



**Financial Institutions, Inc.**

NASDAQ: FISI

**First Quarter 2017 Earnings Presentation  
April 25, 2017**

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# Safe Harbor Statement

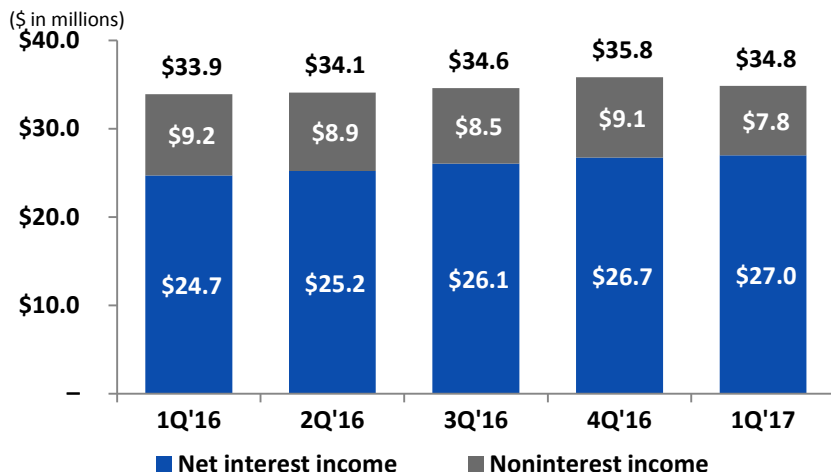
Statements contained in this presentation which are not historical facts and which pertain to future operating results of Financial Institutions, Inc. (the “Company”) and its subsidiaries constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995.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

# First Quarter 2017 Highlights

- Diluted earnings per share (“EPS”) for the quarter of \$0.52 was \$0.02 higher than the first quarter of 2016
- Net interest income of \$27.0 million increased \$2.3 million, or 9.2%, as compared to the first quarter of 2016
- Noninterest income of \$7.8 million was \$1.4 million, or 15.0%, lower than the first quarter of 2016
  - Excluding the net gain on investment securities from both periods and \$911 thousand of death benefit proceeds from company owned life insurance in the first quarter of 2016, noninterest income was \$7.6 million in the quarter as compared to \$7.7 million in the first quarter of 2016
- Return on average common equity was 10.02%
  - Return on average tangible common equity was 13.30% <sup>(1)</sup>
- Total assets, interest-earning assets, loans and deposits reached record-high levels at quarter-end:
  - Total assets increased \$149.5 million during the quarter, to \$3.86 billion
  - Total interest-earning assets increased \$95.1 million during the quarter, to \$3.52 billion
  - Total loans increased \$62.5 million during the quarter, to \$2.40 billion
  - Total deposits increased \$174.4 million during the quarter, to \$3.17 billion
- Quarterly cash dividend of \$0.21 per common share represented a 2.58% dividend yield as of March 31, 2017, and a return of 40% of first quarter net income to common shareholders
- Total risk-based capital was 12.75% at quarter-end, representing a strong capital position to support future growth
- The Company’s credit quality remains strong with total non-performing loans to total loans of 0.33% at quarter-end

# First Quarter 2017

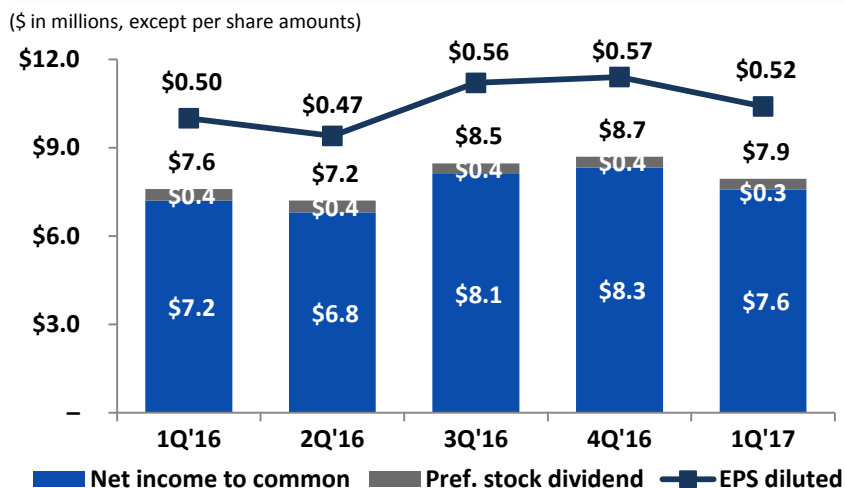
## Revenue



## Results Summary

	1Q'16	4Q'16	1Q'17
Return on average assets	0.90%	0.94%	<b>0.86%</b>
Return on average common equity	10.00%	10.81%	<b>10.02%</b>
Return on average tangible common equity <sup>(1)</sup>	13.54%	14.37%	<b>13.30%</b>
Net interest margin	3.27%	3.22%	<b>3.23%</b>
Efficiency ratio <sup>(2)</sup>	62.19%	56.99%	<b>59.09%</b>
Dividends per share	\$0.20	\$0.21	<b>\$0.21</b>
Dividend yield (annualized)	2.77%	2.44%	<b>2.58%</b>

