Financial Institutions, Inc.

NASDAQ: FISI

Fourth Quarter 2017 Earnings Presentation

January 29, 2018

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. This presentation includes certain non-GAAP financial measures intended to supplement, not substitute for, comparable GAAP measures. Reconciliations of those non-GAAP financial measures to GAAP financial measures are provided in the Appendix to this presentation.

Overview of Financial Institutions, Inc.

Corporate Overview

- Diversified financial services holding company headquartered in Western New York
- Subsidiaries include:
  - Five Star Bank (regional community bank)
  - Scott Danahy Naylon, LLC (full-service insurance agency)
  - Courier Capital, LLC (investment advisory and wealth management firm)
- 53 banking locations in 15 contiguous counties in Western and Central New York
- Experienced management team with extensive market knowledge and industry experience
- Franchise offers products and revenue sources to a diversified mix of consumer, business and municipal customers
- Generating consistent, strong operating results
- Positioned for growth through key initiatives and market disruption

Key Statistics as of December 31, 2017

Assets:	$4.11 billion
Loans:	$2.74 billion
Deposits:	$3.21 billion
Shareholders' Equity:	$381.2 million
NPAs[(1)]/Total Assets:	0.31%
Employees:	~ 650
ROACE (TTM):	9.68%
ROATCE[(2)] (TTM):	12.51%
ROAA (TTM):	0.86%
Annualized Dividend Per Share:	$0.88
Closing Stock Price Per Share:	$31.10
Dividend Yield:	2.8%
Market Capitalization:	$495.3 million

(1) NPAs include nonaccrual loans, loans past due 90 days or more and still accruing, and foreclosed assets
(2) Refer to "Non-GAAP Reconciliation" in Appendix

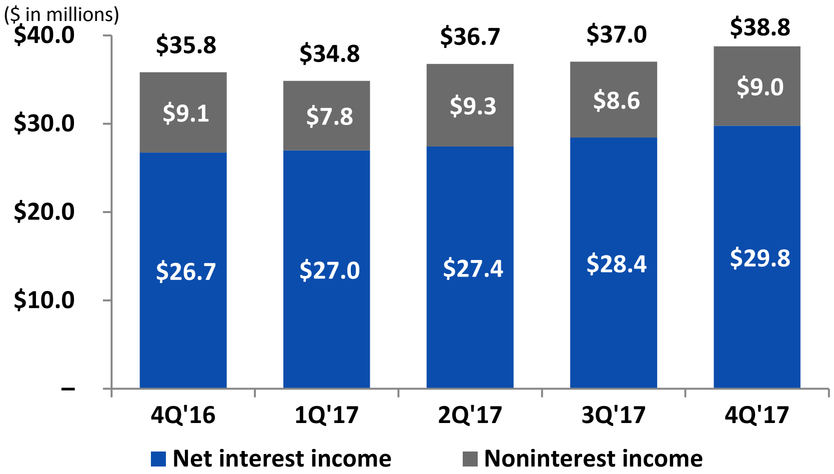
Fourth Quarter and Full Year 2017 Highlights

- Diluted earnings per share ("EPS") for the quarter of $0.68 was $0.11 higher than Q4 2016
  - EPS for the year of $2.13 was $0.03 higher than 2016
- Net interest income for the quarter of $29.8 million increased $3.0 million, or 11.4%, as compared to Q4 2016
  - Net interest income for the year of $112.6 million increased $9.9 million, or 9.7%, as compared to 2016
- Return on average common equity was 11.88% for the quarter and 9.68% for the year
  - Return on average tangible common equity was 15.03% for the quarter and 12.51% for the year (1)
- Net interest margin was 3.25% for the quarter, an increase of three basis points from Q4 2016
  - Net interest margin for the year was 3.21%, a decrease of three basis points from 2016
- Total assets, interest-earning assets, loans and deposits reached record-high year-end levels:
  - Total assets increased $394.9 million in 2017, to $4.11 billion
  - Total interest-earning assets increased $354.1 million in 2017, to $3.78 billion
  - Total loans increased $394.9 million in 2017, to $2.74 billion
  - Total deposits increased $215.0 million in 2017, to $3.21 billion
- The Company declared a quarterly cash dividend of $0.22 per common share, representing a 5% increase
- The Company completed its at-the-market equity offering ("ATM Offering") during the quarter and sold 294,329 shares of common stock, generating $9.0 million of gross proceeds ($8.6 million of net proceeds)
  - In 2017, approximately 1.4 million shares of common stock were sold under the ATM Offering, generating $40.0 million of gross proceeds ($38.3 million of net proceeds)

(1) Refer to "Non-GAAP Reconciliation" in Appendix

Fourth Quarter 2017

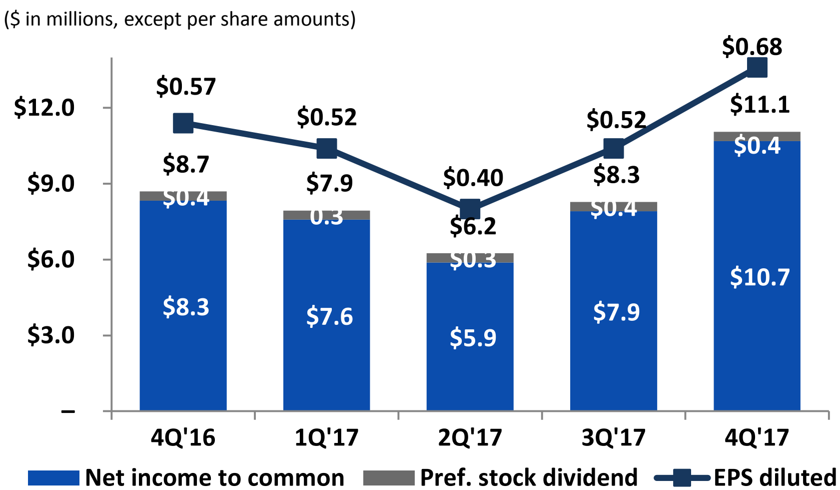
Revenue



Results Summary

	4Q'16	3Q'17	4Q'17
Return on average assets	0.94%	0.83%	**1.09%**
Return on average common equity	10.81%	9.21%	**11.88%**
Return on average tangible common equity[(1)]	14.37%	11.76%	**15.03%**
Net interest margin	3.22%	3.17%	**3.25%**
Efficiency ratio[(2)]	56.99%	59.75%	**59.62%**
Dividends per share	$0.21	$0.21	**$0.22**
Dividend yield (annualized)	2.44%	2.89%	**2.81%**

