



Financial Institutions, Inc.

NASDAQ: FISI

Fourth Quarter 2016 Earnings Presentation
January 24, 2017

driving forward.

Safe Harbor Statement

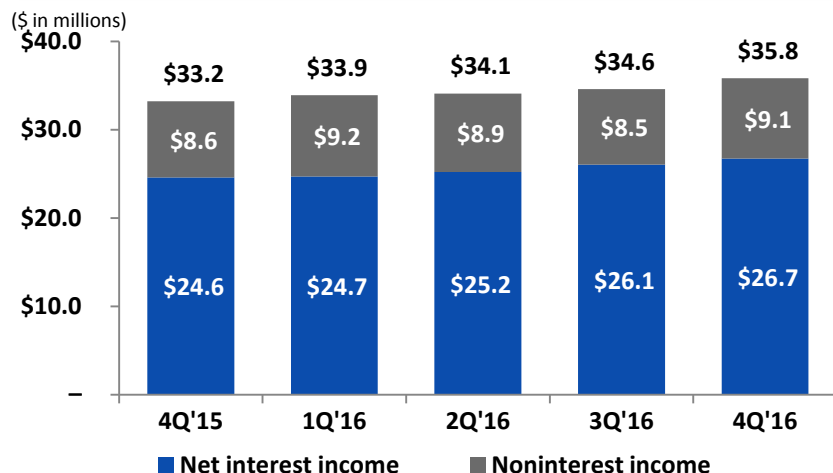
Statements contained in this presentation which are not historical facts and which pertain to future operating results of Financial Institutions, Inc. (the “Company”) and its subsidiaries constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. 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,” “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.

Fourth Quarter and Full Year 2016 Highlights

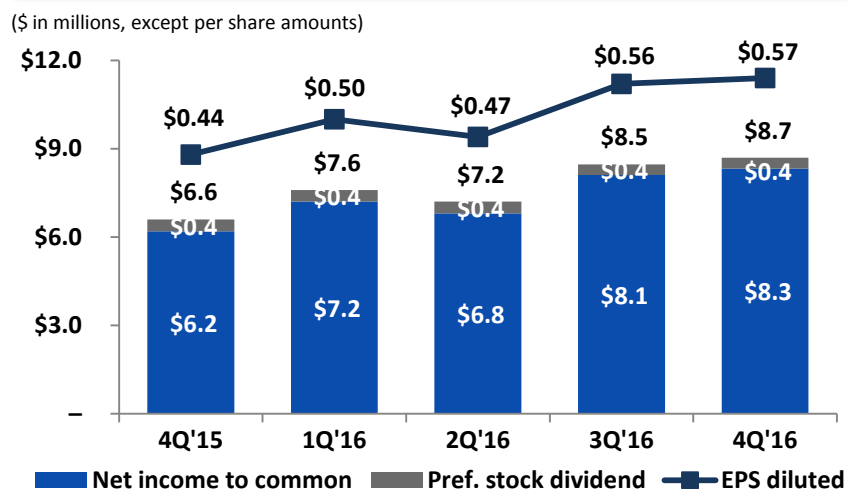
- Diluted earnings per share (“EPS”) for the quarter of \$0.57 was \$0.13 higher than the fourth quarter of 2015
 - EPS for the year of \$2.10 was \$0.20 higher than 2015
- Net interest income for the quarter of \$26.7 million increased \$2.1 million, or 8.5%, as compared to the fourth quarter of 2015
 - Net interest income for the year of \$102.7 million increased \$7.4 million, or 7.7%, as compared to 2015
- Noninterest income for the quarter of \$9.1 million was \$508 thousand, or 5.9%, higher than the fourth quarter of 2015
 - Noninterest income for the year of \$35.8 million was \$5.4 million, or 17.9%, higher than 2015
- Return on average common equity was 10.81% for the quarter and 10.10% for the year
 - Return on average tangible common equity was 14.37% for the quarter and 13.51% for the year ⁽¹⁾
- Net interest margin was 3.22% for the quarter and 3.24% for the year
- Total interest-earning assets, assets, loans and deposits reached record-high year-end levels:
 - Total interest-earning assets increased \$314.0 million in 2016 to \$3.4 billion
 - Total assets increased \$329.3 million in 2016 to \$3.7 billion
 - Total loans increased \$256.4 million in 2016 to \$2.3 billion
 - Total deposits increased \$264.7 million in 2016 to \$3.0 billion
- Quarterly cash dividend of \$0.21 per common share represented a 2.44% dividend yield as of December 31, 2016, and a return of 36% of fourth quarter net income to common shareholders
- The Company’s credit quality remains strong with total non-performing loans to total loans of 0.27% at year-end, compared to 0.41% at year-end 2015.

Fourth Quarter 2016

Revenue



Net Income & EPS



Results Summary

	4Q'15	3Q'16	4Q'16
Return on average assets	0.78%	0.94%	0.94%
Return on average common equity	8.89%	10.45%	10.81%
Return on average tangible common equity ⁽¹⁾	11.73%	13.87%	14.37%
Net interest margin	3.27%	3.23%	3.22%
Efficiency ratio ⁽²⁾	64.55%	58.05%	58.00%
Dividends per share	\$0.20	\$0.20	\$0.21
Dividend yield (annualized)	2.83%	2.93%	2.44%

Commentary

- Growth in net interest income driven by increase in loans
- Excluding net gain on investment securities, noninterest income was \$8.8 MM in 4Q'16, 11.1% higher than 4Q'15, primarily as a result of investment advisory income from Courier Capital
- Noninterest expense was \$20.7 MM in 4Q'16, \$1.1 MM lower than 4Q'15
 - 4Q'15 included \$0.8 MM of goodwill impairment and \$0.5 MM of professional service fees attributable to the Courier Capital acquisition

⁽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.