## Net Income & EPS



## Commentary

- Growth in net interest income driven by increase in loans
- 4Q'16 noninterest income included \$1.2 MM non-cash fair value adjustment of contingent consideration liability; 1Q'16 noninterest income included net gain on investment securities \$407 thousand higher than 1Q'17 as well as \$911 thousand of death benefit proceeds from company owned life insurance, a nonrecurring event
- Noninterest expense was \$20.9 MM in 1Q'17, \$227 thousand higher than 4Q'16 primarily due to higher occupancy and equipment expenses from our organic growth initiatives, and \$276 thousand less than 1Q'16 due to lower professional services

# Key Earnings Highlights

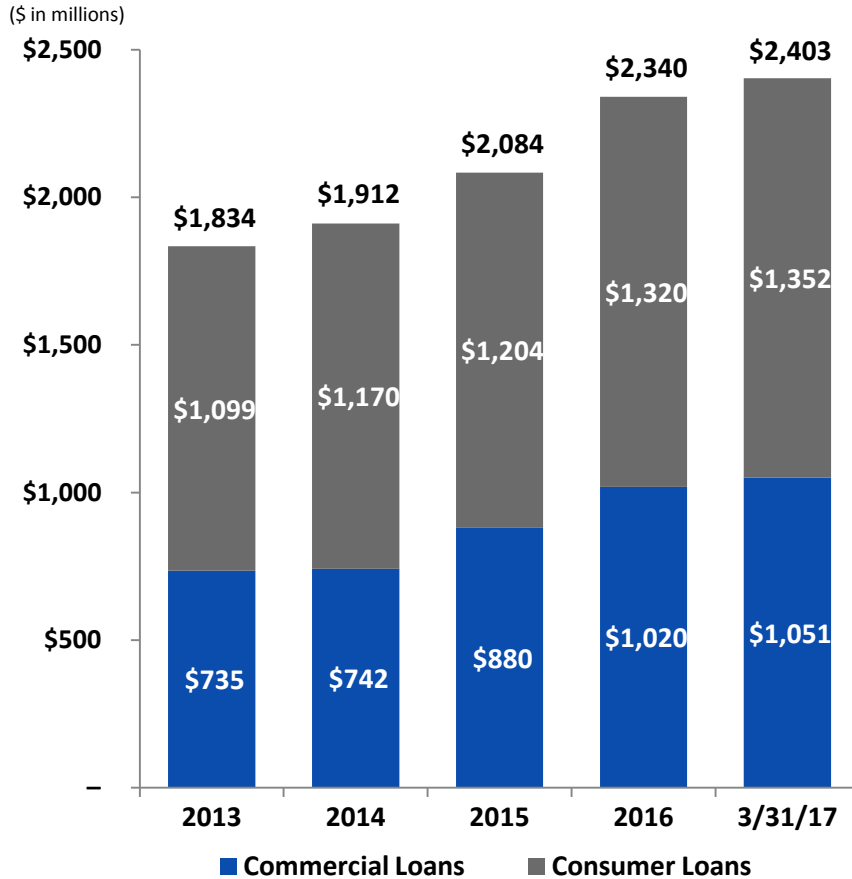
## Quarterly Earnings Highlights (1Q'16 – 1Q'17)

(\$ in millions, except per share amounts)