Net Income & EPS



Commentary

- Growth in net interest income driven by an increase in loans.
- Salaries and employee benefits increased $624 thousand from 3Q'17 and $1.5 million from 4Q'16, primarily due to a full quarter's expense for recent MLO hires and the Robshaw & Julian acquisition (8/17).
- Advertising and promotions expense increased $376 thousand from 3Q'17 and $180 thousand from 4Q'17 related to development of rebranding initiative to be launched in 1Q'18.
- Loan loss provision increased $1.1 million from 3Q'17 and $589 thousand from 4Q'17 as a result of loan growth and increase in charge-offs (2016 was an exceptional asset quality year and 2017 was a reversion back to the norm; 2017 charge-offs were 38 basis points, in-line with 10-year company average of 39 basis points).
- Q4'17 effective tax rate of 5% reflects estimated $2.9 million reduction in income tax expense due to Tax Cuts and Jobs Act.

(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) The efficiency ratio is calculated by dividing noninterest expense by net revenue, i.e., the sum of net interest income (fully taxable equivalent) and noninterest income before net gains on investment securities. This is a banking industry measure not required by GAAP.

Key Earnings Highlights

Quarterly Earnings Highlights (4Q'16 – 4Q'17)

($ in millions, except per share amounts)

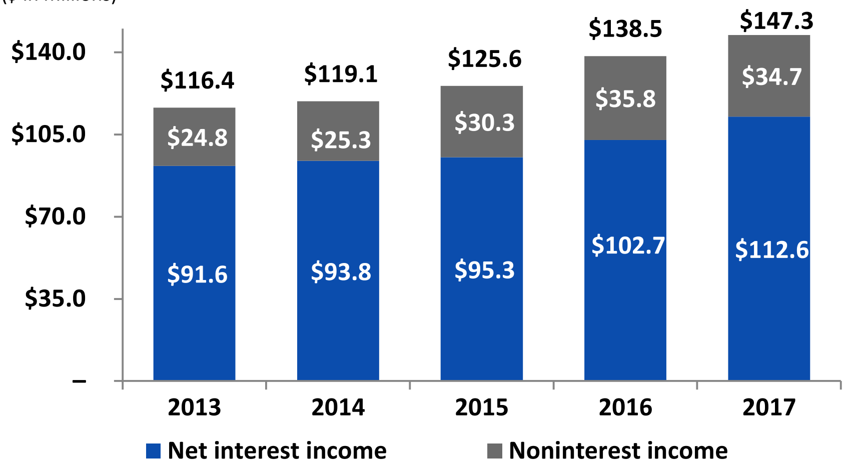
Earnings Summary	4Q'16	1Q'17	2Q'17	3Q'17	4Q'17
Average interest-earning assets	$3,408	$3,478	$3,557	$3,669	**$3,739**
Net interest margin	3.22%	3.23%	3.18%	3.17%	**3.25%**
Net interest income	26.7	27.0	27.4	28.4	**29.8**
Noninterest income	9.1	7.8	9.3	8.6	**9.0**
Total revenue	**$35.8**	**$34.8**	**$36.7**	**$37.0**	**$38.8**
Noninterest expense	($20.7)	($20.9)	($23.9)	($22.5)	**($23.2)**
Pre-provision net revenue	15.1	13.9	12.8	14.5	**15.6**
Provision for loan losses	(3.4)	(2.8)	(3.8)	(2.8)	**(3.9)**
Pre-tax net income	11.7	11.1	9.0	11.7	**11.7**
Income tax expense	(3.0)	(3.2)	(2.8)	(3.4)	**(0.6)**
Net income	**$8.7**	**$7.9**	**$6.2**	**$8.3**	**$11.1**
Preferred stock dividends	(0.4)	(0.3)	(0.3)	(0.4)	**(0.4)**
Net income available to common shareholders	**$8.3**	**$7.6**	**$5.9**	**$7.9**	**$10.7**

Earnings per share - diluted	$0.57	$0.52	$0.40	$0.52	**$0.68**
Weighted average common shares outstanding - diluted	14.5	14.5	14.7	15.3	**15.8**

Full Year 2017

Revenue

($ in millions)

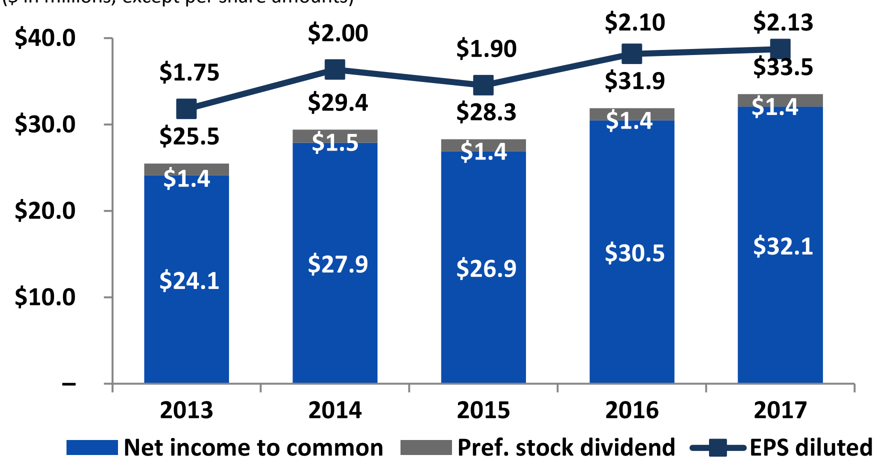


Results Summary

	2016	2017
Return on average assets	0.90%	**0.86%**
Return on average common equity	10.10%	**9.68%**
Return on average tangible common equity[1]	13.51%	**12.51%**
Net interest margin	3.24%	**3.21%**
Efficiency ratio[2]	60.95%	**60.65%**
Dividends per share	$0.81	**$0.85**
Dividend yield (annualized)	2.37%	**2.73%**

