliation QoQ ($ in Millions)	
Total Balance Sheet Investment Securities 9/30/22	$1,163
Total Balance Sheet Investment Securities 6/30/22	$1,262
QoQ Total Balance Sheet Variance	($99)
Add: Book Value Reduction	$41
Add: Net Unrealized Losses Variance on AFS (AOCI)	$58
QoQ Total Balance Sheet Variance Reconciliation	$0

S&P Equivalent Muni Credit Rating	
Rating	**Book Value ($ in millions)**
AAA	10.7
AA+	17.4
AA	52.9
AA-	12.5
A+	0.9
A	0.3
A-	-
NR[1]	7.7



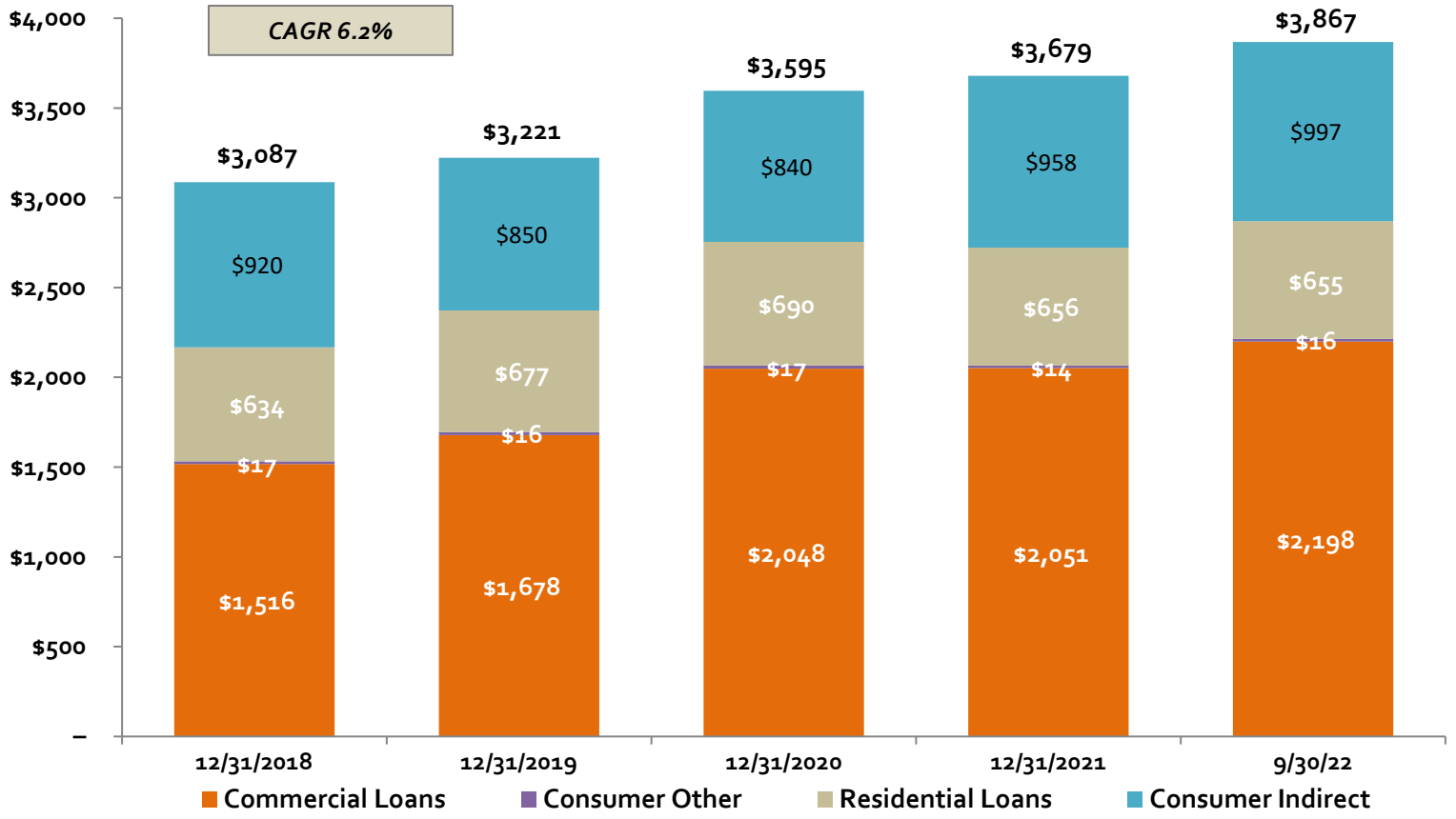
Portfolio Highlights	
Tax Equivalent Yield	1.87%
% AFS	85%
Average Life	6.20
Modified Duration	5.57

Security Type	TE Yield	Book Value ($ in millions)	Market Value ($	Net Unrealized Gain(Loss) ($ in millions)
Agency Debt	2.35%	40.9	36.6	(4.3)
Agency CMOs	1.76%	198.9	173.0	(25.9)
Agency MBS	1.81%	1,004.8	842.9	(161.9)
Municipal	2.51%	102.4	93.5	(9.0)
	1.87%	**1,347.3**	**1,146.2**	**(201.1)**

(1) $6.9MM Locally issued BANs and RANs and 4 General Obligation Bonds Totaling $.751MM

Total Loans

($ in millions)



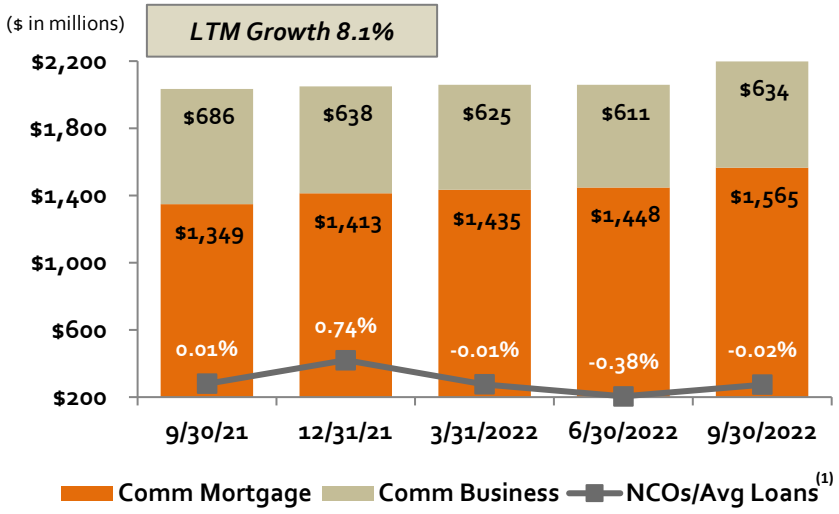
	2018	2019	2020	2021	2022 (YTD)
Loan Yield(1)	4.51%	4.77%	4.18%	4.05%	4.25%