<b>Earnings Summary</b>	<b>1Q'16</b>	<b>2Q'16</b>	<b>3Q'16</b>	<b>4Q'16</b>	<b>1Q'17</b>
Average interest-earning assets	\$3,131	\$3,230	\$3,317	\$3,408	<b>\$3,478</b>
Net interest margin	3.27%	3.23%	3.23%	3.22%	<b>3.23%</b>
Net interest income	24.7	25.2	26.1	26.7	<b>27.0</b>
Noninterest income	9.2	8.9	8.5	9.1	<b>7.8</b>
<b>Total revenue</b>	<b>\$33.9</b>	<b>\$34.1</b>	<b>\$34.6</b>	<b>\$35.8</b>	<b>\$34.8</b>
Noninterest expense	(\$21.2)	(\$22.1)	(\$20.6)	(\$20.7)	<b>(\$20.9)</b>
Pre-provision net revenue	12.7	12.0	14.0	15.1	<b>13.9</b>
Provision for loan losses	(2.4)	(1.9)	(2.0)	(3.4)	<b>(2.8)</b>
Pre-tax net income	10.3	10.1	12.0	11.7	<b>11.1</b>
Income tax expense	(2.7)	(2.9)	(3.5)	(3.0)	<b>(3.2)</b>
<b>Net income</b>	<b>\$7.6</b>	<b>\$7.2</b>	<b>\$8.5</b>	<b>\$8.7</b>	<b>\$7.9</b>
Preferred stock dividends	(0.4)	(0.4)	(0.4)	(0.4)	<b>(0.3)</b>
<b>Net income available to common shareholders</b>	<b>\$7.2</b>	<b>\$6.8</b>	<b>\$8.1</b>	<b>\$8.3</b>	<b>\$7.6</b>
Earnings per share - diluted	\$0.50	\$0.47	\$0.56	\$0.57	<b>\$0.52</b>
Weighted average common shares outstanding - diluted	14.5	14.5	14.5	14.5	<b>14.5</b>

