



# RELATED PARTY TRANSACTIONS POLICY

<b>Policy Owner</b>	<i>Chief Compliance Officer</i>
<b>Policy Reviewer</b>	<i>Company Risk Committee Risk Oversight Committee of the Board of Directors</i>
<b>Policy Approver</b>	<i>Board of Directors</i>
<b>Policy Review Frequency</b>	<i>Annually, unless change management warrants an earlier update</i>
<b>Date of Last Review/Update</b>	<i>February 24, 2016</i>
<b>Policy Effective Date</b>	<i>July 24, 2019</i>

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## 1. Executive Summary

NASDAQ Rule 5630 (a) requires that each issuer conduct an appropriate review of all related party transactions for potential conflict of interest situations prior to entering into any such transactions on an ongoing basis and requires that all such transactions be approved by the company's Audit Committee or an independent body of the Board of the Directors. Similar to other regulations applicable to transactions with insiders, the purpose of this rule is to protect the company's assets as well as the stability of the financial system from abusive related party transactions.

### 1.1. Rationale

It is the policy of Financial Institutions, Inc. (FII) and its subsidiaries (collectively, the Company) to comply with NASDAQ Rule 5630 (a) pertaining to related party transactions, to ensure that any such transactions do not present a conflict of interest, and to timely and accurately report said transactions if and when required.

### 1.2. Scope

This Policy applies to all employees and contingent workers (collectively "Personnel") of Financial Institutions, Inc. and its consolidated subsidiaries.

Note: a contingent worker is any person who is not an employee of the Company, who is providing services to the Company.

### 1.3. Related Policy

The following policy is superior to this Policy:

- Insider Lending Policy
- Code of Business Conduct and Ethics
- Code of Ethics for CEO, CFO and Financial Officers

## 2. Policy Statements

1. **Related Party Transactions.** The Company will not enter into any transaction with a related party that presents a conflict of interest.
2. **Audit Committee Review.** Pursuant to SEC Item 404 (a), any extension of credit to a related person which exceeds \$120,000 will be reported to the Audit Committee to perform a conflict of interest review.
3. **Proxy Statement Reporting.** As part of its proxy statement, the Company will report on the status of any related party transactions as required by Item 404 (a).

## 3. Policies and Procedures

It is the policy of Financial Institutions, Inc. (FII) and its subsidiaries (collectively, the Company) to adopt and maintain procedures to identify, in advance of the Company being committed or obligated, all transactions which, if consummated, may be deemed Related Party Transactions. Related parties are required by the Company's Code of Business Conduct and Ethics and Code of Ethics for CEO, CFO and Financial Officers ("Codes") to report to the Chief Risk Officer any such potential transaction with the Company. When any such potential transaction is identified, it shall be referred, with appropriate supporting detail, to the Audit Committee of the Board of Directors of Financial Institutions, Inc. / Five Star Bank ("Audit Committee").

## 4. Audit Committee Review

The Audit Committee shall first determine whether a transaction is a Related Party Transaction. If the determination is negative, the Audit Committee shall refer the matter to the appropriate body for disposition. If the determination is positive, the Audit Committee shall then approve or decline the potential transaction. The Audit Committee may approve the potential transaction only if it finds the transaction to be consistent with the Codes and any other applicable credit or business standards.

The Audit Committee's review of potential transactions referred to it shall be documented within the meeting minutes, describing in reasonable detail the potential transaction, the Committee's determination and its final disposition on the matter.

## 5. Reporting of Related Party Transactions

The Company shall report in its proxy statement any transactions determined to be in a status of nonaccrual, past due, restructured, or potential problems. If there are no such loans, the Company shall indicate as such, noting that all loans made to related persons were made in the ordinary course of business; were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the lender; and did not involve more than the normal risk of collectability or present other unfavorable features.

## 6. Policy Assurance Methods

### 6.1. *Related Procedures*

The procedure below is subordinate to this Policy and is subject to change in accordance with applicable updates and amendments to the Policy or as otherwise approved.

- Insider Lending Procedure

### 6.2. *Awareness and Training Methods*

This Policy and supporting procedure is available for all company employees on StarNet, the Company's intranet.

On an annual basis, employees whose roles are impacted by related party transaction regulatory requirements are required to take the Insider Lending training on BAI, which covers requirements pertaining to related party transactions, and pass the accompanying test.

Insider training is delivered in person to the Board of Directors on an annual basis.

### 6.3. *Policy Adherence Methods*

As laid out in Section 2 of this Policy, proposed related party transactions will be reviewed for conflicts of interest by the Audit Committee.

Any completed extensions of credit to a related party are reported to the Board on a monthly basis.

### 6.4. *Update Requirements*

The Policy will be reviewed and updated as necessary at least annually or updated as required, by Five Star Bank's Chief Compliance Officer.

The Policy will be submitted to the Company Risk Committee, and the Risk Oversight Committee of the Board for recommended approval. Ultimately, it must be approved by the Board of Directors.

### 6.5. *Consequences of Violating the Policy*

Failure to comply with this Policy may subject employees to a range of disciplinary actions, up to and including termination of employment. Furthermore, violations of this Policy may also be violations of the law and result in monetary and other damages and civil or criminal penalties for you, your supervisors and the Company.

### 6.6. *Exceptions and Exemptions*

There are no exceptions or exemptions to the Related Party Transactions Policy.

## 7. Governance

### 7.1. *Chief Compliance Officer*

- Develop, implement, and administer all aspects of this Policy;
- Update this Policy annually

### 7.2. *Audit Committee*

- Review and approval of all related party transactions for conflicts of interest, documenting the results of their review

### 7.3. *Company Risk Committee*

- Annual review of this Policy, and recommendation for approval

### 7.4. *Board of Directors*

- Annual review of this Policy and approval

## 8. Reference Information

### 8.1. Glossary

Define terms used in connection with the policy.

Term	Definition
Transactions with related persons/parties	A transaction in which the registrant was or is to be a participant and the amount involved exceeds \$120,000, and in which any related person had or will have a direct or indirect material interest.
Related person/party	<p>For the purposes of Item 404(a),</p> <p>(a) Any person who in any of the following categories at any time during the specified period for which disclosure is required:</p> <ul style="list-style-type: none"> <li>(i) Any director or executive officer of the registrant</li> <li>(ii) Any nominee for director, when the information called for by this Item is being presented in a proxy or information statement relating to the election of the nominee for director</li> <li>(iii) Any immediate family member of a director or executive officer of the registrant, or of any nominee for director when the information called for by this Item is being presented in a proxy or information statement relating to the election of that nominee for director, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of such director, executive officer or nominee for director, and any person (other than a tenant or employee) sharing the household of such director, executive officer or nominee for director, and</li> </ul> <p>(b) Any person who was in any of the following categories when a transaction in which such person had a direct or indirect material interest occurred or existed:</p> <ul style="list-style-type: none"> <li>(i) A security holder covered by Item 403(a) (229.403(a)); or</li> <li>(ii) Any immediate family member of any such security holder, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of such security holder, and any person (other than a tenant or employee) sharing the household of such security holder.</li> </ul>

## 9. Version History

Provide a version history of the policy, including sections updated, brief high level description of material changes to the policy and date of last review/update.

Version #	Sections Updated	Description of Changes	Date of Last Review/Update
1.0	All	Implementation of new Policy format	July 24, 2019

