REFINITIV

DELTA REPORT

10-Q

FISI - FINANCIAL INSTITUTIONS IN

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	2760
CHANGES	535
DELETIONS	666
ADDITIONS	1559

REFINITIV

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, March 31, 2023 2024

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission File Number: 000-26481

Financial Institutions, Inc.

(Exact name of registrant as specified in its charter)

NEW YORK	**16-0816610**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
220 LIBERTY STREET, WARSAW, NEW YORK	**14569**
(Address of principal executive offices)	**(Zip Code)**

(585) 786-1100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	FISI	Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☑
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☐ ☑ No ☑

The registrant had 15,402,760 15,446,949 shares of Common Stock, $0.01 par value, outstanding as of October 31, 2023 April 30, 2024.

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FINANCIAL INSTITUTIONS, INC.

Form 10-Q

For the Quarterly Period Ended September 30, 2023 March 31, 2024

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition (Unaudited)

(Dollars in thousands, except share and per share data)	**September 30, 2023**	**December 31, 2022**	**March 31, 2024**	**December 31, 2023**
ASSETS				
Cash and due from banks	$ 192,111	$ 130,466	$ 237,038	$ 124,442
Securities available for sale, at fair value (amortized cost of $1,061,181 and $1,127,057, respectively)	854,215	954,371		
Securities held to maturity, at amortized cost (net of allowance for credit losses of $4 and $5, respectively) (fair value of $136,540 and $174,188, respectively)	154,204	188,975		
Securities available for sale, at fair value (amortized cost of $1,083,669 and $1,037,990, respectively)			923,761	887,730
Securities held to maturity, at amortized cost (net of allowance for credit losses of $3 and $4, respectively) (fair value of $131,269 and $137,030, respectively)			143,714	148,156
Loans held for sale	1,873	550	504	1,370
Loans (net of allowance for credit losses of $49,630 and $45,413, respectively)	4,381,536	4,005,036		
Loans (net of allowance for credit losses of $43,075 and $51,082, respectively)			4,398,971	4,411,057
Company owned life insurance	142,201	139,482	162,685	161,363
Premises and equipment, net	39,947	41,986	39,798	39,902
Goodwill and other intangible assets, net	72,725	73,414	72,287	72,504
Other assets	301,337	262,992	319,840	314,357
Total assets	$ 6,140,149	$ 5,797,272	$ 6,298,598	$ 6,160,881
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing demand	$ 1,035,350	$ 1,139,214	$ 972,801	$ 1,010,614

Interest-bearing demand	827,842	863,822	798,831	713,158
Savings and money market	1,943,794	1,643,516	2,064,539	2,084,444
Time deposits	1,508,987	1,282,872	1,560,586	1,404,696
Total deposits	5,315,973	4,929,424	5,396,757	5,212,912
Short-term borrowings	70,000	205,000	133,000	185,000
Long-term borrowings, net of issuance costs of $623 and $778, respectively	124,454	74,222		
Long-term borrowings, net of issuance costs of $390 and $468, respectively			124,610	124,532
Other liabilities	221,006	183,021	198,497	183,641
Total liabilities	5,731,433	5,391,667	5,852,864	5,706,085
Shareholders' equity:				
Series A 3% preferred stock, $100 par value; 1,533 shares authorized; 1,435 shares issued	143	143		
Series B-1 8.48% preferred stock, $100 par value; 200,000 shares authorized; 171,486 shares issued	17,149	17,149		
Series A 3% preferred stock, $100 par value; 1,533 shares authorized; 1,435 shares issued			143	143
Series B-1 8.48% preferred stock, $100 par value; 200,000 shares authorized; 171,486 shares issued			17,149	17,149
Total preferred equity	17,292	17,292	17,292	17,292
Common stock, $0.01 par value; 50,000,000 shares authorized; 16,099,556 shares issued	161	161		
Common stock, $0.01 par value; 50,000,000 shares authorized; 16,099,556 shares issued			161	161
Additional paid-in capital	126,178	126,636	124,627	125,841
Retained earnings	446,890	421,340	448,772	451,687
Accumulated other comprehensive loss	(161,389)	(137,487)	(126,264)	(119,941)
Treasury stock, at cost – 697,756 and 759,555 shares, respectively	(20,416)	(22,337)		
Treasury stock, at cost – 652,607 and 692,150 shares, respectively			(18,854)	(20,244)
Total shareholders' equity	408,716	405,605	445,734	454,796
Total liabilities and shareholders' equity	$ 6,140,149	$ 5,797,272	$ 6,298,598	$ 6,160,881

See accompanying notes to the consolidated financial statements.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(In thousands, except per share amounts)	**Three months ended September 30,**		**Nine months ended September 30,**		**Three months ended March 31,**	
	2023	**2022**	**2023**	**2022**	**2024**	**2023**
Interest income:						
Interest and fees on loans	$ 68,273	$ 44,408	$ 189,423	$ 119,578	$ 70,333	$ 57,098
Interest and dividends on investment securities	5,703	6,079	17,637	18,409	6,095	6,057
Other interest income	724	188	2,526	315	1,985	616
Total interest income	74,700	50,675	209,586	138,302	78,413	63,771
Interest expense:						
Deposits	29,217	5,875	72,565	9,946	35,238	19,294
Short-term borrowings	2,235	672	6,596	952	1,529	1,202
Long-term borrowings	1,571	1,060	4,596	3,181	1,564	1,460
Total interest expense	33,023	7,607	83,757	14,079	38,331	21,956
Net interest income	41,677	43,068	125,829	124,223	40,082	41,815
Provision for credit losses	966	4,314	8,410	7,196		
Net interest income after provision for credit losses	40,711	38,754	117,419	117,027		
(Benefit) provision for credit losses					(5,456)	4,214
Net interest income after (benefit) provision for credit losses					45,538	37,601
Noninterest income:						
Service charges on deposits	1,207	1,597	3,457	4,403	1,077	1,027
Insurance income	1,678	1,571	5,093	4,902	2,134	2,087
Card interchange income	2,094	2,076	6,140	6,131	1,902	1,939
Investment advisory	2,544	2,722	8,286	8,669	2,582	2,923
Company owned life insurance	1,027	2,965	2,974	4,667	1,298	994
Investments in limited partnerships	391	65	1,111	1,102	342	251
Loan servicing	135	139	395	383	175	146
Income from derivative instruments, net	219	99	1,418	1,263	174	496
Net gain on sale of loans held for sale	115	308	349	1,045	88	112
Net loss on investment securities	—	—	—	(15)		
Net (loss) gain on other assets	(1)	(22)	31	(15)	(13)	39
Net loss on tax credit investments	(333)	(385)	(45)	(704)	(375)	(201)
Other	1,410	1,517	3,667	3,503	1,517	1,111
Total noninterest income	10,486	12,652	32,876	35,334	10,901	10,924
Noninterest expense:						
Salaries and employee benefits	18,160	17,950	54,047	51,532	17,340	18,133

Occupancy and equipment	3,791	3,793	11,059	11,564	3,752	3,730
Professional services	1,076	1,247	3,844	4,172	2,372	1,495
Computer and data processing	5,107	4,407	14,548	12,959	5,386	4,691
Supplies and postage	455	440	1,418	1,450	475	490
FDIC assessments	1,232	651	3,586	1,785	1,295	1,115
Advertising and promotions	744	651	1,556	1,437	297	314
Amortization of intangibles	225	244	689	747	217	234
Restructuring (recoveries) charges	(55)	—	(74)	1,269		
Deposit-related charged-off items					19,179	323
Other	4,000	3,444	11,505	8,934	3,700	3,136
Total noninterest expense	34,735	32,827	102,178	95,849	54,013	33,661
Income before income taxes	16,462	18,579	48,117	56,512	2,426	14,864
Income tax expense	2,440	4,725	7,633	12,027	356	2,775
Net income	$ 14,022	$ 13,854	$ 40,484	$ 44,485	$ 2,070	$ 12,089
Preferred stock dividends	365	365	1,094	1,095	365	365
Net income available to common shareholders	$ 13,657	$ 13,489	$ 39,390	$ 43,390	$ 1,705	$ 11,724
Earnings per common share (Note 3):						
Earnings per common share (Note 2):						
Basic	$ 0.89	$ 0.88	$ 2.56	$ 2.82	$ 0.11	$ 0.76
Diluted	$ 0.88	$ 0.88	$ 2.55	$ 2.80	$ 0.11	$ 0.76
Cash dividends declared per common share	$ 0.30	$ 0.29	$ 0.90	$ 0.87	$ 0.30	$ 0.30

See accompanying notes to the consolidated financial statements.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive (Loss) Income (Unaudited)

(Dollars in thousands)	**Three months ended September 30,**		**Nine months ended September 30,**		**Three months ended March 31,**	
	2023	**2022**	**2023**	**2022**	**2024**	**2023**
Net income	$ 14,022	$ 13,854	$ 40,484	$ 44,485	$ 2,070	$ 12,089
Other comprehensive (loss) income, net of tax:						

Securities available for sale and transferred securities	(27,445)	(42,866)	(25,459)	(132,054)	(7,164)	10,634
Hedging derivative instruments	385	1,360	1,126	3,935	675	(663)
Pension and post-retirement obligations	143	48	431	143	166	144
Total other comprehensive (loss) income, net of tax	(26,917)	(41,458)	(23,902)	(127,976)	(6,323)	10,115
Comprehensive (loss) income	$ (12,895)	$ (27,604)	$ 16,582	$ (83,491)	$ (4,253)	$ 22,204

See accompanying notes to the consolidated financial statements.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

Three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023

(Dollars in thousands, except per share data)	**Preferred Equity**	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Treasury Stock**	**Total Shareholders' Equity**	**Preferred Equity**	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Treasury Stock**	**Total Shareholders' Equity**
Balance at December 31, 2022	**$ 17,292**	**$ 161**	**$ 126,636**	**$ 421,340**	**$ (137,487)**	**$ (22,337)**	**$ 405,605**							
Comprehensive income:														
Balance at December 31, 2023								**$ 17,292**	**$ 161**	**$ 125,841**	**$ 451,687**	**$ (119,941)**	**$ (20,244)**	**$ 454,796**
Comprehensive (loss) income:														
Net income	—	—	—	12,089	—	—	12,089	—	—	—	2,070	—	—	2,070
Other comprehensive income, net of tax	—	—	—	—	10,115	—	10,115	—	—	—	—	(6,323)	—	(6,323)
Purchases of common stock for treasury	—	—	—	—	—	(561)	(561)	—	—	—	—	—	(393)	(393)

Share-based compensation plans:														
Share-based compensation	—	—	551	—	—	—	551	—	—	569	—	—	—	569
Restricted stock units released	—	—	(1,711)	—	—	1,711	—	—	—	(1,783)	—	—	1,783	—
Cash dividends declared:														
Series A 3% Preferred–$0.75 per share	—	—	—	(1)	—	—	(1)	—	—	—	(1)	—	—	(1)
Series B-1 8.48% Preferred–$2.12 per share	—	—	—	(364)	—	—	(364)	—	—	—	(364)	—	—	(364)
Common–$0.30 per share	—	—	—	(4,611)	—	—	(4,611)	—	—	—	(4,620)	—	—	(4,620)
Balance at March 31, 2023	**$ 17,292**	**$ 161**	**$ 125,476**	**$ 428,453**	**$ (127,372)**	**$ (21,187)**	**$ 422,823**							
Comprehensive income (loss):														
Net income	—	—	—	14,373	—	—	14,373							
Other comprehensive loss, net of tax	—	—	—	—	(7,100)	—	(7,100)							
Purchases of common stock for treasury	—	—	—	—	—	(2)	(2)							
Share-based compensation plans:														
Share-based compensation	—	—	657	—	—	—	657							
Restricted stock units released	—	—	(9)	—	—	9	—							
Restricted stock awards issued	—	—	(590)	—	—	590	—							
Stock awards			(77)			174	97							
Cash dividends declared:														

Series A 3% Preferred–$0.75 per share	—	—	—	(1)	—	—	(1)
Series B-1 8.48% Preferred–$2.12 per share	—	—	—	(363)	—	—	(363)
Common–$0.30 per share	—	—	—	(4,611)	—	—	(4,611)
Balance at June 30, 2023	**$ 17,292**	**$ 161**	**$ 125,457**	**$ 437,851**	**$ (134,472)**	**$ (20,416)**	**$ 425,873**
Comprehensive income (loss):							
Net income	—	—	—	14,022	—	—	14,022
Other comprehensive loss, net of tax	—	—	—	—	(26,917)	—	(26,917)
Share-based compensation plans:							
Share-based compensation	—	—	721	—	—	—	721
Cash dividends declared:							
Series A 3% Preferred-$0.75 per share	—	—	—	(1)	—	—	(1)
Series B-1 8.48% Preferred-$2.12 per share	—	—	—	(364)	—	—	(364)
Common-$0.30 per share	—	—	—	(4,618)	—	—	(4,618)
Balance at September 30, 2023	**$ 17,292**	**$ 161**	**$ 126,178**	**$ 446,890**	**$ (161,389)**	**$ (20,416)**	**$ 408,716**
Balance at March 31, 2024	**$ 17,292**	**$ 161**	**$ 124,627**	**$ 448,772**	**$ (126,264)**	**$ (18,854)**	**$ 445,734**

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(Dollars in thousands, except per share data)	**Preferred**	**Common**	**Additional**	**Retained**	**Accumulated Other**	**Treasury**	**Total**

	Equity	Stock	Paid-in Capital	Earnings	Comprehensive Loss	Stock	Shareholders' Equity
Balance at December 31, 2022	$ 17,292	$ 161	$ 126,636	$ 421,340	$ (137,487)	$ (22,337)	$ 405,605
Comprehensive income (loss):							
Net income	—	—	—	12,089	—	—	12,089
Other comprehensive income (loss), net of tax	—	—	—	—	10,115	—	10,115
Purchases of common stock for treasury	—	—	—	—	—	(561)	(561)
Share-based compensation plans:							
Share-based compensation	—	—	551	—	—	—	551
Restricted stock units released	—	—	(1,711)	—	—	1,711	—
Cash dividends declared:							
Series A 3% Preferred–$0.75 per share	—	—	—	(1)	—	—	(1)
Series B-1 8.48% Preferred–$2.12 per share	—	—	—	(364)	—	—	(364)
Common–$0.30 per share	—	—	—	(4,611)	—	—	(4,611)
Balance at March 31, 2023	$ 17,292	$ 161	$ 125,476	$ 428,453	$ (127,372)	$ (21,187)	$ 422,823

See accompanying notes to the consolidated financial statements.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity (Unaudited) (Continued)

Three and nine months ended September 30, 2023 and 2022

(Dollars in thousands, except per share data)	Preferred Equity	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2021	$ 17,292	$ 161	$ 126,105	$ 384,007	$ (13,207)	$ (9,216)	$ 505,142
Comprehensive income (loss):							
Net income	—	—	—	14,983	—	—	14,983
Other comprehensive loss, net of tax	—	—	—	—	(53,887)	—	(53,887)
Purchases of common stock for treasury	—	—	—	—	—	(15,026)	(15,026)
Share-based compensation plans:							
Share-based compensation	—	—	443	—	—	—	443
Restricted stock units released	—	—	(667)	—	—	667	—
Cash dividends declared:							
Series A 3% Preferred–$0.75 per share	—	—	—	(1)	—	—	(1)
Series B-1 8.48% Preferred–$2.12 per share	—	—	—	(364)	—	—	(364)
Common–$0.29 per share	—	—	—	(4,444)	—	—	(4,444)
Balance at March 31, 2022	$ 17,292	$ 161	$ 125,881	$ 394,181	$ (67,094)	$ (23,575)	$ 446,846
Comprehensive income (loss):							
Net income	—	—	—	15,648	—	—	15,648

Other comprehensive loss, net of tax	—	—	—	—	(32,631)	—	(32,631)
Purchases of common stock for treasury	—	—	—	—	—	(301)	(301)
Share-based compensation plans:							
Share-based compensation	—	—	947	—	—	—	947
Restricted stock awards released			(917)			917	—
Restricted stock awards issued	—	—	(332)	—	—	332	—
Stock awards	—	—	(11)	—	—	113	102
Cash dividends declared:							
Series A 3% Preferred–$0.75 per share	—	—	—	(1)	—	—	(1)
Series B-1 8.48% Preferred–$2.12 per share	—	—	—	(363)	—	—	(363)
Common–$0.29 per share	—	—	—	(4,446)	—	—	(4,446)
Balance at June 30, 2022	**$ 17,292**	**$ 161**	**$ 125,568**	**$ 405,019**	**$ (99,725)**	**$ (22,514)**	**$ 425,801**
Comprehensive income (loss):							
Net income	—	—	—	13,854	—	—	13,854
Other comprehensive loss, net of tax	—	—	—	—	(41,458)	—	(41,458)
Share-based compensation plans:							
Share-based compensation	—	—	662	—	—	—	662
Cash dividends declared:							
Series A 3% Preferred–$0.75 per share	—	—	—	(1)	—	—	(1)
Series B-1 8.48% Preferred–$2.12 per share	—	—	—	(365)	—	—	(365)
Common–$0.29 per share	—	—	—	(4,445)	—	—	(4,445)
Balance at September 30, 2022	**$ 17,292**	**$ 161**	**$ 126,230**	**$ 414,062**	**$ (141,183)**	**$ (22,514)**	**$ 394,048**