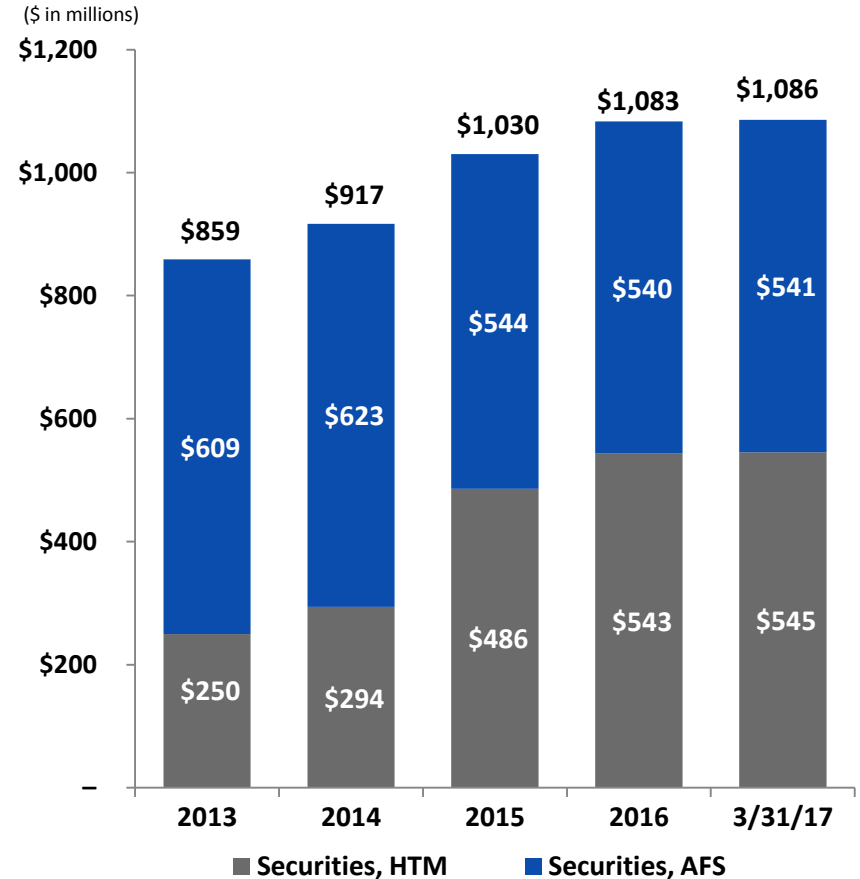
# Asset Growth

## Loans



	2013	2014	2015	2016	3/31/17
Loan Yield	4.65%	4.38%	4.21%	4.18%	4.19%

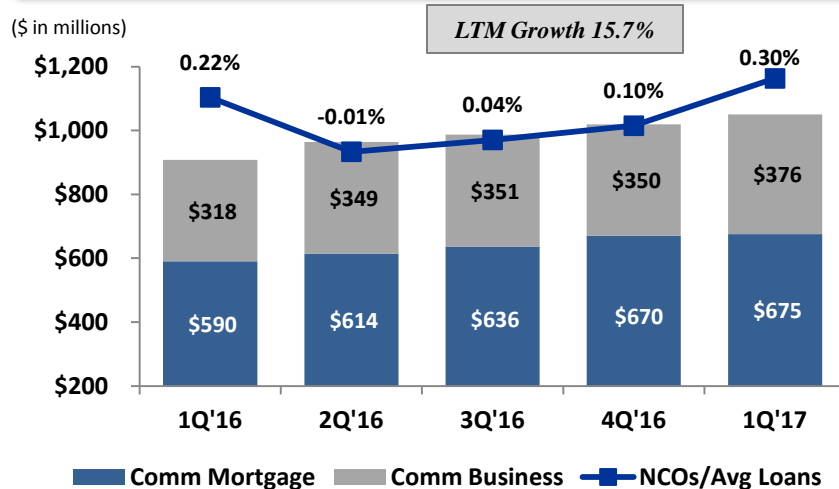
## Securities



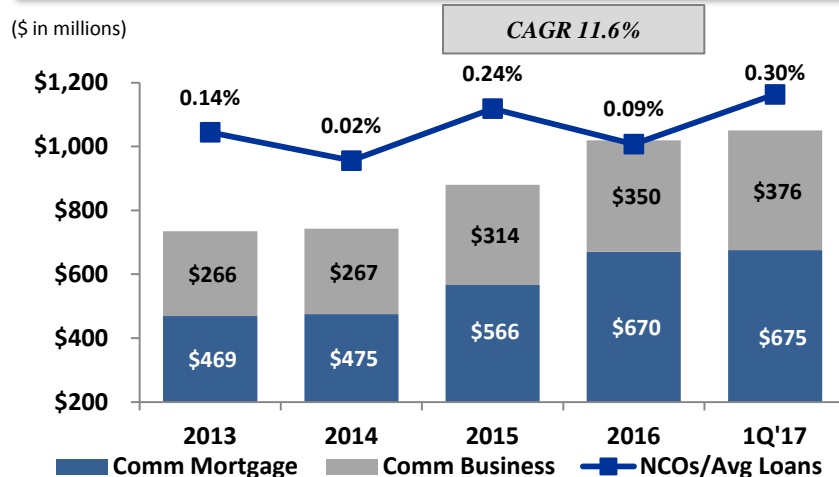
	2013	2014	2015	2016	3/31/17
Security Yield (TE)	2.41%	2.44%	2.46%	2.45%	2.46%

# Commercial Banking

## Commercial Banking – Quarterly



## Commercial Banking – Annual



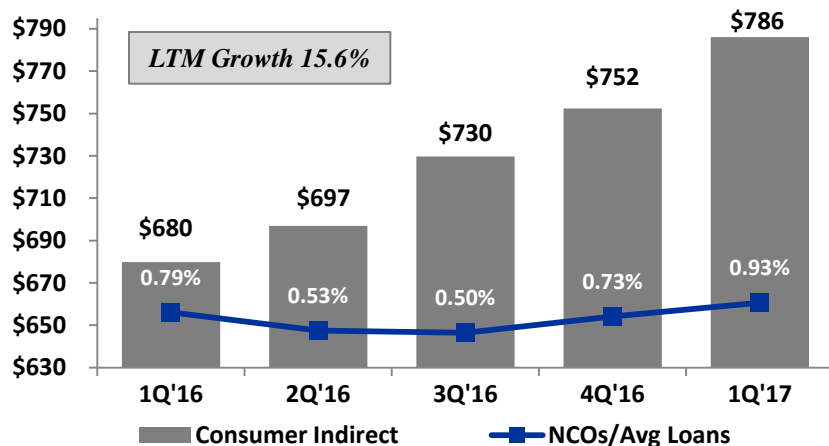
## Commentary

- 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<sup>(1)</sup>
- Taking advantage of significant opportunities to capitalize on disruption within the marketplace
  - Made important acquisitions of talent in 2016 and year-to-date in 2017 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

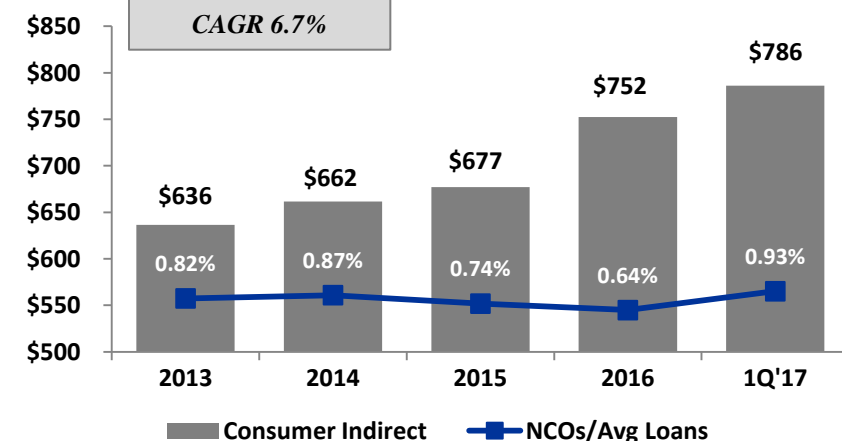
## Consumer Indirect – Quarterly

(\$ in millions)



