



# Financial Institutions, Inc.

NASDAQ: FISI

Five Star Bank

*driving forward.*

Annual Shareholders Meeting  
June 3, 2016

# Agenda

- § Introductions
- § Presentation of Shareholder List & Report of Quorum
- § Annual Meeting Convened
  - § Polls Open
  - § Consideration and Action on Matters of Business
  - § Questions and Answers on Matters of Business
  - § Polls Closed
- § Annual Meeting Adjourned
- § Company Presentation
- § General Questions and Answers
- § Conclusion



# Financial Institutions, Inc.

NASDAQ: FISI

Martin K. Birmingham  
President & CEO

# 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.

# Overview of Financial Institutions, Inc.

## Market Footprint



## Corporate Overview and Key Statistics

- § Strong, growing bank headquartered in Western New York
- § Change in management in 2013 – since year end 2012 assets grew 27%, net income up 30% and dividends increased 40%
- § Total shareholder return of +66% over last 3 years, significantly outperforming S&P 500 and U.S. bank indices
- § Excellent deposit franchise growing at an average rate of 7% over last 3 years, with 51 banking offices, average cost of funds of 0.27% and significant opportunity for growth from competitor mergers/dislocations
- § Assets: \$3.5bn
- § Loans: \$2.1bn
- § Deposits: \$3.0bn
- § Market Capitalization<sup>(1)</sup>: \$421mm

# Upstate NY Bank Consolidation Creates Opportunity to Grow Our Business; Deposits Up 31% Since 2013

## Deposit Market Share – Counties of Operation (15)

Rank	Institution	Active Branches 2015	Deposits in Market (\$MM)	Market Share (%)
1	M&T Bank Corp.	108	\$24,587	40.2%
2	KeyCorp (1)	130	13,888	22.7%
3	Citizens Financial Group Inc.	68	3,058	5.0%
4	Financial Institutions Inc.	51	2,673	4.4%
5	Bank of America Corp.	38	2,503	4.1%
6	Northwest Bancshares Inc.	30	2,180	3.6%
7	JPMorgan Chase & Co.	26	2,150	3.5%
8	Community Bank System Inc.	68	2,059	3.4%
9	Canandaigua National Corp.	24	1,822	3.0%
10	Tompkins Financial Corp.	20	1,166	1.9%

## Deposit Market Share – Rochester & Buffalo MSAs

Rank	Institution	Active Branches 2015	Deposits in Market (\$MM)	Market Share (%)
1	M&T Bank Corp.	87	\$24,285	43.1%
2	KeyCorp <sup>(1)</sup>	132	14,194	25.2%
3	Citizens Financial Group Inc.	75	3,283	5.8%
4	Bank of America Corp.	42	2,776	4.9%
8	Financial Institutions Inc.	24	1,093	1.9%
<b>Total Buffalo + Rochester MSAs</b>		<b>539</b>	<b>56,365</b>	<b>100.0%</b>

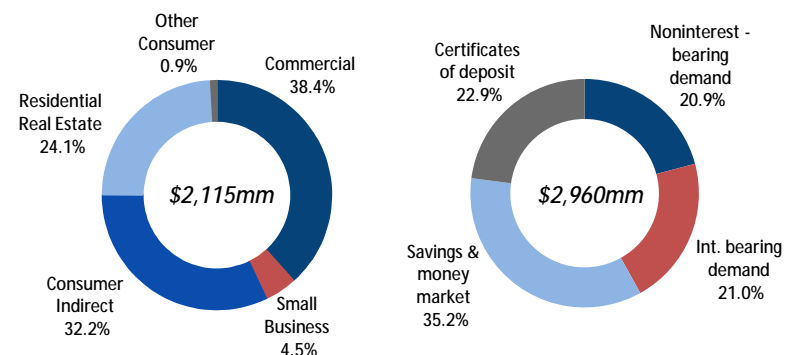
## Key Highlights

- § 10,000 square-mile operating footprint (size of Maryland)
- § Top 3 market share in 11 of the 15 counties of operation
- § 4<sup>th</sup> largest bank in counties of operation