⁽²⁾ Efficiency ratio equals 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.

Key Earnings Highlights

Quarterly Earnings Highlights (4Q'15 – 4Q'16)

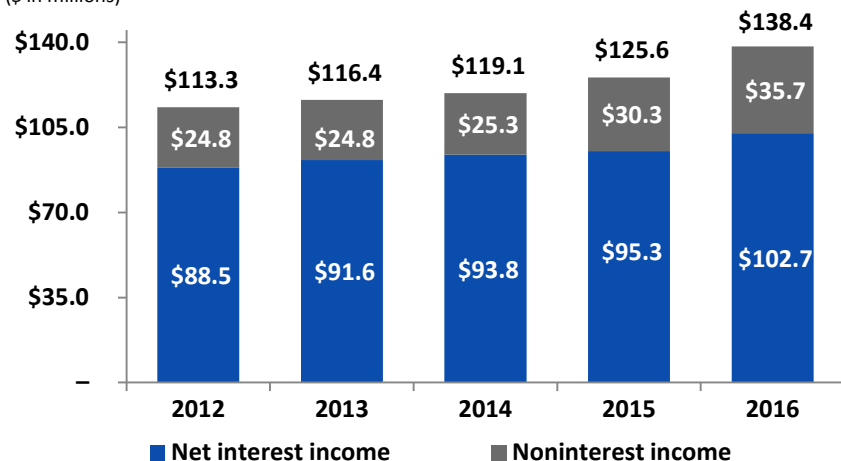
(\$ in millions, except per share amounts)

Earnings Summary	4Q'15	1Q'16	2Q'16	3Q'16	4Q'16
Average interest-earning assets	\$3,098	\$3,131	\$3,230	\$3,317	\$3,408
Net interest margin	3.27%	3.27%	3.23%	3.23%	3.22%
Net interest income	24.6	24.7	25.2	26.1	26.7
Noninterest income	8.6	9.2	8.9	8.5	9.1
Total revenue	\$33.2	\$33.9	\$34.1	\$34.6	\$35.8
Noninterest expense	(\$21.8)	(\$21.2)	(\$22.1)	(\$20.6)	(\$20.7)
Pre-provision net revenue	11.4	12.7	12.0	14.0	15.1
Provision for loan losses	(2.6)	(2.4)	(1.9)	(2.0)	(3.4)
Pre-tax net income	8.8	10.3	10.1	12.0	11.7
Income tax expense	(2.2)	(2.7)	(2.9)	(3.5)	(3.0)
Net income	\$6.6	\$7.6	\$7.2	\$8.5	\$8.7
Preferred stock dividends	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net income available to common shareholders	\$6.2	\$7.2	\$6.8	\$8.1	\$8.3
Earnings per share - diluted	\$0.44	\$0.50	\$0.47	\$0.56	\$0.57
Weighted average common shares outstanding - diluted	14.2	14.5	14.5	14.5	14.5

Full Year 2016

Revenue

(\$ in millions)

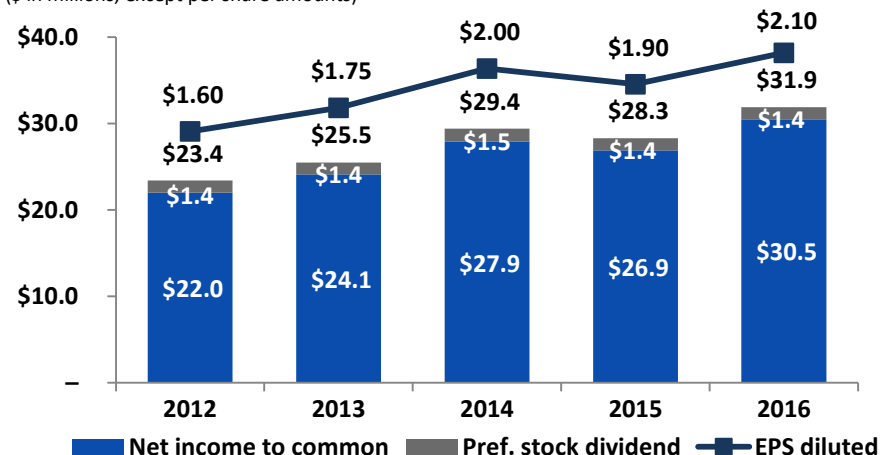


Results Summary

	2015	2016
Return on average assets	0.87%	0.90%
Return on average common equity	9.87%	10.10%
Return on average tangible common equity ⁽¹⁾	13.16%	13.51%
Net interest margin	3.28%	3.24%
Efficiency ratio ⁽²⁾	61.58%	60.92%
Dividends per share	\$0.80	\$0.81
Dividend yield (annualized)	2.86%	2.37%

Net Income & EPS

(\$ in millions, except per share amounts)