## Consumer Indirect – Annual

(\$ in millions)



## Commentary

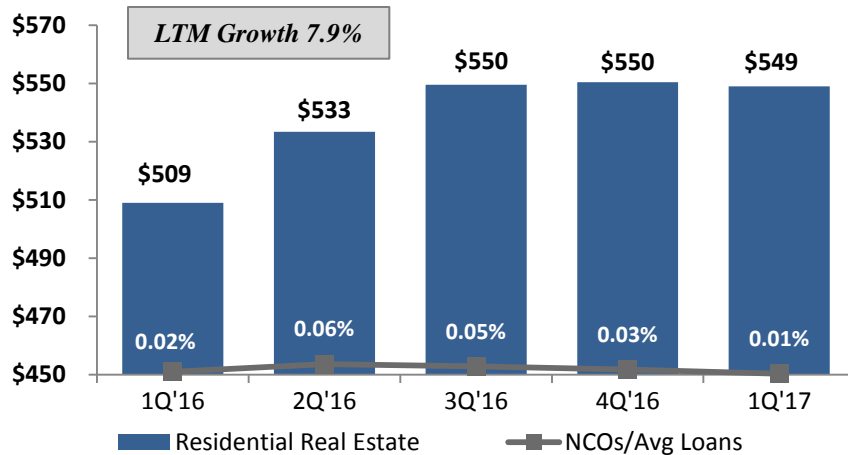
- Consumer indirect is a unique core competency
  - Experienced management team with average industry experience of 25+ years
- Loans originate through approximately 480 franchised automobile dealerships in Upstate New York and PA (no independent auto dealers)
- Large unit volume and smaller loans provide natural risk dispersion
- Substantial barriers to entry/model not easily duplicated
- Relatively short duration allows for rapid repricing 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

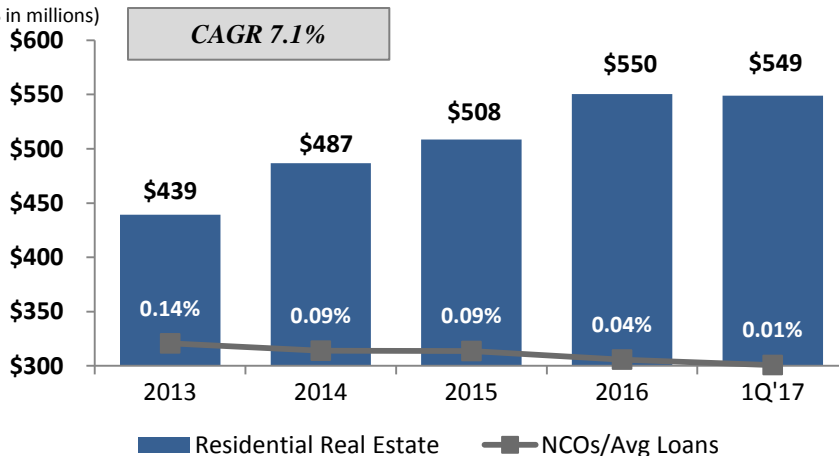
## Residential Real Estate – Quarterly

(\$ in millions)



## Residential Real Estate – Annual

(\$ in millions)