Net Income & EPS

($ in millions, except per share amounts)



Commentary

- Growth in net interest income driven by an increase in loans.
- Salaries and employee benefits increased $3.5 million from 2016, primarily as a result of organic growth initiatives (addition of talent).
- Occupancy and equipment expense increased $1.8 million from 2016 related to ‘16 and ‘17 branch openings and relocation of Rochester regional administration center.
- Loan loss provision increased $3.7 million from 2016 as a result of loan growth and increase in charge-offs (2016 was an exceptional asset quality year and 2017 was a reversion back to the norm; 2017 charge-offs were 38 basis points, in-line with 10-year company average of 39 basis points).
- 2017 effective tax rate of 22.9% reflects estimated $2.9 million reduction in income tax expense due to Tax Cuts and Jobs Act

Financial Institutions, Inc.

(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.

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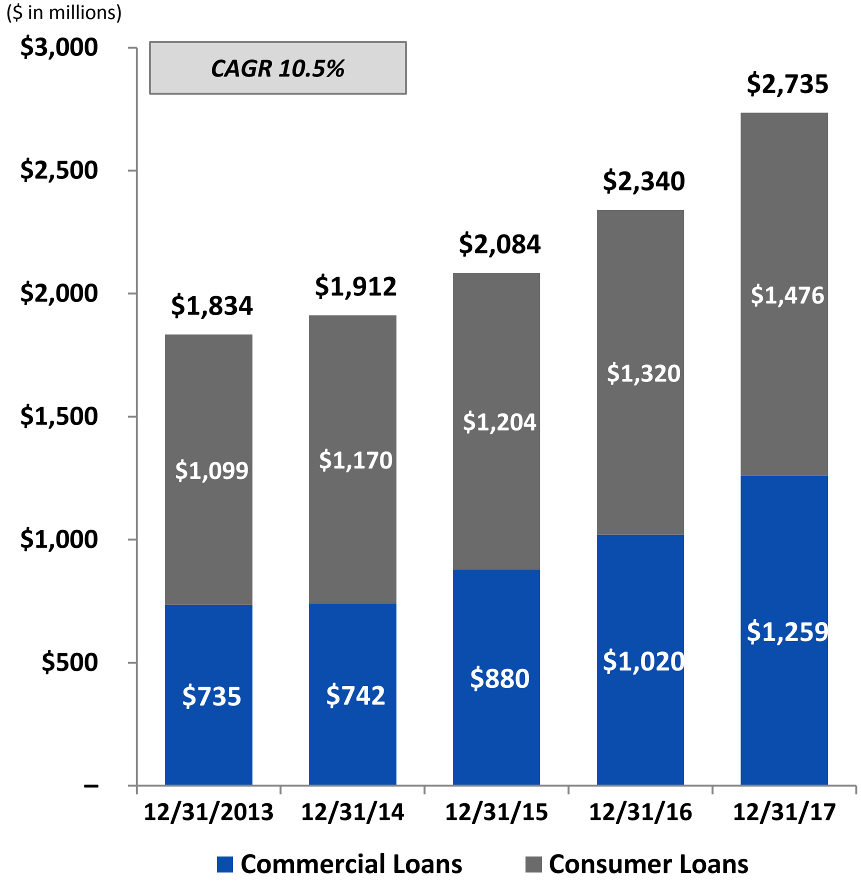
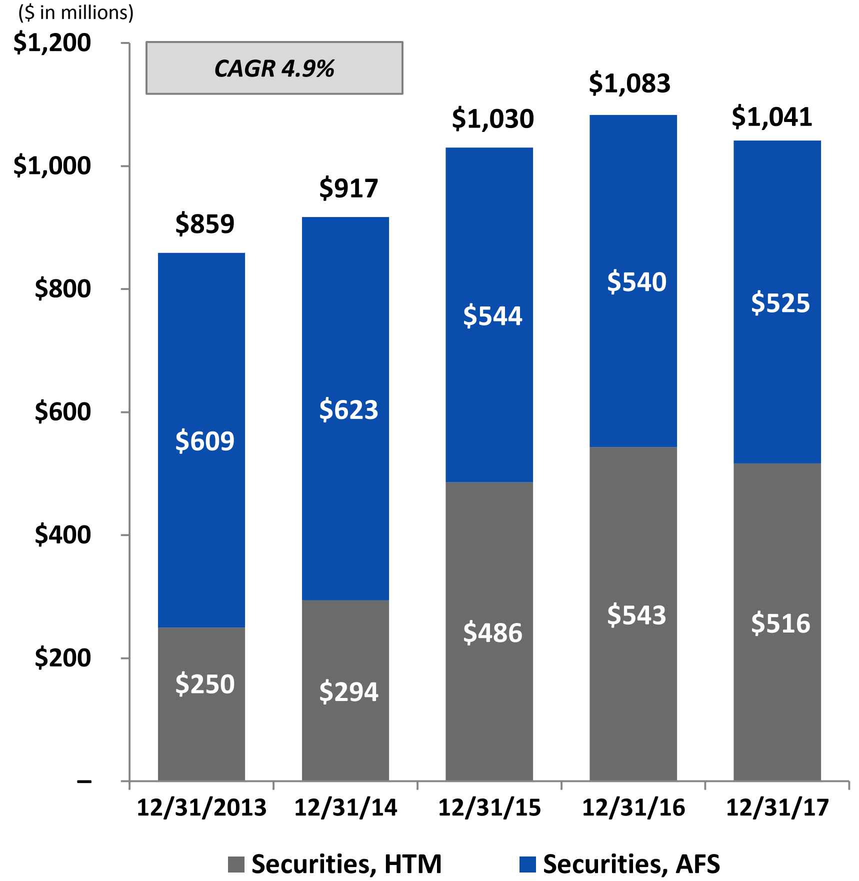
Asset Growth