Commentary

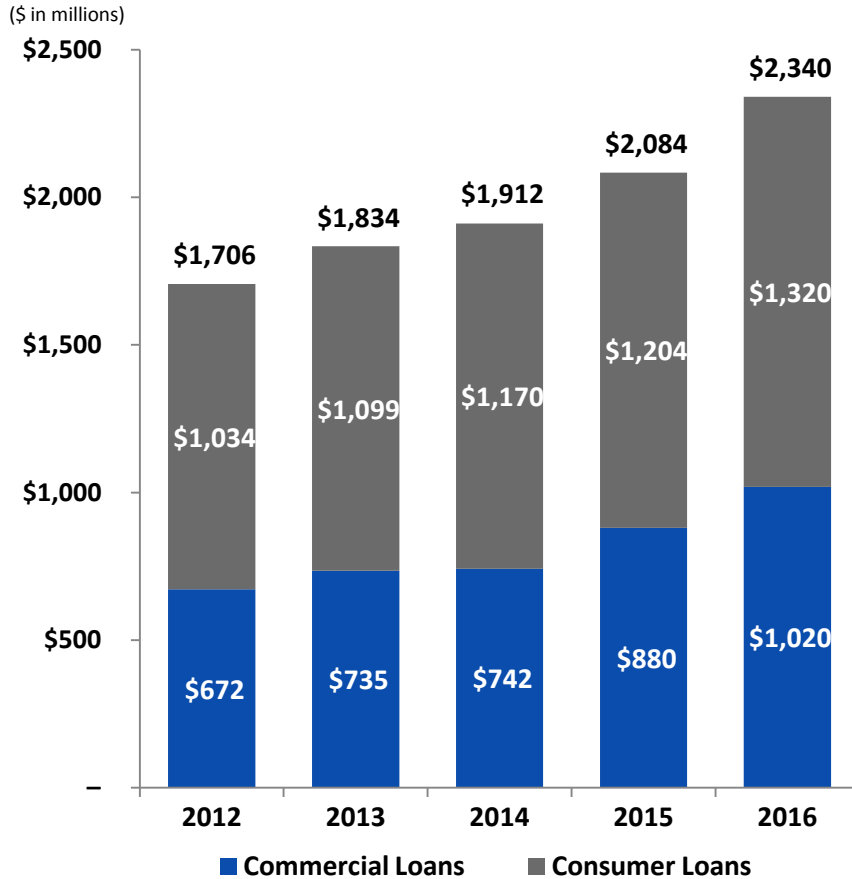
- Net interest income increased \$7.4 MM as a result of growth in interest-earning assets
- Investment advisory fees were up \$3.0MM as a result of the Courier Capital acquisition in early 2016
- Noninterest expense of \$84.7 MM increased \$5.3MM, primarily due to proxy contest expenses of \$2.1MM and higher operating costs largely attributable to the impact of the Courier Capital acquisition and organic growth initiatives

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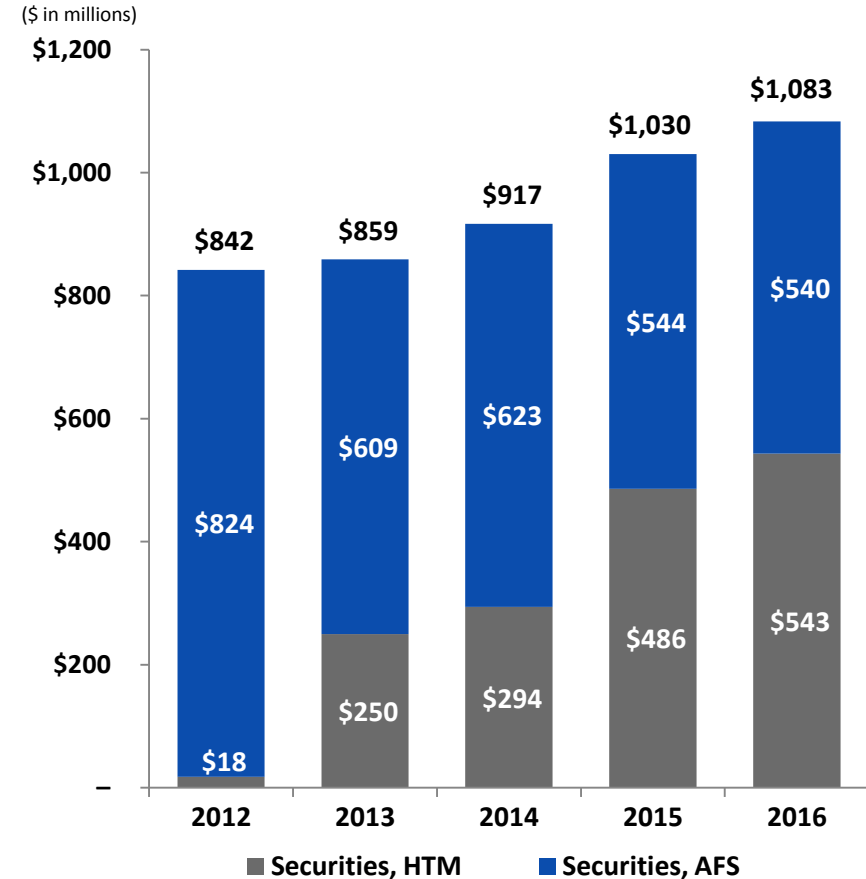
Asset Growth