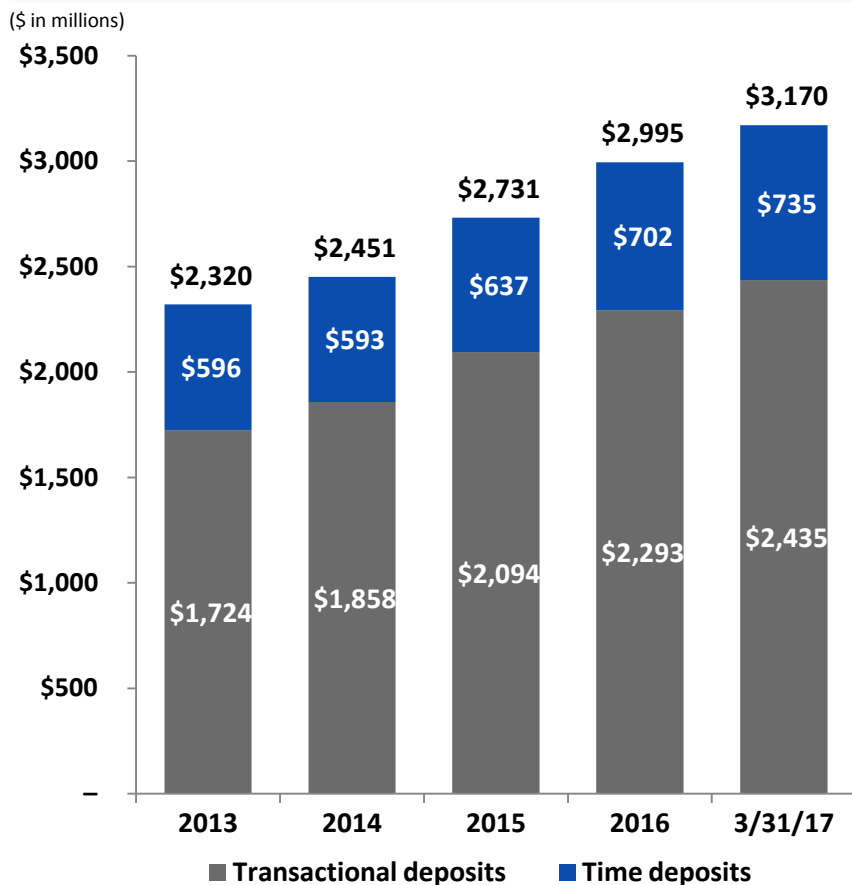


## Commentary

- In-market originations through mortgage loan originators and FSB branch network include term loans and lines with focus on home equity lending
- Product builds relationships and captures market share
- Continuing the build-out of production capabilities to capitalize on market disruption
- Strategic hires in 2016 and 2017 are expected to result in significant increase in traditional mortgage banking
  - Experienced Senior Residential Lending Administrator and Mortgage Operations Manager in 4Q 2016
  - Two Community Development Officers hired in February 2017
  - Buffalo based team started in late March 2017

# Deposit Growth

## Deposits (by account type)



	2013	2014	2015	2016	3/31/17
Cost of Deposits	0.28%	0.26%	0.27%	0.29%	0.30%

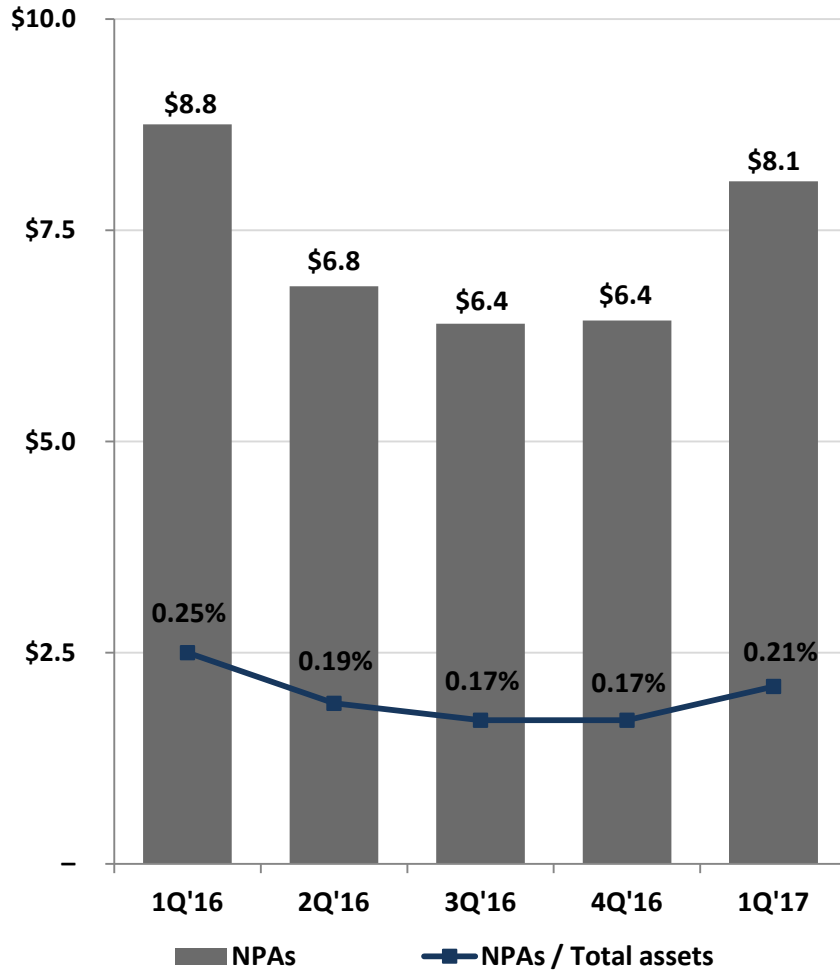
## Commentary

- Increase in 2017 driven by organic growth
  - Partially attributed to new financial solution centers in downtown Rochester and downtown Buffalo
- 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