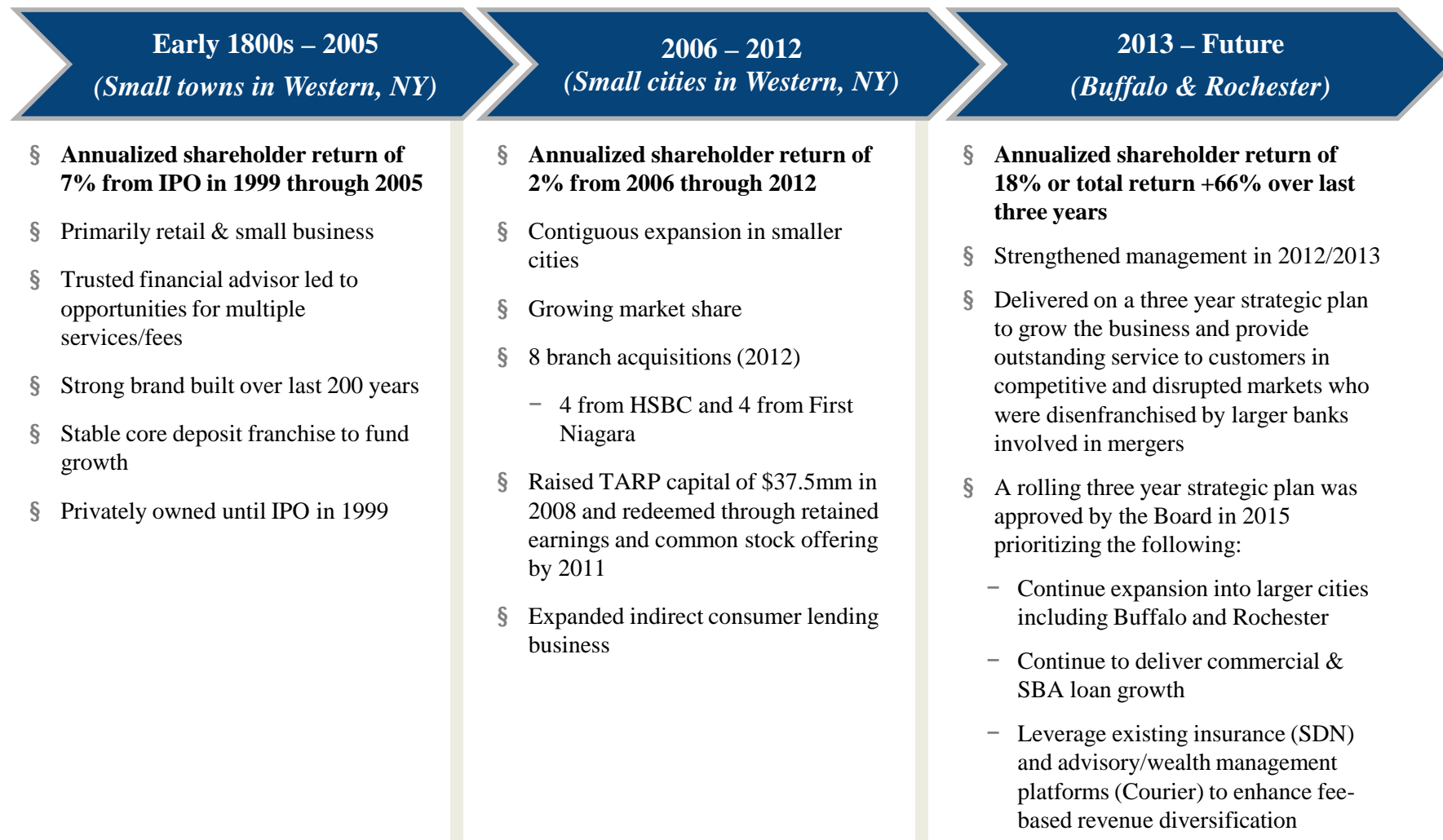
## Key Opportunities

- § Significant opportunity to gain deposit market share in our key expansion markets
  - Combined Rochester and Buffalo MSAs represent deposit market of ~\$56bn
  - Current FISD market share of ~2%
  - Regional consolidation creates opportunities (i.e. KeyCorp’s acquisition of First Niagara)
- § Wealth management and insurance cross-sell opportunities exist across entire operating footprint

## Loan & Deposit Composition (1Q’16)



# Our Current Strategy is Generating Greater Returns for Shareholders in Three Distinct Markets



# Strategic Priorities for Executing Our Plan Going Forward

## *Profitable organic growth*

### **Loan Growth**

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

- § Grew loans for last 9 consecutive years; 2015 average growth 9% overall
- § Emphasis on commercial lending resulted in 17% growth in commercial & industrial loans and 19% growth in commercial mortgage loans in 2015
- § Shift to increased C&I lending to build broader relationships
- § Increased net interest income to \$95.3mm in 2015, driven by 9% increase in average interest-earning assets

### **Deposit Growth**

#### ***Opportunity exists in attractive \$56 billion deposit markets of Rochester and Buffalo***

- § Emphasis on growing core deposits consistent with our loan growth target; 8 consecutive years of total deposit growth
- § 11% growth in 2015 demonstrates value of community banking sales model
- § Differentiated positive customer experience
- § Plenty of excess deposits to fund continued loan growth

### **Profitability and Shareholder Returns**

#### ***Targeting ROAA ratio north of 1.0%***

- § Expected above average revenue growth and return on tangible equity should drive growth in tangible book value
- § Dividend growth to drive shareholder returns – dividend increased 7 times in 4 years



# Strategic Priorities for Executing Our Plan Going Forward

## Increase Revenue Through Existing Platforms

### *Targeting noninterest income at 25%-30% of total revenues over time*

- § Targeted focus on realizing the benefits of existing insurance (SDN) and wealth management (Courier Capital) fee income platforms through customer sharing and attracting incremental producers
- § Going forward, FISFI plans to supplement recent platform acquisitions with smaller bolt-on opportunities but has no plans to acquire any new fee-based platforms in the near future
- § 19.7% increase in noninterest income for 2015 vs. 2014 to reduce reliance on net interest income
- § Synergies developing between bank and subsidiaries through implementation of cross-sales programs

## Expense Discipline

### *Targeting an efficiency ratio in top third of comparable peers*

- § Expect to return to top third efficiency ratio through continuation of expense management discipline
- § Operating leverage and expense management for profitable growth
- § Technology investments for retail growth and cyber security attention
- § Compensation structure aligned with achieving results

## Strong Credit Culture

- § Maintain balance between volume and risk to support our credit discipline
- § NPAs / assets of 0.25% as of December 31, 2015
- § Reserves / loans of 1.30% and Reserves / NPLs of 321% as of December 31, 2015
- § Asset quality remains a top priority and metrics continue to outperform peer levels

## Maximize Market Dislocation Opportunities

- § Continue to capitalize on market disruption in our region
- § Leveraging 200 years of rural NY banking to enter opportunity rich markets in Rochester and Buffalo
- § Uniquely positioned to seize market opportunities and achieve scale in growth markets



# Financial Institutions, Inc.

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Kevin B. Klotzbach  
CFO & Treasurer