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

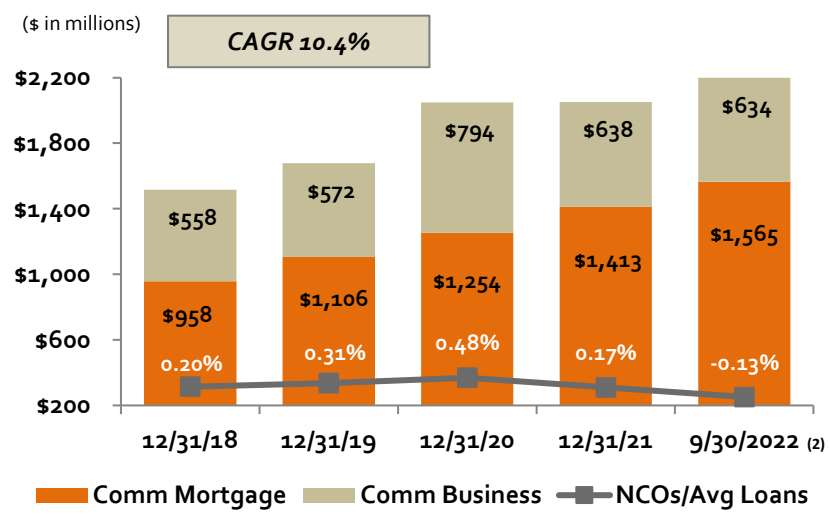
Commercial Banking

- PPP loans (net of deferred fees) included in commercial business loans below: $116.7 million at 9/30/21, $55.3 million at 12/31/21, $31.4 million at 3/31/22, $8.9 million at 6/30/22 and $2.8 million at 9/30/22
- 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

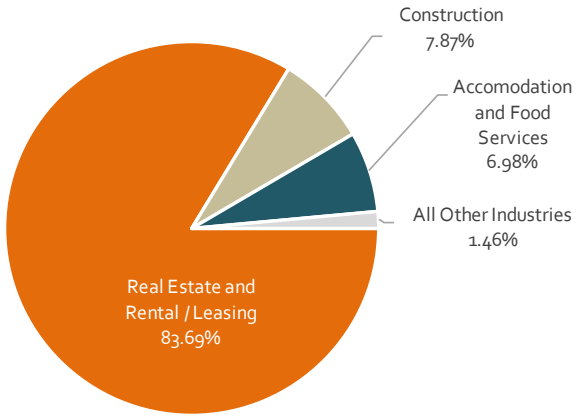


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

Commercial Loan Portfolio Detail

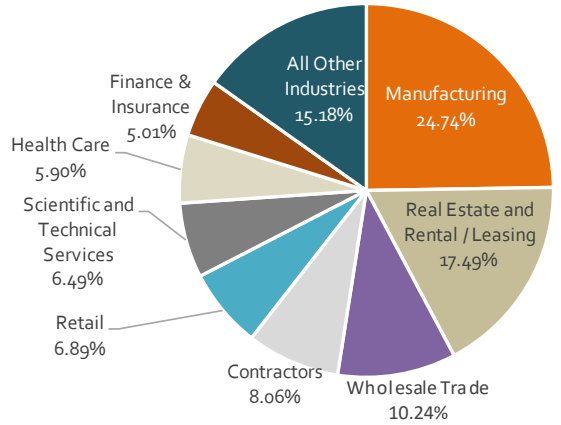
Commercial Real Estate Ttl Exposure(1) ($1.7Bn(2))

As of September 30, 2022



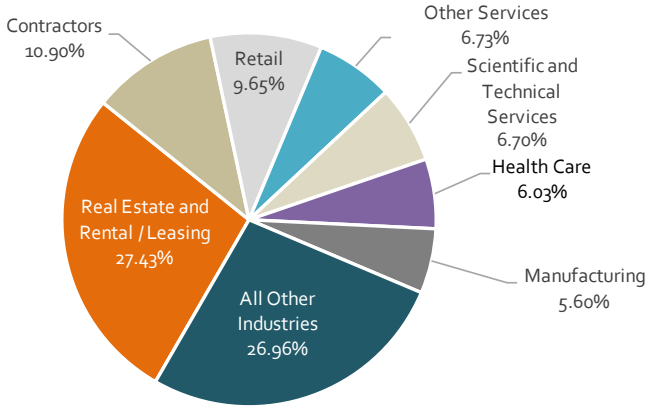
Commercial & Industrial Ttl Exposure(1) ($1.1Bn(2))

As of September 30, 2022



Business Banking Ttl Exposure(1) ($186MM(2))

As of September 30, 2022



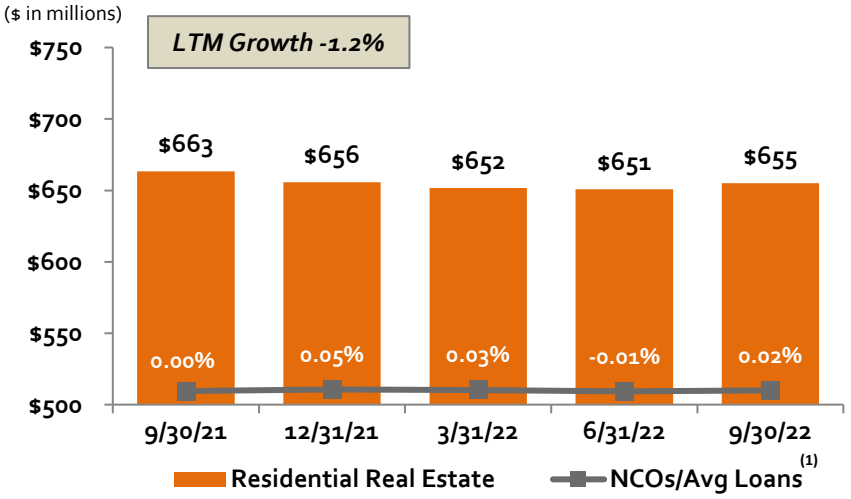
- **The vast majority of the commercial loan portfolio is within the Bank's footprint which now includes its newest Mid-Atlantic region, following the Company's entry into the Baltimore/Washington D.C. region in 1Q'22**