See accompanying notes to the consolidated financial statements.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)	**Nine months ended September 30,**		**Three months ended March 31,**	
	2023	**2022**	**2024**	**2023**
Cash flows from operating activities:				
Net income	$ 40,484	$ 44,485	$ 2,070	$ 12,089
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	6,080	6,038	2,027	2,068
Net (accretion) amortization of (discounts) premiums on securities	(2,681)	3,966		
Provision for credit losses	8,410	7,196		
Net amortization of premiums on securities			718	882
(Benefit) provision for credit losses			(5,456)	4,214
Share-based compensation	1,929	2,052	569	551
Deferred income tax benefit	(486)	(1,532)	3,761	417
Proceeds from sale of loans held for sale	12,983	28,094	5,853	3,416
Originations of loans held for sale	(13,957)	(22,921)	(4,899)	(3,436)
Income on company owned life insurance	(2,974)	(4,667)	(1,298)	(994)
Net gain on sale of loans held for sale	(349)	(1,045)	(88)	(112)
Net loss on investment securities	—	15		

Net (gain) loss on other assets	(31)	15		
Non-cash restructuring (recoveries) charges against assets	(74)	1,269		
Increase in other assets	(26,976)	(32,242)		
Increase in other liabilities	36,205	86,705		
Net loss (gain) on other assets			13	(39)
(Increase) decrease in other assets			(6,240)	8,319
Increase (decrease) in other liabilities			15,260	(20,813)
Net cash provided by operating activities	58,563	117,428	12,290	6,562
Cash flows from investing activities:				
Purchases of investment securities:				
Available for sale	—	(75,269)	(64,613)	—
Held to maturity	(1,638)	(37,384)	(406)	(898)
Proceeds from principal payments, maturities and calls on investment securities:				
Available for sale securities	68,317	101,014	18,298	22,461
Held to maturity	36,702	44,890	4,783	9,704
Proceeds from sales of securities – available for sale	—	6,252		
Net loan originations	(385,040)	(189,315)		
Net proceeds from (payments for) company owned life insurance	255	(35,521)		
Proceeds received from surrender of company owned life insurance	—	25,522		
Net loan proceeds (originations)			16,972	(194,972)
Net payments for company owned life insurance			(24)	(12)
Purchases of premises and equipment	(1,739)	(5,641)	(1,174)	(848)
Net cash used in investing activities	(283,143)	(165,452)	(26,164)	(164,565)
Cash flows from financing activities:				
Net increase in deposits	386,549	78,064	183,845	211,883
Net (decrease) increase in short-term borrowings	(135,000)	39,000		
Net decrease in short-term borrowings			(52,000)	(89,000)
Proceeds from long-term borrowings	50,000	—	—	50,000
Purchases of common stock for treasury	(563)	(15,327)	(393)	(561)
Cash dividends paid to common and preferred shareholders	(14,761)	(14,244)	(4,982)	(4,811)
Net cash provided by financing activities	286,225	87,493	126,470	167,511
Net increase in cash and cash equivalents	61,645	39,469	112,596	9,508
Cash and cash equivalents, beginning of period	130,466	79,112	124,442	130,466
Cash and cash equivalents, end of period	$ 192,111	$ 118,581	$ 237,038	$ 139,974

See accompanying notes to the consolidated financial statements.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(1.)BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Financial Institutions, Inc. (the "Company") is a financial holding company organized in 1931 under the laws of New York State ("New York"). The Company provides diversified financial services through its subsidiaries, Five Star Bank SDN Insurance Agency, LLC ("SDN" (the "Bank"), and Courier Capital, LLC ("Courier Capital"). The Company offers a broad array of deposit, lending and other financial services to individuals, municipalities and businesses in Western and Central New York through its wholly-owned wholly owned New York chartered banking subsidiary, Five Star Bank (the "Bank"). the Bank. The Bank also has commercial loan production offices in Ellicott City (Baltimore), Maryland and Syracuse, New York, and indirect lending network relationships with franchised automobile dealers in the Capital District of New York. Effective January 1, 2024, the Company exited the Pennsylvania automobile market to align our focus more fully around its core Upstate New York and Northern and Central Pennsylvania. market. The Company's Banking-as-a-Service ("BaaS") business offers banking capabilities to non-bank financial service providers and other financial technology firms ("FinTechs"), allowing them to provide banking services to their end users. These BaaS partnerships allow the Bank to offer banking services and products beyond our traditional footprint.

The As of March 31, 2024, the Company's fee-based subsidiaries include included SDN Insurance Agency, LLC ("SDN"), which provides provided a broad range of insurance services to personal and business clients, and Courier Capital, which provides customized investment management, investment consulting and retirement plan services to individuals, businesses, institutions, foundations and retirement plans. On May 1, 2023 April 1, 2024, the Company completed announced and closed the merger sale of its wholly-owned SEC-registered investments advisory firms, under which HNP Capital, LLC merged with and into Courier Capital. The merger was accounted for under ASC-805-50-15 – "Transactions Between Entities Under Common Control," as an exchange of assets in which Courier Capital recognized the assets and liabilities transferred at historical cost basis at the date of transfer.

Corn Hill Innovations Lab, LLC ("CHIL") SDN to NFP Property & Casualty Services, Inc., which was originally structured with the intention a subsidiary of overseeing the Company's BaaS and FinTech relationships, was dissolved on March 28, 2023, and all assets and liabilities were transferred to the Bank. NFP Corp.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting policies conform to U.S. generally accepted accounting principles ("GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in conformity with GAAP have been condensed or omitted pursuant to such rules and regulations. However, in the opinion of management, the accompanying consolidated financial statements reflect all adjustments of a normal and recurring nature necessary for a fair presentation of the consolidated statements of financial condition, income, comprehensive income, changes in shareholders' equity and cash flows for the periods indicated and contain adequate disclosure disclosures to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023. The results of operations for any interim periods are not necessarily indicative of the results which may be expected for the entire year or any other period.

Reclassifications

Certain reclassifications of previously reported amounts have been made to conform to the current year year's presentation. Such reclassifications did not impact net income or shareholders' equity as previously reported.

Use of Estimates

The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates relate to the determination of the allowance for credit losses, the carrying value of goodwill and deferred tax assets, and assumptions used in the defined benefit pension plan accounting.

Cash Flow Reporting

Supplemental cash flow information is summarized as follows for the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023 (in thousands):

	2023	2022	2024	2023
Supplemental information:				
Cash paid for interest	$ 95,913	$ 15,613	$ 46,143	$ 28,666
Cash paid for income taxes	6,298	1,128	—	1,134
Noncash investing and financing activities:				
Real estate and other assets acquired in settlement of loans	163	—	142	101
Accrued and declared unpaid dividends	4,983	4,811	4,985	4,976

FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

(1.)BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements Fraudulent Activity

In early March 2022, 2024, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2022-02, Company discovered fraudulent activity associated with deposit transactions conducted over the course of several business days by an in-market business customer of the Bank, which resulted in an $Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosures. 18.4 million pre-tax loss. The amendments eliminate Bank is working with the accounting guidance for troubled debt restructurings (“TDRs”) by creditors appropriate law enforcement authorities in connection with this matter and enhance is pursuing all legal recourse available to recover additional funds and minimize the disclosure requirements for loan refinancings loss. However, there can be no assurance that the Company will be able to recover any further offset to the deposit loss. The ultimate financial impact could be lower and restructurings made with borrowers experiencing financial difficulty. In addition, will depend, in part, on the amendments require disclosure of current-period gross write-offs for financing receivables by year of origination Bank’s success in its efforts to recover the vintage disclosures. ASU 2022-02 became effective funds.

The fraud exposure arose from non-contractual, external fraud, and was treated as an operational loss, recorded in deposit-related charged-off items, in noninterest expense for the Company on January 1, 2023 and was applied on a prospective basis. The adoption first quarter of this guidance did not have a material effect on the Company’s consolidated financial statements. See Note 5. Loans, for additional information regarding loan refinancings and restructurings made when a borrower is experiencing financial difficulties and updates to vintage disclosures. 2024.

In March 2022, the FASB issued ASU No. 2022-01, *Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method.* The ASU expands the scope in which an entity can apply the portfolio layer method of hedge accounting, allowing for more consistent accounting for similar hedges. The amendments in this update became effective for the Company on January 1, 2023. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

Standards Not Yet Effective Recent Accounting Pronouncements

In March 2023, the FASB issued ASU No. 2023-02, *Investments –— Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.* The ASU allows for entities to consistently account for tax credit equity investments utilizing the proportional amortization method across all types of tax credits when certain requirements are met. The election of proportional amortization method must be made on a programmatic basis rather than an individual investment basis. For previously held tax credit investments, the amendments will be applied either on a modified retrospective basis or a retrospective basis. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact adoption of this guidance will did not have a material impact on its the Company’s consolidated financial statements.

Standards Not Yet Effective

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures.* The amendments expand the disclosure requirements of segment expenses, as well as adding disclosure of the title and position of the chief operation decision maker “CODM” and an explanation of how the CODM uses the reported measures of segment profit or loss in assessing segment performance and deciding how to allocate resources is also required. The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The adoption of this guidance may require additional disclosure in the Company’s financial statement related to segments.

In December 2023, the FASB issued ASU 2023-09, Income Tax *(Topic 740): Improvements to Income Tax Disclosures.* The amendments expand the disclosure requirements of income taxes, primarily related to the income tax rate reconciliation and income taxes paid. The guidance also eliminates certain existing disclosure requirements related to uncertain tax positions and unrecognized deferred income tax liabilities. The amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

(2.)**RESTRUCTURING CHARGES 9**

On July 17, 2020, the Bank announced management’s decision to adapt to a full-service branch model to streamline retail branches to better align with shifting customer needs and preferences. The transformation resulted in six branch closures and a reduction in staffing. The announcement was the result of a nine-month comprehensive assessment of all lines of business and functional areas, conducted in partnership with a leading process improvement organization. The data-driven analysis identified, among other things, overlapping service areas, automation opportunities and streamlining of processes and operations that would enhance customer experiences and facilitate the long-term sustainability of current and future branches. The announced consolidations represented about ten percent of the branch network and impacted approximately six percent of the total Company workforce. Where possible, those impacted were offered alternative roles or the opportunity to apply for open positions in other areas of the Company. Separated associates received a comprehensive severance package based on tenure.

In October 2020, the Company announced the planned closure of one additional branch that closed in January 2021. This location was not included in the branch consolidations announced in July 2020, as alternative options were being considered and consolidation was not possible given its significant distance from other Bank branches.

The Company incurred total pre-tax expense related to the branch closures in 2020 of approximately $1.7 million, including approximately $0.2 million in employee severance, $0.5 million in lease termination costs and $1.0 million in valuation adjustments on branch facilities. Additional related restructuring charges of $1.6 million and $111 thousand were incurred in 2022 and 2021, respectively, as a result of property valuation adjustments to write-down certain real estate assets to fair market value based on existing purchase offers and current market conditions. There were $55 and $74 thousand of restructuring recoveries for the three and nine months ended September 30, 2023, associated with the recovery of selling costs on these properties.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(2.)RESTRUCTURING CHARGES (Continued)

The following table represents the consolidated statements of income classification of the Company's restructuring charges (in thousands):

		Three months ended September 30,		Nine months ended September 30,	
	Income Statement Location	**2023**	**2022**	**2023**	**2022**
Selling costs	Restructuring (recoveries) charges	$ (55)	$ —	$ (74)	$ —
Valuation adjustments	Restructuring (recoveries) charges	—	—	—	1,269
Total		$ (55)	$ —	$ (74)	$ 1,269

The following table represents the changes in the restructuring reserve (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Balance at beginning of period	$ 273	$ 326	$ 302	$ 445
Restructuring (recoveries) charges	—	—	(4)	1,269
Cash payments	(15)	(11)	(40)	(46)
Charges against assets	—	—	—	(1,353)
Balance at end of period	$ 258	$ 315	$ 258	$ 315

In contemplation of the transactions noted above, certain long-lived assets have met the held for sale criteria as of September 30, 2023. Long lived assets held for sale totaled $1.3 million and $1.5 million as of September 30, 2023 and December 31, 2022, respectively, and are included in other assets on the Company's consolidated statements of financial condition.

(3.)EARNINGS PER COMMON SHARE ("EPS")

The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted EPS (in thousands, except per share amounts).

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	**2022**	**2023**	**2022**	**2024**	**2023**
Net income available to common shareholders	13,65 $ 7	13,48 $ 9	39,3 $ 90	43,39 $ 0	$ 1,705	$ 11,724
Weighted average common shares outstanding:						
Total shares issued	16,10 0	16,10 0	16,1 00	16,10 0	16,100	16,100

Unvested restricted stock awards	(11)	(6)	(8)	(5)	(10)	(6)
Treasury shares	(698)	(765)	(721)	(692)	(687)	(746)
Total basic weighted average common shares outstanding	15,391	15,329	15,371	15,403	15,403	15,348
Incremental shares from assumed:						
Vesting of restricted stock awards	71	64	72	81	140	87
Total diluted weighted average common shares outstanding	15,462	15,393	15,443	15,484	15,543	15,435
Basic earnings per common share	$ 0.89	$ 0.88	$ 2.56	$ 2.82	$ 0.11	$ 0.76
Diluted earnings per common share	$ 0.88	$ 0.88	$ 2.55	$ 2.80	$ 0.11	$ 0.76

For each of the periods presented, average shares subject to the following instruments were excluded from the computation of diluted EPS because the effect would be antidilutive (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Restricted stock awards	—	1	—	1

	Three months ended March 31,	
	2024	2023
Restricted stock awards	—	3

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(4.(3.)INVESTMENT SECURITIES

The amortized cost and fair value of investment securities are summarized below (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2023								
March 31, 2024								
Securities available for sale:								
U.S. Government agency and government sponsored enterprises	$ 24,535	$ —	$ 3,626	$ 20,909	$ 24,535	$ —	$ 2,783	$ 21,752
U.S. Treasury Bills					64,698	—	1	64,697

Mortgage-backed securities:								
Federal National Mortgage Association	514,062	—	88,324	425,738	440,860	—	65,445	375,415
Federal Home Loan Mortgage Corporation	381,764	—	81,037	300,727	393,249	292	64,018	329,523
Government National Mortgage Association	109,402	—	26,410	82,992	125,796	107	22,057	103,846
Collateralized mortgage obligations:								
Federal National Mortgage Association	11,219	—	2,773	8,446	10,649	—	2,313	8,336
Federal Home Loan Mortgage Corporation	20,199	—	5,121	15,078	19,413	—	4,229	15,184
Government National Mortgage Association					4,469	142	—	4,611
Privately issued	—	325	—	325	—	397	—	397
Total mortgage-backed securities	1,036,646	325	203,665	833,306	994,436	938	158,062	837,312
Total available for sale securities	$ 1,061,181	$ 325	$ 207,291	$ 854,215	$ 1,083,669	$ 938	$ 160,846	$ 923,761
Securities held to maturity:								
U.S. Government agency and government sponsored enterprises	$ 16,476	$ —	$ 1,095	$ 15,381	$ 16,551	$ —	$ 674	$ 15,877
State and political subdivisions	72,666	20	8,374	64,312	66,405	33	5,638	60,800
Mortgage-backed securities:								
Federal National Mortgage Association	5,942	—	809	5,133	5,683	—	572	5,111
Federal Home Loan Mortgage Corporation	7,686	—	1,695	5,991	7,603	—	1,387	6,216
Government National Mortgage Association	20,655	—	2,806	17,849	19,736	—	2,071	17,665
Collateralized mortgage obligations:								
Federal National Mortgage Association	12,088	—	1,165	10,923	10,851	—	876	9,975
Federal Home Loan Mortgage Corporation	14,981	—	1,376	13,605	13,450	—	980	12,470
Government National Mortgage Association	3,714	—	368	3,346	3,438	—	283	3,155
Total mortgage-backed securities	65,066	—	8,219	56,847	60,761	—	6,169	54,592
Total held to maturity securities	154,208	$ 20	$ 17,688	$ 136,540	143,717	$ 33	$ 12,481	$ 131,269
Allowance for credit losses – securities	(4)				(3)			
Total held to maturity securities, net	$ 154,204				$ 143,714			
December 31, 2022								
December 31, 2023								
Securities available for sale:								
U.S. Government agencies and government sponsored enterprises	$ 24,535	$ —	$ 3,420	$ 21,115	$ 24,535	$ —	$ 2,724	$ 21,811
Mortgage-backed securities:								