# Key Earnings Highlights

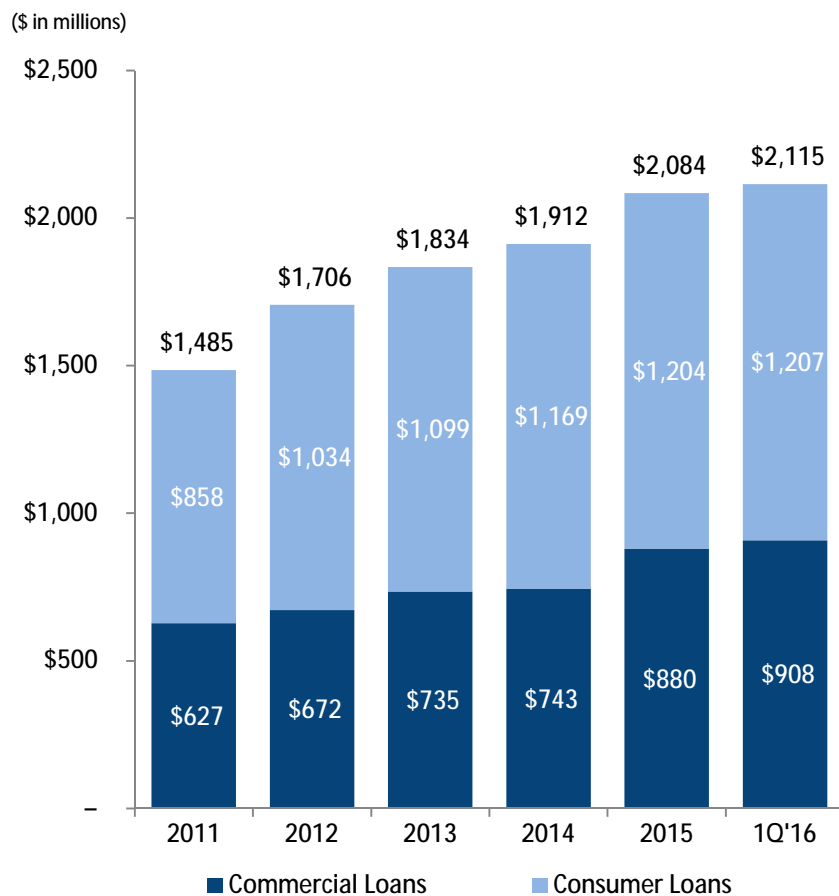
## Earnings Results

(\$ in millions)

Earnings Summary	1Q'15	2Q'15	3Q'15	4Q'15	2015Y	1Q'16
Average interest-earning assets	\$2,818	\$2,993	\$3,093	\$3,098	\$3,002	\$3,131
Net interest margin (tax equivalent)	3.43%	3.24%	3.20%	3.26%	3.28%	3.27%
Net interest income	\$23.1	\$23.4	\$24.1	\$24.6	\$95.3	\$24.7
Noninterest income	8.3	6.5	7.0	8.6	30.3	9.2
Total revenue	\$31.4	\$29.9	\$31.1	\$33.2	\$125.6	\$33.9
Noninterest expense	(\$19.0)	(\$19.2)	(\$19.3)	(\$21.8)	(\$79.3)	(\$21.2)
Pre-provision net revenue	12.4	10.6	11.8	11.4	46.3	12.7
Provision for loan losses	(2.7)	(1.3)	(0.8)	(2.6)	(7.4)	(2.4)
Pre-tax net income	9.7	9.3	11.1	8.8	38.9	10.4
Income tax expense	(2.9)	(2.8)	(2.7)	(2.2)	(10.5)	(2.7)
Net income	\$6.8	\$6.6	\$8.3	\$6.6	\$28.4	\$7.6
Preferred stock dividends	(0.4)	(0.4)	(0.4)	(0.4)	(1.5)	(0.4)
Net income avail. to common	\$6.4	\$6.2	\$8.0	\$6.3	\$26.9	\$7.3
Memo:						
Earnings per share - diluted	\$0.46	\$0.44	\$0.56	\$0.44	\$1.90	\$0.50
Wtd. avg. common shares outstanding - diluted	14.1	14.1	14.1	14.2	14.1	14.5

