



Financial Institutions, Inc.

NASDAQ: FISI

driving forward.

Second Quarter 2016
Earnings Presentation
July 29, 2016

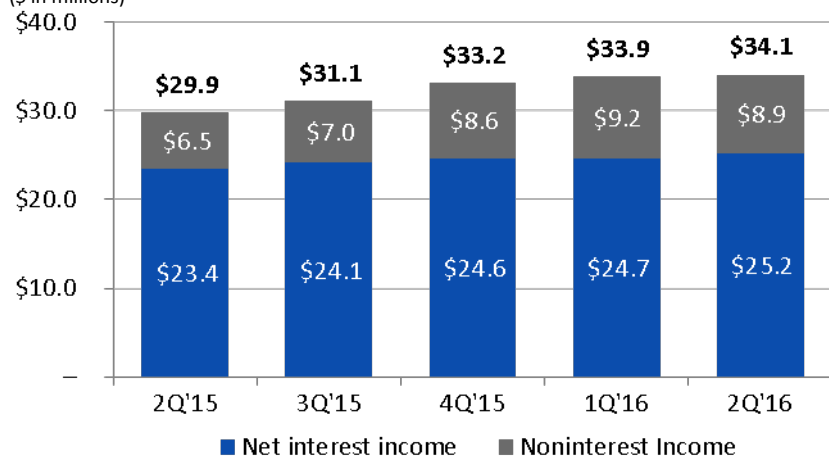
Forward Looking Statements

Statements contained in this presentation which are not historical facts and which pertain to future operating results of Financial Institutions, Inc. and its subsidiaries constitute “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward looking statements involve significant risks and uncertainties as described in greater detail in the “Risk Factors” and other sections of our most recent annual report on Form 10-K, quarterly report on Form 10-Q or other documents the Company files from time to time 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. The Company assumes no obligation to update any information presented herein.

Second Quarter 2016

Revenue

(\$ in millions)

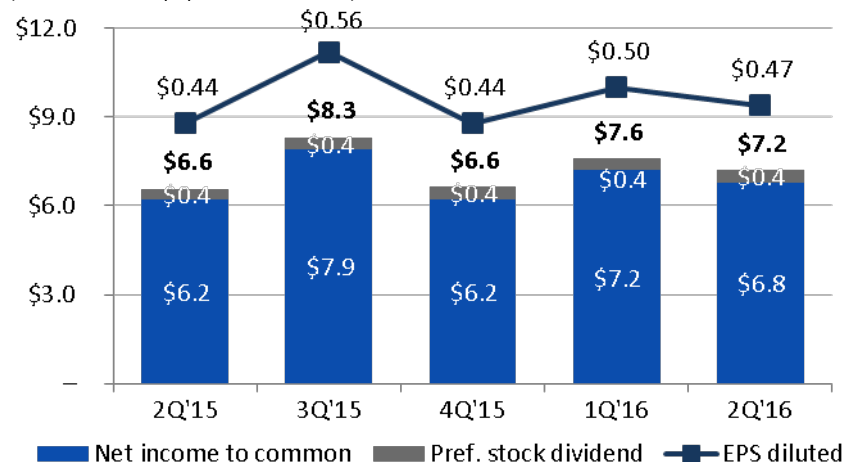


Results Summary: 2Q'15 and 1Q'16 vs. 2Q'16

Profitability Summary	2Q'15	1Q'16	2Q'16
Return on average assets	0.81%	0.90%	0.82%
Return on average common equity	9.19%	9.91%	9.07%
Return on average tangible common equity ⁽¹⁾	12.37%	13.54%	12.22%
Net interest margin	3.24%	3.27%	3.23%
Efficiency ratio ⁽²⁾	62.00%	62.90%	65.03%
Dividends per share (Yield)	\$0.20 (3.2%)	\$0.20 (2.8%)	\$0.20 (3.1%)

Net Income & EPS

(\$ in millions except per share amounts)



Commentary

- Total assets increased to a new record of \$3.6 billion
- Diluted EPS of \$0.47 impacted by \$1.7 million in proxy contest expenses; successful proxy contest defense resulted in FISI director nominees being elected with overwhelming support from shareholders
- Net interest income increased to a record level of \$25.2 million, up from \$24.7 million in 1Q'16 and \$23.4 million in 2Q'15
- Increased noninterest income to \$8.9 million in the second quarter, up 38% from \$6.5 million in the prior year period; Driven by the acquisition of Courier Capital to expand the Company's investment advisory services; also includes a 12% year-over-year increase in insurance income and investment securities gains

⁽¹⁾ This is a non-GAAP measure that we believe is useful in understanding our financial performance and condition. Refer to the "Non-GAAP Reconciliation" in the Appendix for further information.

⁽²⁾ Noninterest expense less other real estate expense and amortization and impairment of goodwill and other intangible assets as a percentage of net revenue, defined as the sum of tax-equivalent net interest income and noninterest income before net gains on investment securities, proceeds from company owned life insurance, adjustments to contingent liabilities and amortizations of tax credit investment.

Q2'16 Results – Key Earnings Highlights

Quarterly Earnings Results (2Q'15 – 2Q'16)

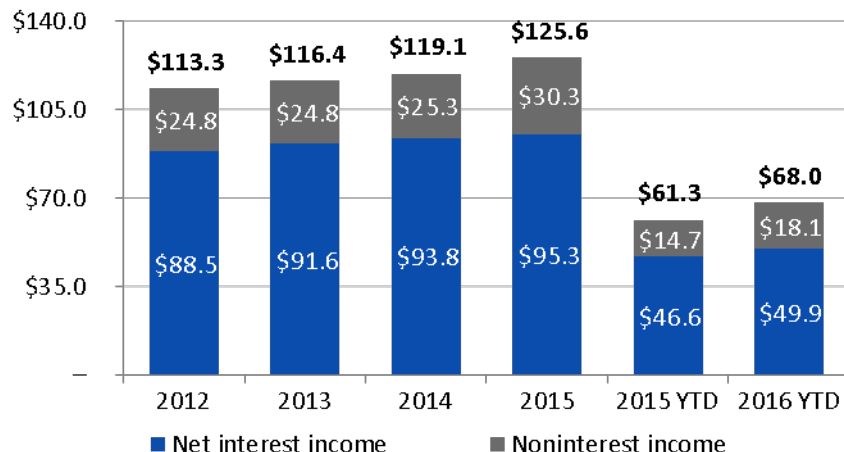
(\$ in millions, except per share amounts)

