

FINANCIAL INSTITUTIONS INC
Form DEFA14A
May 16, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Financial Institutions, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Copies to:

Craig S. Wittlin, Esq.

Harter Secrest & Emery LLP

1600 Bausch & Lomb Place

Rochester, NY 14604-2711

(585) 231-1260

Keith E. Gottfried, Esq.

Morgan, Lewis & Bockius LLP

1111 Pennsylvania Avenue, N.W.

Washington, DC 20004-2541

(202) 739-5947

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No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(3) Filing Party:

(4) Date Filed:

Financial Institutions, Inc., a New York corporation (FISI or the Company), is filing materials contained in this Schedule 14A with the U.S. Securities and Exchange Commission (SEC) in connection with the solicitation of proxies from its shareholders in connection with its 2016 Annual Meeting of Shareholders to be held on Friday, June 3, 2016, at 10:00 a.m., local time, at FISI's corporate headquarters in Warsaw, New York and at any and all adjournments or postponements thereof (the 2016 Annual Meeting). On April 19, 2016, FISI filed with the SEC its definitive proxy statement and accompanying definitive **BLUE** proxy card in connection with its solicitation of proxies from its shareholders to be used at the 2016 Annual Meeting.

Investor Presentation First Used on May 16, 2016

Attached hereto is an investor presentation that FISI is first using on May 16, 2016 in presentations to shareholders and proxy advisory firms. This investor presentation is being filed herewith because it may be deemed to be solicitation material in connection with FISI's solicitation of proxies from its shareholders to be used at the 2016 Annual Meeting. As previously announced, Clover Partners, L.P. and affiliates thereof, including MHC Mutual Conversion Fund, L.P. and Johnny Guerry, have publicly disclosed that they intend to pursue a proxy contest in an attempt to elect their two proposed director nominees, including Mr. Guerry, to the FISI Board of Directors at the 2016 Annual Meeting.

Important Additional Information And Where To Find It

Financial Institutions, Inc. (FISI) its directors and certain of its executive officers are deemed to be participants in the solicitation of proxies from FISI's shareholders in connection with the matters to be considered at FISI's 2016 Annual Meeting of Shareholders. On April 19, 2016, FISI filed a definitive proxy statement and accompanying definitive **BLUE** proxy card with the Securities and Exchange Commission (SEC) in connection with the solicitation of proxies from FISI's shareholders in connection with the matters to be considered at FISI's 2016 Annual Meeting of Shareholders. Information regarding the names of FISI's directors and executive officers and their respective interests in FISI by security holdings or otherwise can be found in such definitive proxy statement, including the schedules and appendices thereto. **INVESTORS AND SHAREHOLDERS ARE STRONGLY ENCOURAGED TO READ ANY SUCH PROXY STATEMENT AND THE ACCOMPANYING BLUE PROXY CARD AND OTHER DOCUMENTS FILED BY FINANCIAL INSTITUTIONS WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE AS THEY WILL CONTAIN IMPORTANT INFORMATION.** Shareholders may obtain the definitive proxy statement, any amendments or supplements to the proxy statement, the accompanying **BLUE** proxy card, and other documents filed by FISI with the SEC for no charge at the SEC's website at www.sec.gov. Copies will also be available at no charge at the Investor Relations section of FISI's corporate website at www.fiiwarsaw.com, by writing to FISI's Corporate Secretary at Financial Institutions, Inc., 220 Liberty Street, Warsaw, New York 14569, or by calling FISI's Corporate Secretary at (585) 786-1100.

NASDAQ: FISI
Investor Presentation
May 2016

Safe Harbor for Forward-Looking Statements

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This presentation may contain forward-looking statements as defined by Section 21E of the Securities Exchange Act of 1934, and other applicable securities laws. These forward-looking statements can generally be identified as such by the context of the statements, including words such as "may," "would," "intend," "estimate," "guidance" and other similar expressions, whether in the negative or affirmative. Such forward-looking statements of Financial Institutions, Inc. ("FISI") are forward-looking. Such forward-looking statements include, but are not limited to, statements regarding FISI's ability to continue to execute on and implement its strategic

initiatives to improve its financial and operational performance and increase its growth and profitability, FISI's future stock price and dividend growth, FISI's future returns to shareholders, FISI's ability to continue to strengthen its balance sheet and grow its core business, FISI's ability to continue to profitably grow its commercial lending business, FISI's ability to enhance its competitive position through its client base to offer its clients additional fee-based products, FISI's future returns from its existing fee-based platforms and the FISI's ability to continue to maintain expense discipline, FISI's plans

to
continue
to
return
cash
to
its
shareholders
through
cash
dividends
and
future
increases
that
may
be
made
thereto,
FISI s
actions
taken
or
contemplated
to
enhance
its
long-term
prospects
and
create
and
return
value
for
its
shareholders,
FISI s
future
operational
and
financial
performance,
FISI s
future
growth
and
profitability,
the
effect

that
the
election
of
FISI's
nominees
to
the
FISI
Board
will
have
on
FISI's
execution
of
its
long-term
plan
and
long-term
shareholder
value,
and
the

future effect of FISI's strategic growth plan on FISI's growth, profitability and total shareholder returns. Such forward-looking financial performance and are based on current expectations, estimates, forecasts and projections and management's current business assumptions. Management cannot predict the impact of significant risks and uncertainties, any one or more of which could cause actual results to differ materially from those described above. The most important risks and uncertainties that could cause FISI's actual events or results to differ materially from those indicated or assumed are, but not limited to: FISI's ability to implement its strategic plan, FISI's ability to redeploy investment assets into loan assets, whether FISI experiences breaches of its, or third party, information systems, the attitudes and preferences of FISI's customers, the competitive environment, fluctuations in the fair value of securities in its investment portfolio, the ability to operate SDN and Courier Capital, the competitive environment, fluctuations in the fair value of securities in its investment portfolio, compliance with regulatory requirements, changes in interest rates, general economic and credit market conditions nationally and regionally, and

the
actions
of
activist
investors,
including
the
amount
of
related
costs
incurred
by
FISI
and
the
disruption
caused
to
FISI's
business
activities
by
these
actions.

Consequently,
all
forward-looking
statements
made
herein

are qualified by these cautionary statements and the cautionary language in FISI's Annual Report on Form 10-K, its Quarterly SEC. Except as required by law, FISI undertakes no obligation to revise these statements, whether to reflect new information or following the date of this presentation.

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I. Overview of Financial Institutions, Inc.

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Strong, growing bank headquartered in
Western New York

Change in management in 2013
since year

end 2012 assets grew 27%, net income up
30% and dividends increased 40%

Total shareholder return of +66% over last 3
years, significantly outperforming S&P 500
and U.S. bank indices

Excellent deposit franchise growing at an
average rate of 7% over last 3 years, with 51
banking offices, average cost of funds of
0.27% and significant opportunity for growth
from competitor mergers/dislocations

Assets:

\$3.5bn

Loans:

\$2.1bn

Deposits:

\$3.0bn

Market Capitalization

(1)

:

\$421mm

Overview of Financial Institutions, Inc.

Market Footprint

Market Footprint

Corporate Overview and Key Statistics

Corporate Overview and Key Statistics

Source:

SNL Financial.

Note:

Financial data as of 3/31/16.

(1)

Market data as of 3/31/16.

6

Upstate NY Bank Consolidation Creates Opportunity to Grow
Our Business; Deposits Up 31% with New Management

Deposit Market Share

Counties of Operation (15)

Key Highlights

10,000 square-mile operating footprint (size of
Maryland)

Top 3 market share in 11 of the 15 counties of operation

4

largest bank in counties of operation

(1)

Source:

SNL Financial.

Note:

Deposit market share data as of 6/30/2015.

(1)
Pro forma for acquisition of FNFG and divestiture of 18 branches in the Buffalo area purchased by Northwest Bancshares Inc.