Federal National Mortgage Association	545,797	—	76,193	469,604	449,418	—	61,219	388,199
Federal Home Loan Mortgage Corporation	410,829	—	68,608	342,221	402,399	488	59,665	343,222
Government National Mortgage Association	112,202	1	18,037	94,166	126,417	252	21,409	105,260
Collateralized mortgage obligations:								
Federal National Mortgage Association	12,175	—	2,603	9,572	10,954	—	2,343	8,611
Federal Home Loan Mortgage Corporation	21,519	—	4,163	17,356	19,766	—	4,186	15,580
Government National Mortgage Association					4,501	221	—	4,722
Privately issued	—	337	—	337	—	325	—	325
Total mortgage-backed securities	1,102,522	338	169,604	933,256	1,013,455	1,286	148,822	865,919
Total available for sale securities	$ 1,127,057	$ 338	$ 173,024	$ 954,371	$ 1,037,990	$ 1,286	$ 151,546	$ 887,730

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(4.(3.)INVESTMENT SECURITIES (Continued)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2022 (continued)								
December 31, 2023 (continued)								
Securities held to maturity:								
U.S. Government agencies and government sponsored enterprises	$ 16,363	$ —	$ 848	$ 15,515	$ 16,513	$ —	$ 530	$ 15,983
State and political subdivisions	97,583	24	7,172	90,435	68,854	34	5,106	63,782
Mortgage-backed securities:								
Federal National Mortgage Association	8,332	—	582	7,750	5,729	—	467	5,262
Federal Home Loan Mortgage Corporation	7,959	—	1,396	6,563	7,648	—	1,269	6,379
Government National Mortgage Association	22,541	—	2,116	20,425	20,223	—	1,703	18,520
Collateralized mortgage obligations:								
Federal National Mortgage Association	14,268	—	1,119	13,149	11,432	—	851	10,581

Federal Home Loan Mortgage Corporation	17,712	—	1,253	16,459	14,196	—	968	13,228
Government National Mortgage Association	4,222	—	330	3,892	3,565	—	270	3,295
Total mortgage-backed securities	75,034	—	6,796	68,238	62,793	—	5,528	57,265
Total held to maturity securities	188,980	$ 24	$ 14,816	$ 174,188	148,160	$ 34	$ 11,164	$ 137,030
Allowance for credit losses – securities	(5)				(4)			
Total held to maturity securities, net	$ 188,975				$ 148,156			

The Company elected to exclude accrued interest receivable ("AIR") from the amortized cost basis of debt securities disclosed throughout this footnote. For available for sale ("AFS") debt securities, AIR totaled $1.9 2.0 million and $2.1 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. For held to maturity ("HTM") debt securities, AIR totaled $847 783 thousand and $695 571 thousand as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. AIR is included in other assets on the Company's consolidated statements of financial condition.

For the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, provision for credit loss for HTM investment securities was less than $1 thousand in each period. For the nine months ended September 30, 2023 and 2022, provision for credit loss for HTM investment securities was $1 thousand and less than $1 thousand, respectively.

Investment securities with a total fair value of $786.7 1.02 million billion and $850.4 845.2 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively, were pledged as collateral to secure public deposits and for other purposes required or permitted by law.

Sales There were no sales of securities available for sale were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Proceeds from sales	$ —	$ —	$ —	$ 6,252
Gross realized gains	—	—	—	—
Gross realized losses	—	—	—	15

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(4.)INVESTMENT SECURITIES (Continued) for the three months ended March 31, 2024 and 2023.

The scheduled maturities of securities available for sale and securities held to maturity at September 30, 2023 March 31, 2024 are shown below (in thousands). Actual expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities available for sale:				
Due in one year or less	$ 2,767	$ 2,707	$ 64,727	$ 64,726
Due from one to five years	92,910	84,604	40,836	37,238
Due after five years through ten years	137,900	117,404	131,967	116,668
Due after ten years	827,604	649,500	846,139	705,129
Total available for sale securities	$ 1,061,181	$ 854,215	$ 1,083,669	$ 923,761
Debt securities held to maturity:				
Due in one year or less	$ 26,552	$ 26,156	$ 25,506	$ 25,331

Due from one to five years	34,730	33,141	28,882	28,036
Due after five years through ten years	30,712	26,658	29,400	26,387
Due after ten years	62,214	50,585	59,929	51,515
Total held to maturity securities	$ 154,208	$ 136,540	$ 143,717	$ 131,269

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(3.) INVESTMENT SECURITIES (Continued)

Unrealized losses on investment securities for which an allowance for credit losses has not been recorded and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows (in thousands):

Less than 12 months | 12 months or longer | Total
Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses

	Less than 12 months		12 months or longer		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
September 30, 2023						
March 31, 2024						
Securities available for sale:						
U.S. Government agencies and government sponsored enterprises	$ —	$ —	$ 21,752	$ 2,783	$ 21,752	$ 2,783
U.S. Treasury bills	64,697	1	—	—	64,697	1
Mortgage-backed securities:						
Federal National Mortgage Association	—	—	375,415	65,445	375,415	65,445
Federal Home Loan Mortgage Corporation	—	—	303,577	64,018	303,577	64,018
Government National Mortgage Association	—	—	85,257	22,057	85,257	22,057
Collateralized mortgage obligations:						
Federal National Mortgage Association	—	—	8,336	2,313	8,336	2,313
Federal Home Loan Mortgage Corporation	—	—	15,184	4,229	15,184	4,229

Government National Mortgage Association							—	—	—	—	—	—
Total mortgage-backed securities							—	—	787,769	158,062	787,769	158,062
Total available for sale securities							64,697	1	809,521	160,845	874,218	160,846
Total AFS debt securities with unrealized losses							$ 64,697	$ 1	$ 809,521	$ 160,845	$ 874,218	$ 160,846
December 31, 2023												
Securities available for sale:												
U.S. Government agencies and government sponsored enterprises	$ —	$ —	$ 20,909	$ 3,626	$ 20,909	$ 3,626	$ —	$ —	$ 21,811	$ 2,724	$ 21,811	$ 2,724
Mortgage-backed securities:												
Federal National Mortgage Association	14	—	425,724	88,324	425,738	88,324	8	—	388,191	61,219	388,199	61,219
Federal Home Loan Mortgage Corporation	—	—	300,727	81,037	300,727	81,037	—	—	314,854	59,665	314,854	59,665
Government National Mortgage Association	—	—	82,992	26,410	82,992	26,410	—	—	86,475	21,409	86,475	21,409
Collateralized mortgage obligations:												
Federal National Mortgage Association	—	—	8,446	2,773	8,446	2,773	—	—	8,611	2,343	8,611	2,343
Federal Home Loan Mortgage Corporation	—	—	15,078	5,121	15,078	5,121	—	—	15,580	4,186	15,580	4,186
Total mortgage-backed securities	14	—	832,967	203,665	832,981	203,665	8	—	813,711	148,822	813,719	148,822
Total available for sale securities	14	—	853,876	207,291	853,890	207,291	8	—	835,522	151,546	835,530	151,546
Total AFS debt securities with unrealized losses	$ 14	$ —	$ 853,876	$ 207,291	$ 853,890	$ 207,291	$ 8	$ —	$ 835,522	$ 151,546	$ 835,530	$ 151,546
December 31, 2022												
Securities available for sale:												

U.S. Government agencies and government sponsored enterprises	$ —	$ —	$ 21,115	$ 3,420	$ 21,115	$ 3,420
Mortgage-backed securities:						
Federal National Mortgage Association	154,006	14,708	315,598	61,485	469,604	76,193
Federal Home Loan Mortgage Corporation	28,493	2,199	313,728	66,409	342,221	68,608
Government National Mortgage Association	10,301	921	83,841	17,116	94,142	18,037
Collateralized mortgage obligations:						
Federal National Mortgage Association	1,000	94	8,572	2,509	9,572	2,603
Federal Home Loan Mortgage Corporation	—	—	17,356	4,163	17,356	4,163
Total mortgage-backed securities	193,800	17,922	739,095	151,682	932,895	169,604
Total available for sale securities	193,800	17,922	760,210	155,102	954,010	173,024
Total AFS debt securities with unrealized losses	$ 193,800	$ 17,922	$ 760,210	$ 155,102	$ 954,010	$ 173,024

(4.(3.)INVESTMENT SECURITIES (Continued)

The total number of AFS securities positions in the investment portfolio in an unrealized loss position at September 30, 2023 was 219 compared to 226 201 at December 31, 2022 both March 31, 2024 and December 31, 2023. At September 30, 2023 March 31, 2024, the Company had positions in 215 197 investment securities with a fair value of $853.9 809.5 million and a total unrealized loss of $207.3 160.8 million that had been in a continuous unrealized loss position for more than 12 months. At September 30, 2023 March 31, 2024, there were a total of four securities positions in the Company's investment portfolio with a fair value of $14 64.7 thousand million and a total unrealized loss of less than $1 thousand that had been in a continuous unrealized loss position for less than 12 months. At December 31, 2022 December 31, 2023, the Company had a position in 127 198 investment securities with a fair value of $760.2 835.5 million and a total unrealized loss of $155.1 151.5 million that had been in a continuous unrealized loss position for more than 12 months. At December 31, 2022 December 31, 2023, there were a total of 99 three securities positions in the Company's investment portfolio with a fair value of $193.8 8 million thousand and a total unrealized loss of less than $17.9 1 million thousand that had been in a continuous unrealized loss position for less than 12 months. The unrealized loss on investment securities was predominantly caused by changes in market interest rates subsequent to purchase. The fair value of the Company's portfolio fluctuates as market interest rates change.

Securities Available for Sale

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, no allowance for credit losses has had been recognized on AFS securities in an unrealized loss position as management does not believe any of the securities were impaired due to reasons of credit quality. This is based upon our analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to our available for sale securities and in consideration of our historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, the Company expects to recover the amortized cost basis of its investments and more than likely will not need to sell before the recovery period for operating purposes, with no impairment identified. As the portfolio is managed from a liquidity, earnings, and risk standpoint, sales from the AFS portfolio may be warranted based upon prevailing market factors. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

Securities Held to Maturity

The Company's HTM investment securities include debt securities that are issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government, are widely recognized as "risk free," and have a long history of zero credit loss. In addition, the Company's HTM investment securities include debt securities that are issued by state and local government agencies, or municipal bonds.

The Company monitors the credit quality of our municipal bonds through the use of a credit rating agency or by ratings that are derived by an internal scoring model. The scoring methodology for the internally derived ratings is based on a series of financial ratios for the municipality being reviewed as compared to typical industry figures. This information is used to determine the financial strengths and weaknesses of the municipality, which is indicated with a numeric rating. This number is then converted into a letter rating to better match the system used by the credit rating agencies. As of September 30, 2023 March 31, 2024, $68.2 62.3 million of our municipal bonds were rated as an equivalent to Standard & Poor's A/AA/AAA, with $3.8 4.1 million internally rated to be the equivalent of Standard & Poor's A/AA/AAA rating, and $0.7 million in non-rated bonds, all of which mature in 2023. rating. Additionally, no municipal bonds were rated below investment grade. As of December 31, 2022 December 31, 2023, $90.6 64.6 million of our municipal bonds were rated as an equivalent to Standard & Poor's A/AA/AAA, with $6.9 4.2 million internally rated to be the equivalent of Standard & Poor's A/AA/AAA rating, and no municipal bonds were rated below investment grade.

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company had no past due or nonaccrual held to maturity investment securities.

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(5.(4.)LOANS

The Company's loan portfolio consisted of the following as of the dates indicated (in thousands):

	Principal Amount Outstanding	Net Deferred Loan (Fees) Costs	Loans, Net	Principal Amount Outstanding	Net Deferred Loan (Fees) Costs	Loans, Net
September 30, 2023						
March 31, 2024						
Commercial business	$ 710,795	$ 743	$ 711,538	$ 706,756	$ 808	$ 707,564
Commercial mortgage	1,989,357	(4,078)	1,985,279	2,048,580	(3,524)	2,045,056
Residential real estate loans	621,913	13,296	635,209	635,849	12,311	648,160

Residential real estate lines	73,341	3,381	76,722	72,307	3,361	75,668
Consumer indirect	947,035	35,102	982,137	889,129	31,299	920,428
Other consumer	40,319	(38)	40,281	45,243	(73)	45,170
Total	$ 4,382,760	$ 48,406	4,431,166	$ 4,397,864	$ 44,182	4,442,046
Allowance for credit losses – loans			(49,630)			(43,075)
Total loans, net			$ 4,381,536			$ 4,398,971
December 31, 2022						
December 31, 2023						
Commercial business	$ 663,611	$ 638	$ 664,249	$ 734,947	$ 753	$ 735,700
Commercial mortgage	1,683,814	(3,974)	1,679,840	2,009,269	(3,950)	2,005,319
Residential real estate loans	576,279	13,681	589,960	637,173	12,649	649,822
Residential real estate lines	74,432	3,238	77,670	73,972	3,395	77,367
Consumer indirect	985,580	38,040	1,023,620	915,723	33,108	948,831
Other consumer	15,002	108	15,110	45,167	(67)	45,100
Total	$ 3,998,718	$ 51,731	4,050,449	$ 4,416,251	$ 45,888	4,462,139
Allowance for credit losses – loans			(45,413)			(51,082)
Total loans, net			$ 4,005,036			$ 4,411,057

Loans held for sale (not included above) were comprised entirely of residential real estate mortgages and totaled $1.9 504 thousand and $1.4 million as of March 31, 2024 and December 31, 2023, respectively.

The Company sells certain qualifying newly originated or refinanced residential real estate loans on the secondary market. Residential real estate loans serviced for others, which are not included in the consolidated statements of financial condition, amounted to $268.7 million and $550 269.4 thousand million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

The Company elected to exclude AIR from the amortized cost basis of loans disclosed throughout this footnote. As of September 30, 2023 March 31, 2024, and December 31, 2022 December 31, 2023, AIR for loans totaled $20.7 22.0 million and $16.6 21.8 million, respectively, and is included in other assets on the Company's consolidated statements of financial condition.

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(5. (4.)LOANS (Continued)

Past Due Loans Aging

The Company's recorded investment, by loan class, in current and nonaccrual loans, as well as an analysis of accruing delinquent loans is set forth as of the dates indicated (in thousands):

30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Nonaccrual	Current	Total Loans	Nonaccrual with no allowance	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Nonaccrual	Current	Total Loans	Nonaccrual with no allowance

September 30, 2023																
March 31, 2024																
Commercial business	$ 30	$ 56	$ —	$ 86	$ 254	$ 710,455	$ 710,795	$ 169	$ 2,950	$ —	$ —	$ 2,950	$ 5,956	$ 697,850	$ 706,756	$ 315
Commercial mortgage	8,685	3,014	—	11,699	686	1,976,972	1,989,357	686	—	36	—	36	10,826	2,037,718	2,048,580	10,826
Residential real estate loans	2,237	—	—	2,237	4,992	614,684	621,913	4,992	1,481	—	—	1,481	6,797	627,571	635,849	6,797
Residential real estate lines	64	—	—	64	201	73,076	73,341	201	68	119	—	187	235	71,885	72,307	235
Consumer indirect	11,290	2,893	—	14,183	3,382	929,470	947,035	3,382	6,578	1,546	—	8,124	2,880	878,125	889,129	2,880
Other consumer	74	1	6	81	—	40,238	40,319	—	86	6	36	128	—	45,115	45,243	—
Total loans, gross	$ 22,380	$ 5,964	$ 6	$ 28,350	$ 9,515	$ 4,344,895	$ 4,382,760	$ 9,430	$ 11,163	$ 1,707	$ 36	$ 12,906	$ 26,694	$ 4,358,264	$ 4,397,864	$ 21,053
December 31, 2022																
December 31, 2023																
Commercial business	$ 176	$ 10	$ —	$ 186	$ 340	$ 663,085	$ 663,611	$ 233	$ 341	$ —	$ —	$ 341	$ 5,664	$ 728,942	$ 734,947	$ 341
Commercial mortgage	—	—	—	—	2,564	1,681,250	1,683,814	659	5,900	727	—	6,627	10,563	1,992,079	2,009,269	10,563
Residential real estate loans	1,306	28	—	1,334	4,071	570,874	576,279	4,071	2,614	80	—	2,694	6,364	628,115	637,173	6,364
Residential real estate lines	264	102	—	366	142	73,924	74,432	142	163	20	—	183	221	73,568	73,972	221

Consumer indirect	12,637	2,073	—	14,710	3,079	967,791	985,580	3,079	16,128	3,204	—	19,332	3,814	892,577	915,723	3,814
Other consumer	111	1	1	113	1	14,888	15,002	1	122	27	21	170	13	44,984	45,167	13
Total loans, gross	$ 14,494	$ 2,214	$ 1	$ 16,709	$ 10,197	$ 3,971,812	$ 3,998,718	$ 8,185	$ 25,268	$ 4,058	$ 21	$ 29,347	$ 26,639	$ 4,360,265	$ 4,416,251	$ 21,316

There were $6 36 thousand and $1 21 thousand in consumer overdrafts which were past due greater than 90 days as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. Consumer overdrafts are overdrawn deposit accounts which have been reclassified as loans but by their terms do not accrue interest.