Earnings Summary	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16
Average interest-earning assets	\$2,993	\$3,093	\$3,098	\$3,131	\$3,230
Net interest margin	3.24%	3.20%	3.26%	3.27%	3.23%
Net interest income	23.4	24.1	24.6	24.7	25.2
Noninterest income	6.5	7.0	8.6	9.2	8.9
Total revenue	\$29.9	\$31.1	\$33.2	\$33.9	\$34.1
Noninterest expense	(\$19.2)	(\$19.3)	(\$21.8)	(\$21.2)	(\$22.1)
Pre-provision net revenue	10.7	11.8	11.4	12.7	12.0
Provision for loan losses	(1.3)	(0.8)	(2.6)	(2.4)	(1.9)
Pre-tax net income	9.4	11.0	8.8	10.3	10.1
Income tax expense	(2.8)	(2.7)	(2.2)	(2.7)	(2.9)
Net income	\$6.6	\$8.3	\$6.6	\$7.6	\$7.2
Preferred stock dividends	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net income avail. to common	\$6.2	\$7.9	\$6.2	\$7.2	\$6.8
Memo:					
Earnings per share - diluted	\$0.44	\$0.56	\$0.44	\$0.50	\$0.47
Wtd. avg. common shares outstanding - diluted	14.1	14.1	14.2	14.5	14.5

2016 YTD and Prior Full Year Results

Revenue

(\$ in millions)



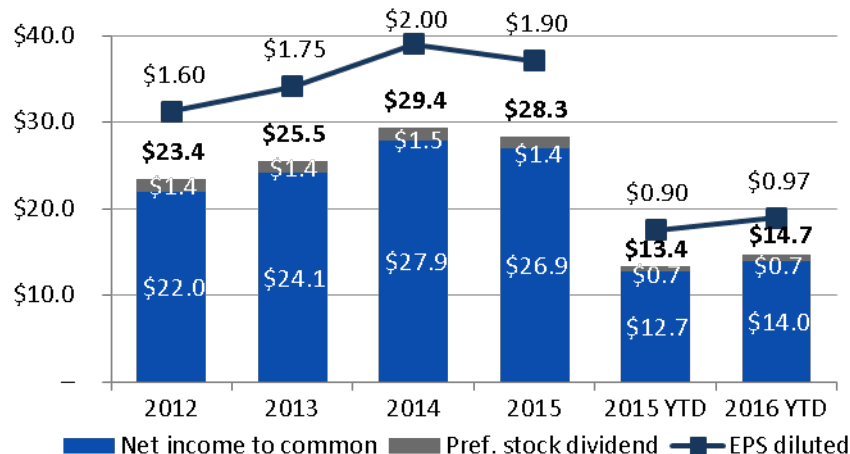
YTD Results Summary: 2015 vs. 2016

Profitability Summary:

	YTD 2015	YTD 2016
Return on average assets	0.85%	0.86%
Return on average common equity	9.49%	9.54%
Return on average tangible common equity ⁽¹⁾	12.73%	12.86%
Net interest margin	3.33%	3.25%
Efficiency ratio ⁽²⁾	61.1%	64.0%
Dividends per share (Yield)	\$0.40 (3.3%)	\$0.40 (3.1%)

Net Income & EPS

(\$ in millions, except per share amounts)



Commentary

- Increased total assets to \$3.6 billion, the Company's highest level of total assets
- Increased net interest income to \$49.9 million, driven by 9% increase in average interest-earning assets from prior year
- Grew total loans \$128.1 million or 6% from 2015 year-end; commercial loans up 10%
- Increased total deposits by \$127.5 million or 5% over 2015 year-end

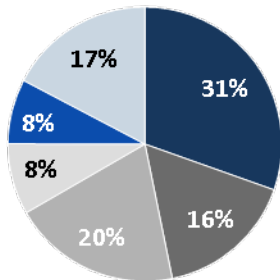
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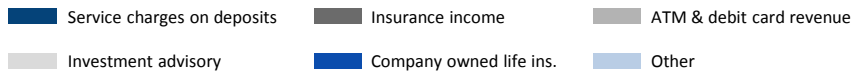
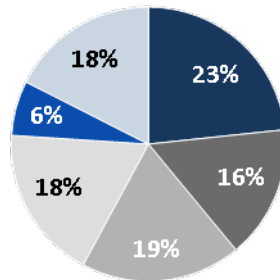
Increasing Noninterest Income

Noninterest Income (2Q'15 vs. 2Q'16)

2Q'15 = \$6.5M⁽¹⁾

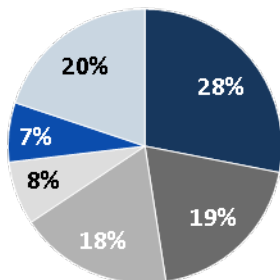


2Q'16 = \$7.5M⁽¹⁾

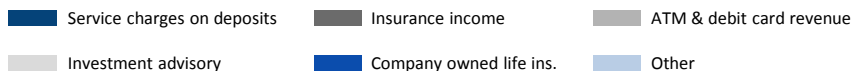
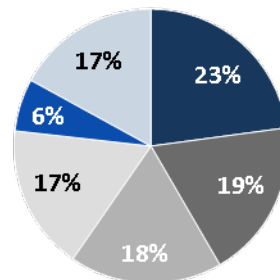


Noninterest Income (2015 YTD vs. 2016 YTD)