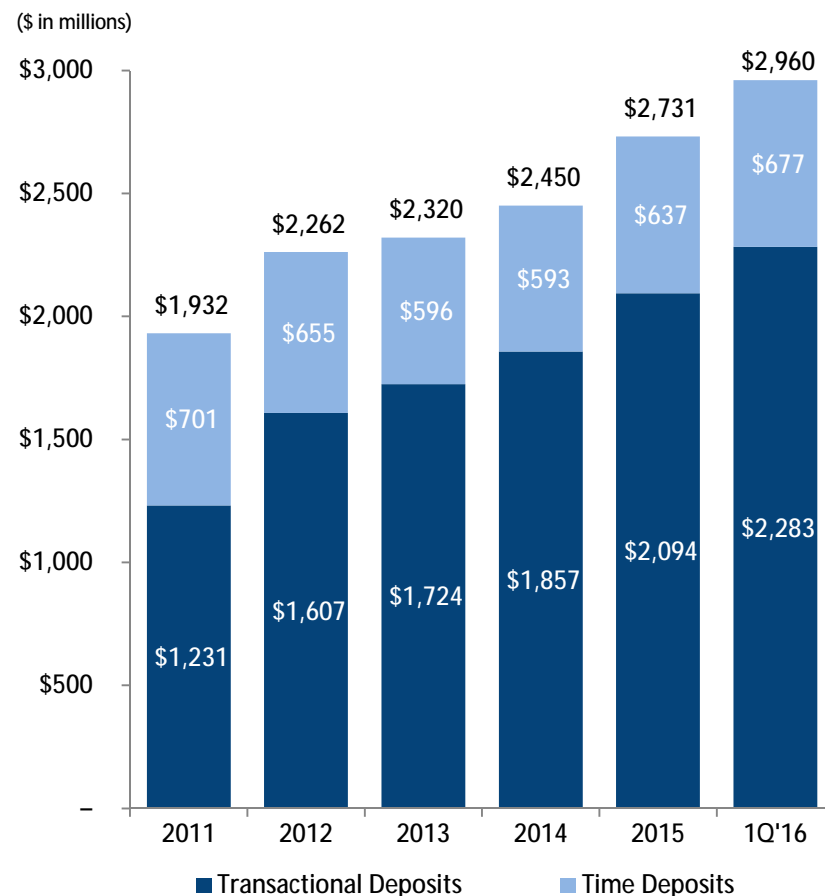
# Loan and Deposit Growth

## Loans



	2011	2012	2013	2014	2015	1Q'16
Loan Yield	5.53%	5.09%	4.65%	4.38%	4.21%	4.21%

## Deposits

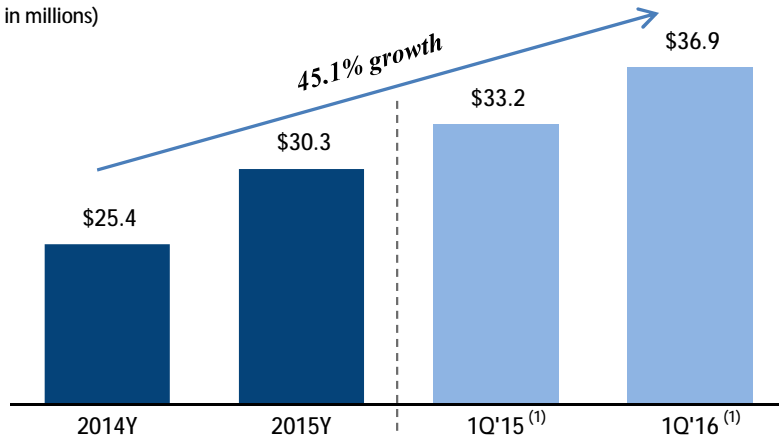


	2011	2012	2013	2014	2015	1Q'16
Cost of Dep.	0.60%	0.40%	0.28%	0.26%	0.27%	0.28%

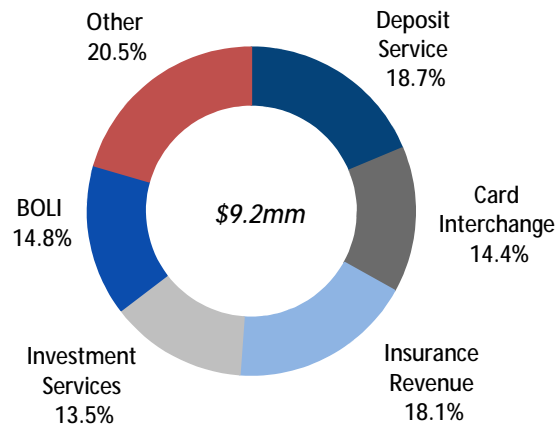
# As a Result of Our Diversification We Are Increasing Noninterest Income

## Noninterest Income

(\$ in millions)



## Noninterest Income Composition (1Q'16)



## Commentary

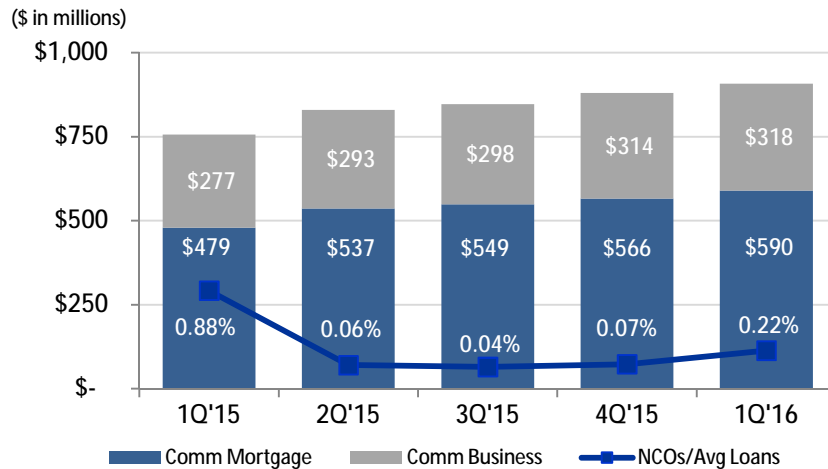
- § FISI management has made noninterest income growth a top priority, which led to the 2014 acquisition of the SDN insurance platform and subsequent Courier Capital acquisition in 2016
- § Ability to cross-sell has enhanced noninterest income
- § Increased insurance revenue reduced reliance on deposit service fees