Loan & Deposit Composition (1Q 16)

\$2,115mm

\$2,960mm

Key Opportunities

Deposit Market Share

Rochester & Buffalo MSAs

Significant opportunity to gain deposit market share in our key expansion markets

Combined Rochester and Buffalo MSAs represent deposit market of ~\$56bn

Current FISD market share of ~2%

Regional consolidation creates opportunities (i.e. KeyCorp's acquisition of First Niagara)
Wealth management and insurance cross-sell opportunities exist across entire operating footprint

(1)

Rank

Institution

Active

Branches

2015

Deposits in

Market

(\$MM)

Market

Share (%)

1

M&T Bank Corp.

108

\$24,587

40.2%

2

KeyCorp

130

13,888

22.7%

3

Citizens Financial Group Inc.

68

3,058

5.0%

4

Financial Institutions Inc.

51
2,673
4.4%
5
Bank of America Corp.
38
2,503
4.1%
6
Northwest Bancshares Inc.
30
2,180
3.6%
7
JPMorgan Chase & Co.
26
2,150
3.5%
8
Community Bank System Inc.
68
2,059
3.4%
9
Canandaigua National Corp.
24
1,822
3.0%
10
Tompkins Financial Corp.
20
1,166
1.9%
Rank
Institution
Active
Branches
2015
Deposits in
Market
(\$MM)
Market
Share (%)
1
M&T Bank Corp.
87
\$24,285
43.1%
2
KeyCorp

132
14,194
25.2%
3
Citizens Financial Group Inc.
75
3,283
5.8%
4
Bank of America Corp.
42
2,776
4.9%
8
Financial Institutions Inc.
24
1,093
1.9%
Total Buffalo + Rochester MSAs
539
56,365
100.0%
Commercial
38.4%
Small
Business
4.5%
Consumer
Indirect
32.2%
Residential
Real Estate
24.1%
Other
Consumer
0.9%
Noninterest -
bearing
demand
20.9%
Int. bearing
demand
21.0%
Savings &
money
market
35.2%
Certificates
of deposit
22.9%

th

7

Source:

FactSet and public filings. Indexed price includes reinvested dividends.

(1)

3 year TSR based on December 31, 2015 end date.

The Board's Strategic Steps Have Created Value for Shareholders Since the Management Change in 2013

Dec. 16, 2015:

Clover Partners

files its 13D at FISI

Aug. 1, 2014:

FISI closes

on its acquisition of SDN

Apr. 5, 2016:

Clover

Partners discloses its

intent to nominate
for two board seats
Jan. 6, 2016:
FISI closes
on its acquisition of
Courier Capital
TSR before mgt change,
over 13 yrs: 66.4%
(4% annualized return)
Same TSR under new mgt,
but in just 3 yrs: 66.4%
(1)
(18%
annualized
return)
Mar. 1, 2013:
Marty
Birmingham
appointed as CEO
Aug. 28, 2012: Peter
Humphrey steps down
as CEO and Chairman
Jack Benjamin takes
over as interim CEO
1-Jul-10
13-Dec-11
27-May-13
7-Nov-14
22-Apr-16
60
80
100
120
140
160
180
200
220
Financial
Institutions,
Inc.

8

Total Shareholder Returns from December 31, 2005 to December 31, 2015

93.4%

8.7%

For the last two years in our public filings we have benchmarked our TSR to both the SNL Bank \$1B-\$5B Index

and SNL Small Cap US Bank and Thrift Index. In both 2014 and 2015, FISI significantly beat both indices FISI total shareholder returns have exceeded the SNL Bank \$1B-\$5B Index by 85% over the past ten years

We believe it is misleading for Clover Partners to focus solely on a holding period that penalizes FISI for recovering from the financial crisis more robustly than many of the SNL Bank \$1B-\$5B Index constituents (1)

We have delivered 10x the returns of the index and have outperformed the index for two years running how would a so-called expert in the banking sector say we significantly underperformed the index ?

(1)

FISI Recovered More Robustly From the Crisis Than Many Peers and
Continues to Outperform Under Its Current Strategy and Management

Clover s

comparison date

Financial

Crisis

Source:

SNL Financial.

(1)

Clover Partners, L.P. s SEC filings.

-100%

-75%

-50%

-25%

0%

25%

50%

75%

100%

12/30/05

12/30/06

12/30/07

12/30/08

12/30/09

12/30/10

12/30/11

12/30/12

12/30/13

12/30/14

12/30/15

FISI

SNL Bank \$1 -

\$5 bn

Our Current Strategy is Generating Greater Returns for Shareholders in Three Distinct Markets

Annualized shareholder return of 7% from IPO in 1999 through 2005

Primarily retail & small business
Trusted financial advisor led to opportunities for multiple services/fees

Strong brand built over last 200 years
Stable core deposit franchise to fund growth

Privately owned until IPO in 1999
Annualized shareholder return

of 2% from 2006 through 2012
Contiguous expansion in smaller
cities
Growing market share
8 branch acquisitions (2012)
4 from HSBC and 4 from First
Niagara
Raised TARP capital of \$37.5mm in
2008 and redeemed through retained
earnings and common stock offering
by 2011
Expanded indirect consumer lending
business
Annualized shareholder return
of 18% or total return +66% over
last three years
Strengthened management in 2012/2013
Delivered on a three year strategic plan
to grow the business and provide
outstanding service to customers in
competitive and disrupted markets who
were disenfranchised by larger banks
involved in mergers
A rolling three year strategic plan was
approved by the Board in 2015
prioritizing the following:
Continue expansion into larger cities
including Buffalo and Rochester
Continue to deliver commercial &
SBA loan growth
Leverage existing insurance (SDN)
and advisory/wealth management
platforms (Courier) to enhance fee-
based revenue diversification
9
Early 1800s
2005
(Small towns in Western, NY)
2006
2012
(Small cities in Western, NY)
2013
Future
(Buffalo & Rochester)

10
II. Our Strategic Plan is Generating Profitable
Growth and Superior Shareholder Returns

\$23.4
\$25.5
\$29.4
\$28.3
\$30.5
2012
2013
2014
2015
1Q 2016
\$2,040
\$2,094
\$2,206
\$2,432
\$2,625

\$222

\$226

\$245

\$299

\$335

\$2,262

\$2,320

\$2,451

\$2,731

\$2,960

2012

2013

2014

2015

1Q 2016

Transactional deposits

Time deposits > \$100k

\$672

\$735

\$743

\$880

\$908

\$1,034

\$1,099

\$1,169

\$1,204

\$1,207

\$1,706

\$1,834

\$1,912

\$2,084

\$2,115

2012

2013

2014

2015

1Q 2016

Commercial Loans

Consumer Loans

Our Strategic Plan is Generating Profitable Growth

11

Total Loans

Total Loans

Total Deposits

Total Deposits

(\$ in millions)

(\$ in millions)

Net Income

Net Income

Dividend Yield

Dividend Yield

Balancing volume and risk for a diversified portfolio while adhering to FISFI's prudent credit culture

Source:

SNL Financial.

(1)

Reflects 1Q 16 annualized.

(2)

Excludes time deposits greater than or equal to \$100,000.

(2)

(\$ in millions)

(1)

(\$ in millions)

(1)

(1)

(1)

\$7.8

\$10.2

\$10.7

\$11.3

\$13.0

\$0.57

\$0.74

\$0.77

\$0.80

\$0.80

2012

2013

2014

2015

1Q 2016

Dividends Declared

Dividends per share

High Profitability Drives Balance Sheet Growth, Dividend
Increases and Diversification of Revenues

12

Note:

ISS and Proxy Peers detail available in Appendix.

(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 for further information.