Loans



	2012	2013	2014	2015	2016
Loan Yield	5.09%	4.65%	4.38%	4.21%	4.18%

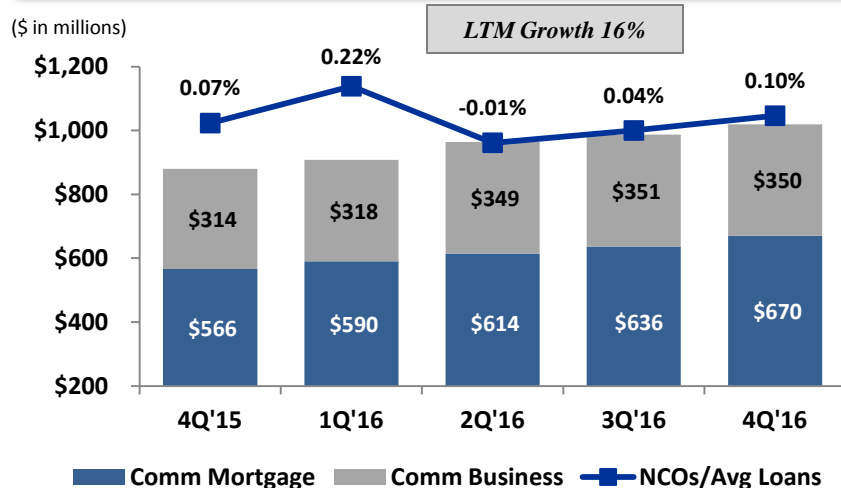
Securities



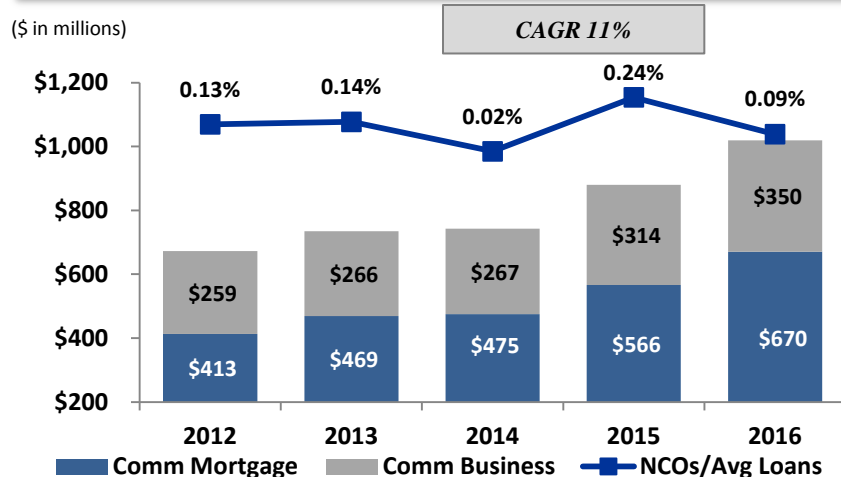
	2012	2013	2014	2015	2016
Security Yield (TE)	2.66%	2.41%	2.44%	2.46%	2.45%

Commercial Banking

Commercial Banking – Quarterly



Commercial Banking – Annual



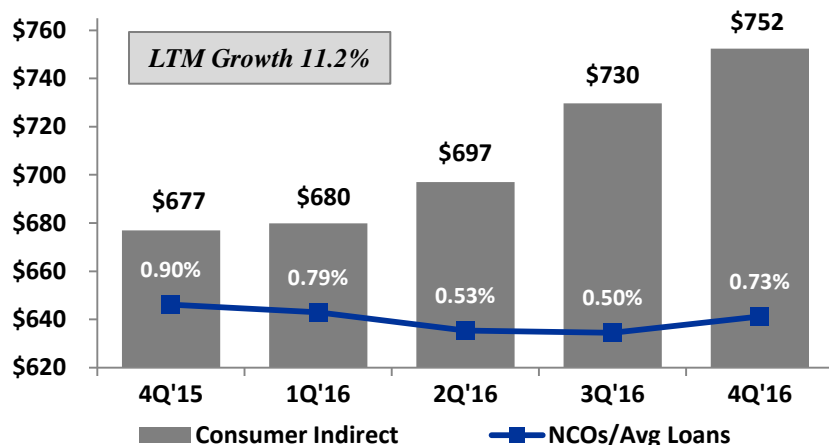
Commentary

- Strong year-over-year growth in both Commercial Mortgage (CRE and owner occupied) and Commercial Business (C&I) lending
- Growth in high-yielding Small Business Commercial lending driven by addition of talent
- #2 SBA lender in Rochester/Buffalo combined and #32 SBA lender in U.S. for the 2016 SBA year ended September 30⁽¹⁾
- Taking advantage of significant opportunities to capitalize on disruption within the marketplace
 - Made important acquisitions of talent in 2016 which are expected to fuel organic growth
- Community banks are gaining momentum in becoming financial partners of choice
 - Provide a wide spectrum of products: credit, deposit, insurance, wealth advisory and treasury
 - Agile in responding to changing customer needs