*As noted in recent broker research<sup>(2)</sup>*

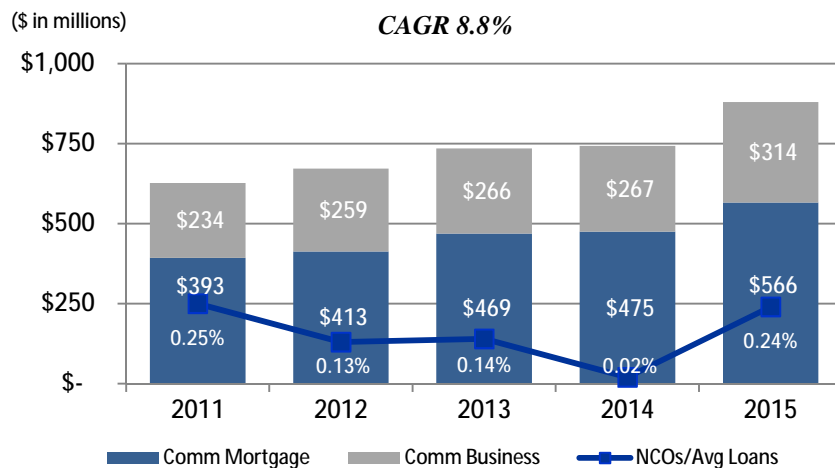
- § Northeast banks have historically been weak fee generators when compared to other regions
- § General re-focus on stable noninterest income initiatives has occurred among some of the highest-performing banks and likely reflects:
  - Uncertain interest rate outlook
  - Generates offset to deposit service charge pressure
  - Reduces impact of volatile mortgage banking results

