

Financial Institutions, Inc. NasdaqGS:FISI

Shareholder/Analyst Call

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Call Participants

EXECUTIVES

Martin K. Birmingham
President, CEO & Director

Robert N. Latella
Independent Chairman of the Board

Samuel J. Burruano
*Interim Chief Human Resources Officer,
SVP, General Counsel & Corporate
Secretary*

Presentation

Operator

Good morning, and welcome to the Financial Institutions, Inc. 2020 Annual Meeting of Shareholders. I would like to introduce Mr. Bob Latella, Chairman of the Board of Directors of Financial Institutions, Inc. and Five Star Bank. Mr. Latella, you may begin.

Robert N. Latella

Independent Chairman of the Board

Thank you, and good morning. It is 10:01 a.m., and I'm pleased to call to order the Annual Meeting of Shareholders of Financial Institutions, Inc. I'm Bob Latella, and as Chair of the Board, I will serve as Chair of this meeting.

We are grateful to be able to conduct our annual meeting virtually through a live audio webcast. This year's change to a virtual format was precipitated by public health concerns surrounding the COVID-19 pandemic. Our primary focus is on the health and well-being of our shareholders, employees, partners and communities, and a virtual meeting eliminates health risks that could arise from an in-person meeting at this time.

In addition, a virtual meeting allows for increased access and participation by our shareholders, regardless of size, resources or physical location and better enables out-of-market shareholders to attend and participate in our annual meeting.

We'd like to begin by introducing the other members of our Board, all participating in today's meeting. Marty Birmingham who also serves as our President and Chief Executive Officer; Karl Anderson; Don Boswell; Don Burlew; Andy Dorn; Bob Glaser; Sam Gullo; Susan Holliday; and Kim VanGelder. In addition to Marty, other members of the company's senior leadership team participating today are Bill Kreienberg, Executive Vice President and Chief Banking and Revenue Officer; Justin Bigham, Executive Vice President and Chief Financial Officer; and Sam Burruano, General Counsel and Corporate Secretary, and will serve as secretary of this meeting. He will now lead us through a portion of the meeting formalities. Sam, please.

Samuel J. Burruano

Interim Chief Human Resources Officer, SVP, General Counsel & Corporate Secretary

Thank you, Bob. As established by the Board of Directors and stated in the Notice of the Annual Meeting, only shareholders of record as of the close of business on April 20, 2020, may vote and ask questions. We have received an affidavit of mailing from Broadridge Financial Services certifying that the Notice of the Meeting was duly given. A copy of the affidavit, the certified shareholder list and documents mailed to shareholders will be filed with the official records of the company and included with the record of the annual meeting. The shareholder list is available for inspection by our shareholders participating in this virtual meeting webcast by using the link provided on our virtual meeting website. A representative of American Election Services, LLC has been appointed to serve as inspector of the election and is with us virtually today. Tim Morris, our audit partner from RSM US LLP, is also with us virtually and is available for questions.

We are conducting this meeting in accordance with our bylaws and the meeting rules of conduct. Meeting rules and the agenda are available on our meeting website, along with our 2019 annual report and 2020 proxy statement. The meeting is properly convened, and a quorum is present. The polls on all proposals set forth in the proxy statement are now open and remain open until we announce that the polls have been closed.

Today's meeting is being conducted solely through remote communications. You can participate in the meeting by voting and submitting questions through the virtual meeting website. Only shareholders of record as of April 20, 2020, are permitted to vote and ask questions. Please follow the rules of conduct and directions provided on the meeting website. You may vote or submit questions at this time.

During the meeting, we will respond to any questions related to the annual meeting. If you have questions about any of the services we offer or a topic not related to today's annual meeting, you may submit these questions through the meeting website, and we will get back to you separately after the meeting if you provide your name and a method by which we may contact you.

We received proxies as of this morning, representing more than 91.5% of the outstanding shares eligible to vote. These proxies have been voted in accordance with shareholders' wishes. Shareholders attending the virtual meeting can vote their shares or change a vote previously submitted through the closing of the polls by logging into the meeting website as a shareholder and clicking the Vote Here button on their screen. If you have previously voted by proxy and do not wish to change your vote, your vote will be cast as you previously instructed and no further action is required.