Consumer Indirect

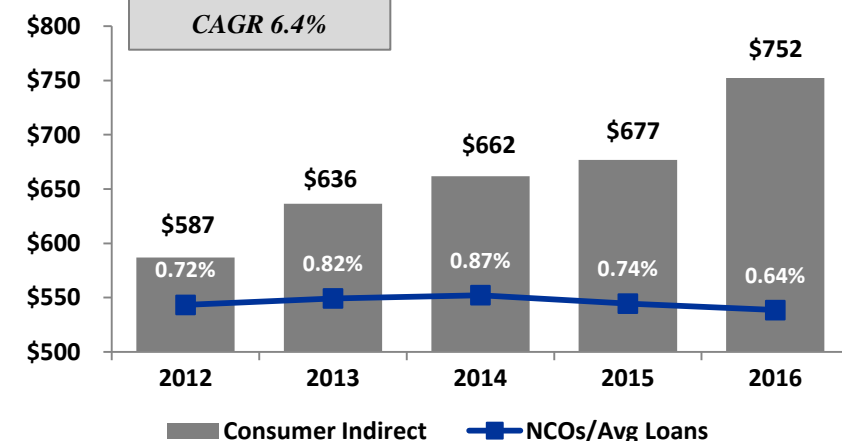
Consumer Indirect – Quarterly

(\$ in millions)



Consumer Indirect – Annual

(\$ in millions)



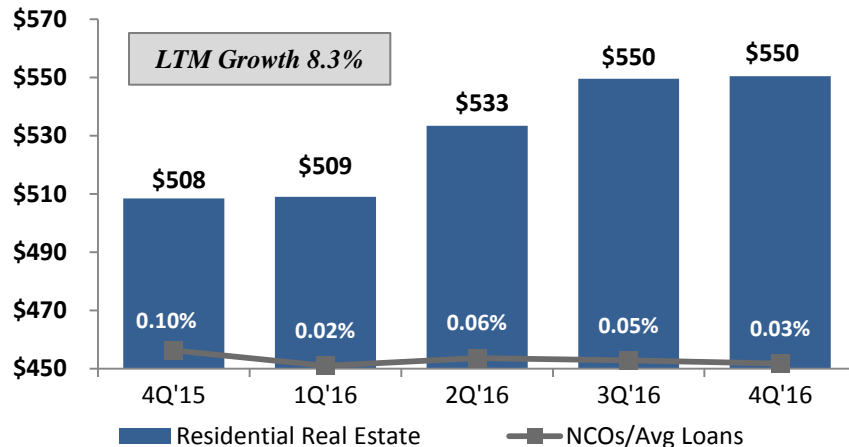
Commentary

- Consumer indirect is a unique core competency
 - Experienced management team with average industry experience of 25+ years
- Loans originate through approximately 480 franchised automobile dealerships in Upstate New York and PA (no independent auto dealers)
- Large unit volume and smaller loans provide natural risk dispersion
- Substantial barriers to entry/model not easily duplicated
- Relatively short duration allows for rapid re-pricing of new assets
- Strong originations benefitted from continued expansion in PA
- High percentage of originations are prime credits, resulting in favorable net charge-offs
- Ongoing focus on maintaining both yield and credit quality standards

Residential Real Estate Loans and Lines

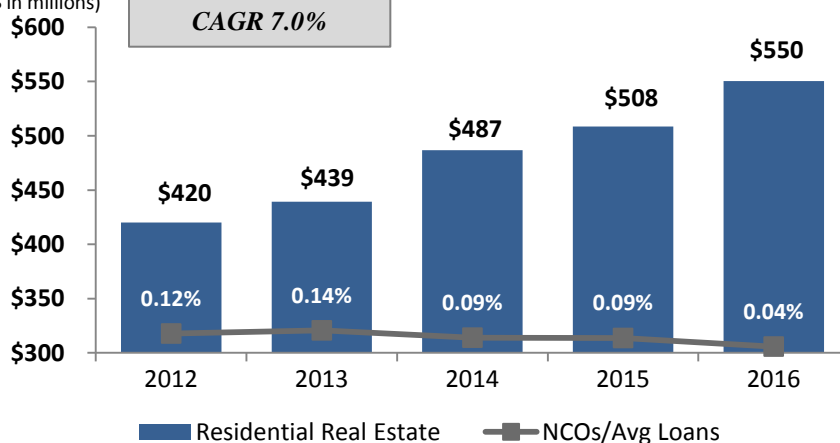
Residential Real Estate – Quarterly

(\$ in millions)



Residential Real Estate – Annual

(\$ in millions)