# Commercial Banking

## Commercial Banking (Quarterly)



## Commercial Banking (Annually)

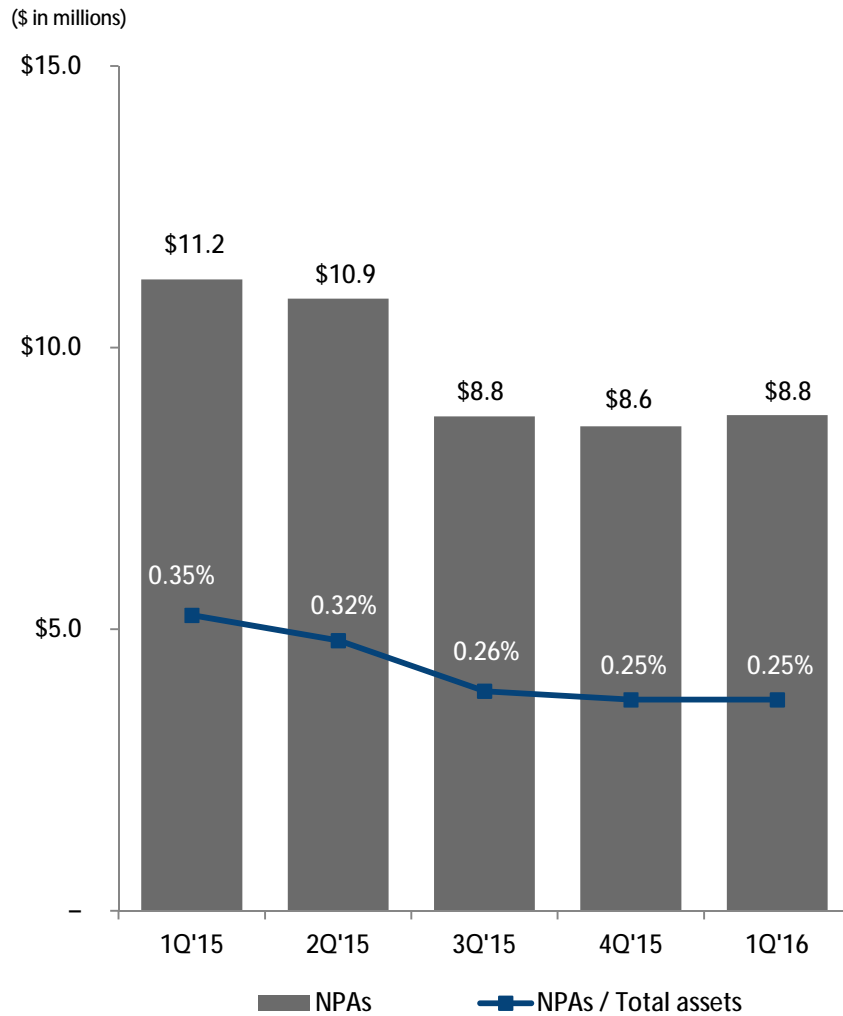


## Commentary

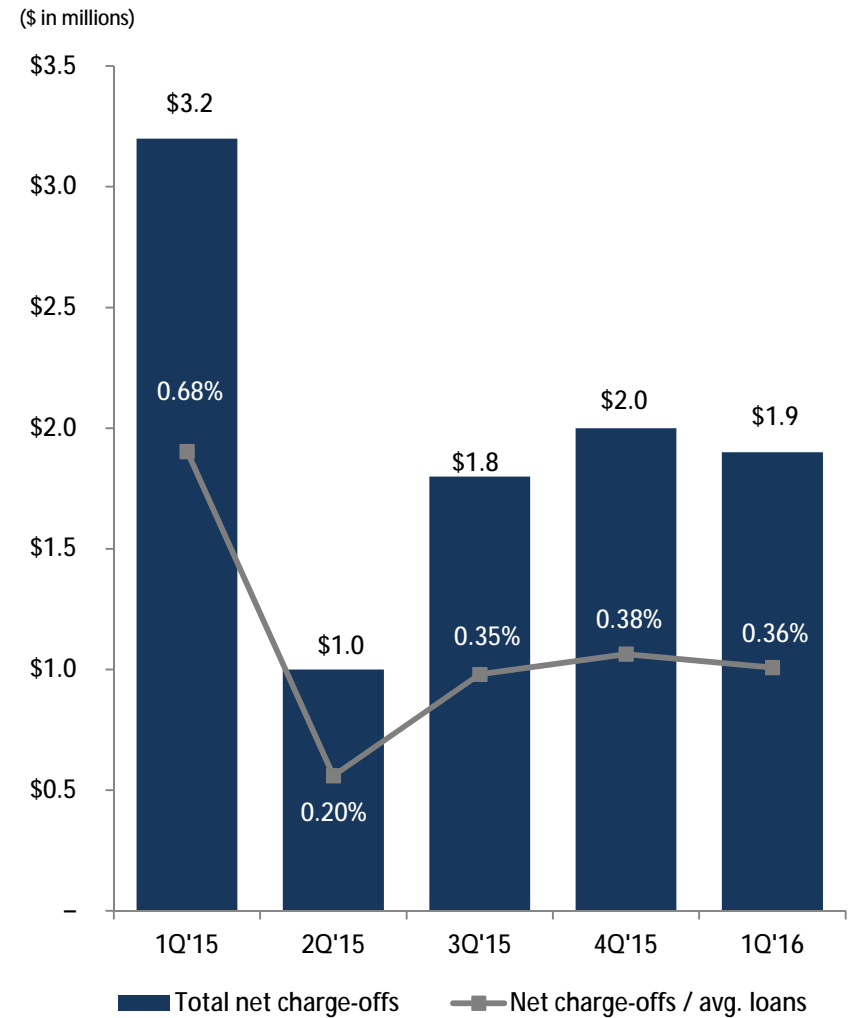
- § Investment in additional lenders resulted in strong year over year growth in all categories
- § Established specialized Small Business lending team that increased small business loans by 31%
- § SBA fiscal year end 2015, #2 SBA lender in Rochester and #2 in Buffalo; through first 6 months of 2016 SBA fiscal year, #1 in Rochester and #2 in Buffalo, and generated 132 loans across the Five Star Bank footprint, ranking us #26 in the nation\*
- § Robust pipeline to support sustained loan production
- § Significant opportunities to capitalize on disruption within the marketplace due to industry consolidation
- § Momentum toward community banks as lender of choice; capacity to provide full spectrum credit solutions, agile to respond to changing customer needs

