



Financial Institutions, Inc.

Title **Corporate Governance Guidelines**

Entities Financial Institutions, Inc.
Five Star Bank
Five Star REIT, Inc.
SDN Insurance Agency, LLC
Courier Capital, LLC
HNP Capital, LLC

Purpose The following Corporate Governance Guidelines have been adopted by the Board of Directors (the “Board”) of Financial Institutions, Inc., a New York corporation (“FII” or the “Company”), to assist the Board in the exercise of its responsibilities to the Company and its shareholders. These Guidelines have been developed by the Board’s Nominating and Governance Committee (the “NG Committee”), which will periodically review these Guidelines and recommend to the full Board any changes that the NG Committee deems necessary or appropriate. These Guidelines are subject to modification by the Board, and the Board shall be able, in the exercise of its discretion, to deviate from these Guidelines from time to time, as the Board may deem appropriate or as required by applicable laws and regulations.

Scope These Guidelines are applicable to all current and future Directors of FII and all its subsidiaries, collectively referred to as the Company.

Policy

I. Criteria for Director Independence

A majority of FII's Directors shall be independent under the Nasdaq listing standards (the "Rules"). Only one management Director, generally the CEO, shall be permitted to serve on the Board at any given time. No Director will be considered "independent" unless the Board affirmatively determines that the Director meets the standards promulgated by the SEC and the Nasdaq and has no relationship with the Company that would interfere with his or her exercise of independent judgment in carrying out the responsibilities of a Director. In determining "independence", the Board shall broadly consider all relevant facts and circumstances, as well as any other facts and considerations specified by the Rules, the rules and regulations of the SEC, by law and by any rule or regulation of any other regulatory body applicable to FII. The Rules further provide that a Director will not be determined to be independent in any of the following circumstances:

- a.** A family member of the Director is or was during the past three years an executive officer of the Company. The Rules define "family member" to include spouses, parents, children, siblings, whether by blood, marriage or adoption, and anyone else sharing the Director's home.
- b.** The Director is, or was at any time during the past three years, employed by the Company.
- c.** A Director or a family member of such Director received more than \$120,000 in compensation from the Company in any 12-month period during the past three years. Such compensation does not include (1) Director or committee fees; (2) payments made under a tax qualified retirement plan or other non-discretionary compensation; and (3) compensation of a family member of the Director who is an employee but not an executive officer of the Company.

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d. A Director or family member of the Director is, or was during the past three years, a controlling shareholder, partner or executive officer of another entity that makes payments to or receives payments from the Company, and the amount of these payments made in the current fiscal year or any one of the past three fiscal years exceeds the greater of \$200,000 or 5% of that other entity's consolidated gross revenues. If the Director or family member is an executive officer of a charitable organization, the Director may not be considered independent if the Company contributes more than \$200,000 or 5% of the charity's revenues.

e. The Director or an immediate family member of the Director is an executive officer of another company where any of FII's executive officers are or were during the past three years members of that company's compensation committee.

f. The Director has one of the following relationships with FII's auditors: (1) the Director or a family member of the Director is a current partner at the auditing firm; or (2) the Director was, or an immediate family member of the Director was, within the past three years, a partner or employee of the auditing firm and worked on FII's audit.

Further, the foregoing categorical standards shall be deemed to be automatically updated to reflect any changes made to the Rules and interpreted in the same manner as such Rules.

In addition, a Director will not be determined to be independent if a credit relationship, as defined in Regulation O as promulgated by the Board of Governors of the Federal Reserve, was extended by FII, or one of its subsidiaries, to a Director, either directly or indirectly, and such extension of credit was not made in compliance with Regulation O. All credit relationships between the Company and a Director will satisfy the following terms:

- Substantially Similar Terms - Credit Relationships that are made on substantially similar terms to those that would be available to comparable borrowers in similar circumstances.
- Credit Declination/Termination - The Director or his interest would not be materially impacted if the Credit Relationship was not made or was

terminated. This would be the case if the Director or his interests could obtain comparable financing from another lender.