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

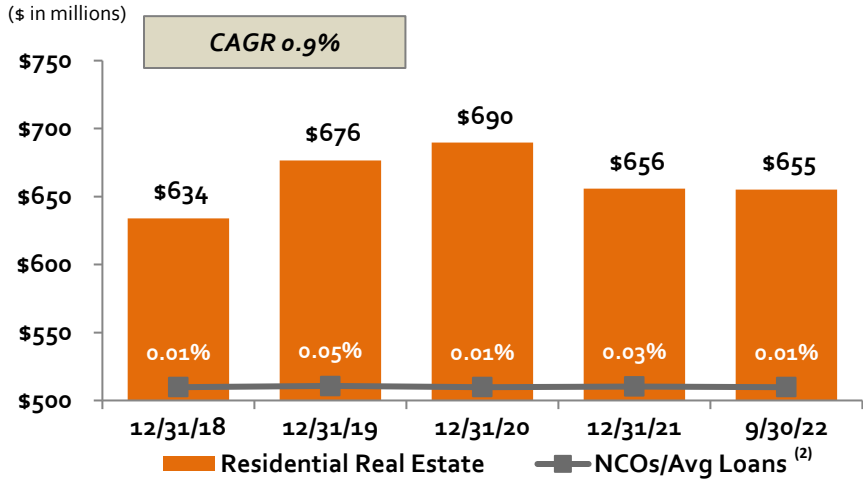
Residential Real Estate Loans and Lines

- 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

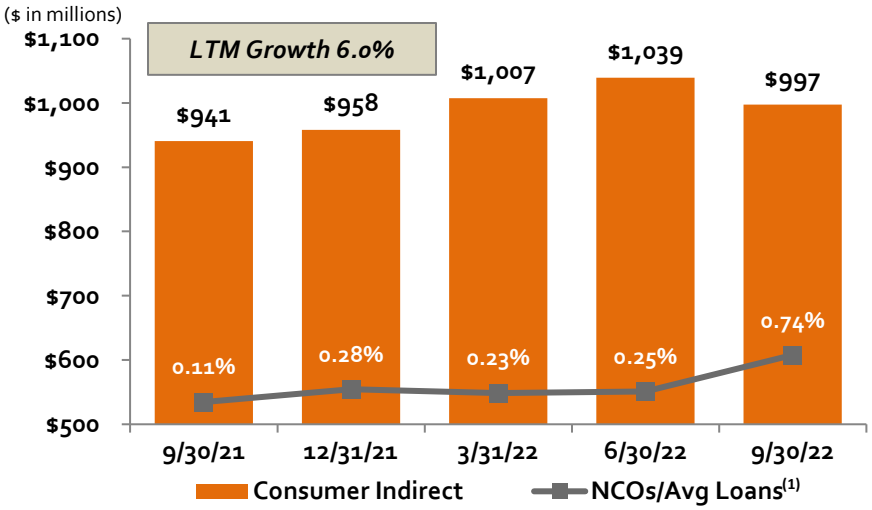


(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

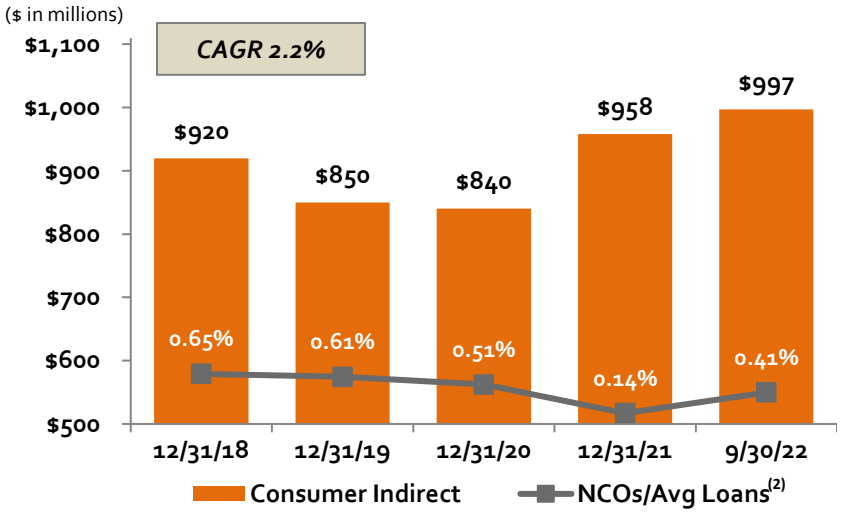
Consumer Indirect Lending

- $997.4 million portfolio at September 30, 2022
  - Portfolio represents 25.8% 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
  - 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



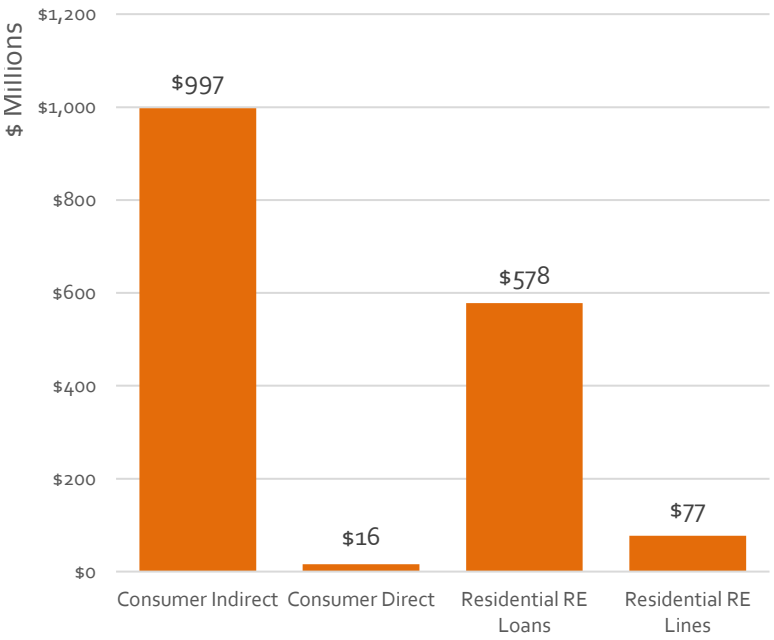
Consumer Indirect – Annual



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

Consumer & Residential Loan Portfolio Detail

Consumer Lending Portfolio
As of September 30, 2022



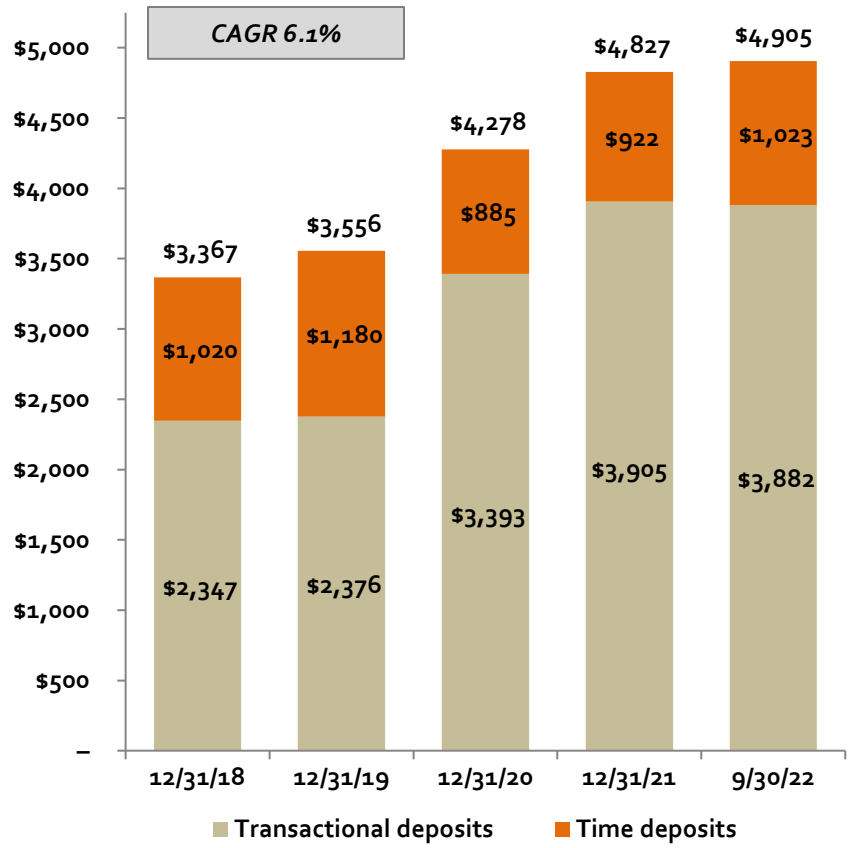
Consumer Lending Portfolio Metrics
As of September 30, 2022

	% of Ttl. Loan Portfolio ($3.87Bn)	# of Loans	Wt. Avg FICO Score (at origination)	Avg. Loan Balance
Consumer Indirect	25.8%	46,247	715	$20,626
Consumer Direct	0.4%	11,164	736	$1,226
Residential Real Estate Loans	14.9%	6,621	737	$95,514
Residential Home Equity Lines of Credit (HELOCs)	2.0%	3,225	769	$22,048