Today's remarks may include forward-looking statements. Please refer to our annual report on Form 10-K and other historical SEC filings for our disclaimers regarding such statements.

I am pleased to now introduce Marty Birmingham, our President and CEO. Marty will provide general commentary on the state of our company.

Martin K. Birmingham
President, CEO & Director

Thank you, Sam. Good morning, shareholders, directors, members of management and others in attendance. For the first time ever, our annual meeting is being held as a virtual meeting. This change was necessary as we continue to respond to the impact of the COVID-19 pandemic. Hosting the meeting virtually is also consistent with the company's focus on leveraging technology to produce positive outcomes.

My commentary today will address the impact of the pandemic on our company and how we have focused our efforts on providing support in essential banking, insurance and investment services to our customers, our associates and the communities where we live and work.

First, however, I'll provide a brief overview of our company's performance. 2019 was a year of accomplishment, with record-breaking net income and strengthening capital ratios. Our efforts to reposition the balance sheet through the rotation of securities into loans and reducing the size of our consumer indirect portfolio were successful, improving profitability. And we continue to invest in our customers, communities and associates.

We also developed 2 major initiatives that represent critical transformational and technology investments for our organization, initiatives that are expected to improve relationships with our customers and enhance future profitability.

First, I'll discuss Five Star Digital Banking. We determined 18 months ago that we needed to develop a solution that would provide our customers the same opportunity to complete the noncash activities digitally that they can complete in a branch today. This includes making a deposit, moving money between accounts or to another party, opening and funding an account and getting help managing household and business budgets. The recently launched Five Star Bank Digital Banking online and mobile platform provides a single dashboard for customers to bring together Five Star accounts and all other bank or investment accounts into one location, pay bills, manage budgets or send money to a friend through a text or e-mail.

Our timing could not have been better given the permanent acceleration of digitization that the COVID-19 pandemic has caused. With digital banking, businesses can more effectively manage their financial operations with our multiple cash management tools, including the ability to deposit a check, complete electronic payments and authorize payroll, all of which can be accomplished from any computer or mobile device. We still have much to do to get to a fully capable digital channel but with digital banking, we have taken a significant step forward.

Over the summer, we expect to roll out a new digital account opening platform, which will allow consumers and businesses to open and fund almost any deposit account. We are also piloting a new interactive teller machine, or ITM, to replace our drive-up and in-lobby ATMs. Interactive teller machines will allow customers to complete 80% of the teller transactions processed in-branch today and offer assistance from our bankers through video chat. These solutions will give customers the choice to bank face-to-face, self-service or with assistance as needed, allowing our bankers to focus less on transaction processing and more on providing education, advice and expertise to help our customers achieve financial well-being.

Our second major initiative is an enterprise standardization program expected to improve company operations, deliver an enhanced employee and customer experience and improve operational efficiency. We continue to evaluate activities and functions across the organization and expect this program to result in improved efficiencies and enhance profitability. We are committed to following through on this initiative in the current environment.

First quarter 2020 results were negatively impacted by a significantly higher provision for credit losses driven by the adoption of new accounting standard for the measurement of credit losses, or CECL, and the current and forecasted impact of the COVID-19 pandemic on the economy and credit quality. This impact has been difficult to assess in an unprecedented and highly volatile environment. Excluding our provision, the core operating results of the business were solid.

I'd now like to turn to a discussion of the pandemic, one of the greatest health threats in our lifetime. In early March, we invoked our business continuity plan in response to the unfolding crisis. Our guiding principles through this period of uncertainty have been the safety and health of our associates, serving our customers to the highest standards and doing our part to slow community spread of the virus. We created a less dense work environment with resiliency using alternative locations and implementation of work from home for many associates as possible.

We are taking great steps to protect our workforce. Approximately 65% of our associates have been working from home or remotely since mid-March. Nearly all our bank branches remain open, with most transactions taking place in drive-through operations. For transactions that need to be handled within a branch, we implemented by-appointment procedures.