Loans



	2013	2014	2015	2016	2017
Loan Yield[(1)]	4.65%	4.38%	4.21%	4.18%	4.22%

Securities

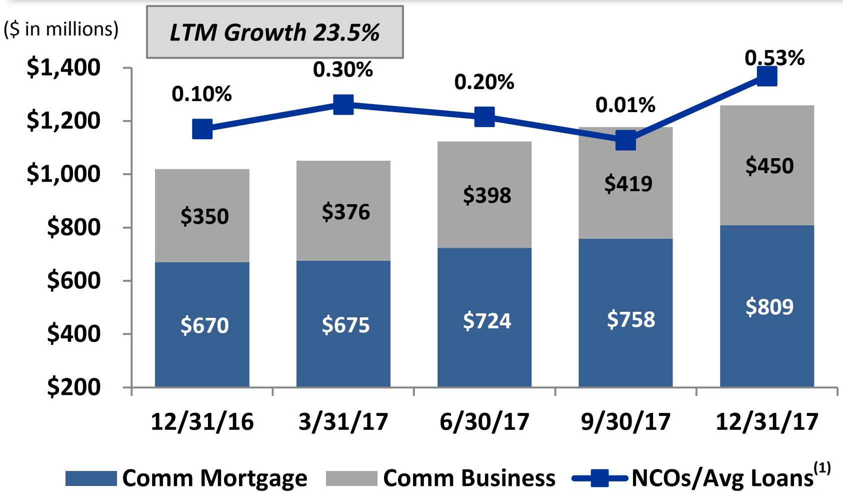


	2013	2014	2015	2016	2017
Security Yield[(2)]	2.41%	2.44%	2.46%	2.45%	2.48%

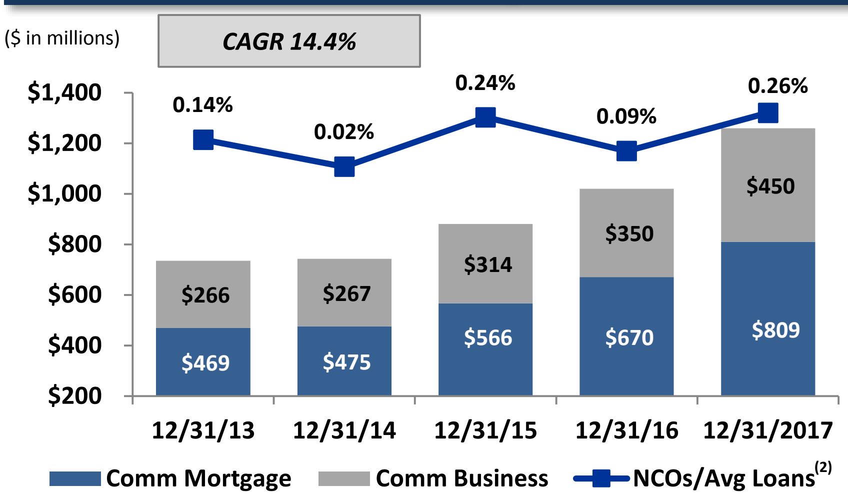
(1) Average yield for the period
(2) Average yield (tax equivalent basis) for the period

Commercial Banking

Commercial Banking – Quarterly



Commercial Banking – Annual



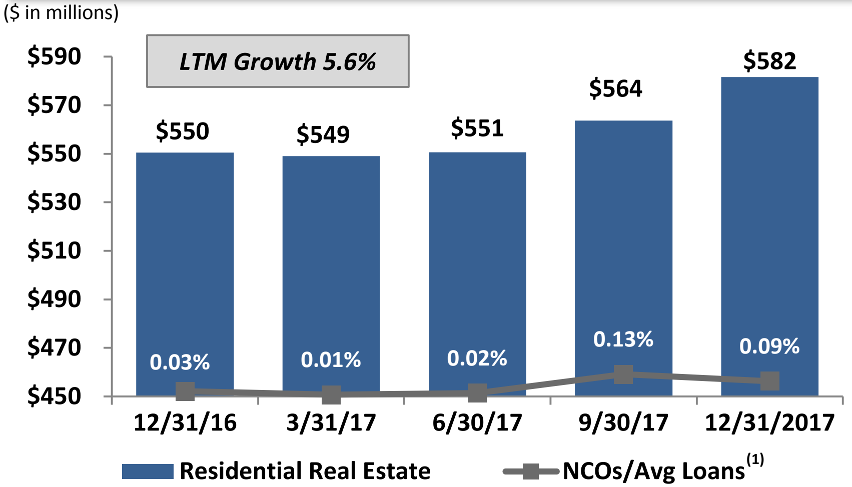
Commentary

- Strong year-over-year growth in Commercial Mortgage Loans (CRE and owner occupied) of 20.7% and Commercial Business Loans (C&I) of 28.8%
- Includes growth in higher-yielding Small Business Commercial Lending
- Five Star Bank was the #3 SBA lender in Rochester/Buffalo combined and #49 SBA lender in the U.S. for the 2017 SBA year ended September 30[3]
- Over the past 24 months we have taken advantage of market disruption with strategic hires, adding lenders in nearly all categories
  - Hiring experienced professionals from competing institutions
  - They bring market experience, knowledge and relationships
  - Attracting new customers and generating new loan business
- Five Star Bank is gaining momentum in becoming financial partner of choice
  - Provides a wide spectrum of products: credit, deposit, insurance, wealth advisory and treasury
  - Responsive to changing customer needs