2015 YTD = \$13.7M⁽¹⁾



2016 YTD = \$15.2M⁽¹⁾



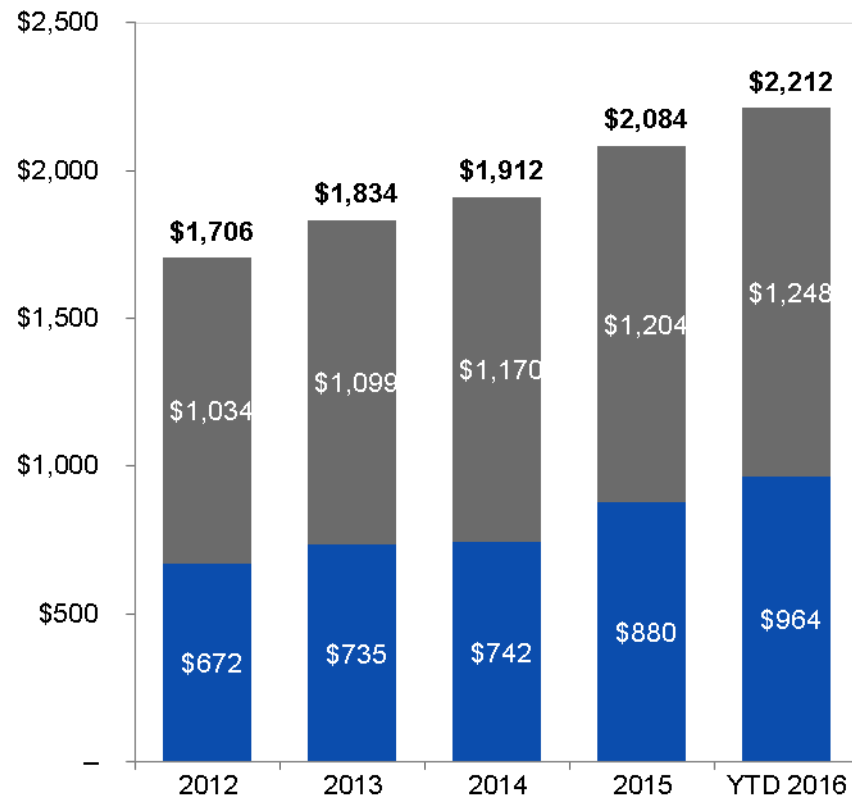
Commentary

- Our insurance platform, Scott Danahy Naylor, provided incremental revenue through both organic sales and a growing commercial cross-sell program
- In January 2016 we completed the acquisition of the Courier Capital wealth management platform with \$1.2 billion in assets under management
- Both acquisitions have demonstrated value of FISI's goal to diversify noninterest income with new fee-based services
- Increased insurance and investment advisory revenue; reduced reliance on deposit service fees as consumer behaviors change

Asset Growth

Loans

(\$ in millions)

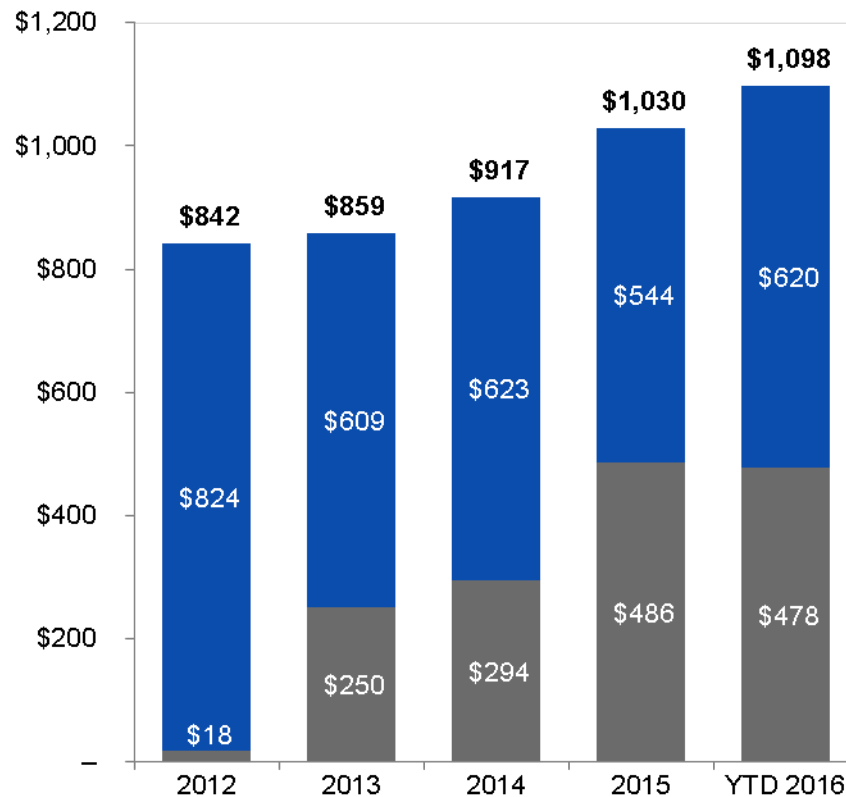


■ Commercial Loans ■ Consumer Loans

	2012	2013	2014	2015	YTD 2016
Loan Yield	5.09%	4.65%	4.38%	4.21%	4.19%

Securities

(\$ in millions)

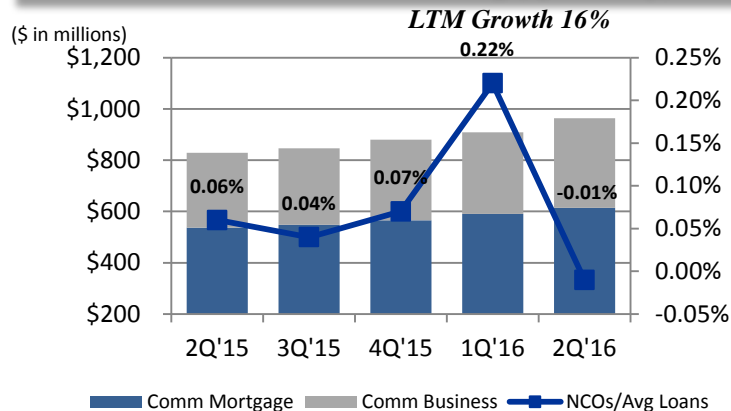


■ Securities, HTM ■ Securities, AFS

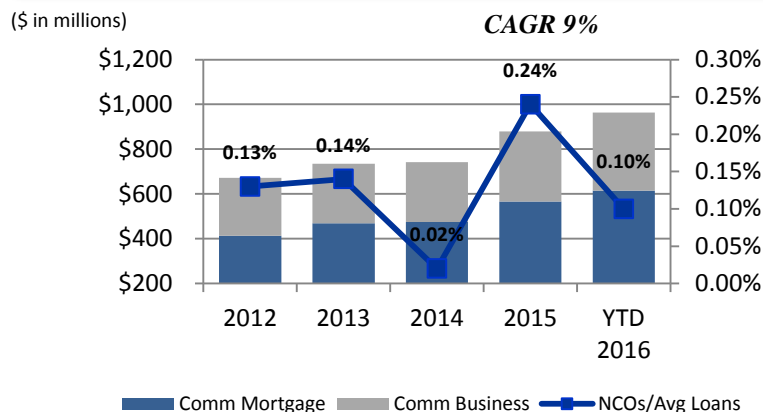
	2012	2013	2014	2015	YTD 2016
Security Yield (TE)	2.66%	2.41%	2.44%	2.46%	2.48%

Commercial Banking

Commercial Banking (Quarterly)