Return on Average Assets

Return on Average Assets

Return

on

Average

Tangible

Common

Equity

(1)
Return
on
Average
Tangible
Common
Equity

(1)
Our strategy over the past few years has resulted in a consistent return on assets in-line or better than peers and a superior return on tangible common equity, despite the difficult operating environment for the U.S. banking industry (i.e. low yield environment, higher regulatory compliance costs)

Our strong returns on equity and tangible common equity have allowed us to increase our dividends and dividend payout ratio, while also funding balance sheet growth

0.91%

0.98%

0.87%

0.90%

0.90%

0.92%

0.93%

0.92%

0.92%

0.97%

0.96%

0.94%

2013

2014

2015

1Q'16

FISI

ISS Peers

Proxy Peers

13.0%

14.1%

13.2%

13.5%

11.4%

10.9%

10.6%

11.1%

11.7%

11.6%

11.7%

11.6%

2013

2014

2015

1Q'16

FISI

ISS Peers

Proxy Peers

13

Total Shareholder Returns Since January 1, 2013

Total Shareholder Returns Since January 1, 2013

Source:

SNL Financial.

Note:

Market data as of 12/31/2015.

(1)

Reflects peer group median respectively. Peers listed in detail in appendix.

Our Strategic Plan has Provided Superior Total

Returns Over 1, 3 and 5 Year Periods

.4%

.4%

.0%

01/01/13

07/02/13

12/31/13

07/02/14

12/31/14

07/01/15

12/31/15

0%

10%

20%

30%

40%

50%

60%

70%

80%

FISI

ISS

Peers

Proxy

Peers

FISI Trades at a Premium Valuation to Peers

14

Source:

SNL Financial.

Note:

Market data as of 12/31/2015.

Historical One-Year Price / Tangible Book Value Comparison

Historical One-Year Price / Tangible Book Value Comparison

Our strategic plan is resulting in sustained growth and in turn, positive recognition from investors

1.89x

1.66x

1.25x

1.50x

1.75x

2.00x

12/31/14

3/31/15

6/30/15

9/30/15

12/31/15

FISI

Proxy Peers

\$475

\$566

\$590

2014

2015

1Q 2016

Executing on Strategic Plan

Focus on Commercial

Banking is Working

15

Commercial Mortgage Loans

Commercial Mortgage Loans

Commercial & Industrial Loans

Commercial & Industrial Loans

Commentary

Commentary

Investment in additional lenders and improvement of commercial delivery platform resulted in strong year over year growth in all categories

Established specialized Small Business lending team that increased small business loans by 31% SBA fiscal year end 2015, #2 SBA lender in Rochester and #3 in Buffalo; through first 3 months of 2016 SBA fiscal year, #1 in Rochester and #3 in Buffalo

(2)

Robust pipeline to support sustained loan production

Significant opportunities to capitalize on disruption within the marketplace due to industry consolidation

Momentum toward community banks as lender of choice; capacity for full spectrum credit solutions, agile to respond to changing customer needs (i.e. improved cash management products)

Source:

Company filings and SNL Financial.

(1)

Reflects 1Q 16 data annualized.

(2)

SBA Rankings based on units.

(\$ in millions)

(\$ in millions)

\$267

\$314

\$318

2014

2015

1Q 2016

(1)

(1)

156.5%
267.1%
314.8%
314.9%
75.3%
90.6%
88.6%
91.2%
83.1%
95.1%
96.8%
96.5%
2013
2014
2015
1Q'16

FISI

ISS Peers

Proxy Peers

0.58%

0.33%

0.25%

0.25%

1.16%

0.96%

0.83%

0.80%

1.02%

0.86%

0.71%

0.78%

2013

2014

2015

1Q'16

FISI

ISS Peers

Proxy Peers

Executing on Strategic Plan

Superior Credit Quality

16

NPAs / Assets

NPAs / Assets

Reserves / NPAs

(1)

Reserves / NPAs

(1)

Management has created a disciplined credit culture in every lending category

Nonperforming loans and assets are well below peers

Loan

loss

reserves

as

a

ratio

of

nonperforming

assets

(1)

are

significantly

higher

than

peers,

demonstrating

FISI's conservative underwriting culture and reserve coverage

Superior credit quality is reflective of our knowledge of our community banking market and customer base

Source:

SNL Financial.

Note:

ISS and Proxy Peers detail available in Appendix.

(1)

Includes loans that are 90+ days past due.

58.5%
58.6%
61.6%
62.9%
62.8%
62.5%
61.1%
61.4%
62.2%
61.7%
61.3%
60.8%
2013
2014
2015
1Q'16

FISI
ISS Peers
Proxy Peers

1.65%
1.65%
1.53%
1.56%
1.66%
1.62%
1.54%
1.52%
1.63%
1.65%
1.62%
1.55%

2013
2014
2015

1Q'16

FISI
ISS Peers
Proxy Peers
Executing
on
Strategic
Plan

Greater
Focus
on
Expense
Discipline

17
Source:
SNL Financial.

Note:
ISS and Proxy Peers detail available in Appendix.

(1)
Reflects efficiency ratio data as reported.

Our expense discipline has contributed to our above average profitability
While our acquisitions of an insurance brokerage (2014) and wealth manager (2016) caused a slight increase
in our efficiency ratio, our net operating expense to average assets ratio has declined and remains in line or
below our peers

We are investing in our future and remain focused on pursuing a course of action that will generate value for
our shareholders

Net Operating Expense / Average Assets
Net Operating Expense / Average Assets
Efficiency Ratio

(1)
Efficiency Ratio

(1)

18

III. Diversification of Revenue Sources Leads to
Greater and More Balanced Growth

Persistent Low Interest Rates in the Banking Industry Put
Banks Without Diversified Fee Income at a Disadvantage

19

Source:

SNL Financial.

Note:

ISS and Proxy Peers detail available in Appendix.

(1)

Reflects median net interest margin for regulated depositories with total assets between \$1bn and \$500bn.

Loans / Deposits

Loans / Deposits

Historical Banking Industry Net Interest Margin

(1)

Historical Banking Industry Net Interest Margin

(1)

Cyclical and potentially secular decline in interest rates has caused an industry-wide decrease in net interest margins
Fee-based business however provides more stable growth through higher margins, diversified revenue not directly tied to interest rates, and cross-selling opportunities

Our SDN and Courier acquisitions are expected to improve our top and bottom line earnings and to mitigate the negative effect of this difficult bank operating environment

The two platforms provide us access to a new customer base that is primarily in our targeted expansion markets of Rochester and Buffalo, offering opportunities to further increase revenues by cross-selling our banking products

Our low loan to deposit ratio allows us exploit these expansion opportunities given our ample capacity for loan growth

Metrics such as TBV may not be the most relevant yardsticks for these transactions

e.g., we expect Courier to be an EPS

accretive transaction with an IRR of 15%

79.0%

78.0%

76.3%

71.4%

87.1%

91.7%

92.2% 91.2%

93.2%

87.9%

91.0%

92.5%

2013

2014

2015

1Q'16

FISI

ISS Peers

Proxy Peers

3.84%

3.74%

3.58%

3.55%

3.51%

3.64%

3.66%

3.56%

3.45%

3.45%

3.40%

3.38%

2005

2006

2007

2008

2009

2010

2011

2012

2013

2014
2015
1Q'16

14.5x
15.0x
13.4x
12.0x
22.4%
30.9%
25.7%
21.0%
FISI
Top Quartile
Median
Bottom Quartile
P / 16 EPS
Fee ratio
Market Rewards Banks with Diversified Revenue
Streams with Higher Multiples
20

Source:

SNL Financial. Market data as of 5/12/16.

Note:

Proxy Peers detail available in Appendix.

(1)

Proxy Peers exclude EBTC due to lack of current market data available.