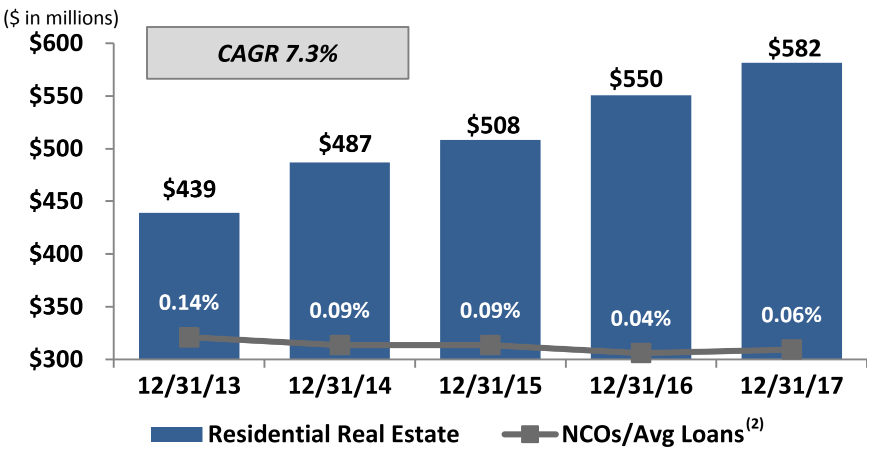
(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)
(3) SBA rankings based on Units; Five Star Bank was the #2 SBA lender in Rochester/Buffalo based on dollar volume

Residential Real Estate Loans and Lines

Residential Real Estate – Quarterly



Residential Real Estate – Annual



Commentary

- In-market originations through mortgage loan originators and Five Star Bank branch network
- Includes term loans and lines
- Continuing the build out of residential mortgage production capabilities to capitalize on market disruption in Buffalo and Rochester
  - Community bank delivery model
- In 2017, added 8 mortgage loan officers (“MLOs”)and back-office support personnel to underwrite and process production
- Line of business provides opportunity to establish relationships with new customers
  - Loan and deposit relationships
  - Opportunity to provide wealth management and insurance services
- Increased mortgage lending is expected to result in positive balance sheet impact as well as fee generation
  - Solid pipeline at 12/31/17 indicative of all MLOs producing at full capacity

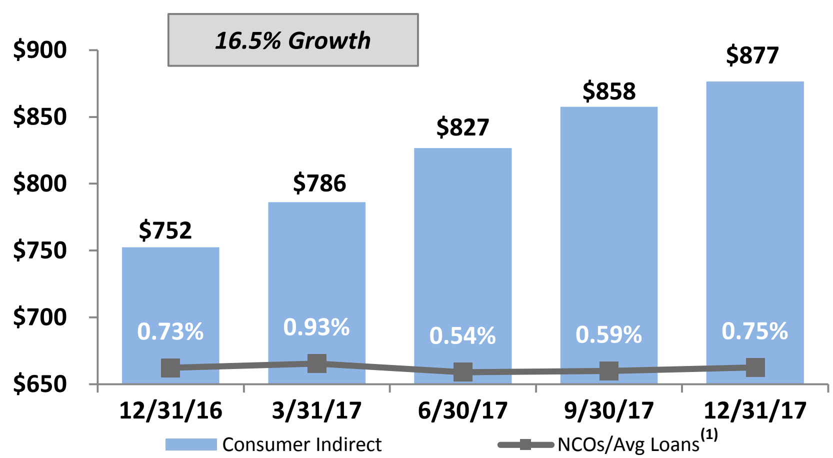
(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

Consumer Indirect Lending

- $877 Million Portfolio at December 31, 2017
  - 32.0% of total loans
  - Has represented more than 30% of total loans since 2010 (peak of 34.7% at 12/31/13)
- Strong Dealer Relationships
  - Dealer network of nearly 500 franchised new automobile dealerships
  - No independents, specialty or non-auto dealers
- Relatively Short Duration Allows for Rapid Re-pricing
  - Weighted average interest rate of 2017 new loan production increasing due to upward rate movement
- Natural Risk Dispersion – More Units with Smaller Loan Size

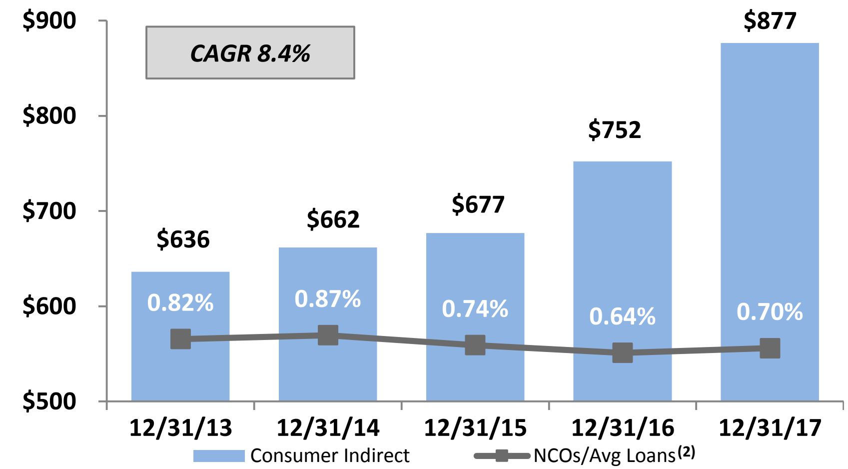
Consumer Indirect – Quarterly

($ in millions)



Consumer Indirect – Annual

($ in millions)



(1) For the quarter (annualized)
(2) For the year/year-to-date (annualized)