Commercial Banking (Annually)

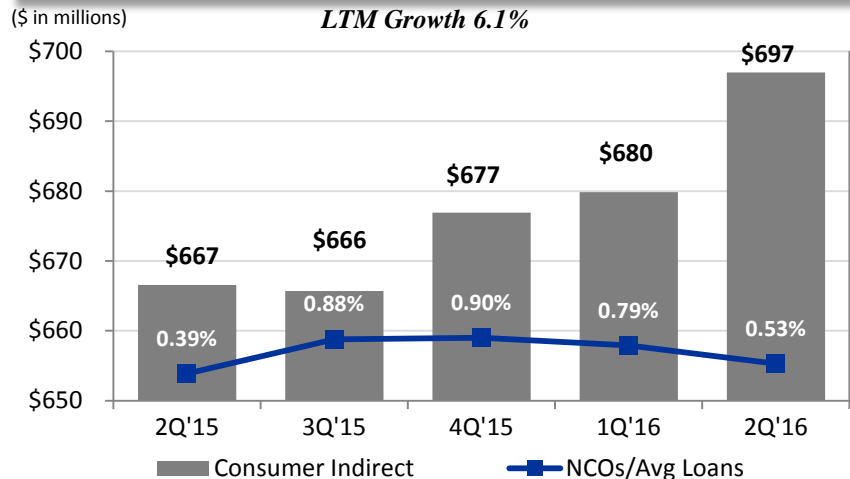


Commentary

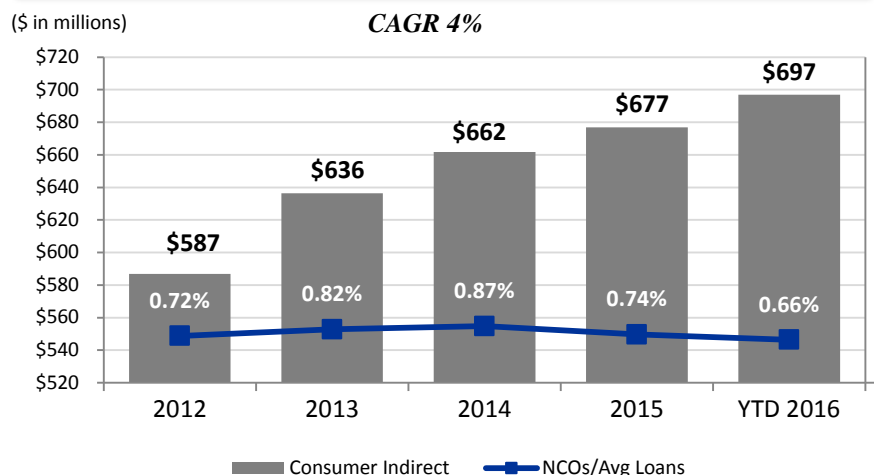
- Momentum towards community banks as lenders of choice; capacity to provide full spectrum credit solutions, agile to respond to changing customer needs
- Strong year-over-year growth in both Commercial Mortgage (CRE and owner occupied) and Commercial Business (C&I) lending
- Small Business Commercial Lending is an important component of the portfolio and we have experienced growth in this area similar to the overall Commercial Banking portfolio
- #2 SBA lender in both Rochester and Buffalo through first six months of 2016 ⁽¹⁾
- Significant opportunities to capitalize on disruption within the marketplace due to industry consolidation

Consumer Indirect

Consumer Indirect (Quarterly)



Consumer Indirect (Annually)

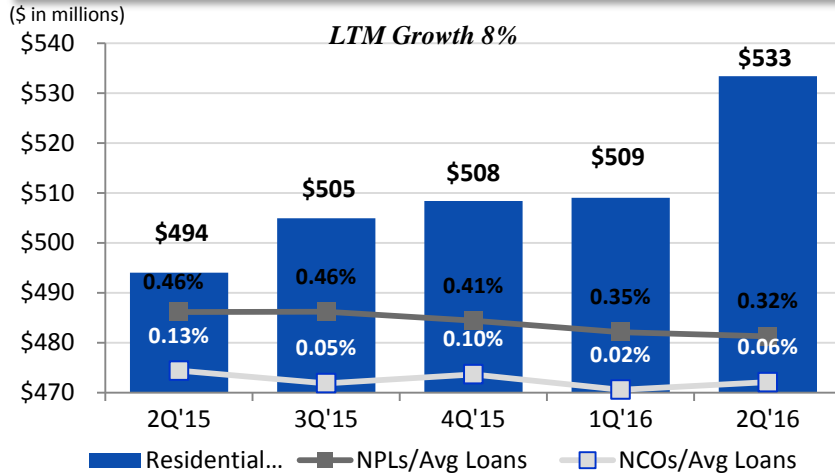


Commentary

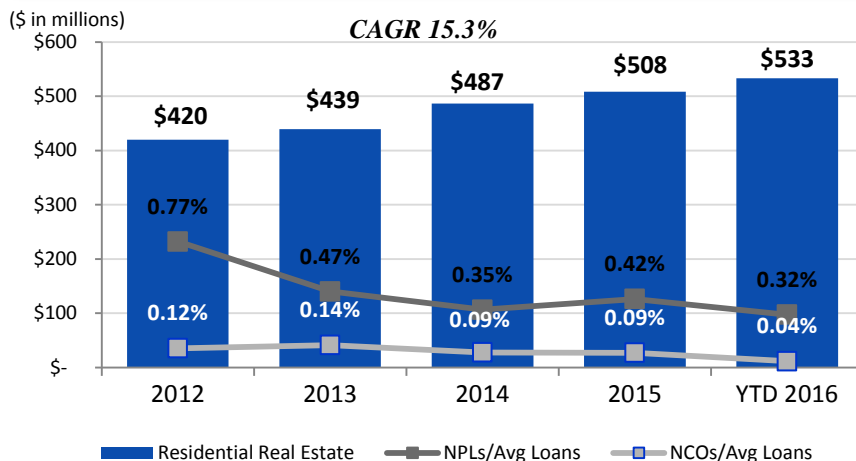
- Unique core competency for FISFI with experienced management; average industry experience of 25+ years
- Originate through approximately 440 franchised automobile dealerships in Upstate New York and Pennsylvania (no independent auto dealers)
- Large unit volume and smaller loans provides natural risk dispersion
- Model not easily replicable by others due to substantial barriers to entry
- Relatively short duration allows for rapid repricing of new investments
- Strong Q2 originations benefitted from continued expansion in PA
- High percentage of Tier 1 originations has resulted in favorable Q2 net charge-offs
- Continued focus on maintaining both yield and credit quality standards