Noninterest Income / Revenue vs. P/E Multiples

Noninterest Income / Revenue vs. P/E Multiples

Noninterest Income / Revenue vs. P/TBV Multiples

Noninterest Income / Revenue vs. P/TBV Multiples

Proxy Peers

(1)

Proxy Peers

(1)

The charts below compare price/earnings and price/tangible book value multiples for peers based on their respective levels of noninterest income

Banks with the highest fee income ratios, as demonstrated by Top Quartile bars below, trade at ~25% higher tangible book value and EPS multiples relative to Bottom Quartile

1.83x

1.72x

1.56x

1.42x

22.4%

30.9%

25.7%

21.0%

FISI

Top Quartile

Median

Bottom Quartile

P / TBV

Fee ratio

\$25.4

\$30.3

\$33.2

\$36.9

2014Y

2015Y

1Q'15

1Q'16

As a Result of Our Diversification We Are Increasing
Noninterest Income

21

FISI management has made noninterest income growth
a top priority, which led to the 2014 acquisition of the
SDN insurance platform and subsequent Courier
Capital acquisition in 2016

Ability to cross-sell has enhanced noninterest income

Increased insurance revenue reduced reliance on deposit service fees

As noted in recent broker research

(2)

Northeast banks have historically been weak fee generators when compared to other regions

General re-focus on stable noninterest income initiatives has occurred among some of the highest-performing banks and likely reflects:

Uncertain interest rate outlook

Generates offset to deposit service charge pressure

Reduces impact of volatile mortgage banking results

Noninterest Income

Noninterest Income

Noninterest Income Composition (1Q 16)

Noninterest Income Composition (1Q 16)

Commentary

Commentary

(\$ in millions)

Source:

FactSet.

Note:

ISS and Proxy Peers detail available in Appendix.

(1)

Reflects 1Q 15 and 1Q 16 annualized.

(2)

Per KBW research report: Fee Focused Banks Could Weather Interest Rate Uncertainty. Published on 6/15/15.

\$9.2mm

(1)

(1)

Deposit

Service

18.7%

Card

Interchange

14.4%

Insurance

Revenue

18.1%

Investment

Services

13.5%

BOLI

14.8%

Other

20.5%

Strategic Priorities for Executing Our Plan Going Forward

22

Target of mid-to-high single digit or 7-9% loan growth

Grew loans for last 9 consecutive years; 2015 average growth 9% overall

Emphasis on commercial lending resulted in 17% growth in commercial & industrial loans and 19% growth in commercial mortgage loans in 2015

Shift to increased C&I lending to build broader relationships

Increased net interest income to \$95.3mm in 2015, driven by 9% increase in average interest-earning assets

Loan Growth

Deposit Growth

Profitability and

Shareholder Returns

Opportunity exists in attractive \$56 billion deposit markets of Rochester and Buffalo

Emphasis on growing core deposits consistent with our loan growth target; 8 consecutive years of total deposit growth

11% growth in 2015 demonstrates value of community banking sales model

Differentiated positive customer experience

Plenty of excess deposits to fund continued loan growth

Targeting ROAA ratio north of 1.0%

Expected above average revenue growth and return on tangible equity should drive growth in tangible book value

Dividend

growth

to

drive

shareholder

returns

dividend

increased

7

times

in

4

years

Profitable organic growth

23

Maintain balance between volume and risk to support our credit discipline

NPAs / assets of 0.25% as of December 31, 2015

Reserves / loans of 1.30% and Reserves / NPLs of 321% as of December 31, 2015

Asset quality remains a top priority and metrics continue to outperform peer levels

Strong Credit Culture

Maximize Market

Dislocation

Opportunities

Increase Revenue

Through Existing

Platforms

Targeting noninterest income at 25%-30% of total revenues over time

Targeted focus on realizing the benefits of existing insurance (SDN) and wealth management (Courier Capital) fee income platforms through customer sharing and attracting incremental producers
Going forward, FISFI plans to supplement recent platform acquisitions with smaller bolt-on opportunities but has no plans to acquire any new fee-based platforms in the near future
19.7% increase in noninterest income for 2015 vs. 2014 to reduce reliance on net interest income
Synergies developing between bank and subsidiaries through implementation of cross-sales programs
Continue to capitalize on market disruption in our region
Leveraging 200 years of rural NY banking to enter opportunity rich markets in Rochester and Buffalo
Uniquely positioned to seize market opportunities and achieve scale in growth markets
Expense Discipline
Targeting an efficiency ratio in top third of comparable peers
Expect to return to top third efficiency ratio through continuation of expense management discipline
Operating leverage and expense management for profitable growth
Technology investments for retail growth and cyber security attention
Compensation structure aligned with achieving results
Strategic Priorities for Executing Our Plan Going Forward

SDN provides a scalable platform to support future growth in insurance sales. This means that future enhancements to fee income could include bolt on insurance agencies, which generally provide earnings impact without significant investment we

do
think
the
deal
will
be
immediately
accretive to earnings.

We highlight certain banks that are differentiated fee generators and could be poised to outperform should the consensus interest rate environment not materialize we have seen certain banks re-focus on diversifying revenue streams to better insulate profitability "Fee Focus" banks generated a median operating

ROE

level

[that]

is

~40%

higher partially

the

result

of

fee

businesses

requiring

minimal

assets

and

capital

versus

core

bank

businesses.

This

group

of

banks

also

carries a multiple premium with a [higher] median price/tangible book outlook.

We estimate that ~60% of the multiple premium is related to higher profitability...the remainder is a qualitative premium tied to the value of revenue diversity, and the higher standalone value of various fee lines.

Analyst and Shareholder Reactions Have Been Supportive of

Our Current Strategy

24

Source:

FactSet. Broker research.

Analyst and Shareholder Commentary

Analyst and Shareholder Commentary

We have seen certain banks re-focus on diversifying revenue streams to better insulate profitability in the context of an uncertain interest rate outlook.

Keefe Bruyette & Woods, June 15, 2015

Since ascending to their positions in 2013, CEO Marty Birmingham and CFO Kevin

Klotzbach

have

consistently

touted

the

importance

of

diversifying

FISI's

revenue

mix.

This

strategy

was

put

into

practice

first

with

the

2014

acquisition

of

the

SDN

insurance agency and will be supplemented by this wealth management

acquisition.

Fee

business

acquisitions

tend

to

be

relatively

costly

in

terms

of

tangible book dilution, but bring valuable revenue diversity, and open up new

growth opportunities for the bank.

Keefe Bruyette & Woods, November 30, 2015

In our view FISI has an attractive deposit (\$2.8 billion) and branch franchise (50

branches) scattered throughout Western New York. The bank is profitable with a respectable last 12 months return on asset ratio of 0.87%. We believe the franchise is attractively positioned to take advantage of continued disruption in Upstate NY stemming from the KEY/FNFG transaction, which will probably provide opportunities to not only attract deposits and grow loans in Buffalo, but also attract talented lending teams and potentially acquire deposits through divestitures.

Piper Jaffray, December 21, 2015

Sandler O Neill, May 29, 2014

This letter follows our recent conversations and is intended to reiterate our support

for

Financial

Institutions,

Inc.

to

continue

its

current

strategy,

which

we

believe has delivered great value for both shareholders and the community. We

have been impressed by the progress that has been made during the last three

years on improving the operational performance of the bank which has led to

increased value for shareholders through both stock price and increased

dividends.

Richard Humphrey, March 22, 2016

Mr. Humphrey represents the views of 6% of the ownership of FISI

25

IV. Now is Not the Time to Sell

We Believe Our Strategic Plan Will Create More Value
Than a Sale in the Current Market Environment

26

In line with the FISI Board's commitment to create value for its shareholders, which remains the highest priority for FISI, the Board evaluates a broad range of strategies to enhance value for all FISI shareholders. However, we do not believe that an immediate sale is in the best interest of shareholders.