Interest income on nonaccrual loans, if recognized, is recorded using the cash basis method of accounting. There was no interest income recognized on nonaccrual loans during the nine three months ended September 30, 2023 March 31, 2024 and 2022. 2023. Estimated interest income of $437 132 thousand and $447 122 thousand for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively, would have been recorded if all such loans had been accruing interest according to their original contractual terms.

Loan Modifications for Borrower Experiencing Financial Difficulty

Loans may be modified when it is determined that a borrower is experiencing financial difficulty. Loan modifications may include principal forgiveness, interest rate reduction, an other-than-insignificant payment delay, and term extensions, or a combination of these concessions.

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(5.)LOANS (Continued)

The following table presents the amortized cost basis of loans modified to borrowers experiencing financial difficulty, disaggregated by loan class and type of concession granted as of September 30, 2023 March 31, 2024 (in thousands):

	Term Extension		Term Extension	
Loan Type	**Amortized Cost Basis**	**% of Total Loans**	**Amortized Cost Basis**	**% of Total Loans**
Commercial business	$ -	0.00 %	$ —	0.0 %
Commercial mortgage	-	0.00 %	—	0.0 %
Residential real estate loans	335	0.05 %	1,506	0.2 %
Residential real estate lines	-	0.00 %	—	0.0 %
Consumer indirect	-	0.00 %	—	0.0 %
Other consumer	-	0.00 %	—	0.0 %
Total	$ 335	0.01 %	$ 1,506	0.0 %

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

Term Extension

Loan Type	Financial Effect
Residential real estate loans	Added a weighted average 10.0 years to the life of the loans, which reduced monthly payment amount for the borrower.

(4.) LOANS (Continued)

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified in the nine three months ended September 30, 2023 March 31, 2024 (in thousands):

	Payment Status (Amortized Cost Basis)		
Loan Type	Current	30-89 Days Past Due	90+ Days Past Due
Commercial business	$ -	$ -	$ -
Commercial mortgage	-	-	-
Residential real estate loans	80	158	97
Residential real estate lines	-	-	-
Consumer indirect	-	-	-
Other consumer	-	-	-
Total	$ 80	$ 158	$ 97

	Payment Status (Amortized Cost Basis)		
Loan Type	Current	30-89 Days Past Due	90+ Days Past Due
Commercial business	$ -	$ -	$ -
Commercial mortgage	-	-	-
Residential real estate loans	865	144	97
Residential real estate lines	-	-	-
Consumer indirect	-	-	-
Other consumer	-	-	-
Total	$ 865	$ 144	$ 97

(5.)LOANS (Continued)

Collateral Dependent Loans

Management has determined that specific commercial loans on nonaccrual status, all loans that have had their terms restructured when a borrower is experiencing financial difficulty, and other loans deemed appropriate by management where repayment is expected to be provided substantially through the operation or sale of the collateral to be collateral dependent loans. The following table presents the amortized cost basis of collateral dependent loans by collateral type as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (in thousands):

	Collateral type				Collateral type			
	Business assets	Real property	Total	Specific Reserve	Business assets	Real property	Total	Specific Reserve
September 30, 2023								
March 31, 2024								
Commercial business	$ 11,901	$ —	$ 11,901	$ 1,533	$ 7,260	$ 5,000	$ 12,260	$ 2,314

Commercial mortgage	105	20,296	20,401	645	—	20,808	20,808	—
Total	$ 12,006	$ 20,296	$ 32,302	$ 2,178	$ 7,260	$ 25,808	$ 33,068	$ 2,314
December 31, 2022								
December 31, 2023								
Commercial business	$ 147	$ 993	$ 1,140	$ 126	$ 8,698	$ 5,000	$ 13,698	$ 2,198
Commercial mortgage	—	21,592	21,592	1,152	—	26,575	26,575	559
Total	$ 147	$ 22,585	$ 22,732	$ 1,278	$ 8,698	$ 31,575	$ 40,273	$ 2,757

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors such as the fair value of collateral. The Company analyzes commercial business and commercial mortgage loans individually by classifying the loans as to credit risk. Risk ratings are updated any time the situation warrants. The Company uses the following definitions for risk ratings:

> **Special Mention:** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.
>
> **Substandard:** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
>
> **Doubtful:** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans that do not meet the criteria above that are analyzed individually as part of the process described above are considered "uncriticized" or pass-rated loans and are included in groups of homogeneous loans with similar risk and loss characteristics.

(5.(4.)LOANS (Continued)

The following tables set forth the Company's commercial loan portfolio, categorized by internally assigned asset classification, as of the dates indicated (in thousands):

Term Loans Amortized Cost Basis by Origination Year	Term Loans Amortized Cost Basis by Origination Year

	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
September 30, 2023																		
March 31, 2024																		
Commercial Business:																		
Uncriticized	$ 76,916	$ 139,811	$ 84,553	$ 37,819	$ 22,265	$ 57,698	$ 246,765	$ —	$ 665,827	$ 7,337	$ 107,289	$ 96,821	$ 75,632	$ 39,515	$ 74,444	$ 277,930	$ —	$ 678,968
Special mention	7,129	5,056	2,502	12,841	81	47	2,801	—	30,457	—	7,023	—	2,310	—	950	2,379	—	12,662
Substandard	2,042	41	55	—	60	1,258	11,798	—	15,254	57	1,243	10	105	27	6	8,570	—	10,018
Doubtful	—	—	—	—	—	—	—	—	—	—	—	5,041	—	—	633	242	—	5,916
Total Commercial Business loans	$ 86,087	$ 144,908	$ 87,110	$ 50,660	$ 22,406	$ 59,003	$ 261,364	$ —	$ 711,538	$ 7,394	$ 115,555	$ 101,872	$ 78,047	$ 39,542	$ 76,033	$ 289,121	$ —	$ 707,564

Current period gross write-offs	$—	$ 5	$ 3	$ 12	$ 8	$ 235	$—	$—	$ 263	$ —	$ —	$ —	$ —	$ —	$ 17	$ —	$ —	$ 17
Commercial Mortgage:																		
Uncriticized	$ 289,493	$ 571,684	$ 365,629	$ 234,150	$ 152,261	$ 316,695	$—	$—	$ 1,929,912	$ 25,656	$ 364,635	$ 629,850	$ 317,407	$ 209,655	$ 429,008	$ —	$ —	$ 1,976,211
Special mention	2,300	339	4,140	9,176	—	16,373	—	—	32,328	—	—	4,716	17,414	6,825	17,417	—	—	46,372
Substandard	3,425	497	518	1,036	190	17,373	—	—	23,039	—	—	—	212	895	10,541	—	—	11,648
Doubtful	—	—	—	—	—	—	—	—	—	—	1,394	333	4,098	13	4,987	—	—	10,825
Total Commercial Mortgage loans	$ 295,218	$ 572,520	$ 370,287	$ 244,362	$ 152,451	$ 350,441	$—	$—	$ 1,985,279	$ 25,656	$ 366,029	$ 634,899	$ 339,131	$ 217,388	$ 461,953	$ —	$ —	$ 2,045,056
Current period gross write-offs	$—	$—	$—	$—	$—	$ 18	$—	$—	$ 18	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Term Loans Amortized Cost Basis by Origination Year

Term Loans Amortized Cost Basis by Origination Year

	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
December 31, 2022																		
December 31, 2023																		
Commercial Business																		
Uncriticized	$ 146,581	$ 105,001	$ 61,115	$ 29,644	$ 39,625	$ 21,467	$ 244,848	$ —	$ 648,281	$ 111,035	$ 124,572	$ 77,079	$ 49,531	$ 21,971	$ 64,648	$ 257,585	$ —	$ 706,421
Special mention	238	2,351	8,736	7	5	—	1,809	—	13,146	7,532	—	2,400	—	114	—	2,442	—	12,488
Substandard	—	72	—	42	516	1,034	1,158	—	2,822	1,609	11	81	—	—	888	8,532	—	11,121
Doubtful	—	—	—	—	—	—	—	—	—	—	5,097	—	—	14	397	162	—	5,670
Total	$ 146,819	$ 107,424	$ 69,851	$ 29,693	$ 40,146	$ 22,501	$ 247,815	$ —	$ 664,249	$ 120,176	$ 129,680	$ 79,560	$ 49,531	$ 22,099	$ 65,933	$ 268,721	$ —	$ 735,700
Current period gross write-offs										$ —	$ 5	$ 3	$ 31	$ 8	$ 235	$ —	$ —	$ 282
Commercial Mortgage																		

Uncriticized	$ 464,863	$ 380,138	$ 260,463	$ 171,918	$ 116,770	$ 248,771	$ —	$ —	$ 1,642,923	$ 350,370	$ 603,686	$ 328,916	$ 209,213	$ 151,022	$ 294,703	$ —	$ —	$ 1,937,910
Special mention	—	—	2,319	136	—	11,784	—	—	14,239	—	494	17,136	8,982	119	11,355	—	—	38,086
Substandard	2,987	202	105	78	10,104	9,202	—	—	22,678	—	338	212	918	—	17,291	—	—	18,759
Doubtful	—	—	—	—	—	—	—	—	—	1,397	—	4,098	14	67	4,988	—	—	10,564
Total	$ 467,850	$ 380,340	$ 262,887	$ 172,132	$ 126,874	$ 269,757	$ —	$ —	$ 1,679,840	$ 351,767	$ 604,518	$ 350,362	$ 219,127	$ 151,208	$ 328,337	$ —	$ —	$ 2,005,319

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(5.(4.)LOANS (Continued)

The Company utilizes payment status as a means of identifying and reporting problem and potential problem retail loans. The Company considers nonaccrual loans and loans past due greater than 90 days and still accruing interest to be non-performing. The following tables set forth the Company’s retail loan portfolio, categorized by performance status, as of the dates indicated (in thousands):

Term Loans Amortized Cost Basis by Origination Year	Term Loans Amortized Cost Basis by Origination Year

	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
September 30, 2023																		
March 31, 2024																		
Residential Real Estate Loans																		
Performing	$ 94,045	$ 79,520	$ 79,578	$ 109,822	$ 69,564	$ 197,688	$ —	$ —	$ 630,217	$ 8,514	$ 114,423	$ 79,271	$ 78,727	$ 107,364	$ 253,064	$ —	$ —	$ 641,363
Nonperforming	—	102	1,284	744	840	2,022	—	—	4,992									
Non-performing										—	298	522	1,084	1,427	3,466	—	—	6,797
Total Residential Real Estate Loans	$ 94,045	$ 79,622	$ 80,862	$ 110,566	$ 70,404	$ 199,710	$ —	$ —	$ 635,209	$ 8,514	$ 114,721	$ 79,793	$ 79,811	$ 108,791	$ 256,530	$ —	$ —	$ 648,160
Current period gross write-offs	$ —	$ —	$ —	$ —	$ 32	$ 70	$ —	$ —	$ 102	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential Real Estate Lines																		

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Performing	$—	$—	$—	$—	$—	$—	$71,149	$5,372	$76,521	$ —	$ —	$ —	$ —	$ —	$ —	$ 70,458	$ 4,975	$ 75,433
Nonperforming	—	—	—	—	—	—	31	170	201									
Non-performing										—	—	—	—	—	—	73	162	235
Total Residential Real Estate Lines	$—	$—	$—	$—	$—	$—	$71,180	$5,542	$76,722	$ —	$ —	$ —	$ —	$ —	$ —	$ 70,531	$ 5,137	$ 75,668
Current period gross write-offs	$—	$—	$—	$—	$—	$—	$28	$13	$41	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer Indirect																		
Performing	$201,305	$361,192	$255,880	$89,404	$37,256	$33,718	$—	$—	$978,755	$54,006	$234,715	$310,666	$210,874	$ 68,800	$ 38,487	$ —	$ —	$917,548
Nonperforming	643	1,105	1,064	300	149	121	—	—	3,382									
Non-performing										—	566	969	882	294	169	—	—	2,880
Total Consumer Indirect Loans	$201,948	$362,297	$256,944	$89,704	$37,405	$33,839	$—	$—	$982,137	$54,006	$235,281	$311,635	$211,756	$ 69,094	$ 38,656	$ —	$ —	$920,428
Current period gross write-offs	$342	$4,331	$4,254	$1,343	$1,018	$1,119	$—	$—	$12,477	$ —	$ 1,357	$ 2,245	$ 1,422	$ 504	$ 689	$ —	$ —	$ 6,217

Other Consumer																		
Performing	$ 29,304	$ 4,453	$ 1,680	$ 1,171	$ 31	$ 64	$ 2,712	$ —	$ 40,275	$ 1,924	$ 35,157	$ 3,489	$ 1,228	$ 751	$ 385	$ 2,200	$ —	$ 45,134
Nonperforming	—	—	—	—	—	—	6	—	6									
Non-performing										—	—	—	—	—	—	36	—	36
Total Other Consumer Loans	$ 29,304	$ 4,453	$ 1,680	$ 1,171	$ 31	$ 64	$ 2,718	$ —	$ 40,281	$ 1,924	$ 35,157	$ 3,489	$ 1,228	$ 751	$ 385	$ 2,236	$ —	$ 45,170
Current period gross write-offs	$ 713	$ 122	$ 105	$ 32	$ 28	$ 19	$ 45	$ —	$ 1,064	$ 93	$ 42	$ 75	$ 7	$ 16	$ 4	$ 32	$ —	$ 269

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

(5.(4.)LOANS (Continued)

Term Loans Amortized Cost Basis by Origination Year									Term Loans Amortized Cost Basis by Origination Year								
2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total

December 31, 2022									
December 31, 2023									
Residential Real Estate Loans									
Performing (2022)	$ 79,882	$ 85,821	$ 118,819	$ 76,437	$ 55,520	$ 169,410	$ —	$ —	$ 585,889
Performing (2023)	$ 112,704	$ 80,117	$ 80,323	$ 109,601	$ 70,325	$ 190,388	$ —	$ —	$ 643,458
Nonperforming	—	305	510	795	677	1,784	—	—	4,071
Non-performing	—	384	1,190	1,354	1,137	2,299	—	—	6,364
Total (2022)	$ 79,882	$ 86,126	$ 119,329	$ 77,232	$ 56,197	$ 171,194	$ —	$ —	$ 589,960
Total (2023)	$ 112,704	$ 80,501	$ 81,513	$ 110,955	$ 71,462	$ 192,687	$ —	$ —	$ 649,822
Current period gross write-offs	$ —	$ —	$ —	$ —	$ 32	$ 95	$ —	$ —	$ 127
Residential Real Estate Lines									
Performing (2022)	$ —	$ —	$ —	$ —	$ —	$ —	$ 70,942	$ 6,586	$ 77,528
Performing (2023)	$ —	$ —	$ —	$ —	$ —	$ —	$ 72,128	$ 5,018	$ 77,146
Nonperforming	—	—	—	—	—	—	34	108	142
Non-performing	—	—	—	—	—	—	55	166	221