Residential Real Estate

Residential Real Estate (Quarterly)



Residential Real Estate (Annually)



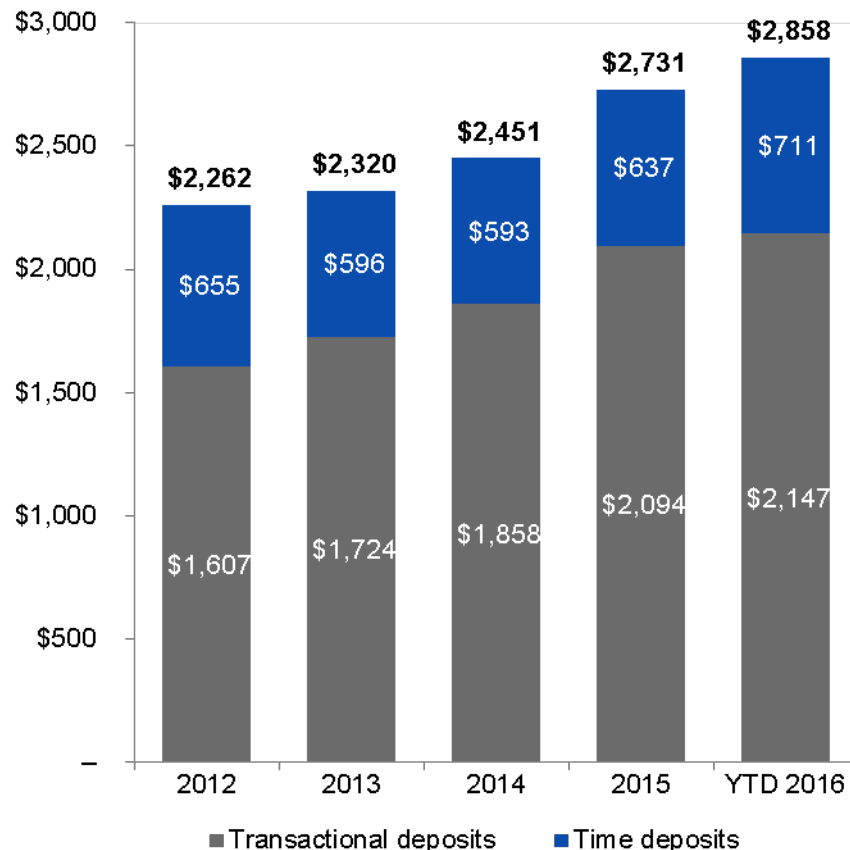
Commentary

- In market originations through mortgage loans originators and branch network include both term loans and lines with focus on home equity lending
- Seamless home equity application process with quick response time typically provides enhanced customer experience versus secondary market application process; consumers willing to trade rate for convenience
- Product builds relationships and captures market share
- Strong first lien position mix within the portfolio; 70% fixed rate and 30% variable rate
- Outstanding response to Q2 loan sale promotion resulted in strong portfolio growth
- Continuing the build out of production capabilities to capitalize on market disruption in Buffalo and Rochester
- Pursuing opportunity to enhance noninterest income with expanded mortgage banking operations

Deposit Growth

Deposits (by account type)

(\$ in millions)



	2012	2013	2014	2015	YTD 2016
Cost of Deposits	0.39%	0.27%	0.25%	0.27%	0.27%

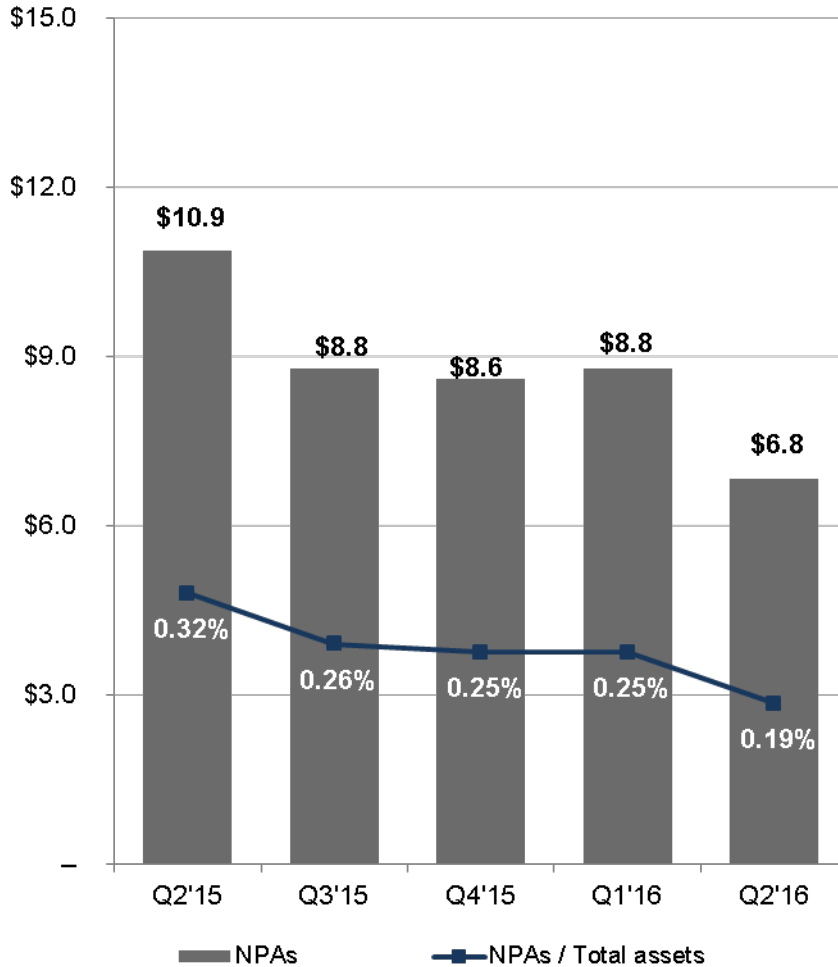
Commentary

- Increase in 2015 driven by organic growth; partly attributed to our new financial solution centers in the Rochester region at City Gate and Brighton
- Combined Rochester and Buffalo markets represent attractive deposit market of \$31 billion; current Five Star market share is less than 2%
- Regional consolidation creates opportunities (i.e. KeyCorp's acquisition of First Niagara)
- Over the last few years there has been a lack of interest in municipal business by the larger banks, has led to customers being attracted to community banks like Five Star; we now have approximately 300 customers and a dedicated sales force has also helped to drive growth in public deposits