Deposit Growth

Deposits (by account type)

($ in millions)



Commentary

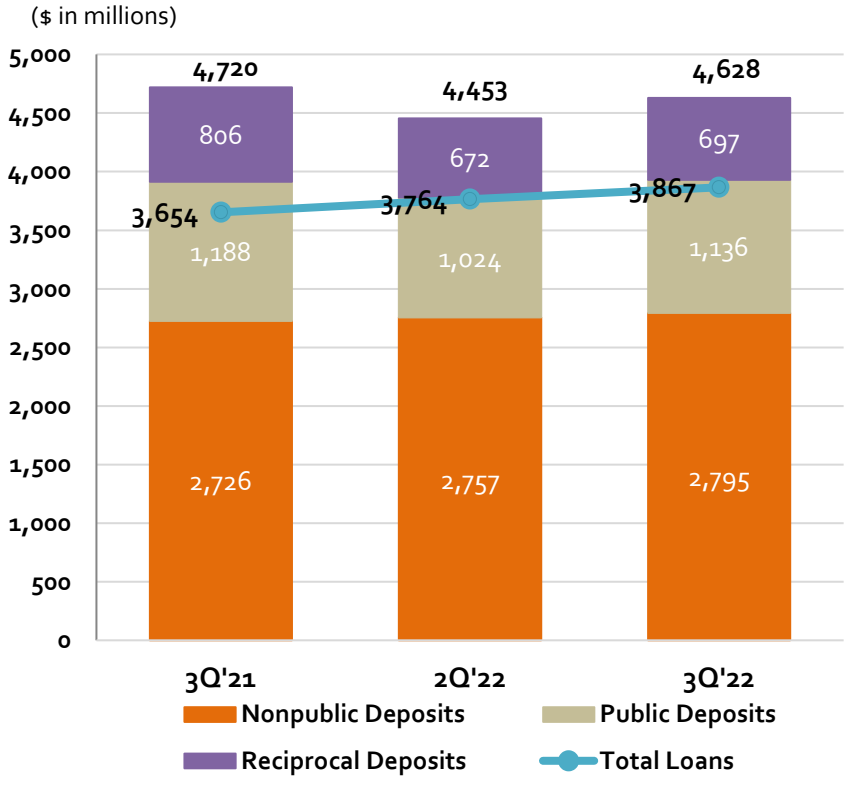
- Opportunities for growth
  - Combined Rochester and Buffalo MSAs represent attractive deposit market of approximately $90 billion, of which Five Star Bank currently has less than 2%
  - Expansion of Digital Banking accessibility
- We offer a variety of public (municipal) deposit products to the towns, villages, counties and school districts within our market
  - Deposits are seasonal /low-cost funding source
  - Comprised 23% of deposits at 9/30/22, compared to 21% of deposits at 6/30/22, reflecting seasonal increase
  - 321 municipal customers as of 9/30/22

	2018	2019	2020	2021	2022 (YTD)
Cost of Deposits[1]	0.57%	0.82%	0.44%	0.17%	0.22%

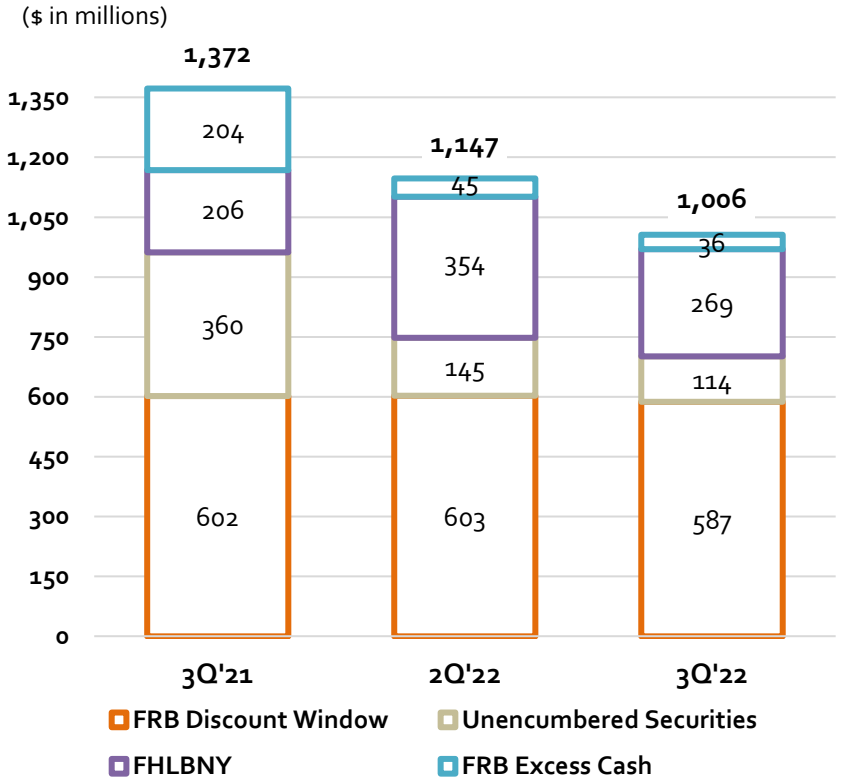
(1) For the year/year-to-date (annualized)

Key Liquidity Metrics

Deposit Mix (1)