Total	$—	$—	$—	$—	$—	$—	$70,976	$6,694	$77,670	$ —	$ —	$ —	$ —	$ —	$ —	$ 72,183	$ 5,184	$ 77,367
Current period gross write-offs										$ —	$ —	$ —	$ —	$ —	$ —	$ 28	$ 13	$ 41
Consumer Indirect																		
Performing	$440,332	$331,902	$126,664	$59,981	$39,352	$22,310	$—	$—	$1,020,541	$ 247,194	$ 336,369	$ 232,891	$ 78,652	$ 31,091	$ 18,820	$ —	$ —	$ 945,017
Nonperforming	748	1,209	432	381	205	104	—	—	3,079									
Non-performing										724	1,083	1,273	380	224	130	—	—	3,814
Total	$441,080	$333,111	$127,096	$60,362	$39,557	$22,414	$—	$—	$1,023,620	$ 247,918	$ 337,452	$ 234,164	$ 79,032	$ 31,315	$ 18,950	$ —	$ —	$ 948,831
Current period gross write-offs										$ 1,371	$ 6,279	$ 5,845	$ 1,787	$ 1,282	$ 1,459	$ —	$ —	$ 18,023
Other Consumer																		
Performing	$6,463	$2,664	$2,043	$761	$213	$308	$2,656	$—	$15,108	$ 35,483	$ 3,990	$ 1,424	$ 949	$ 217	$ 256	$ 2,747	$ —	$ 45,066
Nonperforming	—	—	—	—	—	—	2	—	2									

	Commercial Business	Commercial Mortgage	Residential Real Estate Loans	Residential Real Estate Lines	Consumer Indirect	Other Consumer			Total	Commercial Business	Commercial Mortgage	Residential Real Estate Loans	Residential Real Estate Lines	Consumer Indirect	Other Consumer			Total
Non-performing										13	—	—	—	—	—	21	—	34
Total	$ 6,463	$ 2,664	$ 2,043	$ 761	$ 213	$ 308	$ 2,658	$ —	$ 15,110	$ 35,496	$ 3,990	$ 1,424	$ 949	$ 217	$ 256	$ 2,768	$ —	$ 45,100

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(5.(4.)LOANS (Continued)

Allowance for Credit Losses – Loans

The following table sets forth the changes in the allowance for credit losses – loans for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 (in thousands):

	Commercial Business	Commercial Mortgage	Residential Real Estate Loans	Residential Real Estate Lines	Consumer Indirect	Other Consumer	Total	Commercial Business	Commercial Mortgage	Residential Real Estate Loans	Residential Real Estate Lines	Consumer Indirect	Other Consumer	Total
Three months ended September 30, 2023														
Three months ended March 31, 2024														
Allowance for credit losses – loans:														
Beginning balance	$ 13,418	$ 16,826	$ 4,646	$ 710	$ 13,306	$ 930	$ 49,836	$ 13,102	$ 15,858	$ 5,286	$ 764	$ 14,099	$ 1,973	$ 51,082
Charge-offs	(146)	—	—	—	(4,848)	(344)	(5,338)	(17)	—	(8)	—	(6,217)	(269)	(6,511)
Recoveries	114	972	4	—	2,565	85	3,740	54	1	4	—	3,244	87	3,390

(Benefit) provision	(600)	(1,521)	(791)	(173)	3,583	894	1,392	(148)	(1,746)	(652)	30	(1,272)	(1,098)	(4,886)
Ending balance	$ 12,786	$ 16,277	$ 3,859	$ 537	$ 14,606	$ 1,565	$ 49,630	$ 12,991	$ 14,113	$ 4,630	$ 794	$ 9,854	$ 693	$ 43,075
Nine months ended September 30, 2023														
Beginning balance	$ 12,585	$ 14,412	$ 3,301	$ 608	$ 14,238	$ 269	$ 45,413							
Charge-offs	(263)	(18)	(102)	(41)	(12,477)	(1,064)	(13,965)							
Recoveries	322	976	35	—	8,056	253	9,642							
Provision (benefit)	142	907	625	(30)	4,789	2,107	8,540							
Ending balance	$ 12,786	$ 16,277	$ 3,859	$ 537	$ 14,606	$ 1,565	$ 49,630							
	Commercial Business	**Commercial Mortgage**	**Residential Real Estate Loans**	**Residential Real Estate Lines**	**Consumer Indirect**	**Other Consumer**	**Total**	**Commercial Business**	**Commercial Mortgage**	**Residential Real Estate Loans**	**Residential Real Estate Lines**	**Consumer Indirect**	**Other Consumer**	**Total**
Three months ended September 30, 2022														
Three months ended March 31, 2023														
Allowance for credit losses – loans:														
Beginning balance	$ 10,140	$ 12,064	$ 2,140	$ 509	$ 17,332	$ 267	$ 42,452	$ 12,585	$ 14,412	$ 3,301	$ 608	$ 14,238	$ 269	$ 45,413
Charge-offs	(20)	—	—	(38)	(4,058)	(398)	(4,514)	(27)	—	(63)	(16)	(4,620)	(382)	(5,108)

Recoveries	116	1	4	3	2,168	69	2,361	151	2	5	—	2,782	79	3,019
Provision (benefit)	1,288	2,054	210	180	(260)	335	3,807							
Provision								202	781	970	59	1,717	475	4,204
Ending balance	$ 11,524	$ 14,119	$ 2,354	$ 654	$ 15,182	$ 273	$ 44,106	$ 12,911	$ 15,195	$ 4,213	$ 651	$ 14,117	$ 441	$ 47,528
Nine months ended September 30, 2022														
Beginning balance	11,099	14,777	1,604	379	11,611	206	39,676							
Charge-offs	(262)	—	(56)	(38)	(9,216)	(1,083)	(10,655)							
Recoveries	305	2,020	19	20	6,129	262	8,755							
Provision (benefit)	382	(2,678)	787	293	6,658	888	6,330							
Ending balance	$ 11,524	$ 14,119	$ 2,354	$ 654	$ 15,182	$ 273	$ 44,106							

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(5.(4.)LOANS (Continued)

Risk Characteristics

Commercial business loans primarily consist of loans to small to mid-sized businesses in our market area in a diverse range of industries. These loans are typically associated with higher credit risk and typically are made on the basis of the borrower’s ability to make repayment from the cash flow of the borrower’s business. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value. The credit risk related to commercial loans is largely influenced by general economic conditions, including inflation, and the resulting impact on a borrower’s operations or on the value of underlying collateral, if any.

Commercial mortgage loans generally have larger balances and involve a greater degree of risk than residential mortgage loans, potentially resulting in higher losses on an individual customer basis. Loan repayment is often dependent on the successful operation and management of the properties, as well as on the collateral securing the loan.

Economic events, including inflation, influencing the ability of the tenants to pay rent at these properties, or conditions in the real estate market could have an adverse impact on the cash flows generated by properties securing the Company's commercial real estate loans and on the value of such properties.

Residential real estate loans (comprised of conventional mortgages and home equity loans) and residential real estate lines of credit (comprised of home equity lines of credit) are generally made based on the borrower's ability to make repayment from his or her employment and other income but are secured by real property whose value tends to be more easily ascertainable. Credit risk for these types of loans is generally influenced by general economic conditions, the characteristics of individual borrowers, and the nature of the loan collateral.

Consumer indirect and other consumer loans may entail greater credit risk than residential mortgage loans and home equities, particularly in the case of other consumer loans which are primarily unsecured or, in the case of some BaaS loans, secured by depreciable assets such as solar panels, and in the case of indirect consumer loans, secured by depreciable assets such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by inflation and adverse personal circumstances such as job loss, illness or personal bankruptcy, including the heightened risk that such circumstances may arise as a result of inflation. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

(6. (5.)LEASES

The Company is obligated under a number of non-cancellable operating lease agreements for land, buildings and equipment with terms, including renewal options reasonably certain to be exercised, extending through 2061. Two building leases were subleased with terms that extended through December 31, 2023 December 31, 2024.

The following table represents the consolidated statements of financial condition classification of the Company's right of use assets and lease liabilities:

	Balance Sheet Location	September 30, 2023	December 31, 2022	Balance Sheet Location	March 31, 2024	December 31, 2023
Operating Lease Right of Use Assets:						
Gross carrying amount	Other assets	$ 38,618	$ 36,723	Other assets	$ 38,978	$ 38,684
Accumulated amortization	Other assets	(6,726)	(5,603)	Other assets	(7,594)	(7,160)
Net book value		$ 31,892	$ 31,120		$ 31,384	$ 31,524
Operating Lease Liabilities:						
Right of use lease obligations	Other liabilities	$ 34,125	$ 33,229	Other liabilities	$ 33,680	$ 33,788

The weighted average remaining lease term for operating leases was 20.79 20.4 years at September 30, 2023 March 31, 2024 and the weighted-average discount rate used in the measurement of operating lease liabilities was 3.90 3.91%. The Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term for the discount rate.

(6.(5.)LEASES (Continued)

The following table represents lease costs and other lease information:

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
Lease costs:						
Operating lease costs	$ 773	$ 788	$ 2,308	$ 2,120	$ 774	$ 776
Variable lease costs (1)	113	116	324	361	106	117
Sublease income	(29)	(23)	(77)	(46)	(30)	(24)
Net lease costs	$ 857	$ 881	$ 2,555	$ 2,435	$ 850	$ 869
Other information:						
Cash paid for amounts included in the measurement of lease liabilities:						
Operating cash flows from operating leases	$ 769	$ 678	$ 2,212	$ 2,035	$ 754	$ 690
Right of use assets obtained in exchange for new operating lease liabilities	$ 932	$ 9,612	$ 2,167	$ 9,802	$ 328	$ 323

(1) Variable lease costs primarily represent variable payments such as common area maintenance, insurance, taxes and utilities.

Future minimum payments under non-cancellable operating leases with initial or remaining terms of one year or more, are as follows at September 30, 2023March 31, 2024 (in thousands):

Twelve months ended September 30,		
Twelve months ended March 31,		
2024	$ 749	$ 2,231
2025	2,966	2,887
2026	2,869	2,733
2027	2,715	2,705
2028	2,685	2,421
Thereafter	39,417	37,013
Total future minimum operating lease payments	51,401	49,990
Amounts representing interest	(17,276)	(16,310)
Present value of net future minimum operating lease payments	$ 34,125	$ 33,680

(7.(6.)GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The carrying amount of goodwill totaled $67.1 million as of both September 30, 2023March 31, 2024 and December 31, 2022December 31, 2023. The Company performs a goodwill impairment test on an annual basis as of October 1st or more frequently if events and circumstances warrant.

	Banking	All Other (1)	Total
Balance, December 31, 2022	$ 48,536	$ 18,535	$ 67,071
Acquisitions	—	—	—

Balance, September 30, 2023	$	48,536	$	18,535	$	67,071

(1) All Other includes the SDN and Courier Capital reporting units.

Goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Based on the capital markets downturn for bank stocks due to macroeconomic pressures, including inflation, along with volatility in the banking industry as a result of recent bank failures during the first half of 2023, a The Company performs its annual goodwill impairment test was performed as of October 1. The Company did not identify an indication of goodwill impairment for the Banking reporting unit in the second quarter of 2023. Based on this quantitative assessment, the Company concluded that goodwill was not impaired. In the third quarter of 2023, the Company performed a qualitative assessment any of its goodwill. Based on this assessment, reporting units during the Company concluded that it was not more likely than not that goodwill was impaired as of September 30, 2023. Therefore, no quantitative assessment was deemed necessary at September 30, 2023 quarter ended March 31, 2024.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(7. (6.)GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

Other Intangible Assets

The Company has other intangible assets that are amortized, consisting of core deposit intangibles and other intangibles (primarily related to customer relationships). Gross carrying amount, accumulated amortization and net book value, were as follows (in thousands):

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Core deposit intangibles:				
Gross carrying amount	$ 2,042	$ 2,042	$ 2,042	$ 2,042
Accumulated amortization	(2,042)	(2,042)	(2,042)	(2,042)
Net book value	$ —	$ —	$ —	$ —
Other intangibles:				
Gross carrying amount	$ 14,545	$ 14,545	$ 14,545	$ 14,545
Accumulated amortization	(8,891)	(8,202)	(9,329)	(9,112)
Net book value	$ 5,654	$ 6,343	$ 5,216	$ 5,433

Amortization expense for total other intangible assets was $225 217 thousand and $689 234 thousand for the three and nine months ended September 30, 2023, March 31, 2024 and $244 thousand and $747 thousand for the three and nine months ended September 30, 2022. 2023. As of September 30, 2023 March 31, 2024, the estimated amortization expense of other intangible assets for the remainder of 2023 2024 and each of the next five years is as follows (in thousands):

2023 (remainder of year)	$ 221	
2024	838	
2024 (remainder of year)		$ 622
2025	766	766
2026	694	694
2027	623	623
2028	551	551
2029		479
Thereafter	1,961	1,481

Total	$ 5,654	$ 5,216

(8.(7.)OTHER ASSETS AND OTHER LIABILITIES

A summary of other assets and other liabilities as of the dates indicated are as follows (in thousands):

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Other Assets:				
Tax credit investments	$ 63,232	$ 55,568	$ 66,593	$ 68,253
Net deferred tax asset	62,924	53,427	47,150	48,733
Derivative instruments	65,490	54,557	51,229	43,506
Operating lease right of use assets	31,892	31,120	31,384	31,524
Federal Home Loan Bank (“FHLB”) and Federal Reserve Bank (“FRB”) stock	15,067	19,385	15,042	17,406
Accrued interest receivable	23,541	19,371	24,914	24,481
Other	39,191	29,564	83,528	80,454
Total other assets	$ 301,337	$ 262,992	$ 319,840	$ 314,357

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Other Liabilities:				
Collateral on derivative instruments	$ 66,950	$ 54,300	$ 50,170	$ 40,350
Derivative instruments	56,769	47,751	44,180	37,521
Operating lease right of use obligations	34,125	33,229	33,680	33,788
Accrued interest expense	18,138	5,983	27,224	19,412
Other	45,024	41,758	43,243	52,570
Total other liabilities	$ 221,006	$ 183,021	$ 198,497	$ 183,641

(9.(8.)DERIVATIVE INSTRUMENT AND HEDGING ACTIVITIES

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities, and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company’s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company’s known or expected cash receipts and its known or expected cash payments.

Cash Flow Hedges of Interest Rate Risk

The Company’s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company uses interest rate caps and interest rate swaps as part of its interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. During the first nine months of 2023 and in 2022, such Such derivatives were used to hedge the variable cash flows associated with short-term borrowings or brokered CDs. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The following table summarizes the terms of the Company's outstanding interest rate swap agreements entered into to manage its exposure to the variability in future cash flows at September 30, 2023 March 31, 2024 (dollars in thousands):

Effective Date	Expiration Date	Notional Amount	Pay Fixed Rate
4/11/2022	4/11/2027	$ 50,000	0.787%
1/24/2023	1/24/2026	$ 30,000	3.669%
5/5/2023	5/5/2026	$ 25,000	3.4615%

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income (loss) and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's borrowings. During the next twelve months, the Company estimates that $3.3 2.9 million in accumulated other comprehensive loss related to derivatives will be reclassified as a decrease an increase to interest expense.

Interest Rate Swaps

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. These interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings.

Credit-risk-related Contingent Features

The Company has agreements with certain of its derivative counterparties that contain one or more of the following provisions: (a) if the Company defaults on any of its indebtedness, including a default where repayment of the indebtedness has not been accelerated by the lender, the Company could also be declared in default on its derivative obligations, and (b) if the Company fails to maintain its status as a well-capitalized institution, the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements.

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(9. (8.)DERIVATIVE INSTRUMENT AND HEDGING ACTIVITIES (Continued)

Mortgage Banking Derivatives

The Company extends rate lock agreements to borrowers related to the origination of residential mortgage loans. To mitigate the interest rate risk inherent in these rate lock agreements when the Company intends to sell the related loan, once originated, as well as closed residential mortgage loans held for sale, the Company enters into forward commitments to sell individual residential mortgages. Rate lock agreements and forward commitments are considered derivatives and are recorded at fair value.