2Q'16 Asset Quality Overview

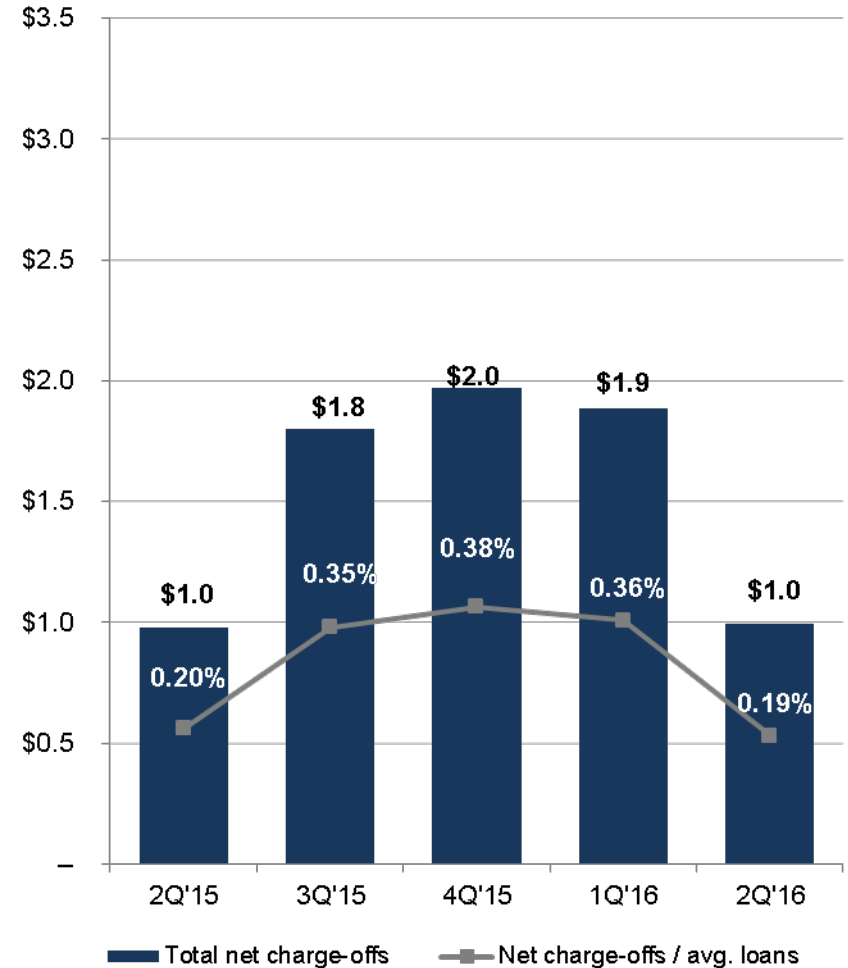
Non-performing Assets (Quarterly)

(\$ in millions)



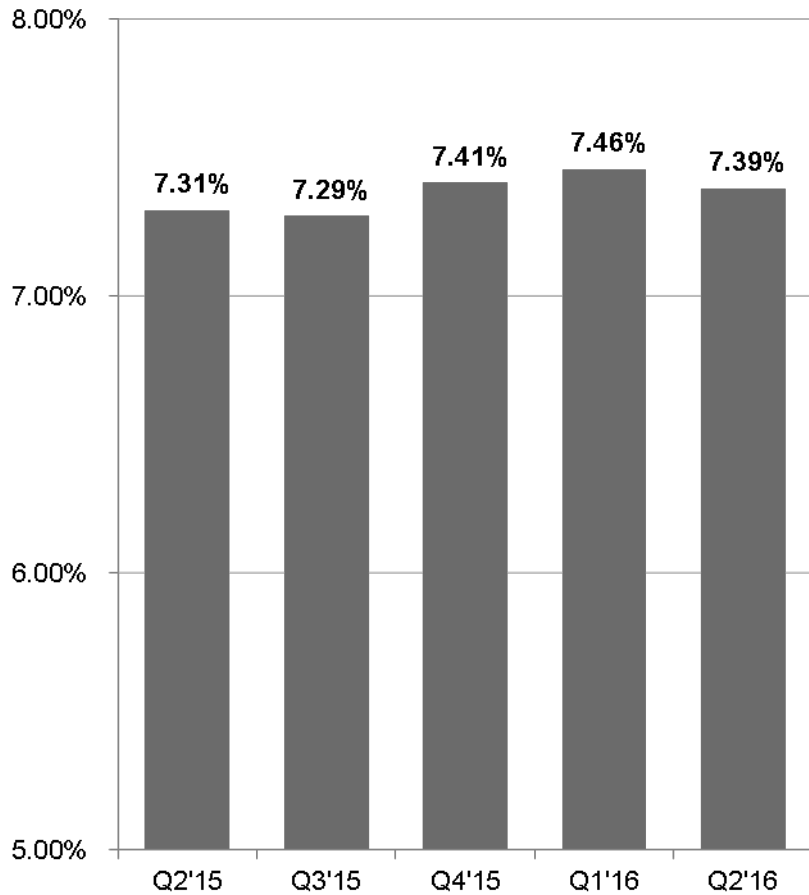
Net Charge-Offs (Quarterly)

(\$ in millions)