Clover's strategy to pursue an immediate sale is risky to our business for the following reasons:

Deprives shareholders from realizing FISI's potential long-term value

Disrupts the ongoing successful execution of our current strategic plan, including:

Employee retention and recruitment

Customer retention and acquisition

Current market M&A conditions are not conducive to a significant premium to current trading price

Value actually received by selling shareholders may collapse due to substantial sell-off of acquirer stock post deal announcement

as
underscored by the recent sale of Clover activist target Chicopee Bancorp (see next page)
FISI is also benefiting from being in the highest valued segment of the industry, below \$10 billion in assets

Banks

greater

than

\$10

billion

(1)

in

assets

trade

on

average

lower

P/EPS

and

P/TBV

vs.

banks

with

total

assets

less

than

\$10

billion

(1)

due

to

higher regulatory costs, regulation curtailing certain revenues and perception of being acquirors rather than sellers

Source:

FactSet. Market data as of 5/12/16.

(1)

Includes nationwide publicly traded banks with available earnings estimates in the respective asset range as of 12/31/15.

14.5x

12.1x

1.67x

1.59x

P / 17 EPS

P / TBV

Banks < \$10bn in assets

Banks > \$10bn in assets

Our Board and management team are confident they are pursuing the right strategy focused on growing FISI's core business and building long-term shareholder value

Our Board and management team are confident they are pursuing the right strategy focused on growing FISI's core business and building long-term shareholder value

Recent Poor Performance by Bank Acquiror Stocks Make This
a Bad Time To Be a Seller

27

High
execution
risk
and
limited
buyer
universe,
especially
for
highly
valued

banks
like
FISI,
underscore
that
this
not
the
right
time
for
a
sale
of
a
well-managed bank with strong growth prospects
Current market environment has penalized buyers that have recently announced M&A transactions, leading to substantial sell-
post-announcement
Poor
buyer
stock
performance
post-announcement
can
substantially
reduce
or
erase
the
premium
received
by
selling
shareholders
For
example
at
Chicopee
Bancorp,
Clover s
latest
activist
target
to
sell,
the
premium
agreed
pre-announcement
was

above

15%;

however,

after announcement, the decrease in the buyer's stock price reduced the premium to below 3%

Source:

Company filings, SNL Financial, FactSet.

Includes most recent nationwide whole bank acquisitions announced since 12/01/15 with disclosed deal value between \$100 m

(1)

Based on target/acquirer closing prices just prior to deal announcement.

(2)

Represents the premium of the implied value of the merger consideration over the target's unaffected share price, based on the

(3)

Assumes shareholders opt for full cash allocation provision; 40% of aggregate deal consideration.

Clover's

latest activist

target to sell

(2)

(1)

(3)

(3)

General Information

30-Day

30-Day

Stock

Buyer

Buyer

Unaffected

Post Ann.

Announce

Consid.

Stock Price

P/TBV

Premium

Premium

Buyer

Seller

ST

Date

(%)

Perform.

(x)

(%)

(%)

Westfield Financial, Inc.

Chicopee Bancorp, Inc.

MA

04/04/16

100%

(10.7%)

0.96x

15.0%

2.7%

Guaranty Bancorp

Home State Bancorp

CO

03/16/16

74

6.9%

1.62

NA

NA

Hampton Roads Bankshares, Inc.

Xenith Bankshares, Inc.

VA

02/10/16

100

(2.2%)

1.47

15.3

12.7

Pinnacle Financial Partners, Inc.

Avenue Financial Holdings, Inc.

TN

01/28/16

90

(8.0%)

2.71

49.3

38.5

Old National Bancorp

Anchor BanCorp Wisconsin Inc.

WI

01/12/16

58

(11.5%)

1.45

8.3

1.1

OceanFirst Financial Corp.

Cape Bancorp, Inc.

NJ

01/05/16

85

(16.2%)

1.22

20.8

4.1

TowneBank

Monarch Financial Holdings, Inc.

VA

12/17/15

100

(5.2%)

1.63

52.7

44.7

BOK Financial Corporation

MBT Bancshares, Inc.

MO

12/08/15

(12.8%)

1.29

NA

NA

Univest Corporation of Pennsylvania

Fox Chase Bancorp, Inc.

PA

12/08/15

58

2.7%

1.66

8.3

10.0

First Busey Corporation

Pulaski Financial Corp.

MO

12/03/15

100

(5.5%)

1.75

1.3

(4.2)

Median:

88%

(6.7%)

1.55x

15.2%

7.1%

FISI Does Not Fit Clover's Typical Activist Target Profile

28

Clover's typical activist targets are low growth companies with high efficiency ratios that underperform both on a total shareholder return and profitability basis

Low P/TBV multiples coupled with high operating expenses (as demonstrated by efficiency ratios), allow acquirors to pay meaningful premiums for a typical Clover activist target given the high potential cost savings

Source:

SNL Financial, FactSet, company filings. Transaction multiples reflect data at announcement date, respectively.

(1)

Period prior to initial activism action.

Campaign Status: Live Live

Sold Sold Sold

(\$ in millions)

Company overview

(1)

Headquarters

Warsaw, NY

Milwaukee, WI

Harrisburg, PA

Chicopee, MA

Springfield, MA

Date of initial activism action

12/16/2015

1/22/2016

3/24/2014

6/29/2012

8/22/2012

Activist (% ownership)

Clover Partners (5.2%)

Clover Partners (4.1%)

PL Capital (8.8%),

Basswood Capital (9.6%),

Clover Partners (2.2%)

Clover Partners (9.4%)

Clover Partners (9.3%)

Market cap

\$352

\$192

\$354

\$305

\$79

\$77

Total assets

\$3,358

\$1,541

\$2,467

\$2,781

\$608

\$616

P / NTM earnings

14.2x

22.9x

22.9x

16.3x

NA

26.5x

P / TBV

1.89x

1.06x

1.24x

1.26x

0.89x

0.89x

1-year shareholder return

17.1%

8.8%

11.2%

19.1%

(2.5%)

6.4%

3-year shareholder return

75.3%

43.1%

64.0%

68.2%

4.6%

22.3%

Operating performance

(1)

LTM Efficiency ratio

62.2%

76.8%

77.2%

72.7%

82.4%

76.5%

LTM ROAA

0.93%

0.55%

0.59%

0.62%

0.31%

0.52%

LTM ROATCE

14.3%

4.2%

5.1%

7.4%

2.1%

3.4%

Source:

FactSet

and public filings. Indexed price includes reinvested dividends.

Clover's Historical Trading in FISI's Stock Demonstrates Its Status as an Opportunistic,
Short-Term Investor Not Interested in Creating Long-Term Shareholder Value

Dec. 16, 2015:

Clover files its

13D

(FISI

drops

1.3%

against

the index on announcement)

2-Jan-14

31-Dec-15

2-Jan-15

1-Jul-15

1-Jul-14

Q1 2014: Clover

buys

102,499 FISI

shares

Q2 2014: Clover

sells

its entire

position

Aug. 11

Oct. 27:

Clover buys

606,361

FISI shares

Oct. 28

Nov. 10:

Clover

sells

103,073

FISI shares

Nov. 13

Jan. 27:

Clover buys

292,511

FISI shares

Clover

holds

0

shares

for

13+

months

Oct.

27,

2015:

FISI

beats

Q3

EPS

estimates,

after which Clover begins selling. From this

date

until

Clover s

13D

filing,
FISI s
stock
price
rises
10%
vs
the
KBW
index
29

Aug. 1, 2014:

FISI closes
on its acquisition of SDN

Clover has traded in and out of our stock since Q1 2014, often selling well below our current price, reflecting its short-term view and failure to grasp, and capitalize on, the value of our long-term plan

80
90
100
110
120
130

Financial Institutions, Inc.