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the notional amounts, respective fair values of the Company's derivative financial instruments, as well as their classification on the balance sheet as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (in thousands):

	Asset derivatives	Liability derivatives		Asset derivatives	Liability derivatives
Gross notional amount	Fair value	Fair value	Gross notional amount	Fair value	Fair value

	September 30, 2023	December 31, 2022	Balance sheet line item	September 30, 2023	December 31, 2022	Balance sheet line item	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023	Balance sheet line item	March 31, 2024	December 31, 2023	Balance sheet line item	March 31, 2024	December 31, 2023
Derivatives designated as hedging instruments																
Cash flow hedges	$ 105,000	$ 50,000	Other assets	$ 8,548	$ 6,725	Other liabilities	$ —	$ —	$ 105,000	$ 105,000	Other assets	$ 6,835	$ 5,939	Other liabilities	$ —	$ —
Total derivatives	$ 105,000	$ 50,000		$ 8,548	$ 6,725		$ —	$ —	$ 105,000	$ 105,000		$ 6,835	$ 5,939		$ —	$ —
Derivatives not designated as hedging instruments																

Interest rate swaps (1)	1,129,212	1,006,386	Other assets	56,724	47,736	Other liabilities	56,725	47,738	$ 1,089,166	$ 1,104,804	Other assets	$ 44,173	$ 37,517	Other liabilities	$ 44,175	$ 37,519
Credit contracts	81,858	104,497	Other assets	—	—	Other liabilities	—	—	75,168	81,211	Other assets	—	—	Other liabilities	—	—
Mortgage banking	9,855	7,884	Other assets	218	96	Other liabilities	44	13	18,149	5,292	Other assets	221	50	Other liabilities	5	2
Total derivatives	$ 1,220,925	$ 1,118,767		$ 56,942	$ 47,832		$ 56,769	$ 47,751	$ 1,182,483	$ 1,191,307		$ 44,394	$ 37,567		$ 44,180	$ 37,521

(1) The Company was holding collateral of $67.0 50.2 million and $54.3 40.4 million against its net obligations under these contracts at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Effect of Derivative Instruments on the Income Statement

The table below presents the effect of the Company's derivative financial instruments on the income statement for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 (in thousands):

	Gain (loss) recognized in income	Gain (loss) recognized in income	Gain (loss) recognized in income

Undesignated derivatives	Line item of gain (loss) recognized in income	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022	Line item of gain (loss) recognized in income	Three months ended March 31, 2024	Three months ended March 31, 2023
Interest rate swaps	Income from derivative instruments, net	$ 93	$ 317	$ 1,219	$ 1,675	Income from derivative instruments, net	$ 1	$ 501
Credit contracts	Income from derivative instruments, net	58	3	109	21	Income from derivative instruments, net	5	7
Mortgage banking	Income from derivative instruments, net	68	(221)	90	(433)	Income from derivative instruments, net	168	(12)
Total undesignated		$ 219	$ 99	$ 1,418	$ 1,263		$ 174	$ 496

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(10.(9.)SHAREHOLDERS' EQUITY

Common Stock

The changes in shares of common stock were as follows for the three and nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

	Outstanding	Treasury	Issued	Outstanding	Treasury	Issued
2024						
Shares at December 31, 2023				15,407,406	692,150	16,099,556
Restricted stock units released				60,989	(60,989)	—
Treasury stock purchases				(21,446)	21,446	—
Shares at March 31, 2024				15,446,949	652,607	16,099,556

2023						
Shares at December 31, 2022	15,340,001	759,555	16,099,556	15,340,001	759,555	16,099,556
Restricted stock units released	58,188	(58,188)	—	58,188	(58,188)	—
Treasury stock purchases	(22,710)	22,710	—	(22,710)	22,710	—
Shares at March 31, 2023	15,375,479	724,077	16,099,556	15,375,479	724,077	16,099,556
Restricted stock awards issued	20,185	(20,185)	—			
Stock awards	5,945	(5,945)	—			
Restricted stock units released	296	(296)	—			
Treasury stock purchases	(105)	105	—			
Shares at June 30, 2023	15,401,800	697,756	16,099,556			
Restricted stock units released	—	—	—			
Treasury stock purchases	—	—	—			
Shares at September 30, 2023	15,401,800	697,756	16,099,556			
2022						
Shares at December 31, 2021	15,745,453	354,103	16,099,556			
Restricted stock units released	23,271	(23,271)	—			
Treasury stock purchases	(469,647)	469,647	—			
Shares at March 31, 2022	15,299,077	800,479	16,099,556			
Restricted stock awards issued	11,300	(11,300)	—			
Stock awards	3,848	(3,848)	—			
Restricted stock units released	31,141	(31,141)	—			
Treasury stock purchases	(11,275)	11,275	—			
Shares at June 30, 2022	15,334,091	765,465	16,099,556			
Restricted stock awards released	—	—	—			
Treasury stock purchases	—	—	—			
Shares at September 30, 2022	15,334,091	765,465	16,099,556			

Share Repurchase Programs

In June 2022, the Company's Board of Directors (the "Board") authorized a share repurchase program for up to 766,447 shares of common stock (the "2022 Share Repurchase Program"). Repurchased shares are recorded in treasury stock, at cost, which includes any applicable transaction costs. As of September 30, 2023 March 31, 2024, there were 766,447 no shares remaining for repurchase have been repurchased under the 2022 Share Repurchase Program.

In November 2020, the Board authorized a share repurchase program for up to 801,879 shares of common stock (the "2020 Share Repurchase Program"). The 2020 Share Repurchase Program was completed in March 2022. Under the 2020 Share Repurchase Program, 461,191 shares were repurchased at an average price of $31.99 during the three months ended March 31, 2022, and 340,688 shares were repurchased during the year ended December 31, 2021.

(11.(10.)ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following tables present the components of other comprehensive (loss) income for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 (in thousands):

	Pre-tax Amount	Tax Effect	Net-of-tax Amount	Pre-tax Amount	Tax Effect	Net-of-tax Amount

Three months ended September 30, 2023						
March 31, 2024						
Securities available for sale and transferred securities:						
Change in unrealized loss during the period	$ (36,914)	$ (9,457)	$ (27,457)	$ (9,646)	$ (2,472)	$ (7,174)
Reclassification adjustment for net gains included in net income (1)	16	4	12	14	4	10
Total securities available for sale and transferred securities	(36,898)	(9,453)	(27,445)	(9,632)	(2,468)	(7,164)
Hedging derivative instruments:						
Change in unrealized gain during the period	518	133	385	907	232	675
Pension obligations:						
Amortization of prior service credit included in income	(123)	(31)	(92)	(134)	(34)	(100)
Amortization of net actuarial loss included in income	316	81	235	358	92	266
Total pension obligations	193	50	143	224	58	166
Other comprehensive loss	$ (36,187)	$ (9,270)	$ (26,917)	$ (8,501)	$ (2,178)	$ (6,323)
Nine months ended September 30, 2023						
Securities available for sale and transferred securities:						
Change in unrealized loss during the period	$ (34,279)	$ (8,782)	$ (25,497)			
Reclassification adjustment for net gains included in net income (1)	51	13	38			
Total securities available for sale and transferred securities	(34,228)	(8,769)	(25,459)			
Hedging derivative instruments:						
Change in unrealized gain during the period	1,514	388	1,126			
Pension obligations:						
Amortization of prior service credit included in income	(368)	(94)	(274)			
Amortization of net actuarial loss included in income	948	243	705			
Total pension and post-retirement obligations	580	149	431			
Other comprehensive loss	$ (32,134)	$ (8,232)	$ (23,902)			

(1) Includes amounts related to the amortization/accretion of unrealized net gains and losses related to the Company's reclassification of available for sale investment securities to the held to maturity category. The unrealized net gains/losses will be amortized/accreted over the remaining life of the investment securities as an adjustment of yield.

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(11. (10.)ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME (Continued)

	Pre-tax Amount	Tax Effect	Net-of-tax Amount	Pre-tax Amount	Tax Effect	Net-of-tax Amount
Three months ended September 30, 2022						
March 31, 2023						
Securities available for sale and transferred securities:						
Change in unrealized loss during the period	$ (57,655)	$ (14,773)	$ (42,882)	$ 14,278	$ 3,658	$ 10,620
Reclassification adjustment for net gains included in net income (1)	23	7	16	19	5	14
Total securities available for sale and transferred securities	(57,632)	(14,766)	(42,866)	14,297	3,663	10,634
Hedging derivative instruments:						
Change in unrealized gain during the period	1,829	469	1,360	(891)	(228)	(663)
Pension and post-retirement obligations:						
Amortization of prior service credit included in income	—	—	—	(122)	(31)	(91)
Amortization of net actuarial loss included in income	64	16	48	316	81	235
Total pension and post-retirement obligations	64	16	48	194	50	144
Other comprehensive loss	$ (55,739)	$ (14,281)	$ (41,458)	$ 13,600	$ 3,485	$ 10,115
Nine months ended September 30, 2022						
Securities available for sale and transferred securities:						
Change in unrealized loss during the period	$ (177,638)	$ (45,514)	$ (132,124)			
Reclassification adjustment for net gains included in net income (1)	95	25	70			
Total securities available for sale and transferred securities	(177,543)	(45,489)	(132,054)			
Hedging derivative instruments:						
Change in unrealized gain during the period	5,291	1,356	3,935			
Pension and post-retirement obligations:						
Amortization of prior service credit included in income	—	—	—			
Amortization of net actuarial loss included in income	192	49	143			
Total pension and post-retirement obligations	192	49	143			
Other comprehensive loss	$ (172,060)	$ (44,084)	$ (127,976)			

(1) Includes amounts related to the amortization/accretion of unrealized net gains and losses related to the Company's reclassification of available for sale investment securities to the held to maturity category. The unrealized net gains/losses will be amortized/accreted over the remaining life of the investment securities as an adjustment of yield.

Activity in accumulated other comprehensive income (loss), net of tax, for the three months ended March 31, 2024 and 2023 was as follows (in thousands):

	Hedging Derivative Instruments	Securities Available for Sale and Transferred Securities	Pension and Post-retirement Obligations	Accumulated Other Comprehensive (Loss) Income
March 31, 2024				
Balance at beginning of period	$ 3,911	$ (111,906)	$ (11,946)	$ (119,941)

	Hedging Derivative Instruments	Securities Available for Sale and Transferred Securities	Pension and Post-retirement Obligations	Accumulated Other Comprehensive (Loss) Income
Other comprehensive income (loss) before reclassifications	675	(7,174)	—	(6,499)
Amounts reclassified from accumulated other comprehensive income	—	10	166	176
Net current period other comprehensive income (loss)	675	(7,164)	166	(6,323)
Balance at end of period	$ 4,586	$ (119,070)	$ (11,780)	$ (126,264)
March 31, 2023				
Balance at beginning of period	$ 4,735	$ (128,634)	$ (13,588)	$ (137,487)
Other comprehensive income (loss) before reclassifications	(663)	10,620	—	9,957
Amounts reclassified from accumulated other comprehensive income	—	14	144	158
Net current period other comprehensive income (loss)	(663)	10,634	144	10,115
Balance at end of period	$ 4,072	$ (118,000)	$ (13,444)	$ (127,372)

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

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(11.)ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME (Continued)

Activity in accumulated other comprehensive income (loss), net of tax, for the three and nine months ended September 30, 2023 and 2022 was as follows (in thousands):

	Hedging Derivative Instruments	Securities Available for Sale and Transferred Securities	Pension and Post-retirement Obligations	Accumulated Other Comprehensive (Loss) Income
Three months ended September 30, 2023				
Balance at beginning of period	$ 5,476	$ (126,648)	$ (13,300)	$ (134,472)
Other comprehensive income (loss) before reclassifications	385	(27,457)	—	(27,072)
Amounts reclassified from accumulated other comprehensive income	—	12	143	155
Net current period other comprehensive income (loss)	385	(27,445)	143	(26,917)
Balance at end of period	$ 5,861	$ (154,093)	$ (13,157)	$ (161,389)
Nine months ended September 30, 2023				
Balance at beginning of period	$ 4,735	$ (128,634)	$ (13,588)	$ (137,487)
Other comprehensive income (loss) before reclassifications	1,126	(25,497)	—	(24,371)
Amounts reclassified from accumulated other comprehensive income	—	38	431	469
Net current period other comprehensive income (loss)	1,126	(25,459)	431	(23,902)
Balance at end of period	$ 5,861	$ (154,093)	$ (13,157)	$ (161,389)
Three months ended September 30, 2022				
Balance at beginning of period	$ 3,735	$ (94,159)	$ (9,301)	$ (99,725)

Other comprehensive income (loss) before reclassifications	1,360	(42,882)	—	(41,522)
Amounts reclassified from accumulated other comprehensive income	—	16	48	64
Net current period other comprehensive income (loss)	1,360	(42,866)	48	(41,458)
Balance at end of period	$ 5,095	$ (137,025)	$ (9,253)	$ (141,183)
Nine months ended September 30, 2022				
Balance at beginning of period	$ 1,160	$ (4,971)	$ (9,396)	$ (13,207)
Other comprehensive income (loss) before reclassifications	3,935	(132,124)	—	(128,189)
Amounts reclassified from accumulated other comprehensive income	—	70	143	213
Net current period other comprehensive income (loss)	3,935	(132,054)	143	(127,976)
Balance at end of period	$ 5,095	$ (137,025)	$ (9,253)	$ (141,183)

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(11.(10.)ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME (Continued)

The following table presents the amounts reclassified out of each component of accumulated other comprehensive (loss) income for the three and nine months ended September 30, 2023March 31, 2024 and 20222023 (in thousands):

Details About Accumulated Other Comprehensive (Loss) Income Components	**Amount Reclassified from Accumulated Other Comprehensive (Loss) Income**		**Affected Line Item in the Consolidated Statement of Income**	**Amount Reclassified from Accumulated Other Comprehensive (Loss) Income**		**Affected Line Item in the Consolidated Statement of Income**
	Three months ended September 30,			**Three months ended March 31,**		
	2023	**2022**		**2024**	**2023**	
Realized loss on sale of investment securities	$ —	$ —	Net (loss) gain on investment securities	$ —	$ —	Net (loss) gain on investment securities
Amortization of unrealized holding gain on investment securities transferred from available for sale to held to maturity	(16)	(23)	Interest income	(14)	(19)	Interest income
	(16)	(23)	Total before tax	(14)	(19)	Total before tax
	4	7	Income tax expense	4	5	Income tax expense
	(12)	(16)	Net of tax	(10)	(14)	Net of tax

Amortization of pension and post-retirement items:						
Prior service credit (1)	123	—	Salaries and employee benefits	134	122	Salaries and employee benefits
Net actuarial losses (1)	(316)	(64)	Salaries and employee benefits	(358)	(316)	Salaries and employee benefits
	(193)	(64)	Total before tax	(224)	(194)	Total before tax
	50	16	Income tax benefit	58	50	Income tax benefit
	(143)	(48)	Net of tax	(166)	(144)	Net of tax
Total reclassified for the period	$ (155)	$ (64)		$ (176)	$ (158)	

	Nine months ended September 30, 2023	2022	
Realized loss on sale of investment securities	$ —	$ (15)	Net (loss) gain on investment securities
Amortization of unrealized holding gains on investment securities transferred from available for sale to held to maturity	(51)	(80)	Interest income
	(51)	(95)	Total before tax
	13	25	Income tax expense
	(38)	(70)	Net of tax
Amortization of pension and post-retirement items:			
Prior service credit (1)	368	—	Salaries and employee benefits
Net actuarial losses (1)	(948)	(192)	Salaries and employee benefits
	(580)	(192)	Total before tax
	149	49	Income tax benefit
	(431)	(143)	Net of tax

Total reclassified for the period	$ (469)	$ (213)

(1) These items are included in the computation of net periodic pension expense. See Note 13 12 – Employee Benefit Plans for additional information.

(12.(11.)SHARE-BASED COMPENSATION PLANS

The Company maintains certain share-based compensation plans, approved by the Company's shareholders, that which are administered by the Management Development and Compensation Committee (the "MD&C Committee") of the Board. The share-based compensation plans were established to allow for the granting of compensation awards to attract, motivate and retain employees, executive officers and non-employee directors who contribute to the long-term growth and profitability of the Company and to give such persons a proprietary interest in the Company, thereby enhancing their personal interest in the Company's success.

The Company awards grants of performance-based restricted stock units ("PSUs") to certain members of management. Fifty percent of the shares subject to each grant that ultimately vest are contingent on achieving specified return on average equity ("ROAE") targets relative to the market index the Compensation Committee has selected as a peer group for this purpose. These shares will be earned based on the Company's achievement of a relative ROAE performance requirement, on a percentile basis, compared to the market index over a three-year performance period. The remaining fifty percent of the PSUs that ultimately vest are contingent upon achievement of an average return on average assets ("ROAA") performance requirement over a three-year performance period. The shares earned based on the achievement of the ROAE and ROAA performance requirement, if any, will vest on March 1 of the third year from the grant date assuming the recipient's continuous service to the Company.

The Company granted restricted stock awards ("RSAs"), restricted stock units ("RSUs") and performance-based restricted stock units ("PSUs") during the nine three months ended September 30, 2023 March 31, 2024 as follows:

	Number of Underlying Shares	Weighted Average Grant Date Fair Value	Number of Underlying Shares	Weighted Average Grant Date Fair Value
RSAs	20,185	$ 16.34		
RSUs	142,110	$ 16.39	129,665	$ 15.58
PSUs	53,060	$ 16.66	54,754	$ 15.59

The grant-date fair value for the RSAs granted during the nine months ended September 30, 2023 was equal to the closing market price of our common stock on the date of grant. The grant-date fair value for the RSUs and PSUs granted during the nine three months ended September 30, 2023 March 31, 2024 was equal to the closing market price of our common stock on the date of grant reduced by the present value of the dividends expected to be paid on the underlying shares.