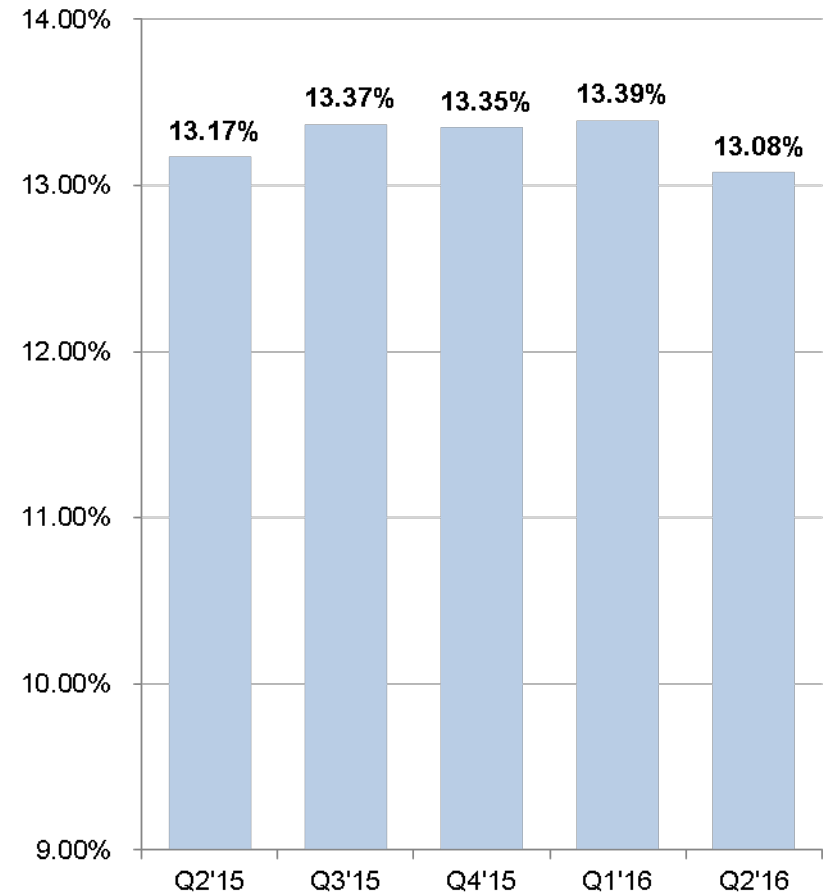


Capital Ratios

Leverage Ratio ⁽¹⁾



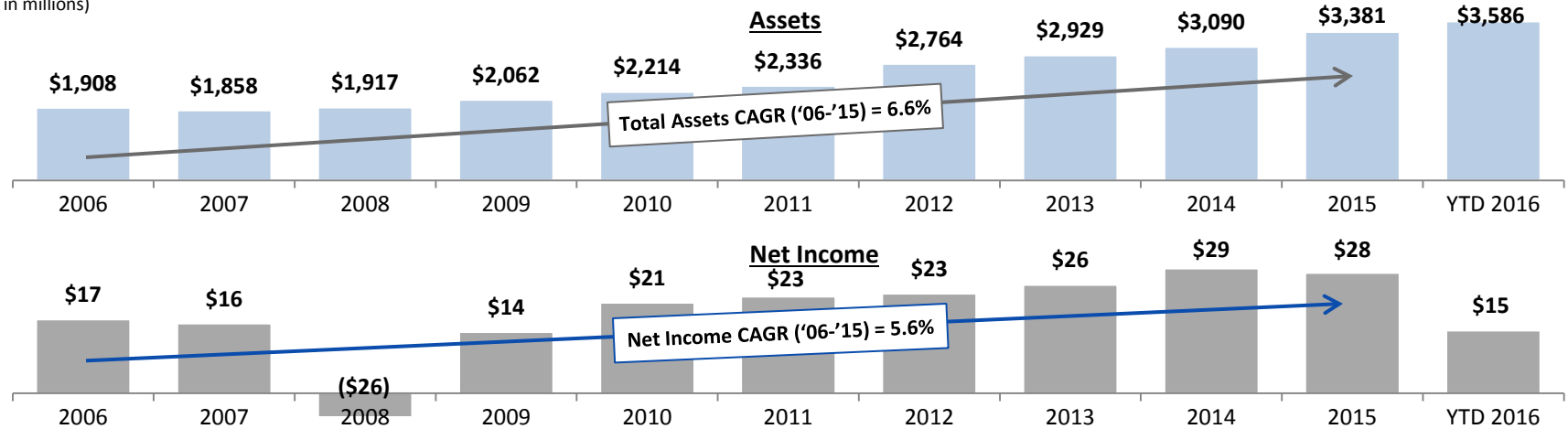
Total Risk-Based Capital Ratio ⁽¹⁾



Continuing to Provide Value for Shareholders

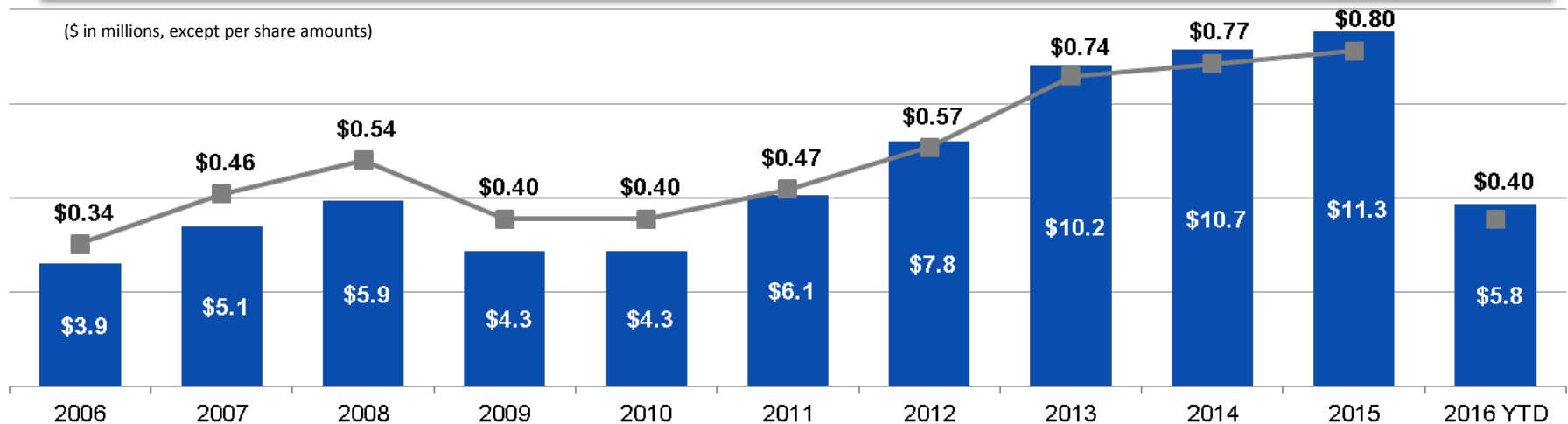
Balance Sheet & Net Income Growth

(\$ in millions)



Dividends

(\$ in millions, except per share amounts)



Common Dividends Declared — Dividends per Share

Strategic Priorities for Executing Our Plan Going Forward

Loan Growth

Target of mid-to-high single digit or 7-9% loan growth

Deposit Growth

Emphasis on growing core deposits consistent with our loan growth target

Profitability and Shareholder Returns

Targeting ROAA ratio north of 1%

Positioned to Achieve Sustainable Profitable Growth and Deliver Over Time on our Promise to All Stakeholders