KBW Nasdaq Regional Banking Index (TR)

V.
Our Refreshed and Experienced Board is
Committed to Strong Corporate Governance
30

FISI's Board Has Demonstrated its Commitment to Strong
Corporate Governance Practices

Although
FISI's
directors
serve
staggered
terms
in
accordance
with
New
York
law,

FISI
shareholders

are
allowed
to

replace
the

FULL
Board

at
any
time,

a
right

that
makes

FISI s

directors extremely accountable to shareholders. Consider the following:

Shareholders can act by written consent

Shareholders can call a special meeting

Directors may be removed with or without cause

by only a simple majority vote of
shareholders

Vacancies on the Board as a result of removal of Directors by shareholders are filled by
shareholders, not the remaining Directors

Strong Shareholder

Rights That Ensure

FISI s Directors Are

Accountable to

Shareholders

Compensation Tied to

Performance and

Aligned with Strategy

Executive compensation structure further refined in 2014 and 2015 to be more closely aligned
with our strategic plan and long-term shareholder value creation

CEO

compensation

has

been

below

the

peer

median,

while

our

TSR

has

been

consistently

at

or above the peer median

Independent Board

Leadership and

Oversight Aligned

with the Interests of

Long-Term

Shareholders

Separate Chairman & CEO

Highly-qualified,

experienced

and

independent

Chairman

of

the

Board

(Robert

N.

Latella)

Board and management collectively own approximately 5.5% of FISI equity

10 of 11 Directors are independent

All Board committees composed entirely of Independent Directors

Independent Directors meet without management

31

Highly Qualified and Experienced Board Overseeing Strategic
Growth Plan and Value Creation

Seek to find balance of continuity and institutional knowledge on the one hand, and additive
skills and fresh perspectives and insights on the other

Three
new
independent
directors

Kim
VanGelder,
Andrew
Dorn,
Jr.
and

Robert
Glaser

have
been nominated to the Board over the last two years, underscoring FISI's efforts to refresh its
Board with talented, experienced and diverse professionals
Broad and diverse set of skills and experiences represented on the FISI Board
Refreshed and
Experienced Board
Management and
Leadership
Experience
Industry Knowledge
and Community Ties
Directors include current and former senior management and Directors of other public
companies
5 of 11 Directors have been CEOs or senior executives
4 Independent Directors have served on other public company Boards in addition to FISI
5 of 11 Directors have significant experience in community banking
7 of 11 Directors have experience in related financial services like investment management,
insurance and leasing
Our Directors have ties to, and knowledge of, the communities that FISI operates in and serves
Business and
Finance Expertise
6 of 11 Directors qualify as an audit committee financial expert as defined by the SEC
9 of 11 Directors have operations experience, including at community banks
5 of 11 Directors have small business/entrepreneurship experience
Note:
Assumes addition of Kim VanGelder to the FISI Board.
32

1-year TSR
CEO compensation
\$ millions
\$ millions
\$ millions

Source:
ISS, FactSet, and company filings.

Note:
1-year TSR was calculated using fiscal year. FCBC is excluded from 2013 compensation because CEO was appointed in August and did not receive full-year compensation. METR and NBBC are excluded from the 2015 charts because they announced transactions to be acquired in 2015.
Compensation Below Peers, While Returns Consistently at
or Above the Peer Median

2013

vs.

1-year TSR

CEO compensation

2014

vs.

1-year TSR

CEO compensation

2015

vs.

Peer median: \$0.9

Peer median: 31.8%

Peer median: \$1.1

Peer median: 8.2%

Peer median: \$1.3

Peer median: 7.2%

33

Source:

FactSet, company filings and ISS

Note:

Excludes companies in our proxy Regional Peer Group that have been acquired: Metro Bancorp and NewBridge Bancorp

Our Redesigned Compensation Structure Further Aligns

Management with Shareholders to Yield Superior Returns

FISI

Proxy peer median

2015 CEO

total comp

\$961k

\$1,275k

Performance

comp % of total

42.7%

38.5%

2015 TSR

15.0%

7.2%

In 2014 and 2015, we changed our compensation structure to be more closely tied to our performance relative to peers, and better aligned with our strategic plan and long-term shareholder value creation, including:

Increasing the weighting of 3-year TSR in our Long-Term Equity-Based Incentive Plan

Increasing the Long-Term Equity-Based Incentive Plan portion of CEO and CFO compensation and decreasing the cash annual incentive portion

Adding ROAA and ROAE as relative performance measures in our annual incentive plan

As a result, our compensation practices are more competitive versus our peers

Disciplined approach

to compensation vs peers

Alignment with
shareholders

Returns over 2x

the

peer median

34

Director

Expertise

Chief Information Officer and Senior Vice President of Eastman Kodak Company since 2004, joined the company in 1984

30 years' business and technology experience, including cyber security

Has served as a member and Director of many professional and community organizations in Western New York

Kim E. VanGelder

Nominated for election

at the 2016 AGM

New nominee to the Board

IT professional with relevant

cyber security expertise

Chairman of Freed Maxick CPA's from 2011 to 2015, joined the firm in 1994

CPA with 40 years' experience in public accounting, including corporate acquisitions

Has served on Erie County Salary Review Commission (Chairman), Erie County Fiscal

Stability Authority (Chairman) and Erie County Private Industry Council (Vice-Chairman)
Co-managing director of Energy Solutions Consortium since prior venture sold in 2015
Formed Great Lakes Bancorp in 1997 and served as CEO until its sale in 2008,
previously formed Jamestown Savings Bank in 1994 and served as its CEO until 1997
Very active in the Western New York business and cultural community, including serving
on a number of for-profit and non-profit Boards
CEO of Financial Institutions since March 2013, joined the company in March 2005
Over 27 years banking experience, including operational, financial and executive roles
Proven leadership, deep knowledge of the Upstate New York market, extensive business
contacts in FISIs footprint and active community involvement

Robert M. Glaser

Director since May 2014

Accounting and finance expert

Strategic and transactional
expertise

Andrew W. Dorn

Director since May 2014

Investment manager

Business and finance expert

Successfully formed and sold
several businesses

Martin K. Birmingham

Director since July 2013

Extensive bank experience

Proven leader at FISIs

Significant stockholder

Recent Nominees to our Board Have Provided Additional Investor
Perspective and Expertise in Banking, Finance and Technology

35

Kim VanGelder

brings extensive cyber security
and risk management expertise to our board

Our Board Has the Right Mix of Necessary Skills and
Experience to Continue Driving Value for All Shareholders

Note:

Assumes addition of Kim VanGelder to the FISFI Board as of the 2016 AGM.

Skills and experiences represented on the FISFI Board include banking, strategic planning, finance, legal,
corporate governance, accounting, capital allocation, investment management and M&A, among others

Skills and experiences represented on the FISFI Board include banking, strategic planning, finance, legal,
corporate governance, accounting, capital allocation, investment management and M&A, among others

36

Public company

Functional expertise

Industry expertise

Name

Title
Tenure
Age
% O/S
Board
experience
Senior mgt
experience
Strategy
and M&A
Operations
Community
bank
Financial
services
Community
ties
Robert N. Latella
Chairman
11
73
0.1%
X
X
X
X
X
X
Martin K. Birmingham
President & CEO,
Director
3
49
0.7%
X
X
X
X
X
X
X
James H. Wyckoff
Director
31
64
2.9%
X
X
Andrew W. Dorn, Jr.
Director

2

65

0.1%

X

X

X

X

X

X

X

Karl V. Anderson, Jr.