Available Committed Liquidity

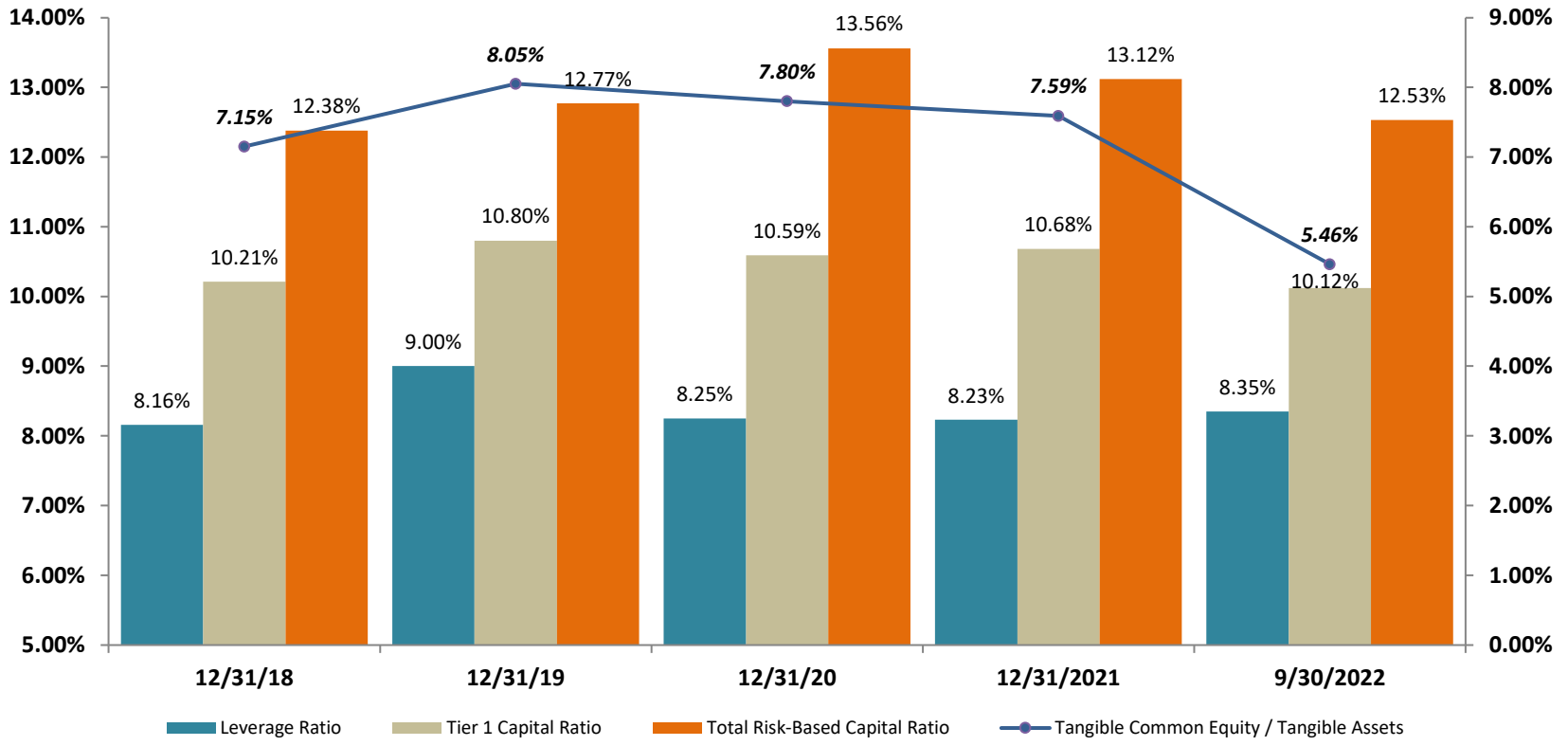


- Diverse deposit gathering capabilities and eligible collateral support a robust liquidity position:
  - Non-public deposits anchor our deposit base and increased 1.4% over 2Q'22; loan to deposit ratio of 78.8% at 3Q'22
  - 3Q'22 available committed liquidity remains strong, as supported through unencumbered 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 seasonal increase in public deposits, requiring collateralization.

(1) Excluding brokered deposits

Historical Capital Position

Consolidated Capital Ratios

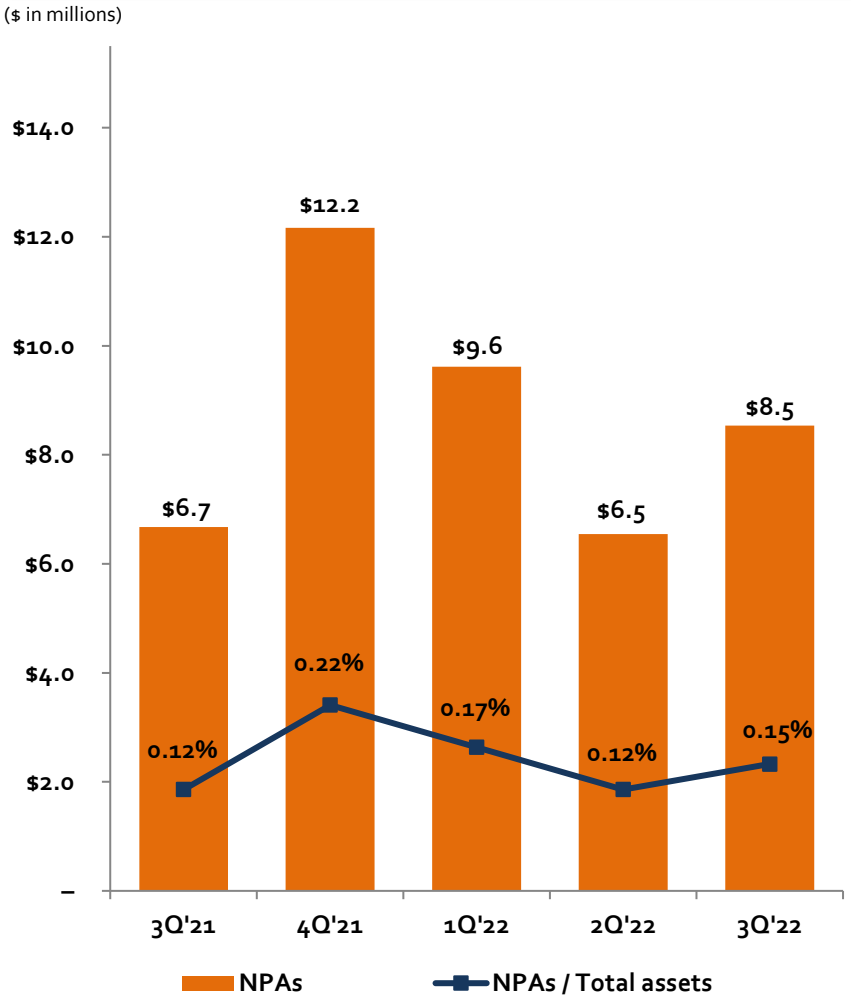


	September 30, 2022
Tangible Common Equity / Tangible Assets [1]	5.46%
Leverage Ratio	8.35%
Tier 1 Capital Ratio	10.12%
Total Risk-Based Capital Ratio	12.53%

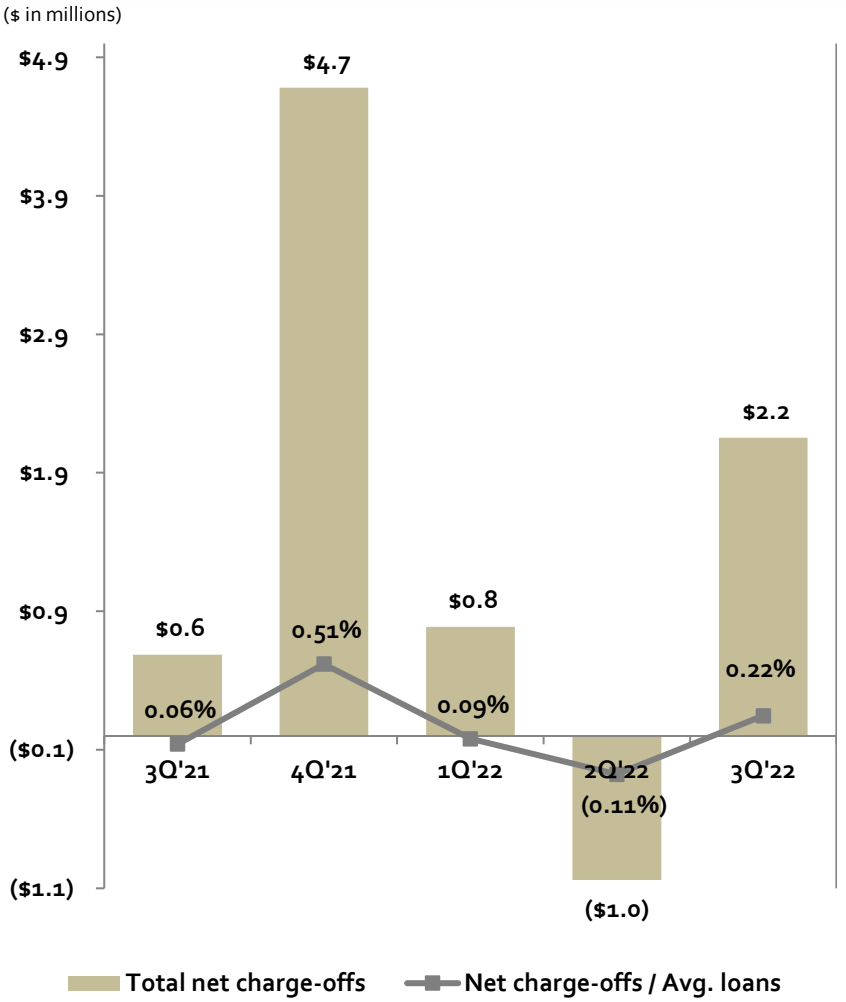
(1) Refer to "Non-GAAP Reconciliation" in Appendix