# Asset Quality Overview

## Non-performing Assets (Quarterly)

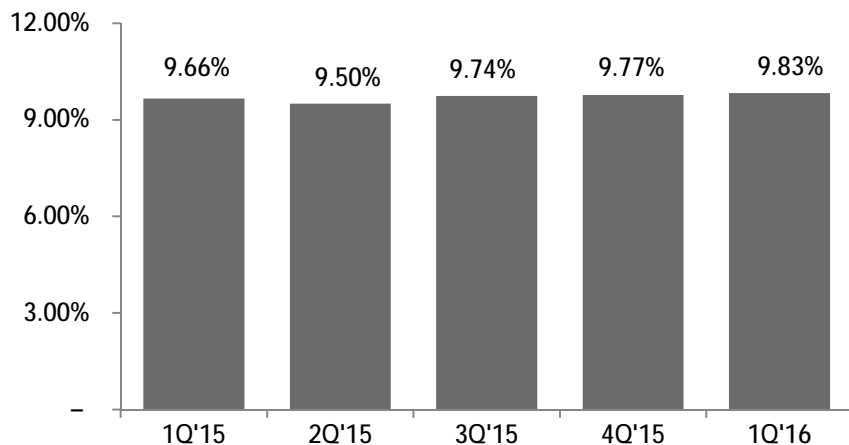


## Net Charge-Offs (Quarterly)

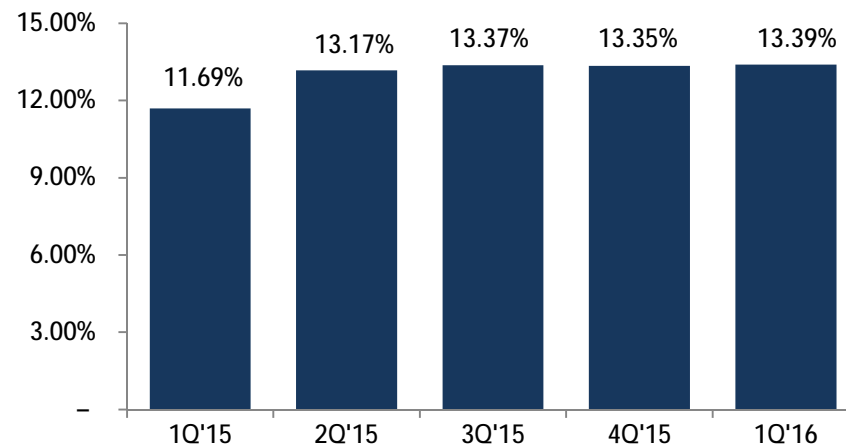


# Capital Ratios

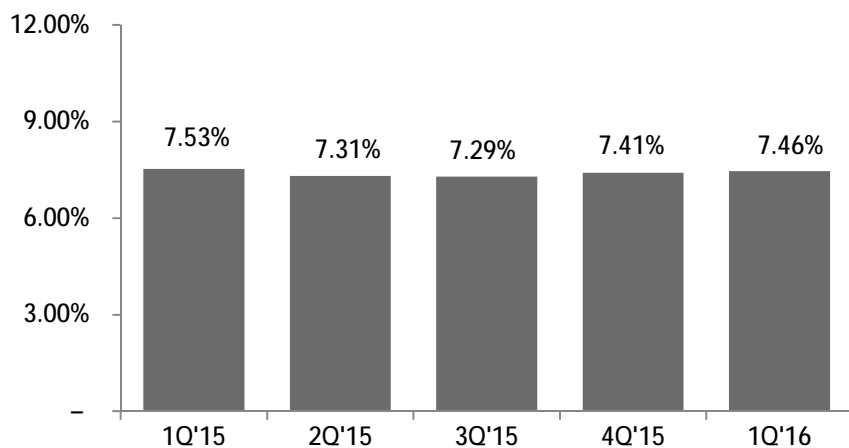
**Common Equity Tier 1 Ratio**



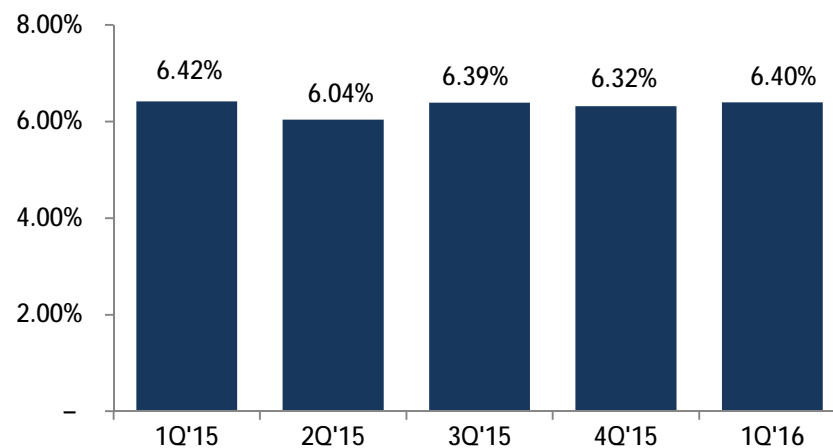
**Total Risk-Based Capital Ratio**



**Leverage Ratio**



**Tangible Common Equity / Tangible Assets<sup>(1)</sup>**

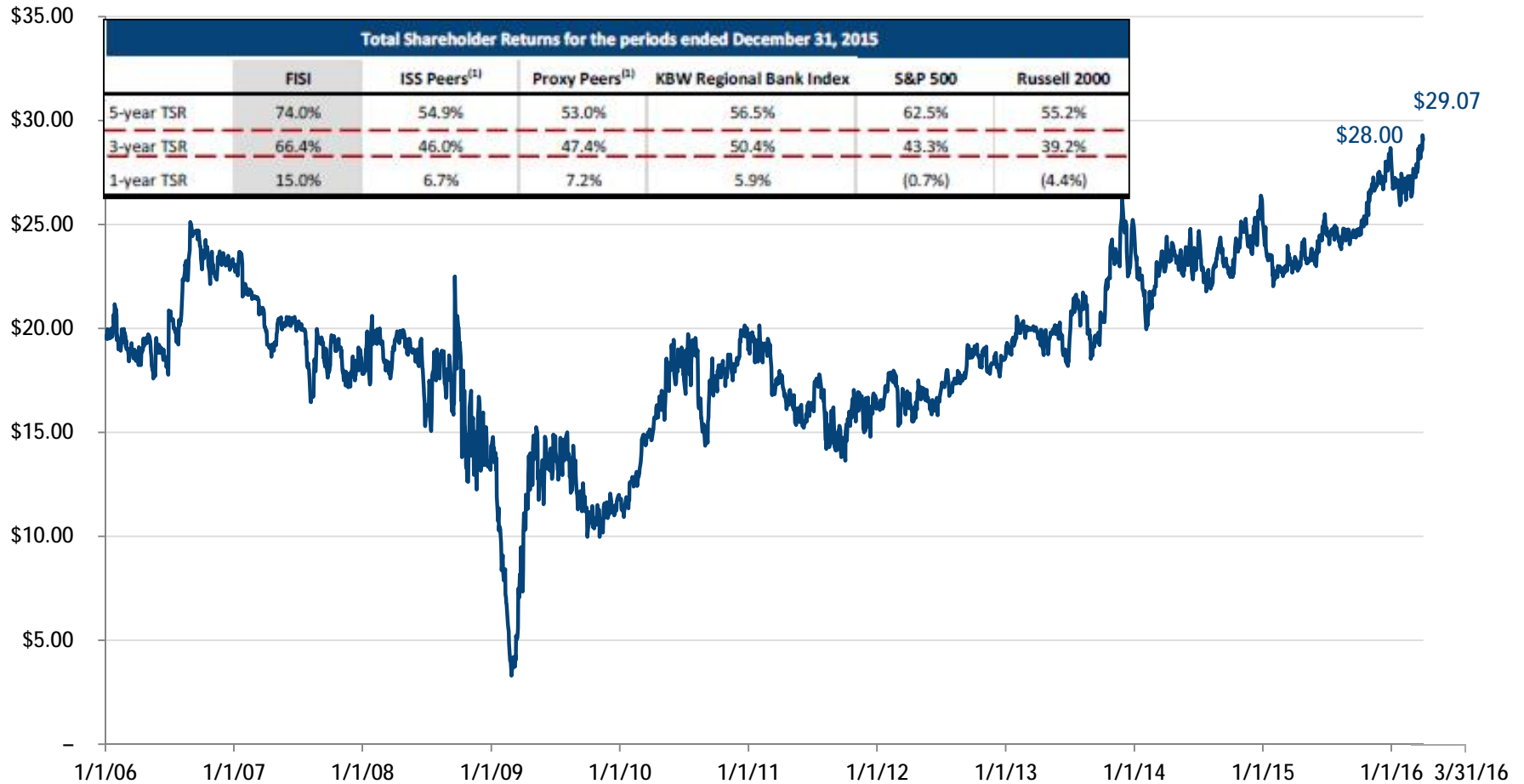


(1) See Appendix A – Non-GAAP to GAAP Reconciliation for the computation of this Non-GAAP measure.