Director

10

69

0.1%

X

X

X

X

John E. Benjamin

Director

14

74

0.2%

X

X

X

X

X

Robert M. Glaser

Director

2

69

0.1%

X

X

X

X

Samuel M. Gullo

Director

16

67

0.1%

X

X

X

Susan R. Holliday

Director

14

60

0.2%

X

X

X

X

X

Erland E. Kailbourne

Director

10

74

0.3%

X

X

X

X

X

X

X

Kim E. VanGelder

Director

0

51

NA

X

X

X

Median

10

67

37
VI. Clover's Proxy Contest

Johnny Guerry

Terry Philen

Clover's Nominees Lack Relevant Experience To Help Us

Continue Creating Long-Term Shareholder Value

Hedge fund manager based in Dallas, Texas

NO

bank management experience

NO

operating experience at a bank or other relevant business

NO

understanding of the community banking market in Western New York

NO

ties

to

Western
New
York

Mr.
Guerry
is
based
in
Texas
NO

strategic view provided for how to create shareholder value at FISFI outside of an
immediate sale of FISFI

EXTREMELY
LIMITED
public
company
board
experience

Served
on
only
one
public
company
board,
Hamden
Bancorp

Elected to the board of Hamden Bancorp as a result of a proxy contest at a shareholders
meeting held the day after the company agreed to be sold to Berkshire Hills Bancorp

Public
company
board
service
tenure
was
less
than
six
months
NO
recent
or
relevant
banking
experience

worked
for
a
small,
privately-held
Texas
bank
over 20 years ago
NO
strategic
view
provided
for
how
to
create
shareholder
value
at
FISI
outside
of
an
immediate sale of FISI
NO
ties
to
Western
New
York

Mr.
Philen,
like
Mr.
Guerry,
is
based
in
Texas
EXTREMELY
LIMITED
public
company
board
experience

Served for less than two years on the board of a hotel and entertainment company

We Believe it Is Clear Which Slate Provides the Best Qualifications
to Continue Delivering Superior Returns to Shareholders
Public Company Board or
Management Experience
Community Bank
Experience
Significant FISI
Shareholders
Ties to / Knowledge of
Local Market
Less than 2 years
combined board experience
(Guerry less than 6 months)
Clover holds
a 5%

stake in FISFI

(Philen

holds no shares)

No

ties to

Western NY

(based in Dallas, Texas)

No

relevant

experience

Decades of combined relevant experience,

including in the banking industry

FISFI management and Board

hold

a

combined

6%

stake

in

FISFI

Our nominees know our markets, have

important business contacts and are

leaders in the communities we serve

Martin Birmingham has over 27 years

experience in the banking industry, including

operational, financial and executive roles

M. Birmingham

S. Gullo

K. VanGelder

J. Wyckoff

J. Guerry

T. Philen

Financial Institutions slate

Clover Partners slate

Strategic Vision for FISFI

Pursue an immediate

sale; no other value

creation proposition

A proven strategic plan with track

record of delivering sustained growth

and superior shareholder returns

39

Clover Has One Narrowly Focused Agenda for Every
Situation at Every Company: an Immediate Sale or Else

in [all] cases in which Clover Partners took an activist approach, the banks ended up being sold,
[Guerry] said (Milwaukee Wisconsin Journal Sentinel, Jan 2016)

in [all] cases in which Clover Partners took an activist approach, the banks ended up being sold,
[Guerry] said (Milwaukee Wisconsin Journal Sentinel, Jan 2016)

Clover's criticism

Clover's demands

Acquisition of fee-based
businesses

Low tangible common equity to
tangible assets ratio

sell

the

bank

to
a
larger
competitor

[Or] we will pursue board
representation via a proxy contest

Excessive compensation
Poor operational performance
retain an investment bank to
explore strategic alternatives

we
are
preparing

a
slate
for
the
2013 annual meeting

Costs of increasing branches
Poor profitability metrics
Poor net interest income outlook

seek a strategic partner
Excessive compensation
Unfriendly corporate governance
practices

Anemic loan growth
sell

the
bank
to
a
strategic
buyer.

[Or] we will likely seek board
representation

Source:
Clover Partners public filings, press releases.

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We Have Attempted To Constructively Engage With
Clover To Avoid A Costly And Distracting Proxy Contest

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FISI strives to maintain constructive, ongoing communications with all of its shareholders and welcomes their views and opinions with the goal of enhancing value for all shareholders

We have met with representatives of Clover, including Mr. Guerry, on multiple occasions and their singular focus has been that we should pursue an immediate sale of FISI

We have evaluated Mr. Guerry as a director candidate under FISI's standard process for evaluating director candidates, including conducting an in-person interview of Mr. Guerry

After a thorough review, we determined that Mr. Guerry would not add any complementary skills, experiences and perspectives to our Board

only a singular focus on pursuing short-term gains that
deprive our shareholders of FISI's long-term value

On April 6, 2016, we indicated to Clover that we remained receptive to a settlement and proposed the addition to the Board of one mutually agreeable director candidate who has no prior relationship with the Company or Clover

Clover rejected our settlement proposal and has made it abundantly clear that it is not receptive to any

settlement that does not contemplate the addition to the Board of their employee, Mr. Guerry

Conclusion: FISl Has the Right Team and Strategy in
Place to Continue Delivering Superior Long-Term Returns

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FISI has delivered investors a total return of over 66% since the change in management that occurred 3 years ago and has outperformed any relevant benchmark over that period

FISI has an effective, proven growth strategy -

now is the time to capitalize on our strong position and

achieve what FISl has been successfully building under our current strategic plan to grow in key markets and capitalize on market disruption in our region

We believe that an immediate sale of FISl is not in the best interest of all shareholders given current market conditions and the potential value we believe our shareholders will realize as we continue to execute on our strategic growth plan

We believe that Clover Partners is focused only on possible short-term gains at the expense of FISl's proven and successful strategic plan, and their interests are not aligned with our long-term shareholders. FISl continues to strengthen its Board with new independent, highly qualified Directors with relevant and complementary skills and competencies that further our ability to execute on our proven plan for growth

and shareholder value creation

We believe that Clover Partners' candidates would not add relevant perspectives, skills or experience not already represented on the Board

We ask you to vote your shares in support of ALL FOUR of your

Board's nominees on the BLUE

proxy card

We ask you to vote your shares in support of ALL FOUR of your

Board's nominees on the BLUE

proxy card

First Quarter 2016 Results

44

Revenue

Revenue

(1)

Noninterest income/operating income excluding securities gains/losses.

(2)

Noninterest expense before foreclosed property expense, amortization of intangibles, and goodwill impairments as a percent of net interest income and noninterest revenues, excluding gains from securities transactions and nonrecurring items.

Net Income & EPS

Net Income & EPS

Results

Summary

Quarterly
Comparison
Results
Summary

Quarterly
Comparison

1Q 16 Earnings Commentary

1Q 16 Earnings Commentary

Focus on commercial lending resulted in growth of \$4.0 million
and \$24.2 million in C&I and commercial mortgages since 4Q 15

Increased net interest income to a record \$24.7 million in the first
quarter of 2016

Growth strategy drives increase in fee-based services income and
market share, leading to record level of earnings assets and
deposits

Noninterest income increased by 11% to \$9.2 million from 1Q 15

Grew total loans \$192.1 million or 10% from a year ago

Tangible book value per share increased to \$15.18, an increase of
~3% since beginning of the year and 7% in the last 12 months

\$23.1

\$23.4

\$24.1

\$24.6

\$24.7

\$8.3

\$6.5

\$7.0

\$8.6

\$9.2

\$31.4

\$29.9

\$31.1

\$33.2

\$33.9

\$10.0

\$20.0

\$30.0

\$40.0

1Q'15

2Q'15

3Q'15

4Q'15

1Q'16

Net interest income

Noninterest Income

(\$ in millions)

(\$ in millions excl. per share amounts)

Profitability Summary:

1Q'15

4Q'15

1Q'16

ROAA

0.89%

0.78%

0.90%

ROAE

9.68%

8.86%

9.91%

Net Interest Margin

3.43%

3.26%

3.27%

Noninterest income/operating

revenue

(1)

23.8%

24.4%

25.8%

Efficiency Ratio

(2)

60.2%

64.6%

62.9%

Dividends

Per Share (Yield)

\$0.20

(3.5%)

\$0.20 (2.8%)

\$0.20 (2.8%)

\$6.4

\$6.2

\$7.9

\$6.2

\$7.2

\$0.4

\$0.4

\$0.4

\$0.4

\$0.4

\$6.8

\$6.6

\$8.3

\$6.6

\$7.6

\$0.46

\$0.44

\$0.56

\$0.44

\$0.50

\$3.0

\$6.0

\$9.0

\$12.0

1Q'15

2Q'15

3Q'15

4Q'15

1Q'16

Net income to common

Pref. stock dividend

EPS diluted

FISI Regional Peers

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FISI performance benchmarking was done versus both the ISS Peer Group and the Company's 2015 Proxy Peer Group for illustrative purposes. See below for the detailed lists:

ISS Peer Group

2016 Proxy Peer Group

Denotes Banks that are in both lists

1st Source Corporation

Arrow Financial Corporation

Berkshire Hills Bancorp, Inc.