Asset Quality

Non-Performing Assets

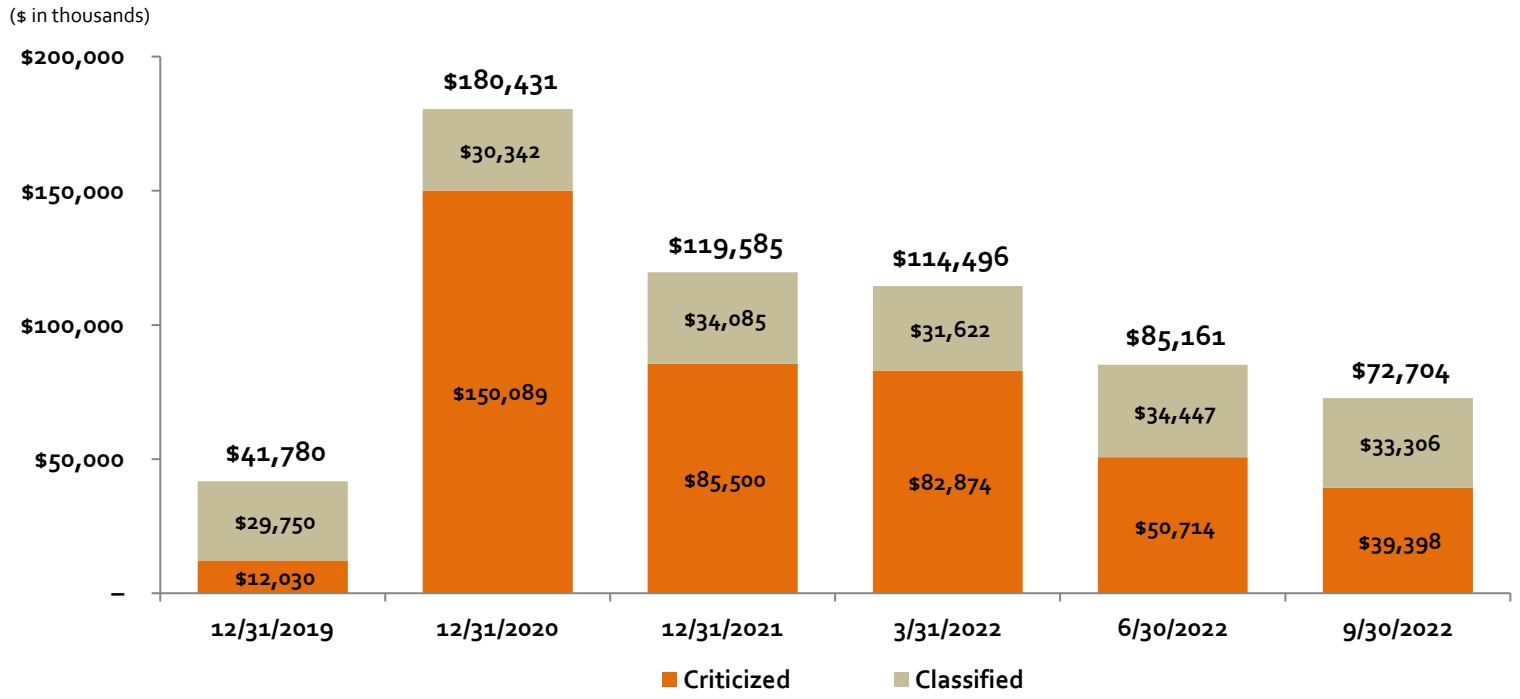


Net Charge-Offs



Criticized and Classified Assets

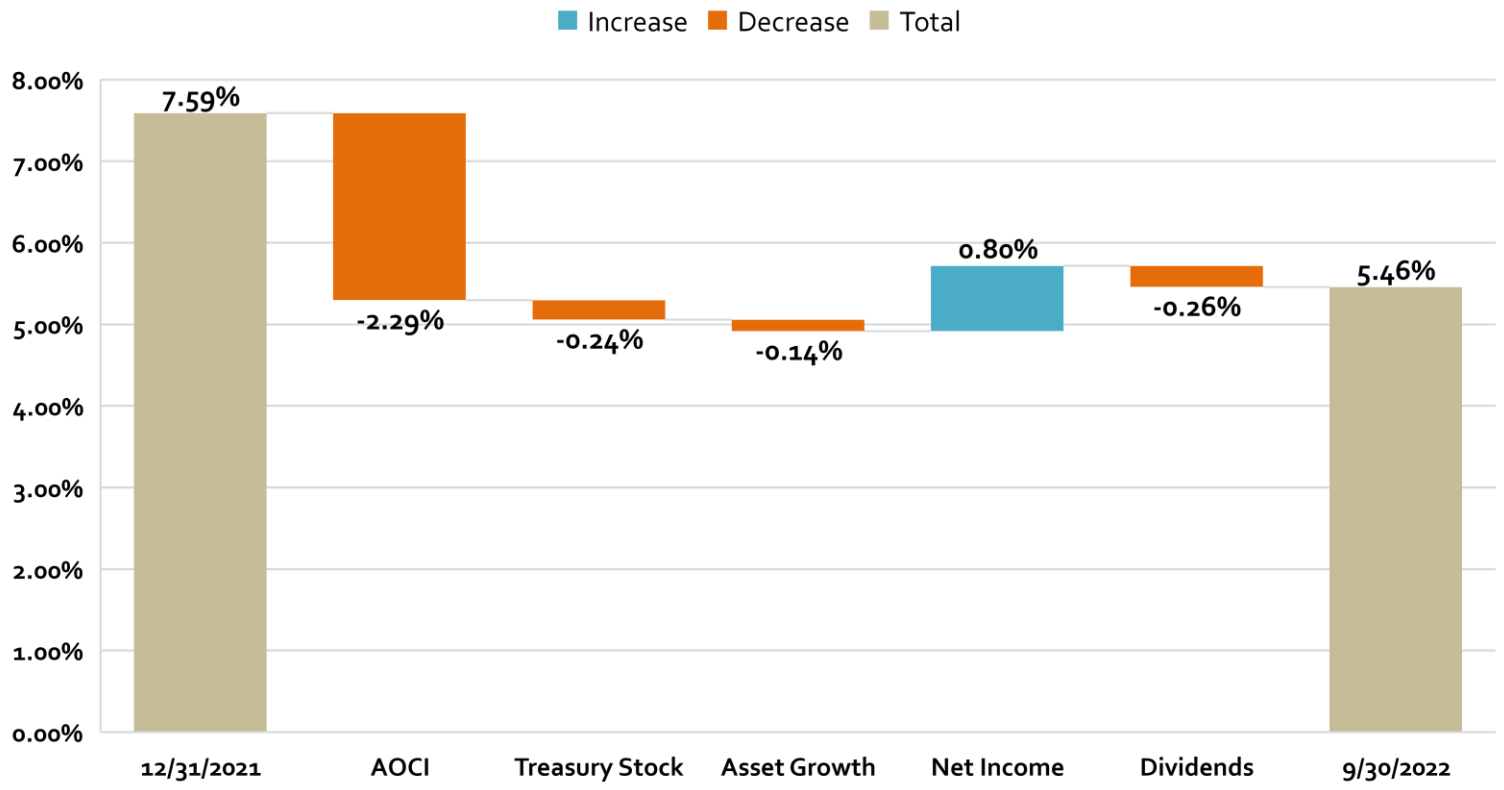
- To address the impact of COVID-19 on our most at-risk exposures, approximately $127 million of commercial loans were downgraded to criticized status in 4Q'20 and a specific reserve of $4.7 million was established.
- During 2Q'22, we eliminated the COVID-19 at-risk pool and are now monitoring all credits as part of our standard loan monitoring process.