Consumer Indirect Lending is a Core Competency

- Experienced Consumer Indirect Management Team
  - Average industry experience of 25+ years
  - Key personnel obtained auto finance experience at Charter One Auto Finance (originated more than $2 billion annually in 21 states and serviced portfolio of $6.5 billion)
- Consistent and Disciplined Philosophy Focused on Applicant's Credit History and Ability to Repay
- Prime Lending Operation
  - Portfolio average FICO score of 729 at December 31, 2017
  - Little to no subprime lending: Approximately 1.6% of portfolio with FICO scores below 630
- We Operate in Markets We Know
  - Upstate New York: From Buffalo to Albany and Lake Ontario to the Pennsylvania border
  - Northern and Central Pennsylvania
  - Similar economic environments and credit characteristics; Limited mass transportation
- We Leverage New/Used Mix to Achieve Desired Risk/Reward Outcomes
  - Since 2008, new car percentage of originations has ranged from a low of 32% in '09 to a high of 49% in '12
  - New car percentage of originations was 42% for the full year 2017
- Strong System and Back-End Controls
  - Automation of workflows
  - Consistent application of credit standards
  - Enforcement of key controls
  - Robust reporting to monitor production, performance, overrides and exceptions

Consumer Indirect Lending is a Core Competency

- Focus on Service to Support Premium Pricing
  - Quick turn times and extended hours
  - Ability to speak to an underwriter
  - Dealer preferred funding method
- Data-Driven Approach to Risk Management
  - Robust management information systems and expertise in monitoring the program

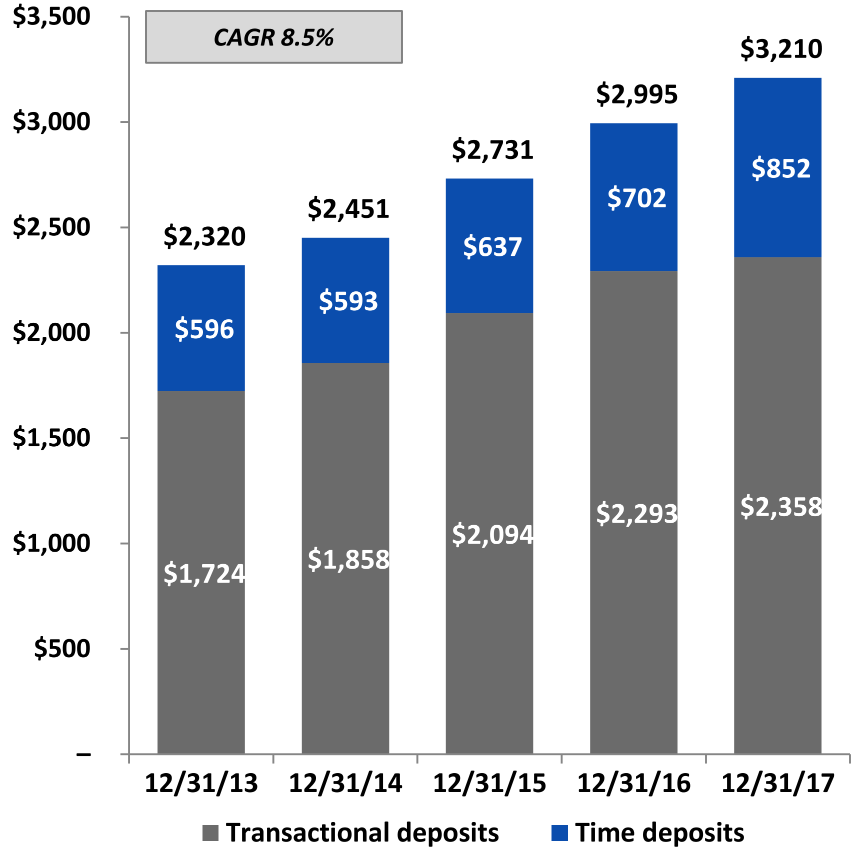
End Result is A Demonstrated Track Record of Consistent Performance through Expansion, Recession and Stagnation

- Delinquency at quarter-end between Q1’12 and Q4’17 ranged from a low of 0.18% to a high of 0.67%
- Annual net charge-offs between 2008 and 2017 ranged from a low of 0.60% to a high of 0.87%
- Net charge-offs for 2017 were 0.70% on an annualized basis

Deposit Growth

Deposits (by account type)

($ in millions)