On March 23, we rolled out a series of solutions to support our customers. We have worked closely with many small business customers to help them with various SBA program, the most significant of which is the payroll protection program. We have helped more than 1,700 existing and new customers obtain \$275 million in payroll protection loans, benefiting more than 18,000 employees of local small businesses.

We entered this crisis in a position of strength based on our diversified business model, strong levels of capital and liquidity, historically strong asset quality metrics and a disciplined risk management and underwriting process.

As I have stated before, we do not know how this crisis will end, how long it will last, how much economic damage it will cause or how fast or slow the recovery will be. But I can assure you that we remain focused on taking good care of our customers and managing your company to successfully navigate the crisis.

I would like to close by expressing my deep gratitude to all my teammates within the Five Star family. They have faced the many challenges associated with the COVID-19 pandemic with grace and fortitude. They continue to work every day, no matter the challenge, to serve our customers and improve our communities. Across our organization, they have made a difference.

That concludes my commentary, and I now turn the meeting back to Bob Latella.

Robert N. Latella
Independent Chairman of the Board

Thank you, Marty. As stated in the notice of annual meeting, there are 3 items of business that will be voted on today. Details for all proposals were provided in the company's proxy statement.

The first item to come before the meeting is the election of 4 members of the Board of Directors. Based on the recommendation of the Nominating and Governance Committee, the Board has nominated and unanimously recommends the following persons to serve as directors until the Annual Meeting of Shareholders in 2023 and until their successors are duly elected and qualified: Donald K. Boswell, Andrew W. Don, Jr.; Robert M. Glaser and Susan R. Holliday.

The second item of business that come before this meeting is a proposal to approve on an advisory and nonbinding basis, the 2019 compensation paid to our named executive officers. The Board of Directors unanimously recommends a vote for this proposal.

The third and final item of business to come before this meeting is a proposal to ratify the appointment of RSM US LLP as the company's independent registered public accounting firm for the fiscal year ending December 31, 2020. The Board of Directors unanimously recommends a vote for this proposal. All agenda items are duly placed before the meeting.

At this time, we will respond to questions directly related to the proposals. Sam?

Samuel J. Burruano
Interim Chief Human Resources Officer, SVP, General Counsel & Corporate Secretary

Please allow us a few moments to collect any online questions.

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Seeing no questions related to the meeting proposals, I invite shareholders who have not already done so to vote their shares by clicking on the voting button provided on the meeting website and following the provided instructions. I will pause for just a moment to allow shareholders the final opportunity to vote.

[Voting]

Robert N. Latella

Independent Chairman of the Board

It is now 10:17 a.m., and I declare the polls closed. With the polls closed, I am pleased to report that the requisite number of votes cast have been cast in favor of the election of each of the 4 nominees to the Board of Directors. All 4 nominees have, therefore, been duly elected by the shareholders.

In addition, a majority of the votes cast on the remaining 2 proposals were cast in favor. As a result, compensation paid to named executive officers for the fiscal year ended December 31, 2019, was approved, and the appointment of RSM US LLP as the company's independent registered public accounting firm for the fiscal year ending December 31, 2020, was ratified.

Final voting results will be reported on a Form 8-K that will be filed with the Securities and Exchange Commission and also filed with the minutes of this meeting. If you are a shareholder and has any other questions related to the annual meeting, we will address them at this time. Sam?

Samuel J. Burruano

Interim Chief Human Resources Officer, SVP, General Counsel & Corporate Secretary

Please allow us a few moments to collect any online questions.

Seeing no questions related to the meeting, I turn the meeting back to Bob.

Robert N. Latella

Independent Chairman of the Board

Thank you, Sam. I would like to express my sincere appreciation to the shareholders who attended this meeting and to those who submitted their proxies.

This concludes the business of the meeting, and the 2020 Annual Meeting of Shareholders is hereby adjourned. On behalf of the company's Board of Directors and senior management, we thank you for your continued support of the company.

Operator

Thank you. This concludes today's webcast. You may now disconnect.

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