II. Policy for Directors with Credit Relationships

These Guidelines apply to any independent Director that has a Credit Relationship, as defined in Regulation O, with the Company, and the Credit Relationship has been Risk Rated Criticized or worse.

a. Upon the assignment of a Risk Rating of Criticized or worse to the Credit Relationship (a “Criticized/Classified Credit”), and effective as of the date the Chief Executive Officer (CEO) of FII is notified of such occurrence, the subject Director shall automatically be deemed non-independent. As such, the subject Director shall resign from any committee or special assignment where independence is required, but the Director may continue to serve as a Director, subject to the provisions of the following paragraphs.

b. Until such time as the Criticized/Classified Credit is cured, either by being upgraded to a Pass Risk Rating, or being financed outside the Company without loss to the Company, the NG Committee may determine that the subject Director is again independent, and he/she shall then be eligible for assignment to committees or special assignments where independence is required.

c. In the event the Criticized/Classified Credit is not cured within a reasonable period of time, not to exceed 15 months, after initially falling out of a Pass Risk Rating, the subject Director shall resign from FII’s Board of Directors and the board of each FII subsidiary on which he or she serves, provided that each such board, with the approval of the FII Board, may waive or extend the cure period, exercising reasonable discretion.

d. In the event that the Company elects to sell the Criticized/Classified Credit to a non-affiliated third-party or the Criticized/Classified Credit is refinanced, repaid or collected, in either case at a loss to the Company, the subject Director shall resign from each of the FII Board and the board of each FII subsidiary on which he or she serves.

e. These Guidelines are subject to all provisions of FII’s

Code of Business Conduct and Ethics.

III. Policy For Directors' Accounts

All Directors having any personal demand or NOW account relationships with Five Star Bank ("FSB") must have an Overdraft Protection Credit Line for that account (subject to the \$5,000 credit limit provided under Regulation O).

IV. FII Audit Committee Financial Expert

The FII Audit Committee should have at least one member who qualifies as an "audit committee financial expert" as defined by Item 407(d)(5)(ii) of Regulation S-K of the federal securities laws.

V. FII Board Leadership, Composition, and Structure

a. Leadership

- FII has determined that it is in the best interests of the Company to separate the positions of CEO/President and Chair of the Board of Directors so that one person does not serve as either CEO/President and Chair of the FII Board.
- FII has determined that it is advisable for the Company to appoint a Vice Chair of the Board from among the members of the Board respectively, to serve in the absence or incapacity of the Chair.

b. FII Board Composition

- Subject to the Bylaws, the FII Board shall establish the number of Directors to serve on the FII Board upon the NG Committee's recommendation.
- One of the FII Board's most important responsibilities is identifying, evaluating and selecting candidates for the FII Board. The NG Committee is responsible for reviewing the qualifications of potential candidates and making recommendations to the whole FII Board regarding candidates for election to the FII Board at FII's annual meeting of shareholders and for candidates to fill vacancies on the FII Board that may occur

between annual meetings of shareholders. When formulating its recommended nominations, the NG Committee may consider advice and recommendations offered by management, other FII Board members, FII's shareholders and/or outside advisors. The NG Committee is also responsible for reviewing with the FII Board, on an annual basis, the appropriate skills and characteristics required of FII Board members in the context of the current make-up of the FII Board.

- Nominees for Director shall be selected on the basis of their character, expertise, sound judgment, ability to make independent analytical inquiries, business experiences, understanding of FII's business environment, ability to make time commitments to FII, demonstrated teamwork, and ability to bring unique and diverse perspectives and understandings to the FII Board.
- The FII Board is committed to a diversified membership in terms of the individuals involved, their experiences and areas of expertise. As such, the NG Committee will identify, recommend and recruit candidates to be nominated to fill open positions on the FII Board and to be nominated for election by the shareholders at the annual meeting, considering the diversity of FII Board member skills, experiences, age, race, gender and ethnicity. The FII Board seeks to balance the value that longevity of Director service can bring to FII with the value of new ideas, perspectives and insights that can come through the addition to the FII Board of new members.
- When evaluating the recommendations of the NG Committee, the FII Board should take into account all factors it considers appropriate, which may include whether the candidate: (i) has exhibited behavior that indicates he or she is committed to the highest ethical standards; (ii) has special skills, expertise and background that would complement the attributes of the existing Directors, taking into consideration the communities and geographies in which FII operates; (iii) has achieved prominence in his or her business, governmental or professional

activities, and has built a reputation that demonstrates the ability to make the kind of important and sensitive judgments that the FII Board is called upon to make; (iv) will effectively, consistently and appropriately take into account and balance the legitimate interests and concerns of all of FII's shareholders and our other stakeholders in reaching decisions, rather than advancing the interests of a particular constituency; (v) possesses a willingness to challenge management while working constructively as part of a team in an environment of collegiality and trust; and (vi) will be able to devote sufficient time and energy to the performance of his or her duties as a Director.