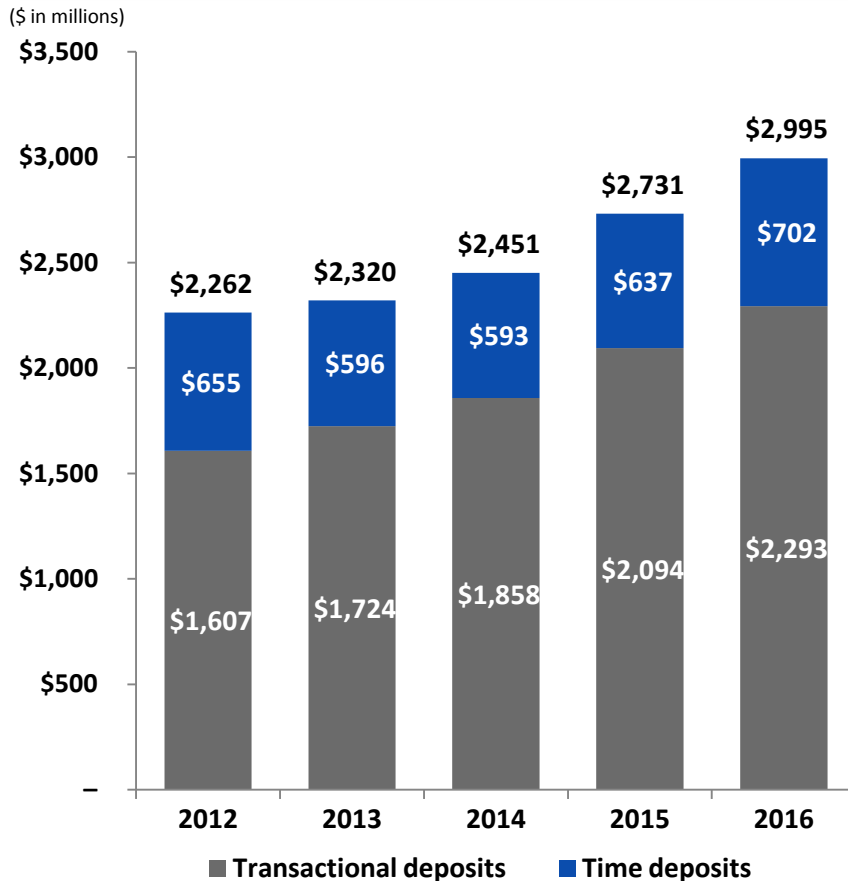


Commentary

- In-market originations through mortgage loan originators and FSB branch network include term loans and lines with focus on home equity lending
- Seamless home equity application process with quick response time provides enhanced customer experience versus secondary market application
 - Consumers willing to trade rate for convenience
 - Product builds relationships and captures market share
- Strong first lien position mix within the portfolio
 - Approximately 70% fixed rate and 30% variable rate
- Continuing the build-out of production capabilities to capitalize on market disruption
- Pursuing opportunity to enhance noninterest income with expanded mortgage banking operations
- Outstanding response to spring loan sale promotion contributed to strong portfolio growth in both 2Q and 3Q

Deposit Growth

Deposits (by account type)



	2012	2013	2014	2015	2016
Cost of Deposits	0.39%	0.27%	0.25%	0.27%	0.29%

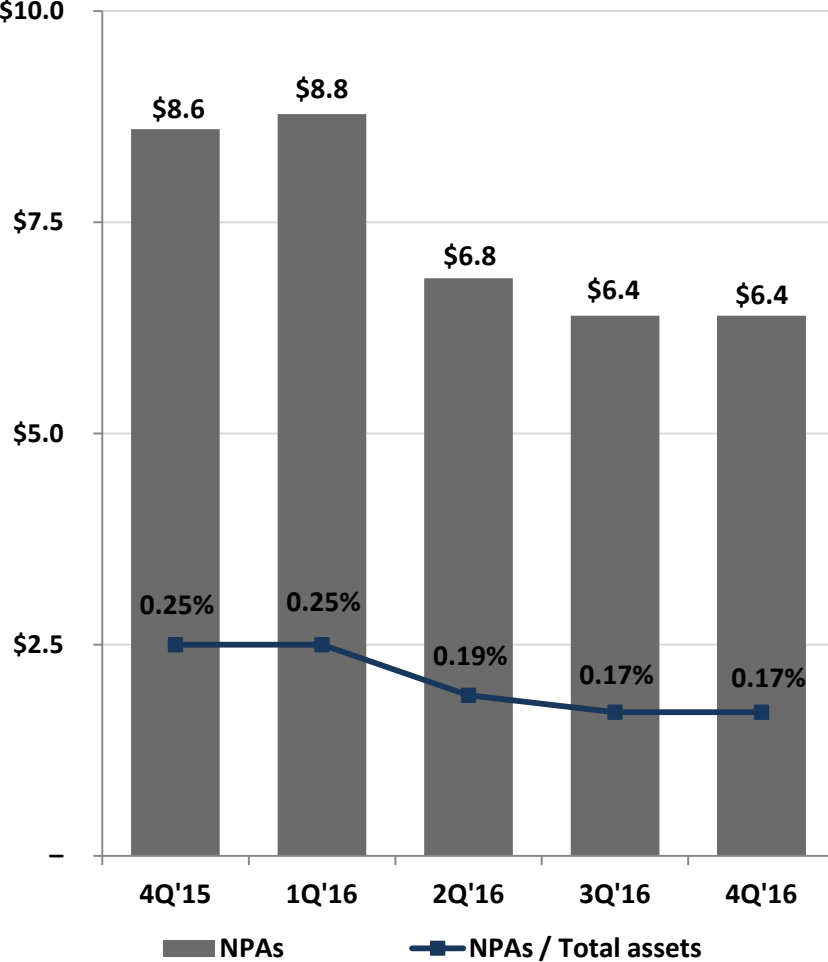
Commentary

- Increase in 2016 driven by organic growth
 - Partially attributed to new financial solution centers at City Gate and in Brighton in the Rochester region
- Combined Rochester and Buffalo markets represent attractive local deposit market of \$32 billion
 - Current FSB market share is less than 4%
- Regional consolidation creates opportunities (i.e. KeyCorp's acquisition of First Niagara)
- Over the last few years there has been a lack of interest by the larger banks in the municipal business
 - Led to customers being attracted to community banks like Five Star
 - Dedicated sales force has also helped to drive growth in public deposits
 - FSB currently has approximately 310 customers