	2013	2014	2015	2016	2017
Cost of Deposits(1)	0.28%	0.26%	0.27%	0.29%	0.35%

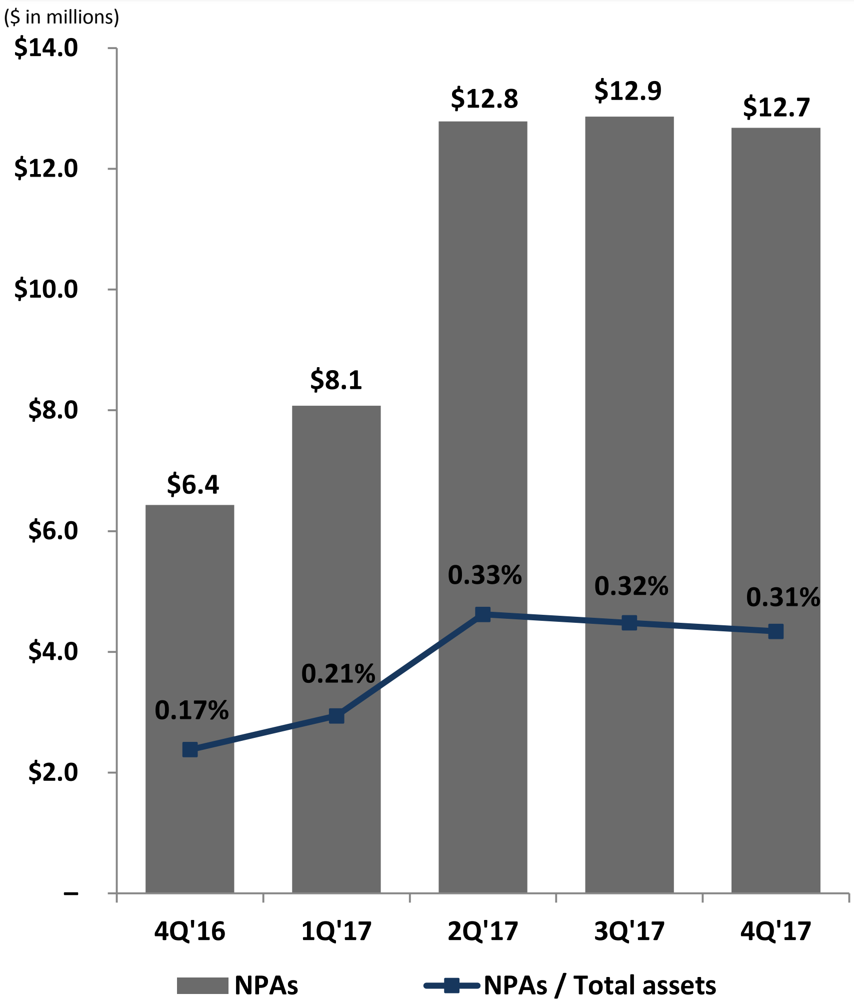
Commentary

- Increase in 2017 driven by organic growth
  - New financial solution centers in downtown Rochester and downtown Buffalo
  - Impact of successful CD and money market campaigns
- Combined Rochester and Buffalo markets represent attractive local deposit market of $34 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 320 municipal customers

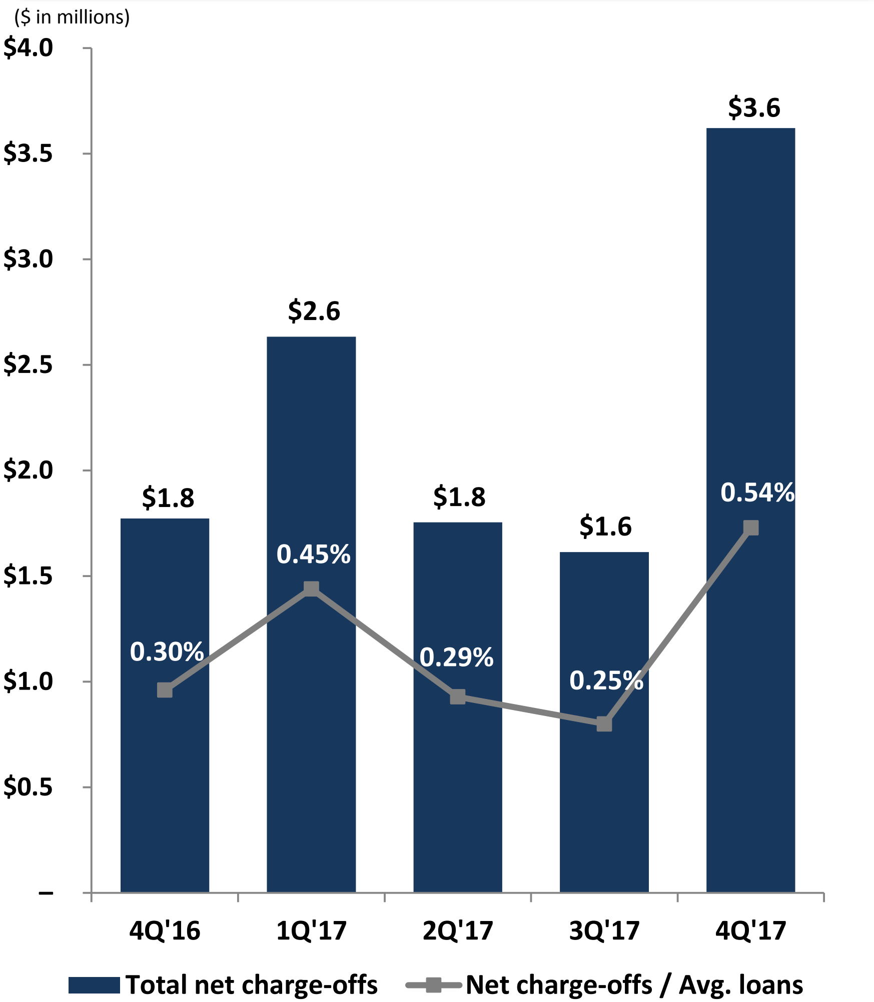
(1) For the year/year-to-date (annualized)