c. Policy on FII Director Nominations

- Nominations of Directors may be proposed by shareholders or Directors, and each nomination shall include the information sufficient to establish (i) whether the nominee would be "independent" as defined by the Rules and these Guidelines, and (ii) that the nominee fits the Board's then current needs for diversity, geographic distribution and professional expertise. Nominations by shareholders are also required to comply with Article II, Section 12, of the FII By-Laws.
- All nominations by shareholders shall be forwarded initially to the Corporate Secretary who shall determine if the nomination is complete in form and content and in compliance with Article II, Section 12, of the FII By-Laws. All complete and compliant nominations shall be forwarded to the NG Committee for consideration.
- The NG Committee shall conduct such assessment, investigation and interviews of each nominee as it deems necessary and/or appropriate to make a fair evaluation.
- The Corporate Secretary or the Company's General Counsel shall advise each person making a nomination of the NG Committee's determination.

d. Board Operations

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- Meeting Attendance: Directors are expected to attend the annual meeting of shareholders and regular and special meetings of the Board and committees on which they serve, absent extenuating circumstances. Directors are expected to prepare for each meeting in advance and to appropriately participate in each meeting in performing their responsibilities to FII and its shareholders. Informational materials relevant to agenda items will be distributed to the Board in advance of each meeting. Time sensitive documents or presentation material may be viewed or distributed at the meetings. The Company's Corporate Secretary or Assistant Corporate Secretary or their designee will take attendance at Board meetings and at each Board committee meeting.

Executive Sessions of Independent Directors: FII's independent directors will meet in executive session without management present at least twice a year. These executive sessions will be called by the Chair or, in the absence of the Chair, the Vice Chair, who will preside at the meeting.

e. Director Compensation

- The Board's Management Development and Compensation Committee (the "MD&C Committee") periodically reviews and makes recommendations to the Board as to the form and amount of director compensation. Director compensation should provide reasonable compensation for non-management directors commensurate with their duties and responsibilities as directors and service on committees of the Board, and provide a sufficient level of compensation necessary to attract and retain high quality individuals. A portion of each Director's compensation should be in the form of FII common stock to further align the interests of the non-management directors with those of our shareholders.

f. Committees of the Board

- The Board currently has six standing committees as

follows: Audit Committee; Executive Committee; MD&C Committee; NG Committee; Risk Oversight Committee and Technology Committee.

g. Committee Structures

- All of FII's Committees shall be comprised only of independent directors as defined by the regulations of the SEC and the Rules, except for its Risk Oversight Committee and Technology Committee, which shall be comprised of only non-employee directors.
- The FII Audit Committee shall include one or more financial experts, as provided under Section IV above, and its members shall meet the special rules for independence of Audit Committee members set forth in the Rules and Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").
- MD&C Committee members shall meet the special rules for independence of compensation committee members set forth in the Rules and Rule 10C-1 of the Exchange Act.
- Each committee shall operate under written charters outlining each committee's respective functions and responsibilities that are established by the Board.

h. Majority Vote Director Resignation Policy.

In an uncontested election of Directors (i.e., an election other than one in which (i) the number of director nominees exceeds the number of directorships subject to election or (ii) proxies are being solicited by a person other than the Company), any nominee for Director who receives a greater number of votes "withheld" from his or her election than votes "for" such election (with "abstentions" and "broker non-votes" not counted as a vote "for" or "withheld" from such nominee's election) at any meeting for the election of directors at which a quorum is present, shall, promptly following certification of the shareholder vote, tender his or her resignation to the Board for consideration in accordance with the following procedures:

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- The NG Committee shall evaluate the best interests of the Company and its shareholders and shall recommend to the Qualified Independent Directors (as defined below) the action to be taken with respect to such offered resignation which may include (i) accepting the resignation, (ii) maintaining the director but addressing what the Qualified Independent Directors believe to be the underlying cause of the “withheld” votes, (iii) determining that the director will not be renominated in the future for election, or (iv) rejecting the resignation.
- In reaching its recommendation, the NG Committee shall consider all factors it deems relevant, including, as it deems appropriate, (i) any stated reasons why shareholders “withheld” their votes from such Director, (ii) any alternatives for curing the underlying cause of the “withheld” votes, (iii) the total number of shares voting, (iv) how such shares were voted, (v) the number of abstentions and broker non-votes (if any), (vi) the Director’s tenure, (vii) the Director’s qualifications and the importance and relevance of such qualifications to the execution of the Company’s business plan, (viii) the Director’s past and expected future contributions to the Company, (ix) the Company’s director selection criteria, (x) the Company’s Corporate Governance Guidelines (of which this Majority Vote Director Resignation Policy is a part), and (xi) the overall composition of the Board, including whether accepting the resignation would cause the Company to fail to meet any applicable SEC or Nasdaq requirements.
- The Qualified Independent Directors shall consider the NG Committee’s recommendation and determine what action should be taken with respect to the Director’s offered resignation no later than ninety (90) days following the date of the shareholders’ meeting where the election occurred. In considering the NG Committee’s recommendation, the Qualified Independent Directors will consider all of the factors considered by the NG Committee and such additional factors as it deems relevant.