	12/31/2019	12/31/2020	12/31/2021	3/31/2022	6/30/2022	9/30/22
Total Specific Reserves	$0.7MM	$9.6MM	$5.8MM	$4.7MM	$2.9MM	$2.7MM

Year-to-Date Change in TCE[1]

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



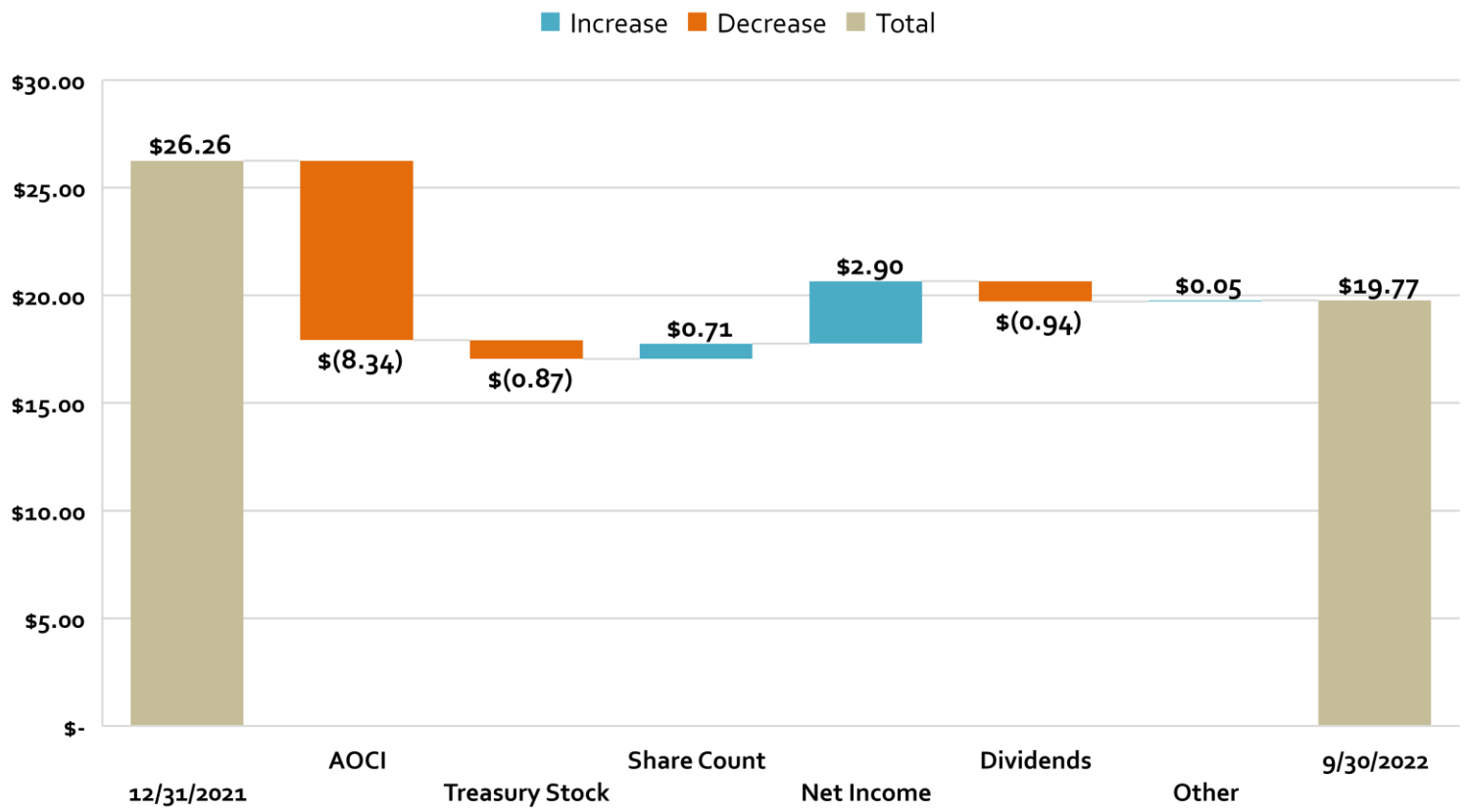
AOCI = Accumulated other comprehensive income (loss). Decrease was the result of an increase in the unrealized loss position of the available for sale securities portfolio, driven by interest rates. The Company believes that no component of the portfolio is impaired as it is primarily guaranteed by the 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 (TCE) – 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.

Compelling Valuation (1)

	Price/Tangible Common Book Value(2)	*Price/NTM Consensus GAAP EPS(2)*
FISI	**120%**	**7.1x**
AROW	177%	10.5x
CHMG	151%	7.5x
CBU	561%	16.6x
EVBN	149%	8.6x
NBTB	236%	13.0x
TMP	N/A	13.8x
TRST	N/A	9.3x

(1) Peer group defined as Upstate NY banks with total assets between $2B and $15B and sell-side analyst coverage
(2) As of November 1, 2022; per S&P Global Market Intelligence; NTM = next twelve months