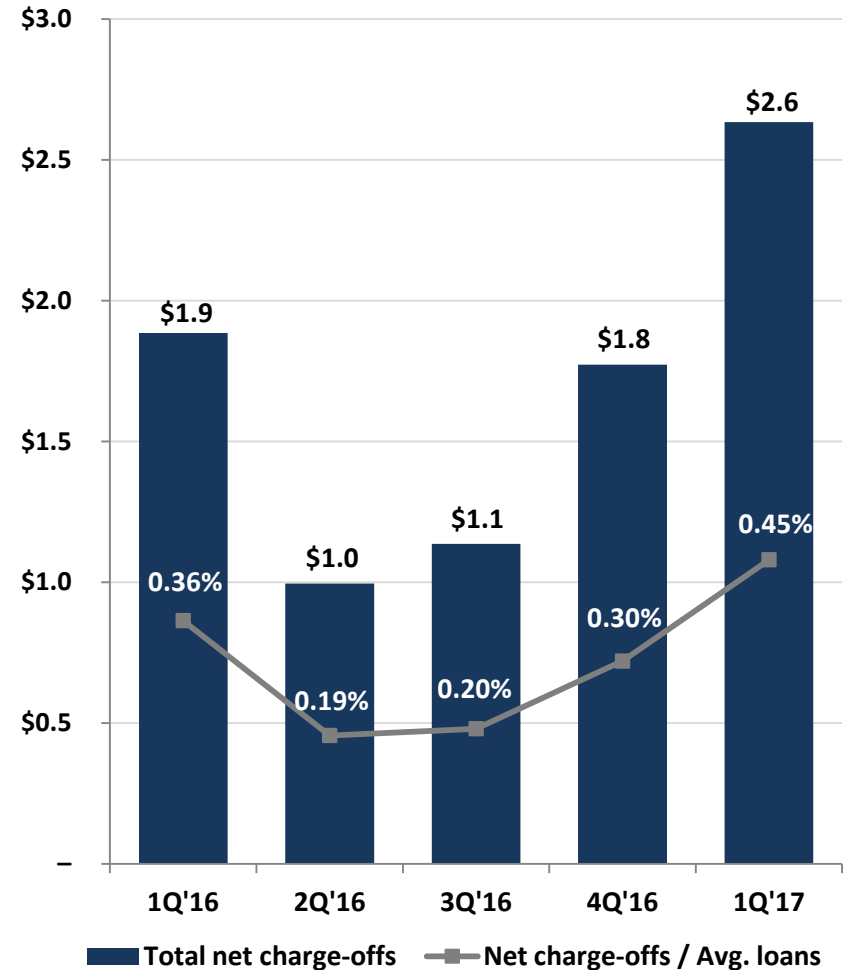
## Non-Performing Assets

(\$ in millions)



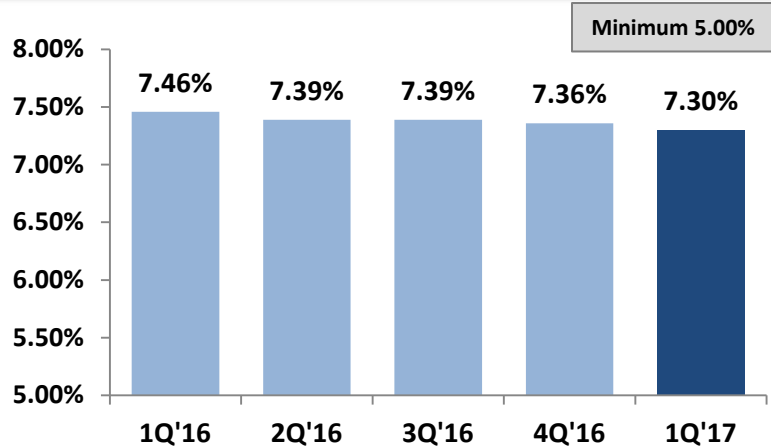
## Net Charge-Offs

(\$ in millions)