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(11.) SHARE-BASED COMPENSATION PLANS (Continued)

Assuming the RSAs recipient's continuous service to the Company, the RSUs granted during the nine three months ended September 30, 2023 vested on the grant date. The remaining RSAs will vest the day before the Company's next annual meeting. The RSUs and PSUs granted during the nine months ended September 30, 2023 March 31, 2024 will vest on the third anniversary of the grant date assuming the recipient's continuous service to the Company. date.

The Company amortizes the expense related to share-based compensation awards over the vesting period. Share-based compensation expense is recorded as a component of salaries and employee benefits in the consolidated statements of income for awards granted to management and as a component of other noninterest expense for awards granted to directors. The share-based compensation expense included in the consolidated statements of income, is as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
Salaries and employee benefits	$ 679	$ 624	$ 1,642	$ 1,790	$ 528	$ 510
Other noninterest expense	42	38	287	262	41	41
Total share-based compensation expense	$ 721	$ 662	$ 1,929	$ 2,052	$ 569	$ 551
Income tax benefit realized for compensation costs	$ —	$ —	$ 438	$ 474	$ 286	$ 368

At September 30, 2023 March 31, 2024, there was $4.5 5.2 million of unrecognized compensation expense related to unvested restricted stock awards and restricted stock units that is expected to be recognized over a weighted average period of 1.96 2.36 years.

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(13.(12.)EMPLOYEE BENEFIT PLANS

The Company participates in a non-contributory defined benefit pension plan for certain employees who meet participation requirements. The components of the Company's net periodic benefit expense for its pension and post-retirement obligations were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
Service cost	$ 447	$ 871	$ 1,342	$ 2,614	$ 491	$ 448
Interest cost on projected benefit obligation	855	647	2,565	1,941	861	855
Expected return on plan assets	(878)	(1,141)	(2,634)	(3,423)	(1,005)	(878)
Amortization of unrecognized prior service credit	(123)	—	(368)	—	(134)	(122)
Amortization of unrecognized net actuarial loss	316	64	948	194	358	316
Net periodic benefit expense	$ 617	$ 441	$ 1,853	$ 1,326	$ 571	$ 619

The net periodic benefit expense is recorded as a component of salaries and employee benefits in the consolidated statements of income. The Company's funding policy is to contribute, at a minimum, an actuarially determined amount that will satisfy the minimum funding requirements determined under the appropriate sections of the Internal Revenue Code. The Company has no minimum required contribution for the 2023 2024 fiscal year.

(14.(13.)COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance Sheet Risk

The Company has financial instruments with off-balance sheet risk established in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk extending beyond amounts recognized in the financial statements.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is essentially the same as that involved with extending loans to customers. The Company uses the same credit underwriting policies in making commitments and conditional obligations as for on-balance sheet instruments.

Off-balance sheet commitments consist of the following (in thousands):

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Commitments to extend credit	$ 1,250,685	$ 1,435,323	$ 1,109,364	$ 1,200,617
Standby letters of credit	16,409	17,181	13,292	13,498

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Notes to Consolidated Financial Statements (Unaudited)

(13.) COMMITMENTS AND CONTINGENCIES (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses which may require payment of a fee. Commitments may expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements. Each customer’s creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if any, is based on management’s credit evaluation of the borrower. Standby letters of credit are conditional lending commitments issued by the Company to guarantee the performance of a customer to a third party. These standby letters of credit are primarily issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers.

Unfunded Commitments

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the allowance for credit losses for unfunded commitments totaled $4.0 3.0 million and $4.1 3.6 million, respectively, and was included in other liabilities on the Company’s consolidated statements of financial condition. The credit loss expense for unfunded commitments was as follows (in thousands):

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Credit loss (benefit) expense for unfunded commitments	$ (426)	$ 507	$ (129)	$ 867

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

	Three months ended March 31, 2024	Three months ended March 31, 2023
Credit (benefit) loss for unfunded commitments	$ (570)	$ 11

(14.)COMMITMENTS AND CONTINGENCIES (Continued)

Contingent Liabilities and Litigation

In the ordinary course of business, there are various threatened and pending legal proceedings against the Company. Management believes that the aggregate liability, if any, arising from such litigation, except for the matter described below, would not have a material adverse effect on the Company’s consolidated financial statements.

As previously disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 as filed with the SEC on March 9, 2023 March 13, 2024 and as disclosed in Part II, Item 1 of this Quarterly Report on Form 10-Q, the Company is party to an action filed against it on May 16, 2017 by Matthew L. Chipego, Charlene Mowry, Constance C. Churchill and Joseph W. Ewing in the Court of Common Pleas in Philadelphia, Pennsylvania. Plaintiffs sought and were granted class certification to represent classes of consumers in New York and Pennsylvania seeking to recover statutory damages, interest and declaratory relief. The plaintiffs specifically claim that the notices the Bank sent to defaulting consumers after their vehicles were repossessed did not comply with the relevant portions of the Uniform Commercial Code in New York and Pennsylvania. The Company disputes and believes it has meritorious defenses against these claims and plans to vigorously defend itself.

On September 30, 2021, the Court granted plaintiffs' motion for class certification and certified four different classes (two classes of New York consumers and two classes of Pennsylvania consumers). There are approximately 5,200 members in the New York classes and 300 members in the Pennsylvania classes.

On September 26, 2022, the lower Court denied the plaintiffs' motion for partial summary judgment for most of the relief they seek and found that there were questions of fact as to whether the members of the class had purchased the subject vehicles for "consumer use" within the meaning of the relevant statutes. The Court also denied the Company's motion for partial summary judgment and seeking an offset in the form of recoupment reducing any liability that may be imposed against the Company by the amounts that the borrowers owe for failing to repay their motor vehicle loans, determining that the Court could not enter a judgment on recoupment – which is a set off from liability – without first determining whether there was liability. Also pending with the lower Court is the Company's motion to compel discovery.

On October 7, 2022, the Superior Court of Pennsylvania granted the Company's December 20, 2021 Request for an Interlocutory Appeal of the denial of the Company's motion to dismiss the claims brought by New York borrowers for lack of subject matter jurisdiction and lack of standing. Oral argument

In a Memorandum filed on February 13, 2024, the Superior Court affirmed the decision of the lower court, holding that trial court has subject matter jurisdiction over the New York part of this action and that the New York plaintiffs have standing to pursue relief against the Company. The Superior Court also remanded the case to the lower court for further proceedings, which will include the completion of any remaining discovery and an adjudication of the open claims and defenses that have been asserted in the case. Once the lower court has issued a final adjudication, the parties will have an opportunity to appeal adverse rulings in the case.

(13.) COMMITMENTS AND CONTINGENCIES (Continued)

On April 5, 2024, the lower court conducted a Case Management Conference to discuss remaining matters and next steps, and thereafter issued a Scheduling Order setting a deadline of April 19, 2024 for the Company to re-file its motion to compel discovery and motion for re-consideration of the prior striking of its jurisdictional defense and scheduled a pre-trial conference for July 11, 2024. The time for the Company to re-file the aforementioned motions was conducted on August 30, 2023 extended to April 23, 2024, and the Company timely filed and served them. The case continues was also re-assigned to be stayed until another member of the appeal is decided by the Superior Court. Court of Common Pleas to handle future proceedings.

The Company has not accrued a contingent liability for this matter at this time because, given its defenses, it is unable to conclude whether a liability is probable to occur nor is it able to currently reasonably estimate the amount of potential loss.

If the Company settles these claims or the action is not resolved in its favor, the Company may suffer reputational damage and incur legal costs, settlements or judgments that exceed the amounts covered by its insurer. The Company can provide no assurances that its insurer will cover the full legal costs, settlements or judgments it incurs. If the Company is unsuccessful in defending itself from these claims or if its insurer does not cover the full amount of legal costs it incurs, the result may materially adversely affect the Company's business, results of operations and financial condition.

(15. (14.)FAIR VALUE MEASUREMENTS

Determination of Fair Value – Assets Measured at Fair Value on a Recurring and Nonrecurring Basis

Valuation Hierarchy

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. Accounting Standards Codification ("ASC") Topic 820, "Fair Value

Measurements and Disclosures," establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. There have been no changes in the valuation techniques used during the current period. The fair value hierarchy is as follows:

- **Level 1** - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- **Level 2** - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- **Level 3** - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Transfers between levels of the fair value hierarchy are recorded as of the end of the reporting period.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities available for sale: Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, theThe Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Derivative instruments: The fair value of derivative instruments is determined using quoted secondary market prices for similar financial instruments and are classified as Level 2 in the fair value hierarchy.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(14.) FAIR VALUE MEASUREMENTS (Continued)

Loans held for sale: The fair value of loans held for sale is determined using quoted secondary market prices and investor commitments. Loans held for sale are classified as Level 2 in the fair value hierarchy.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(15.)FAIR VALUE MEASUREMENTS (Continued)

Collateral dependent loans: Fair value of collateral dependent loans with specific allocations of the allowance for credit losses – loans is measured based on the value of the collateral securing these loans and is classified as Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and collateral value is determined based on appraisals performed by qualified licensed appraisers hired by the Company. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and the client's business. Such discounts are typically significant and result in a Level 3 classification of the inputs for determining fair value. Collateral dependent loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Long-lived assets held for sale: The fair value of the long-lived assets held for sale was based on estimated market prices from independently prepared current appraisals and are classified as Level 3 in the fair value hierarchy.

Loan servicing rights: Loan servicing rights do not trade in an active market with readily observable market data. As a result, the Company estimates the fair value of loan servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The assumptions used in the discounted cash flow model are those that management believes market participants would use in estimating future net servicing income, including estimates of loan prepayment rates, servicing costs, ancillary income, impound account balances, and discount rates. The significant unobservable inputs used in the fair value measurement of the Company's loan servicing rights are the constant prepayment rates and weighted average discount rate. Significant increases (decreases) in any of those inputs in isolation could result in a significantly lower (higher) fair value measurement. Although the constant prepayment rate and the discount rate are not directly interrelated, they will generally move in opposite directions. Loan servicing rights are classified as Level 3 measurements due to the use of significant unobservable inputs, as well as significant management judgment and estimation.

Other real estate owned (foreclosed assets): Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. The appraisals are sometimes further discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in a Level 3 classification of the inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Commitments to extend credit and letters of credit: Commitments to extend credit and fund letters of credit are principally at current interest rates, and, therefore, the carrying amount approximates fair value. The fair value of commitments is not material.

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(15. (14.)FAIR VALUE MEASUREMENTS (Continued)

Assets Measured at Fair Value

The following tables present for each of the fair-value hierarchy levels the Company's assets that are measured at fair value on a recurring and nonrecurring basis as of the dates indicated (in thousands).

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2023								
March 31, 2024								
Measured on a recurring basis:								
Securities available for sale:								
U.S. Government agency and government sponsored enterprises	$ —	$ 20,909	$ —	$ 20,909	$ —	$ 21,752	$ —	$ 21,752
U.S. Treasury bills					—	64,697	—	64,697
Mortgage-backed securities	—	833,306	—	833,306	—	837,312	—	837,312
Other assets:								
Hedging derivative instruments	—	8,548	—	8,548	—	6,835	—	6,835
Fair value adjusted through comprehensive income	$ —	$ 862,763	$ —	$ 862,763	$ —	$ 930,596	$ —	$ 930,596
Other assets:								
Derivative instruments – interest rate swaps	—	56,724	—	56,724	—	44,173	—	44,173
Derivative instruments – credit contracts	—	—	—	-				
Derivative instruments – mortgage banking	—	218	—	218	—	221	—	221
Other liabilities:								
Derivative instruments – interest rate swaps	—	(56,725)	—	(56,725)	—	(44,175)	—	(44,175)
Derivative instruments – credit contracts	—	—	—	-				
Derivative instruments – mortgage banking	—	(44)	—	(44)	—	(5)	—	(5)
Fair value adjusted through net income	$ —	$ 173	$ —	$ 173	$ —	$ 214	$ —	$ 214
Measured on a nonrecurring basis:								
Loans:								
Loans held for sale	$ —	$ 1,873	$ —	$ 1,873	$ —	$ 504	$ —	$ 504
Collateral dependent loans	—	—	30,124	30,124	—	—	30,754	30,754
Other assets:								
Long-lived assets held for sale	—	—	1,299	1,299	—	—	629	629
Loan servicing rights	—	—	1,430	1,430	—	—	1,382	1,382

Other real estate owned	—	—	162	162	—	—	140	140
Total	$ —	$ 1,873	$ 33,015	$ 34,888	$ —	$ 504	$ 32,905	$ 33,409

There were no transfers between Levels 1 and 2 during the nine three months ended September 30, 2023 March 31, 2024. There were no liabilities measured at fair value on a nonrecurring basis during the nine three months ended September 30, 2023 March 31, 2024.

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(15. (14.)FAIR VALUE MEASUREMENTS (Continued)

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2022								
December 31, 2023								
Measured on a recurring basis:								
Securities available for sale:								
U.S. Government agencies and government sponsored enterprises	$ —	$ 21,115	$ —	$ 21,115	$ —	$ 21,811	$ —	$ 21,811
Mortgage-backed securities	—	933,256	—	933,256	—	865,919	—	865,919
Other assets:								
Hedging derivative instruments	—	6,725	—	6,725	—	5,939	—	5,939
Fair value adjusted through comprehensive income	$ —	$ 961,096	$ —	$ 961,096	$ —	$ 893,669	$ —	$ 893,669
Other assets:								
Derivative instruments – interest rate products	$ —	$ 47,736	$ —	$ 47,736	$ —	$ 37,517	$ —	$ 37,517

Derivative instruments – mortgage banking	—	96	—	96	—	50	—	50
Other liabilities:								
Derivative instruments – interest rate products	—	(47,738)	—	(47,738)	—	(37,519)	—	(37,519)
Derivative instruments – mortgage banking	—	(13)	—	(13)	—	(2)	—	(2)
Fair value adjusted through net income	$ —	$ 81	$ —	$ 81	$ —	$ 46	$ —	$ 46
Measured on a nonrecurring basis:								
Loans:								
Loans held for sale	$ —	$ 550	$ —	$ 550	$ —	$ 1,370	$ —	$ 1,370
Collateral dependent loans	—	—	21,454	21,454	—	—	37,516	37,516
Other assets:								
Long-lived assets held for sale	—	—	1,509	1,509	—	—	629	629
Loan servicing rights	—	—	1,470	1,470	—	—	1,382	1,382
Other real estate owned	—	—	19	19	—	—	142	142
Total	$ —	$ 550	$ 24,452	$ 25,002	$ —	$ 1,370	$ 39,669	$ 41,039

The following table presents additional quantitative information about assets measured at fair value on a recurring and nonrecurring basis for which the Company has utilized Level 3 inputs to determine fair value as of September 30, 2023 March 31, 2024 (dollars in thousands).

Asset	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Unobservable Input Value or Range**	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Unobservable Input Value or Range**
Collateral dependent loans	$ 30,124	Appraisal of collateral [1]	Appraisal adjustments [2]	45.8%[3] / 0 - 77.4%	$ 30,754	Appraisal of collateral [1]	Appraisal adjustments [2]	44.6%[3] / 0 - 91.7%
Loan servicing rights	$ 1,430	Discounted cash flow	Discount rate	10.4% [3]	$ 1,382	Discounted cash flow	Discount rate	10.2% [3]
			Constant prepayment rate	11.9% [3]			Constant prepayment rate	12.8% [3]
Long-lived assets held for sale	$ 1,299	Appraisal of collateral [1]	Appraisal adjustments [2]	9.7 - 33.9%	$ 629	Appraisal of collateral [1]	Appraisal adjustments [2]	12.4 - 46.3%
Other real estate owned	$ 162	Appraisal of collateral [1]	Appraisal adjustments [2]	42.7%	$ 140	Appraisal of collateral [1]	Appraisal adjustments [2]	35.7 - 47.7%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

(3) Weighted averages.

(15. (14.)FAIR VALUE MEASUREMENTS (Continued)

Changes in Level 3 Fair Value Measurements

There were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of or during the nine three months ended September 30, 2023 March 31, 2024 and 2022. 2023.

Disclosures about Fair Value of Financial Instruments

The assumptions used below are expected to approximate those that market participants would use in valuing these financial instruments.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instrument, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. Such estimates do not consider the tax impact of the realization of unrealized gains or losses. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial instrument. Care should be exercised in deriving conclusions about our business, its value or financial position based on the fair value information of financial instruments presented below.