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- Following the Qualified Independent Directors' decision, the Company shall promptly publicly disclose by press release, in a document furnished or filed with the SEC, or by other broadly disseminated means of communication the decision of whether or not to accept the resignation offer and an explanation of how the decision was reached, including, if applicable, the reasons for rejecting the tendered resignation.
- A Director who is required to tender his or her resignation in accordance with these Guidelines shall not be present during deliberations or voting of the NG Committee or the Qualified Independent Directors regarding whether to accept his or her resignation or, except as otherwise provided below, a resignation offered by any other Director in accordance with these Guidelines. Prior to voting, the NG Committee and the Qualified Independent Directors will afford the affected Director an opportunity to provide the NG Committee or the Qualified Independent Directors with any information or statement that he or she deems relevant.
- If a majority of the members of the NG Committee received a greater number of votes "withheld" from their election than votes "for" their election at the same election, then the remaining Qualified Independent Directors who are on the Board who did not receive a greater number of votes "withheld" from their election than votes "for" their election (or who were not standing for election) would consider the matter directly or may appoint a Board committee amongst themselves solely for the purpose of considering the tendered resignations that would make the recommendation to the Board whether to accept or reject them.

If the Board accepts a nominee's resignation, then the Board may fill the resulting vacancy pursuant to the provisions of Article II, Section 11 of the Company's Bylaws or may decrease the size of the Board pursuant to the provisions of Article II, Section 2 of the Company's Bylaws.

For purposes of these Guidelines, the term "Qualified Independent Directors" means:

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- a. All directors who (1) are independent directors (as defined in accordance with the Rules) and (2) are not required to offer their resignation in accordance with these Guidelines.
- b. If there are fewer than three independent directors then serving on the Board who are not required to offer their resignations in accordance with these Guidelines, then the Qualified Independent Directors shall mean all of the independent directors and each independent director who is required to offer his or her resignation in accordance with these Guidelines shall recuse himself or herself from the deliberations and voting only with respect to his or her individual offer to resign.

The foregoing procedures will be summarized and disclosed each year in the proxy statement for the Company's annual meeting of shareholders.

VI. Subsidiary Bank Board, Composition, Structure and Committees

a. Committee Structure and Composition

- Five Star Bank ("FSB") and FII shall each have its own Audit Committee; Risk Oversight Committee; Executive Committee, NG Committee; MD&C Committee, and Technology Committee.
- The FSB Board and respective committee members shall be the same as the members on the FII Board and respective committees.
- The FII Board Chair shall also be the Chair of the FSB Board. In the absence of there being a Chair of the FSB Board, the Vice Chair of the FII Board, or in his or her absence, the Chief Executive Officer or President shall fulfill the Chair's function for the FSB Board.

VII. Essential Functions of the FII Board

FII's Board of Directors shall:

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- a.** Oversee the formulation and approval of the strategic plan for FII and its subsidiaries and related companies. Ensure that decisions relating to major corporate actions, including mergers, acquisitions and reorganizations are consistent with FII's strategic plan.
- b.** Assess risks and opportunities and adopt policies and procedures that allow FII and its subsidiaries to achieve their objectives in a safe, sound, legal, and ethical manner.
- c.** Select the FII and FSB CEO; evaluate the performance of the FII and FSB CEO and of the Directors, Board Committees, and the Board itself; and oversee CEO and director succession planning.
- d.** Assure processes are in place for maintaining integrity and ethical conduct at all levels of the organization and with respect to all constituencies.
- e.** Review and approve all policies and programs as a full Board or through an appropriate Board Committee, at least annually, or sooner as required by change management to ensure that they remain consistent with the organization's goals, and current regulatory requirements.
- f.** Monitor operations and financial performance through management reports and/or discussions with members of senior management. Verify that lines of authority within FII and its subsidiaries and related companies are clear and that management understands and carries out board policies and directives.
- g.** Take all reasonable steps to ensure that FII and its subsidiaries and related companies have adopted measures to maintain compliance with all accounting, regulatory and legal standards and requirements, including those established by various banking, holding company, securities and other applicable governing bodies. Assess the impact of new laws, regulations and accounting principles, on banking and holding company operations, disclosure requirements and procedures.
- h.** Monitor training and development programs for executive management to ensure that an orderly management succession plan is developed and implemented.

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Owner Chair of the Board

Approvals Board of Directors

Date June 19, 2019