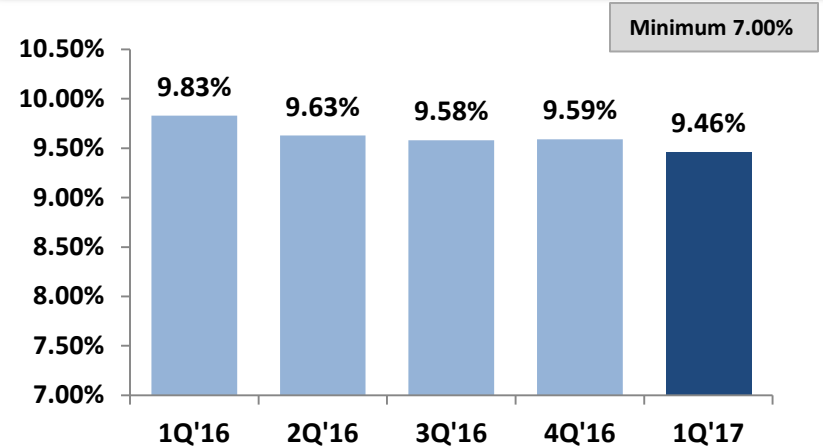


# Capital Ratios

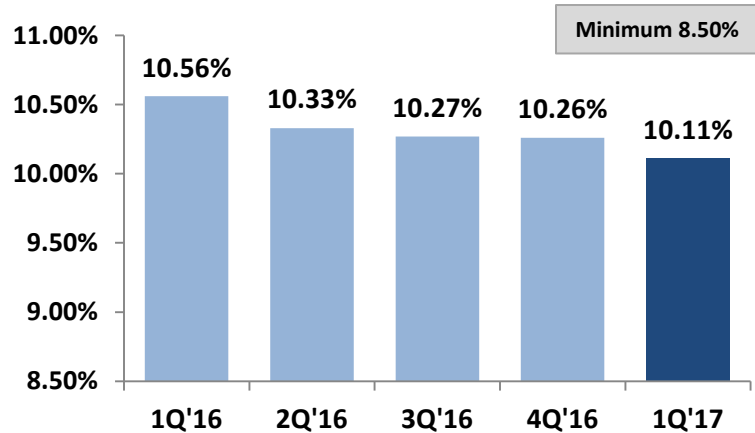
## Leverage Ratio <sup>(1)</sup>



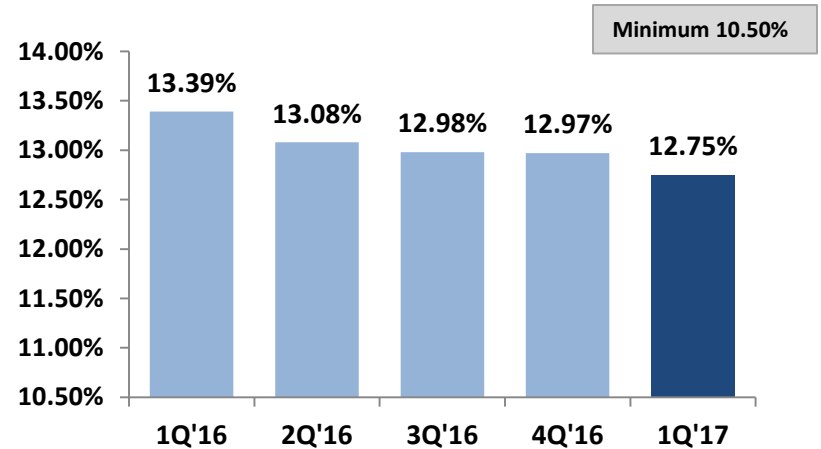
## Common Equity Tier 1 Capital Ratio <sup>(1)</sup>



## Tier 1 Capital Ratio <sup>(1)</sup>



## Total Risk-Based Capital Ratio <sup>(1)</sup>



<sup>(1)</sup> 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 (\$ in thousands, except per share data)	Quarter ended,		
	3/31/2016	12/31/2016	3/31/2017
<b>Computation of ending tangible common equity:</b>			
Common shareholders' equity	\$ 296,613	\$ 302,714	\$ 308,348
Less: Goodwill and other intangible assets, net	76,567	75,640	75,343
Tangible common equity	220,046	227,074	233,005
<b>Computation of ending tangible assets:</b>			
Total assets	\$ 3,516,572	\$ 3,710,340	\$ 3,859,865
Less: Goodwill and other intangible assets, net	76,567	75,640	75,343
Tangible assets	3,440,005	3,634,700	3,784,522
Tangible common equity to tangible assets <sup>(1)</sup>	6.40%	6.25%	6.16%
Common shares outstanding	14,495	14,538	14,536
Tangible common book value per share <sup>(2)</sup>	\$ 15.18	\$ 15.62	\$ 16.03
<b>Computation of average tangible common equity:</b>			
Average common equity	\$ 291,848	\$ 306,335	\$ 306,626
Less: Average goodwill and other intangible assets, net	76,324	75,807	75,508
Average tangible common equity	215,524	230,528	231,118
<b>Computation of average tangible assets:</b>			
Average assets	\$ 3,405,451	\$ 3,679,569	\$ 3,754,470
Less: Average goodwill and other intangible assets, net	76,324	75,807	75,508
Average tangible assets	3,329,127	3,603,762	3,678,962
Net income available to common shareholders	7,253	8,328	7,578
Return on average tangible common equity <sup>(3)</sup>	13.54%	14.37%	13.30%

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.