Brookline Bancorp, Inc.

Camden National Corporation

Chemung Financial Corporation

City Holding Company

CNB Financial Corporation

Enterprise Bancorp, Inc.

First Busey Corporation

First Commonwealth Financial Corp.

First Community Bancshares, Inc.

First Financial Corporation
First Merchants Corporation
First Mid-Illinois Bancshares, Inc.
Horizon Bancorp
Lakeland Bancorp, Inc.
MainSource Financial Group, Inc.
Merchants Bancshares, Inc.
Meridian Bancorp, Inc.
MidWestOne Financial Group, Inc.
NBT Bancorp Inc.
Peoples Bancorp Inc.
Pinnacle Financial Partners, Inc.
S&T Bancorp, Inc.
Tompkins Financial Corporation
TowneBank
Washington Trust Bancorp, Inc.
Arrow Financial Corporation
Camden National Corporation
Community Bank System, Inc.
CNB Financial Corporation
Cardinal Financial Corporation
City Holding Company
Chemung Financial Corporation
Citizens & Northern Corporation
Enterprise Bancorp, Inc.
First Connecticut Bancorp, Inc.
First Commonwealth Financial Corporation
First of Long Island Corporation
Independent Bank Corp.
Lakeland Bancorp, Inc.
Merchants Bancshares, Inc.
Sandy Spring Bancorp, Inc.
Suffolk Bancorp
Sun Bancorp, Inc.
S&T Bancorp, Inc.
Sterling Bancorp
Tompkins Financial Corporation
Univest Corporation of Pennsylvania
Washington Trust Bancorp, Inc.

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Name
Title
Years with
FISI
Years in
Banking
Martin K. Birmingham
President & CEO
11
26
Jeffrey
P. Kenefick
EVP,
Commercial Banking
10
26

Kevin B. Klotzbach

EVP,

Chief Financial Officer

14

32

William L. Kreienberg

EVP, General Counsel and Chief Risk Officer

1

*

1 *

Michael D. Burneal

SVP,

Chief Information Officer

11

29

David

G. Case

SVP,

Chief Commercial Credit Officer

11

31

Paula

D. Dolan

SVP, Human Resources

2

18

Sonia M. Dumbleton

SVP, Controller

31

31

Michael D. Grover

SVP, Chief Accounting Officer

16

16

Charles

J. Guarino

SVP, Retail Banking

21

21

Average Years:

13

25

* Served as FISIS outside general counsel for the four previous years

Deep Bench with Significant Experience Working in Rochester, Buffalo and all of Western NY

Leadership Team

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Non-GAAP Reconciliation

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.

(4)

Net income available to common shareholders divided by average tangible assets.

Non-GAAP Financial Information

This

presentation

contains

financial

information,

such

as

tangible

common

equity,
determined
by
methods
other
than
in
accordance
with
U.S.
generally
accepted
accounting
principles

(GAAP). The Company believes that non-GAAP financial measures provide a meaningful comparison of the underlying operations and performance trends. In addition, the Company believes the exclusion of these non-GAAP measures is necessary for an effective evaluation and comparison of the Company's results and to assess performance in relation to the Company's ongoing operations. Non-GAAP measures do not substitute for financial measures determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP measures of other companies. For non-GAAP disclosures that are used in this presentation, the comparable GAAP financial measure, as well as the non-GAAP measure, is provided below.

GAAP to Non-GAAP Reconciliation

At or for the year ended December 31,

Quarter ended,

(\$ in millions, except per share data)

2013

2014

2015

3/31/2016

Computation of ending tangible common equity:

Common shareholders' equity

\$237.5

\$262.2

\$276.5

\$296.6

Less: Goodwill and other intangible assets, net

50.0

68.6

66.9

76.6

Tangible common shareholders' equity

187.5

193.6

209.6

220.0

Computation of ending tangible assets:

Total assets

\$2,928.6

\$3,089.5

\$3,381.0

\$3,516.6

Less: Goodwill and other intangible assets, net
 50.0
 68.6
 66.9
 76.6
 Tangible assets
 2,878.6
 3,020.9
 3,314.1
 3,440.0
 Tangible common equity to tangible assets
 6.51%
 6.41%
 6.32%
 6.40%
 Common shares outstanding
 13,829
 14,118
 14,191
 14,495
 Tangible common book value per share
 \$13.56
 \$13.71
 \$14.77
 \$15.18
 Computation of average tangible common equity:
 Average common equity
 235.3
 254.5
 272.4
 291.8
 Average goodwill and other intangible assets, net
 50.2
 57.0
 68.1
 76.3
 Average tangible common equity
 185.1
 197.5
 204.2
 215.5
 Computation of average tangible common equity:
 Average assets
 2,803.8
 2,994.6
 3,269.9
 3,405.5
 Average goodwill and other intangible assets, net
 50.2
 57.0

68.1
76.3
Average tangible assets
2,753.6
2,937.6
3,210.8
3,329.1
Net income available to common shareholders
24.1
27.9
26.9
7.3
Return on average tangible common equity
13.00%
14.12%
13.16%
13.54%
Return on average tangible assets
0.87%
0.95%
0.84%
0.88%
(1)
(2)
(3)
(4)

Important Additional Information and Where To Find It

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Financial Institutions, Inc. (FISI) its directors and certain of its executive officers are deemed to be participants in the solicitation in connection with the matters to be considered at FISI 's 2016 Annual Meeting of Shareholders. On April

19, 2016, FISI filed a definitive proxy statement and

accompanying

definitive

BLUE

proxy card with the Securities and Exchange Commission (SEC) in connection with the solicitation of proxies from FISI 's shareholders in connection with the matters to be considered at FISI 's 2016 Annual Meeting of Shareholders. Information regarding the names and

respective interests in FISI by security holdings or otherwise can be found in such definitive proxy statement, including the schedules and appendices thereto.

INVESTORS

AND

SHAREHOLDERS

ARE

STRONGLY

ENCOURAGED

TO

READ
ANY
SUCH
PROXY
STATEMENT

AND
THE
ACCOMPANYING

BLUE
PROXY

CARD AND OTHER DOCUMENTS FILED BY FINANCIAL INSTITUTIONS WITH THE SEC CAREFULLY AND IN THE MANNER THEY ARE
AVAILABLE AS THEY WILL CONTAIN IMPORTANT INFORMATION. Shareholders may obtain the definitive proxy statement, the proxy statement, the accompanying

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proxy card, and other documents filed by FISI with the SEC for no charge at the SEC's website at www.sec.gov. Copies will also be

available at no charge at the Investor Relations section of FISI's corporate website at www.fiiwarsaw.com, by writing to FISI, 220 Liberty Street, Warsaw, New York 14569, or by calling FISI's Corporate Secretary at (585) 786-1100.

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