# Continuing to Provide Value for Shareholders

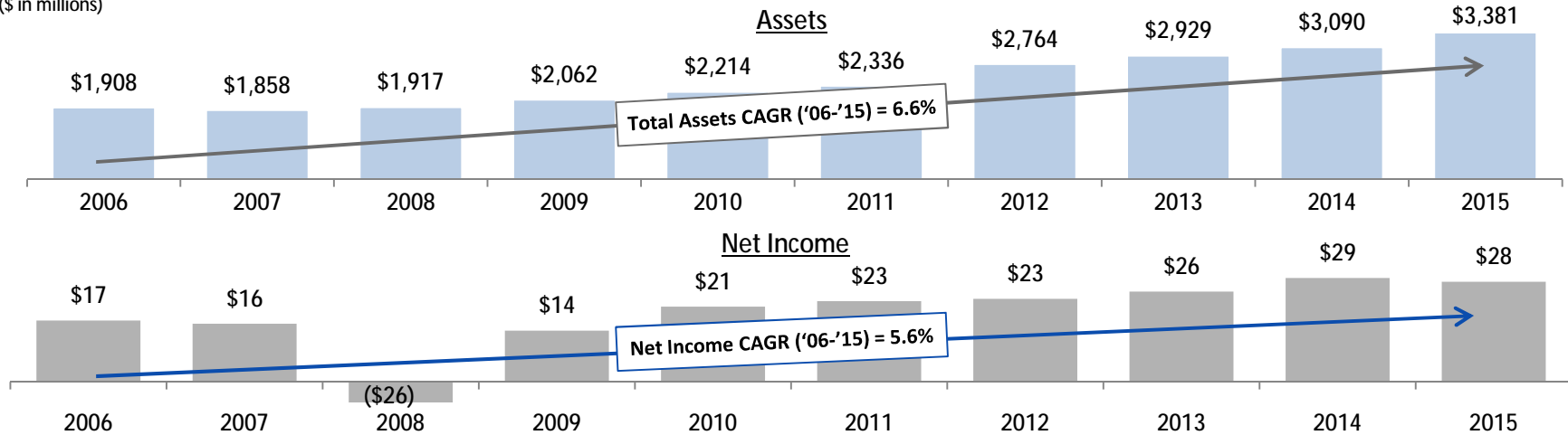
## 10-Year Stock Price Performance



# Continuing to Provide Value for Shareholders

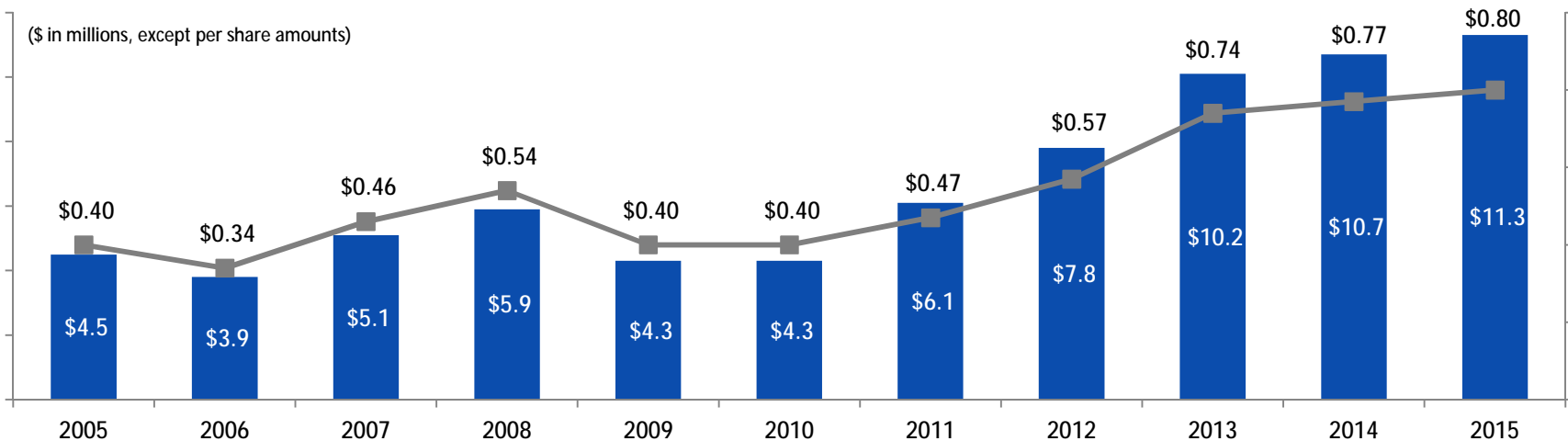
## Balance Sheet & Net Income Growth

(\$ in millions)



## Dividends

(\$ in millions, except per share amounts)



Common Dividends Declared    Dividends per Share

# Appendix A: 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 millions, except per share data)	At or for the quarter ended,				
	3/31/2015	6/30/2015	9/30/2015	12/31/2015	3/31/2016
<b>Computation of ending tangible common equity:</b>					
Common shareholders' equity	\$269.3	\$267.1	\$278.1	\$276.5	\$296.6
Less: Goodwill and other intangible assets, net	68.4	68.2	67.9	66.9	76.6
Tangible common shareholders' equity	201.0	198.9	210.2	209.6	220.0
<b>Computation of ending tangible assets:</b>					
Total assets	\$3,197.1	\$3,359.5	\$3,357.6	\$3,381.0	\$3,516.6
Less: Goodwill and other intangible assets, net	68.4	68.2	67.9	66.9	76.6
Tangible assets	3,128.7	3,291.3	3,289.7	3,314.1	3,440.0
Tangible common equity to tangible assets <sup>(1)</sup>	6.42%	6.04%	6.39%	6.32%	6.40%

Source: Company filings.

(1) Tangible common shareholders' equity divided by tangible assets.



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