Asset Quality

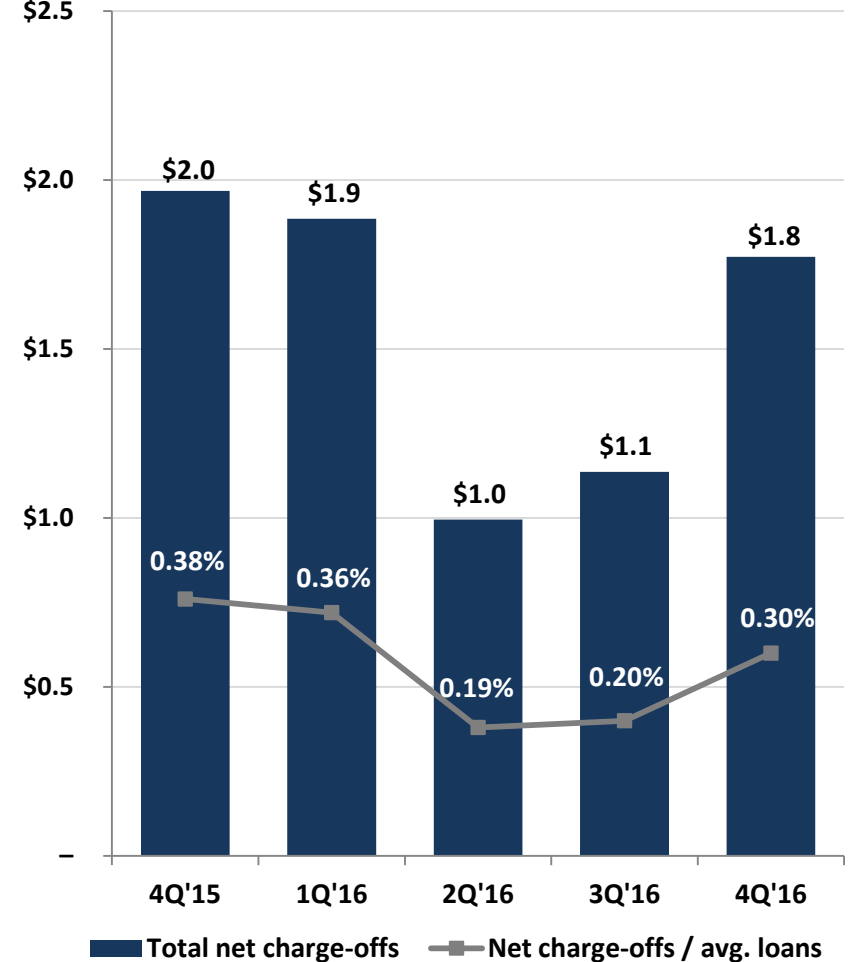
Non-Performing Assets

(\$ in millions)
\$10.0



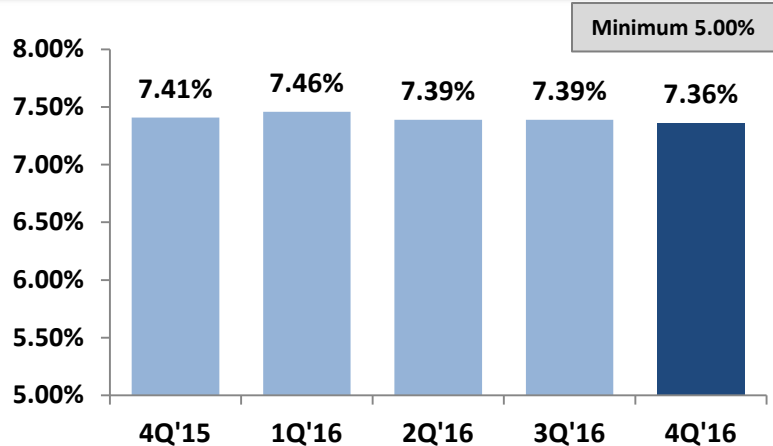
Net Charge-Offs

(\$ in millions)
\$2.5

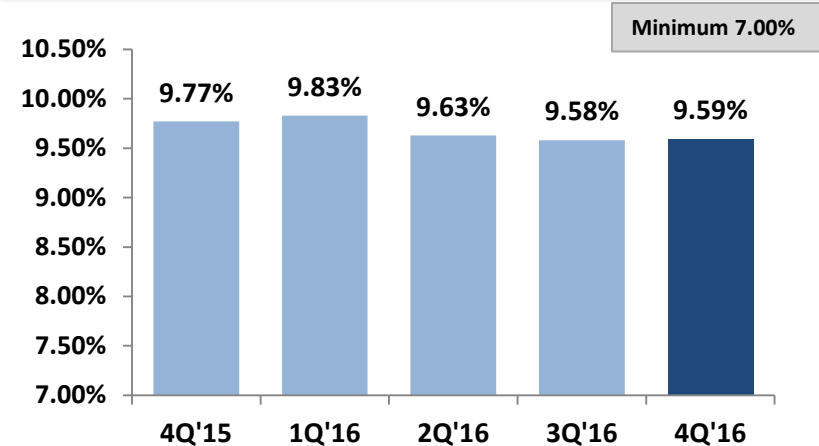


Capital Ratios

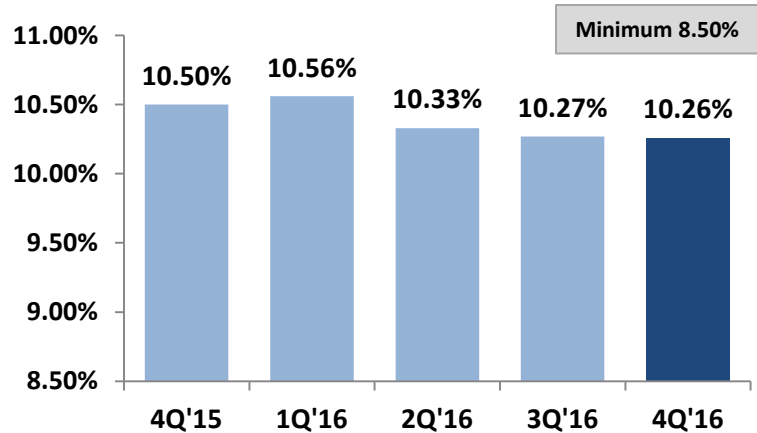
Leverage Ratio ⁽¹⁾



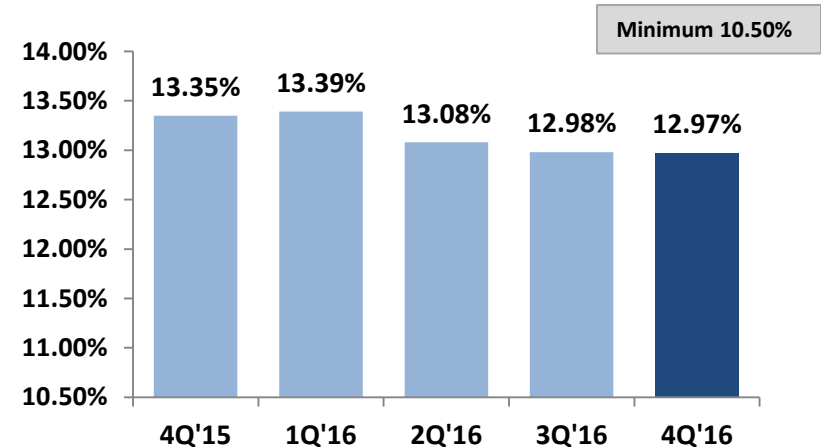
Common Equity Tier 1 Capital Ratio ⁽¹⁾



Tier 1 Capital Ratio ⁽¹⁾



Total Risk-Based Capital Ratio ⁽¹⁾



⁽¹⁾ Ratios calculated under Basel III, which became effective January 1, 2015. Minimum capital ratios based on January 2019 fully phased-in Basel III requirements.

 **Appendix**


Non-GAAP Reconciliation

Non-GAAP Financial Information

This presentation contains disclosure regarding tangible common equity, tangible common equity to tangible assets, tangible common book value per share, average tangible common equity and return on average tangible common equity, which are determined by methods other than in accordance with U.S. generally accepted accounting principles ("GAAP"). The Company believes that these non-GAAP measures are useful to our investors as measures of the strength of the Company's capital and ability to generate earnings on tangible common equity invested by our shareholders. These non-GAAP measures provide supplemental information that may help investors to analyze our capital position without regard to the effects of intangible assets. Non-GAAP financial measures have inherent limitations and are not uniformly applied by issuers. Therefore, these non-GAAP financial measures should not be considered in isolation, or as a substitute for comparable measures prepared in accordance with GAAP. The comparable GAAP financial measures and reconciliation to the comparable GAAP financial measures are provided below.