Asset Quality

Non-Performing Assets

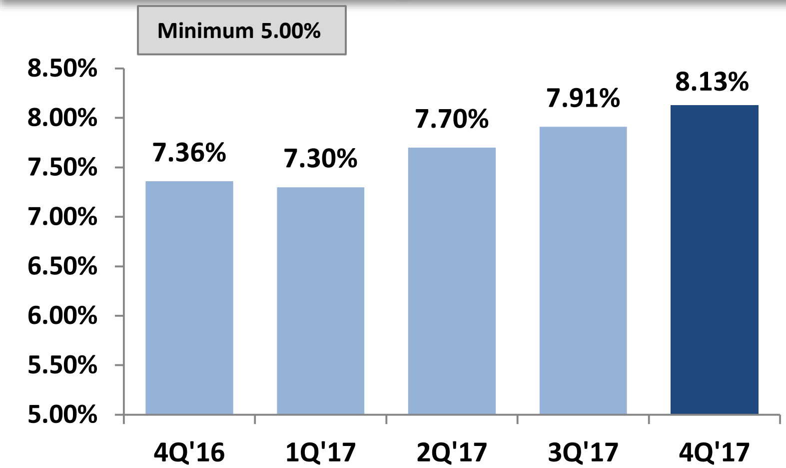


Net Charge-Offs

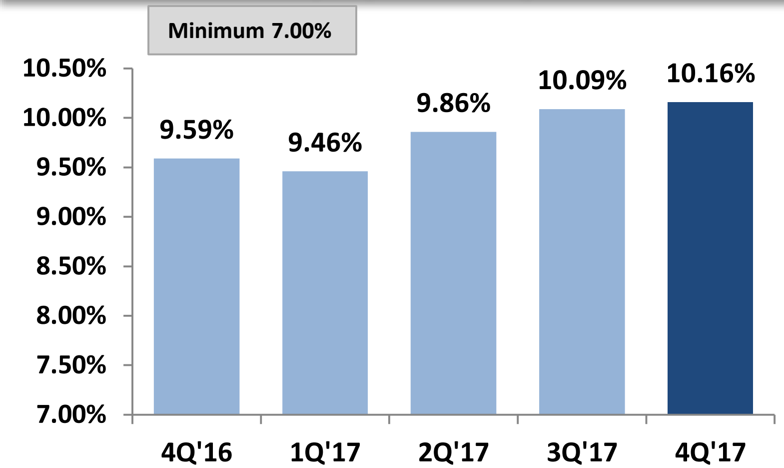


Capital Ratios

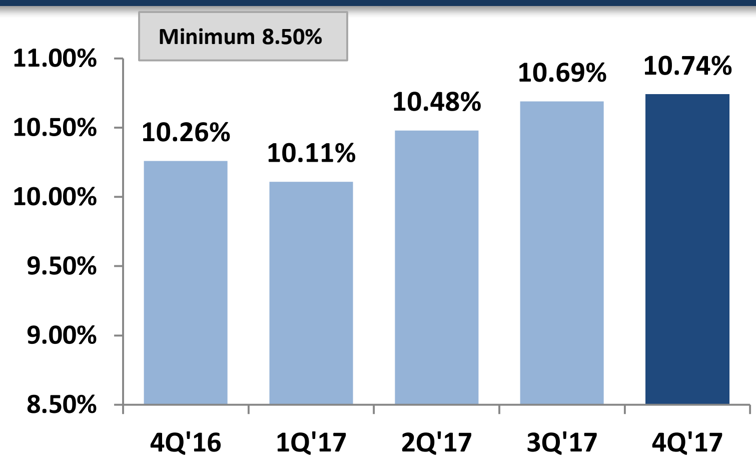
Leverage Ratio [1]



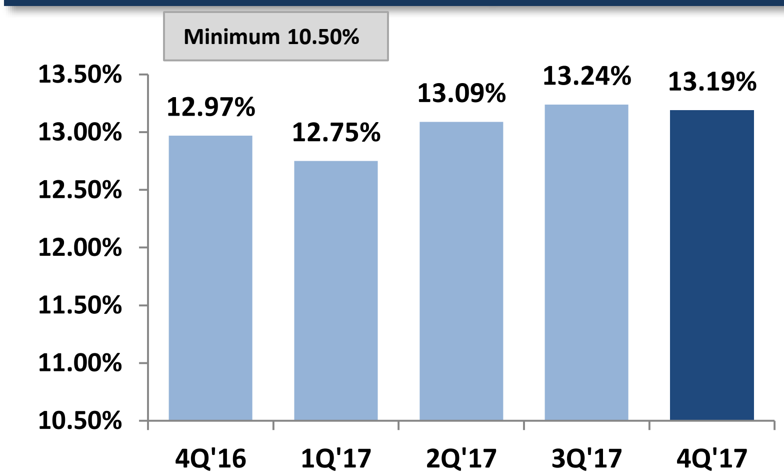
Common Equity Tier 1 Capital Ratio [1]



Tier 1 Capital Ratio [1]



Total Risk-Based Capital Ratio [1]



[1] 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 assets, tangible common equity to tangible assets, tangible common book value per share, average tangible common equity, average tangible assets 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	Quarter ended,			Year to Date	
($ in thousands, except per share data)	12/31/2016	9/30/2017	12/31/2017	2016	2017
Computation of ending tangible common equity:					
Common shareholders' equity	$ 302,714	$ 348,668	$ 363,848		
Less: Goodwill and other intangible assets, net	75,640	74,997	74,703		
Tangible common equity	227,074	273,671	289,145		
Computation of ending tangible assets:					
Total assets	$ 3,710,340	$ 4,021,591	$ 4,105,210		
Less: Goodwill and other intangible assets, net	75,640	74,997	74,703		
Tangible assets	3,634,700	3,946,594	4,030,507		
Tangible common equity to tangible assets (1)	6.25%	6.93%	7.17%		
Common shares outstanding	14,538	15,626	15,925		
Tangible common book value per share (2)	$ 15.62	$ 17.51	$ 18.16		
Computation of average tangible common equity:					
Average common equity	$ 306,335	$ 340,981	$ 357,079	$ 301,666	$ 331,184
Less: Average goodwill and other intangible assets, net	75,807	73,960	74,866	76,170	74,818
Average tangible common equity	230,528	267,021	282,213	225,496	256,366
Computation of average tangible assets:					
Average assets	$ 3,679,569	$ 3,951,002	$ 4,028,063	$ 3,547,105	$ 3,896,071
Less: Average goodwill and other intangible assets, net	75,807	73,960	74,866	76,170	74,818
Average tangible assets	3,603,762	3,877,042	3,953,197	3,470,935	3,821,253
Net income available to common shareholders	8,328	7,913	10,693	30,469	32,064
Return on average tangible common equity (3)	14.37%	11.76%	15.03%	13.51%	12.51%

Source: Company filings.

(1) Tangible common equity divided by tangible assets.

(2) Tangible common equity divided by common shares outstanding.

(3) Net income available to common shareholders (annualized) divided by average tangible common equity.