Investment Highlights

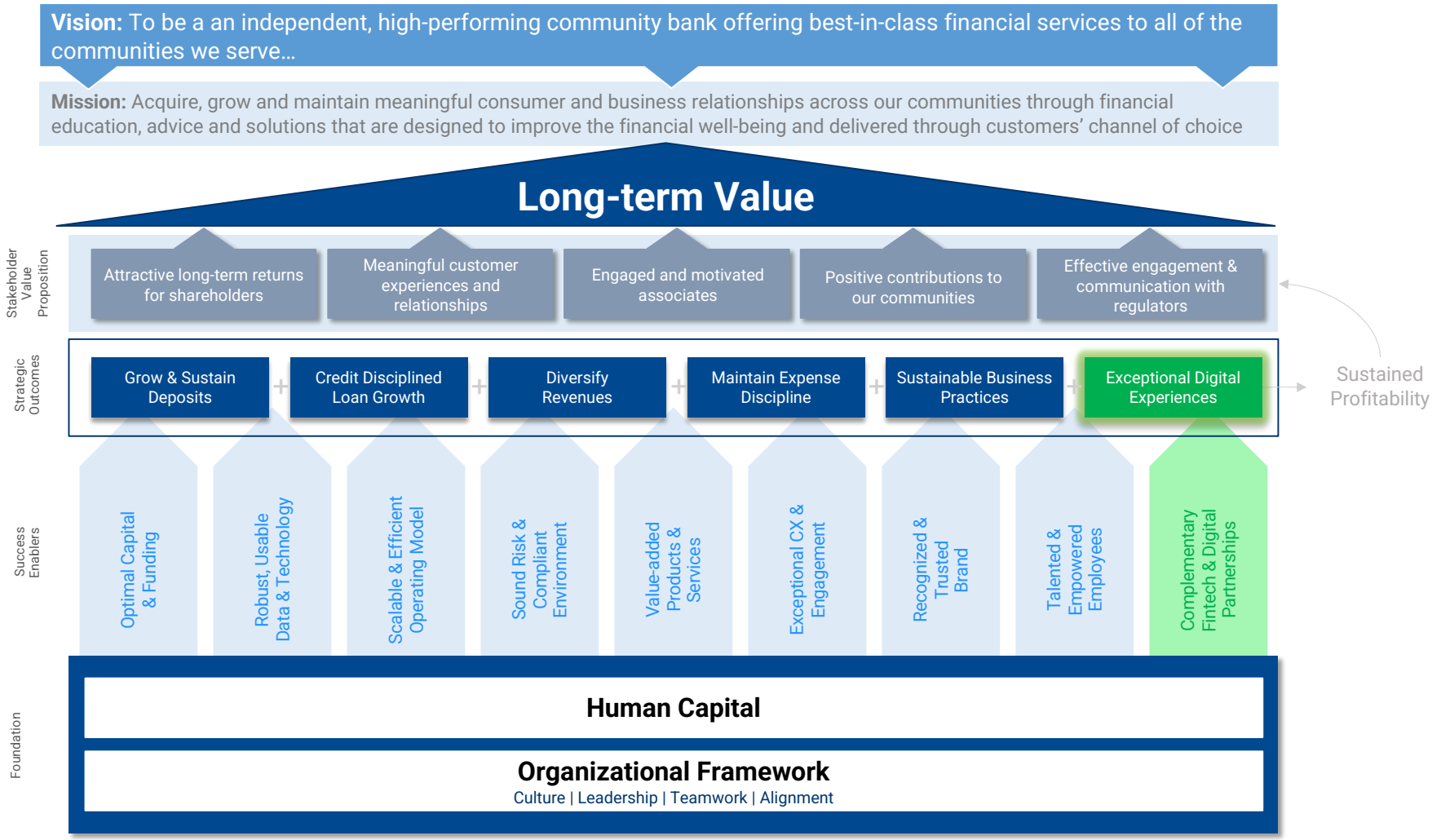


Appendix

Experienced Leadership Team & Addition of Talent

- Martin K. Birmingham was named CEO in March of 2013
  - Birmingham has more than 30 years of Western New York banking experience
- Leadership teams of all subsidiaries have significant experience in Western New York
  - Five Star Bank / SDN Insurance Agency / Courier Capital / HNP Capital
- Taking advantage of market disruption to add talent across all segments of our banking business
  - Hiring experienced professionals from competing institutions
  - Talent recognizing opportunities in the community banking environment vs. big bank experience
  - Bringing market experience, knowledge and relationships
- Added lenders in all categories including experienced leaders of C&I, CRE and residential lending
- Added credit and risk management professionals to support loan growth

Strategy Map



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)	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022	9/30/2022
Computation of ending tangible common equity:						
Common shareholders' equity	$ 476,721				$ 376,756	
Less: Goodwill and other intangible assets, net	74,659				73,653	
Tangible common equity	402,062				303,103	
Computation of ending tangible assets:						
Total assets	$ 5,623,193				$ 5,624,482	
Less: Goodwill and other intangible assets, net	74,659				73,653	
Tangible assets	5,548,534				5,550,829	
Tangible common equity to tangible assets[1]	7.25%				5.46%	
Common shares outstanding	15,842				15,334	
Tangible common book value per share[2]	$ 25.38				$ 19.77	
Computation of average tangible common equity:						
Average common equity	$ 478,582	$ 483,112	$ 474,560	$ 418,632	$ 420,615	$ 449,230
Less: Average goodwill and other intangible assets, net	74,470	74,544	74,287	74,037	73,791	74,165
Average tangible common equity	404,112	408,568	400,273	344,595	346,824	375,065
Computation of average tangible assets:						
Average assets	$ 5,368,054	$ 5,582,987	$ 5,560,316	$ 5,598,217	$ 5,599,964	$ 5,585,371
Less: Average goodwill and other intangible assets, net	74,470	74,544	74,287	74,037	73,791	74,165
Average tangible assets	5,293,584	5,508,443	5,486,029	5,524,180	5,526,173	5,511,206
Net income available to common shareholders	16,811	19,247	14,618	15,283	13,489	62,637
Return on average tangible common equity[3]	16.50%	18.69%	14.81%	17.79%	15.43%	16.70%
Pre-tax pre-provision income:						
Net income	$ 17,175	$ 19,612	$ 14,983	$ 15,648	$ 13,854	
Add: Income tax expense	4,553	4,225	3,443	3,859	4,725	
Add: Provision (benefit) for credit losses	(541)	(1,192)	2,319	563	4,314	
Pre-tax pre-provision income	21,187	22,645	20,745	20,070	22,893	
Add: Restructuring charges	-	111	-	1,269	-	
Less: Enhancement from COLI surrender and redeployment	-	-	-	-	(1,997)	
Adjusted pre-tax pre-provision income	21,187	22,756	20,745	21,339	20,896	
Less: PPP accretion interest income and fees	(1,373)	(2,776)	(1,072)	(809)	(312)	
Pre-PPP adjusted pre-tax pre-provision income	$ 19,814	$ 19,980	$ 19,673	$ 20,530	$ 20,584	
Total loans	$ 3,653,899	$ 3,679,436	$ 3,733,648	$ 3,764,018	$ 3,866,851	
Less: PPP loans	116653	55,344	31,399	8,910	2,783	
Total loans excluding PPP loans	$ 3,537,246	$ 3,624,092	$ 3,702,249	$ 3,755,108	$ 3,864,068	

(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.

Source: Company filings.

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.

	Year ended,				YTD ended,	
($ in thousands)	2018	2019	2020	2021	9/30/2021	9/30/2022
Computation of ending tangible common equity:						
Common shareholders' equity	$ 378,965	$ 421,619	$ 451,035	$ 487,850	$ 376,756	
Less: Goodwill and other intangible assets, net	76,173	74,923	73,789	74,400	73,653	
Tangible common equity	302,792	346,696	377,246	413,450	303,103	
Computation of ending tangible assets:						
Total assets	$ 4,311,698	$ 4,384,178	$ 4,912,306	$ 5,520,779	$ 5,624,482	
Less: Goodwill and other intangible assets, net	76,173	74,923	73,789	74,400	73,653	
Tangible assets	4,235,525	4,309,255	4,838,517	5,446,379	5,550,829	
Tangible common equity to tangible assets (TCE)[(1)]	7.15%	8.05%	7.80%	7.59%	5.46%	
Pre-tax pre-provision income:						
Net income	$ 39,526	$ 48,862	$ 38,332	$ 77,697	$ 58,085	$ 44,485
Add: Income tax expense	10,006	10,559	7,391	19,525	15,300	12,027
Add: Provision (benefit) for credit losses	8,934	8,044	27,184	(8,336)	(7,144)	7,196
Pre-tax pre-provision income	58,466	67,465	72,907	88,886	66,241	63,708

(1) Tangible common equity divided by tangible assets.

Source: Company filings.