GAAP to Non-GAAP Reconciliation (\$ in thousands, except per share data)	Quarter ended,			Year to Date	
	12/31/2015	9/30/2016	12/31/2016	2015	2016
Computation of ending tangible common equity:					
Common shareholders' equity	\$ 276,504	\$ 308,931	\$ 302,714		
Less: Goodwill and other intangible assets, net	66,946	75,943	75,640		
Tangible common shareholders' equity	209,558	232,988	227,074		
Computation of ending tangible assets:					
Total assets	\$ 3,381,024	\$ 3,687,365	\$ 3,710,340		
Less: Goodwill and other intangible assets, net	66,946	75,943	75,640		
Tangible assets	3,314,078	3,611,422	3,634,700		
Tangible common equity to tangible assets ⁽¹⁾	6.32%	6.45%	6.25%		
Common shares outstanding	14,191	14,528	14,538		
Tangible common book value per share ⁽²⁾	\$ 14.77	\$ 16.04	\$ 15.62		
Computation of average tangible common equity:					
Average common equity	\$ 279,821	\$ 308,524	\$ 306,335	\$ 272,367	\$ 301,666
Average goodwill and other intangible assets, net	67,692	76,116	75,807	68,138	76,170
Average tangible common equity	212,129	232,408	230,528	204,229	225,496
Computation of average tangible assets:					
Average assets	\$ 3,353,702	\$ 3,593,672	\$ 3,679,569	\$ 3,269,890	\$ 3,547,105
Average goodwill and other intangible assets, net	67,692	76,116	75,807	68,138	76,170
Average tangible assets	3,286,010	3,517,556	3,603,762	3,201,752	3,470,935
Net income available to common shareholders	6,270	8,103	8,328	26,875	30,469
Return on average tangible common equity ⁽³⁾	11.73%	13.87%	14.37%	13.16%	13.51%

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.