Increase Revenue Through Existing Platforms

Targeting over time noninterest income at 25%-30% of total revenue

Expense Discipline

Targeting an efficiency ratio in top third of comparable peers

Strong Credit Culture

Maintain balance between volume and risk to support our credit discipline

Maximize Market Dislocation Opportunities





Appendix



Non-GAAP Reconciliation

Non-GAAP Financial Information

This presentation contains financial information, such as tangible common equity, determined by methods other than in accordance with U.S. generally accepted accounting principles ("GAAP"). The Company believes that non-GAAP financial measures provide a meaningful comparison of the underlying operational performance of the Company, and facilitate investors' assessments of its business and performance trends. In addition, the Company believes the exclusion of these non-operating items enables management to perform a more effective evaluation and comparison of the Company's results and to assess performance in relation to the Company's ongoing operations. These disclosures should not be viewed as a substitute for financial measures determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. For non-GAAP disclosures that are used in this presentation, the comparable GAAP financial measure, as well as the reconciliation to the comparable GAAP financial measure, is provided below.

GAAP to Non-GAAP Reconciliation

(\$ in thousands, except per share data)

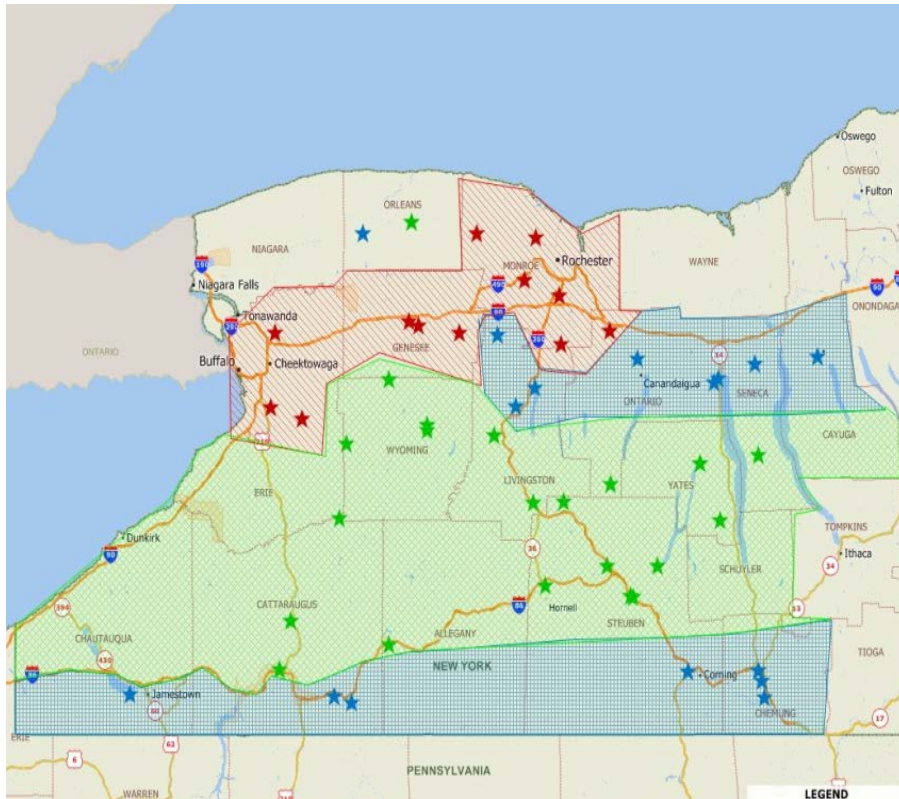
	Quarter ended,			Year to Date	
	6/30/2015	3/31/2016	6/30/2016	2015	2016
Computation of ending tangible common equity:					
Common shareholders' equity	\$ 267,095	\$ 296,613	\$ 304,836		
Less: Goodwill and other intangible assets, net	68,158	76,567	76,252		
Tangible common shareholders' equity	198,937	220,046	228,584		
Computation of ending tangible assets:					
Total assets	\$ 3,359,459	\$ 3,516,572	\$ 3,585,589		
Less: Goodwill and other intangible assets, net	68,158	76,567	76,252		
Tangible assets	3,291,301	3,440,005	3,509,337		
Tangible common equity to tangible assets ⁽¹⁾	6.04%	6.40%	6.51%		
Common shares outstanding	14,184	14,495	14,528		
Tangible common book value per share ⁽²⁾	\$ 14.03	\$ 15.18	\$ 15.73		
Computation of average tangible common equity:					
Average common equity	\$ 270,009	\$ 291,848	\$ 299,831	\$ 268,821	\$ 295,839
Average goodwill and other intangible assets, net	68,294	76,324	76,437	68,410	76,380
Average tangible common equity	201,715	215,524	223,394	200,411	219,459
Computation of average tangible common equity:					
Average assets	\$ 3,263,111	\$ 3,405,451	\$ 3,507,760	\$ 3,189,721	\$ 3,456,605
Average goodwill and other intangible assets, net	68,294	76,324	76,437	68,410	76,380
Average tangible assets	3,194,817	3,329,127	3,431,323	3,121,311	3,380,225
Net income available to common shareholders	6,219	7,253	6,785	12,655	14,038
Return on average tangible common equity ⁽³⁾	12.37%	13.54%	12.22%	12.73%	12.86%

Source: Company filings.

- (1) Tangible common shareholders' equity divided by tangible assets.
- (2) Tangible common shareholders' equity divided by common shares outstanding.
- (3) Net income available to common shareholders divided by average tangible common equity.

Expanding Presence in Large Markets New to FISFI

Market Footprint



- ★ Region 1 – Buffalo/Rochester Corridor – Organic Growth Potential
- ★ Region 2 – “Mid Size” Upstate Cities – Strong Presence and Share
- ★ Region 3 – Legacy Rural Markets with Significant Market Share

Organic Growth

- Opportunity exists in attractive \$31 billion deposit market where we have less than 2% market share
- **Buffalo & Rochester Markets**
 - Stable Economic Outlook for Region
 - Disruption within the marketplace creates opportunity for community banking
 - Capacity to continue to increase lending in all categories within current geographic footprint
 - Investing in new talent across all segments – from retail to small business to large commercial
 - #2 SBA lender in both Rochester and Buffalo through first six months of 2016
 - New financial solution centers in Rochester region at City Gate, Brighton and our downtown location at Chestnut Street
- Trusted financial advisor in legacy markets creates opportunity for fee based services; customers receptive to non-bank products such as insurance and wealth management