The estimated fair value approximates carrying value for cash and cash equivalents, Federal Home Loan Bank (“FHLB”) and Federal Reserve Bank (“FRB”) stock, accrued interest receivable, non-maturity deposits, short-term borrowings and accrued interest payable. Fair value estimates for other financial instruments not included elsewhere in this disclosure are discussed below.

Securities held to maturity: The fair value of the Company’s investment securities held to maturity is primarily measured using information from a third-party pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things.

Loans: The fair value of the Company’s loans was estimated by discounting the expected future cash flows using the current interest rates at which similar loans would be made for the same remaining maturities. Loans were first segregated by type, such as commercial, residential mortgage, and consumer, and were then further segmented into fixed and variable rate and loan quality categories. Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments.

Time deposits: The fair value of time deposits was estimated using a discounted cash flow approach that applies prevailing market interest rates for similar maturity instruments. The fair values of the Company’s time deposit liabilities do not take into consideration the value of the Company’s long-term relationships with depositors, which may have significant value.

Long-term borrowings: Long-term borrowings consist of $75 million of subordinated notes and $50 million of long-term borrowings from the FHLB. The subordinated notes are publicly traded and are valued based on market prices, which are characterized as Level 2 liabilities in the fair value hierarchy. The FHLB borrowings are valued using discounted cash flows based on current market rates for borrowings with similar remaining maturities and are characterized as Level 2 liabilities in the fair value hierarchy.

FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

(14.) FAIR VALUE MEASUREMENTS (Continued)

The following table presents (in thousands) the carrying amount, estimated fair value, and placement in the fair value measurement hierarchy of the Company’s financial instruments as of the dates indicated.

	Level in Fair Value Measurement Hierarchy	September 30, 2023		December 31, 2022		Level in Fair Value Measurement Hierarchy	March 31, 2024		December 31, 2023	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:										
Cash and cash equivalents	Level 1	$ 192,111	$ 192,111	$ 130,466	$ 130,466	Level 1	$ 237,038	$ 237,038	$ 124,442	$ 124,442
Securities available for sale	Level 2	854,215	854,215	954,371	954,371	Level 2	923,761	923,761	887,730	887,730
Securities held to maturity, net	Level 2	154,204	136,540	188,975	174,188	Level 2	143,714	131,269	148,156	137,030
Loans held for sale	Level 2	1,873	1,873	550	550	Level 2	504	504	1,370	1,370
Loans (1)	Level 2	4,351,412	4,150,752	3,983,582	3,867,285					
Loans						Level 2	4,368,217	4,160,389	4,373,541	4,143,918
Loans (1)	Level 3	30,124	30,124	21,454	21,454	Level 3	30,754	30,754	37,516	37,516
Long-lived assets held for sale	Level 3	1,299	1,299	1,509	1,509	Level 3	629	629	629	629
Accrued interest receivable	Level 1	23,541	23,541	19,371	19,371	Level 1	24,914	24,914	24,481	24,481
Derivative instruments – cash flow hedges	Level 2	8,548	8,548	6,725	6,725	Level 2	6,835	6,835	5,939	5,939
Derivative instruments – interest rate products	Level 2	56,724	56,724	47,736	47,736	Level 2	44,173	44,173	37,517	37,517
Derivative instruments – mortgage banking	Level 2	218	218	96	96	Level 2	221	221	50	50
FHLB and FRB stock	Level 2	15,067	15,067	19,385	19,385	Level 2	15,042	15,042	17,406	17,406
Financial liabilities:										
Non-maturity deposits	Level 1	3,806,986	3,806,986	3,646,552	3,646,552	Level 1	3,836,171	3,836,171	3,808,216	3,808,216
Time deposits	Level 2	1,508,987	1,498,696	1,282,872	1,268,957	Level 2	1,560,586	1,553,489	1,404,696	1,398,352
Short-term borrowings	Level 1	70,000	70,000	205,000	205,000	Level 1	133,000	133,000	185,000	185,000
Long-term borrowings	Level 2	124,454	119,855	74,222	70,814	Level 2	124,610	127,022	124,532	128,363
Accrued interest payable	Level 1	18,138	18,138	5,983	5,983	Level 1	27,224	27,224	19,412	19,412
Derivative instruments – interest rate products	Level 2	56,725	56,725	47,738	47,738	Level 2	44,175	44,175	37,519	37,519
Derivative instruments – credit contracts	Level 2	—	—	—	—					
Derivative instruments – mortgage banking	Level 2	44	44	13	13	Level 2	5	5	2	2

(1) Comprised of collateral dependent loans.

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(16. (15.)SEGMENT REPORTING

The Company has one reportable segment, Banking, which includes all of the Company's retail and commercial banking operations. This reportable segment has been identified and organized based on the nature of the underlying products and services applicable to the segment, the type of customers to whom those products and services are offered and the distribution channel through which those products and services are made available.

All other segments that do not meet the quantitative threshold for separate reporting have been grouped as "All Other," which include the activities of SDN and Courier Capital and HNP, prior to the May 1, 2023 merger. Refer to "Nature of Operations" under Note 1. Basis of Presentation and Summary of Significant Accounting Policies for further details on the merger. Capital. SDN is a full-service insurance agency that provides provided a broad range of insurance services to both personal and business clients, and Courier Capital and HNP are is our investment advisor and wealth management firms firm that provide offers customized investment management, investment financial planning and consulting and retirement plan services to individuals and families, businesses, institutions, foundations non-profits and retirement plans. Also included in "All Other" are Holding Company amounts, which are the primary differences between segment amounts and consolidated totals, along with amounts to eliminate balances and transactions between segments.

The following tables present information regarding our business segments as of and for the periods indicated (in thousands).

	Banking	All Other	Consolidated Totals	Banking	All Other	Consolidated Totals
September 30, 2023						
March 31, 2024						
Goodwill	$ 48,536	$ 18,535	$ 67,071	$ 48,536	$ 18,535	$ 67,071
Other intangible assets, net	—	5,654	5,654	—	5,216	5,216
Total assets	6,095,556	44,593	6,140,149	6,255,833	42,765	6,298,598
December 31, 2022						
December 31, 2023						
Goodwill	$ 48,536	$ 18,535	$ 67,071	$ 48,536	$ 18,535	$ 67,071
Other intangible assets, net	—	6,343	6,343	—	5,433	5,433
Total assets	5,756,441	40,831	5,797,272	6,117,748	43,133	6,160,881

	Banking	All Other	Consolidated Totals	Banking	All Other	Consolidated Totals
Three months ended September 30, 2023						
Three months ended March 31, 2024						
Net interest income (expense)	$ 42,738	$ (1,061)	$ 41,677	$ 41,141	$ (1,059)	$ 40,082
Provision for credit losses	(966)	—	(966)	5,456	—	5,456
Noninterest income	6,649	3,837	10,486	6,496	4,405	10,901
Noninterest expense	(31,328)	(3,407)	(34,735)	(49,717)	(4,296)	(54,013)

Income (loss) before income taxes	17,093	(631)	16,462	3,376	(950)	2,426
Income tax (expense) benefit	(2,660)	220	(2,440)	(455)	99	(356)
Net income (loss)	$ 14,433	$ (411)	$ 14,022	$ 2,921	$ (851)	$ 2,070
Nine months ended September 30, 2023						
Net interest income (expense)	$ 129,010	$ (3,181)	$ 125,829			
Provision for credit losses	(8,410)	—	(8,410)			
Noninterest income	20,522	12,354	32,876			
Noninterest expense	(91,072)	(11,106)	(102,178)			
Income (loss) before income taxes	50,050	(1,933)	48,117			
Income tax (expense) benefit	(8,169)	536	(7,633)			
Net income (loss)	$ 41,881	$ (1,397)	$ 40,484			

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FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

	Banking	All Other	Consolidated Totals
Three months ended March 31, 2023			
Net interest income (expense)	$ 42,875	$ (1,060)	$ 41,815
Provision for credit losses	(4,214)	—	(4,214)
Noninterest income	6,375	4,549	10,924
Noninterest expense	(29,773)	(3,888)	(33,661)
Income (loss) before income taxes	$ 15,263	$ (399)	$ 14,864
Income tax (expense) benefit	(2,630)	(145)	(2,775)
Net income (loss)	$ 12,633	$ (544)	$ 12,089

(16.) SEGMENT REPORTING (Continued) SUBSEQUENT EVENT

On April 1, 2024, the Company announced and closed on the sale of the assets of its wholly owned subsidiary, SDN, to NFP Property & Casualty Services, Inc. (“NFP”), a privately held property and casualty broker and benefits consultant. The sale generated approximately $

	Banking	All Other	Consolidated Totals
Three months ended September 30, 2022			
Net interest income (expense)	$ 44,129	$ (1,061)	$ 43,068
Provision for credit losses	(4,314)	—	(4,314)
Noninterest income	8,900	3,752	12,652
Noninterest expense	(29,355)	(3,472)	(32,827)
Income (loss) before income taxes	$ 19,360	$ (781)	$ 18,579
Income tax (expense) benefit	(5,295)	570	(4,725)
Net income (loss)	$ 14,065	$ (211)	$ 13,854
Nine months ended September 30, 2022			
Net interest income (expense)	$ 127,405	$ (3,182)	$ 124,223
Provision for credit losses	(7,196)	—	(7,196)
Noninterest income	23,228	12,106	35,334
Noninterest expense	(84,119)	(11,730)	(95,849)
Income (loss) before income taxes	59,318	(2,806)	56,512
Income tax (expense) benefit	(13,170)	1,143	(12,027)

Net income (loss)	$	46,148	$	(1,663)	$	44,485

27 million in proceeds, or an after-tax gain of $11.2 million, and supports the Company's earnings potential, capital position, and focus on its core banking business.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q should be read in conjunction with the more detailed and comprehensive disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2022December 31, 2023. In addition, please read this section in conjunction with our Consolidated Financial Statements and Notes to Consolidated Financial Statements contained herein.

FORWARD LOOKING INFORMATION

Statements and financial analysis contained in this Quarterly Report on Form 10-Q that are based on other than historical data are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations or forecasts of future events and include, among others:

- statements with respect to the beliefs, plans, objectives, goals, guidelines, expectations, anticipations, and future financial condition, results of operatior performance of Financial Institutions, Inc. (the “Parent” or “FII”) and its subsidiaries (collectively, the “Company,” “we,” “our” or “us”); and
- statements preceded by, followed by or that include the words “may,” “could,” “should,” “would,” “believe,” “continue,” “anticipate,” “estimate,” “expect,” “intend,” “projects” or similar expressions.

These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management’s views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties and actual results may differ materially from those presented, either expressed or implied, in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2022December 31, 2023 (the “Form 10-K”), including, but not limited to, those presented in the Management’s Discussion and Analysis of Financial Condition and Results of Operations. Factors that might cause such material differences include, but are not limited to:

- We are subject to interest rate risk, and fluctuationsFluctuations in market interest rates may affect our interest margins and income, demand for our products, defaults on loans, loan prepayments and the fair value of our financial instruments;
- The soundness of other financial institutions could adversely affect us;
- Our businessEnvironmental, social and governance matters, and any related reporting obligations may be adversely affected by conditions in the financial m and economic conditions generally;
- Recent events involving the failure of three financial institutions may adversely affectimpact our business and the market price of our common stock;
- Downgrades of the U.S. credit rating and uncertain credit and financial market conditions may affect the stability of securities issued or guaranteed by the f government, which may affect the valuation or liquidity of our investment securities portfolio and increase future borrowing costs;business;
- If we experience greater credit losses than anticipated, earnings may be adversely impacted;
- We are subject to risks and losses resulting from fraudulent activities that could adversely impact our financial performance and results of operations;
- Geographic concentration in our loan portfolio may unfavorably impact our operations;
- Our commercial business and mortgage loans increase our exposure to credit risks;
- If our regulators impose limitations on our commercial real estate lending activities, earnings could be adversely affected;
- Our indirect and consumer lending involves risk elements in addition to normal credit risk;
- Lack of seasoning in portions of our loan portfolio could increase risk of credit defaults in the future;
- We accept deposits that do not have a fixed term, and which may be withdrawn by the customer at any time for any reason;
- We are subject to environmental liability risk associated with our lending activities;
- We operate in a highly competitive industry and market area;
- Regulatory scrutiny of bank provision of BaaS solutions and related technology considerations has recently increased;
- We have implemented a program to provide financial products and services to customers that do business in the cannabis industry and the strict enforcem federal laws and regulations regarding cannabis could result in our inability to continue to provide financial products and services to these customers and we have legal action taken against us by the federal government and exposure to additional liabilities and regulatory compliance costs;
- Legal and regulatory proceedings and related matters, such as the action brought by a class of consumers against us as described in Part II,I, Item 1,3, Proceedings,” could adversely affect us and the banking industry in general;
- Any future FDIC insurance premium increases or special assessment may adversely affect our earnings;

- We are highly regulated, and any adverse regulatory action may result in additional costs, loss of business opportunities, and reputational damage;
- We are subject to the CRA and fair lending laws, and failure to comply with these laws could lead to material penalties;
- The policies of the Federal Reserve have a significant impact on our earnings;
- Our insurance brokerage subsidiary is subject to risk related to the insurance industry;

- Our investment advisory and wealth management operations are subject to risk related to the regulation of the financial services industry and market volatility;
- Loss of key employees may disrupt relationships with certain customers;
- We make certain assumptions and estimates in preparing our financial statements that may prove to be incorrect, which could significantly impact our the res our operations, cash flows and financial condition, and we are subject to new or changing accounting rules and interpretations, and the failure by us to co interpret or apply these evolving rules and interpretations could have a material adverse effect;
- The value of our goodwill and other intangible assets may decline in the future;
- We may be unable to successfully implement our growth strategies, including the integration and successful management of newly-acquired newly ac businesses;
- The introduction of new products and services may subject us to increased regulation and regulatory scrutiny and may affect our reputation;
- Acquisitions may disrupt our business and dilute shareholder value;
- Our tax strategies and the value of our deferred tax assets and liabilities could adversely affect our operating results and regulatory capital ratios;
- Liquidity is essential to our businesses;

- We rely on dividends from our subsidiaries for most of our revenue;
- If our risk management framework does not effectively identify or mitigate our risks, we could suffer losses;
- Public health emergencies, like the COVID-19 outbreak, may have an adverse impact on our business and results of operations;
- We may need to raise additional capital in the future and such capital may not be available on acceptable terms or at all;
- We face competition in staying current with technological changes and banking alternatives to compete and meet customer demands;
- We rely on other companies to provide key components of our business infrastructure;
- A breach in security of our or third-party information systems, including the occurrence of a cyber incident or a deficiency in cybersecurity, or a failure by us to c with New York State cybersecurity regulations, may subject us to liability, result in a loss of customer business or damage our brand image;
- The soundness of other financial institutions could adversely affect us;
- We may need to raise additional capital in the future and such capital may not be available on acceptable terms or at all;
- We may not pay or may reduce the dividends on our common stock;
- We may issue debt and equity securities or securities convertible into equity securities, any of which may be senior to our common stock as to distributions liquidation, and which could dilute our current shareholders or negatively affect the value of our common stock;
- Our certificate of incorporation, our bylaws, and certain banking laws may have an anti-takeover effect;
- The market price of our common stock may fluctuate significantly in response to a number of factors;
- We may not be able to attract and retain skilled people;
- We use financial models for business planning purposes that may not adequately predict future results;
- We depend on the accuracy and completeness of information about or from customers and counterparties;
- Our business may be adversely affected by conditions in the financial markets and economic conditions generally, including macroeconomic pressures su inflation, supply chain issues, and geopolitical risks associated with international conflict; and
- Severe weather, natural disasters, public health emergencies and pandemics, acts of war or terrorism, and other external events could significantly impa business;
- Negative public opinion could damage our reputation and impact business operations and revenues; and
- Environmental, social and governance matters, and any related reporting obligations may impact our business.

We caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and advise readers that various factors, including those described above, could affect our financial performance and could cause our actual results or circumstances for future periods to differ materially from those anticipated or projected. See also Item 1A, Risk Factors, in the Annual Report on Form 10-K for the year ended December 31, 2022, and Item 1A. Risk Factors in our subsequent Quarterly Reports on Form 10-Q for further information. December 31, 2023. Except as required by law, we do not undertake, and specifically disclaim any obligation to publicly release any revisions to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

The Parent is a financial holding company headquartered in New York State, providing diversified financial services through its operating subsidiaries, Five Star Bank (the "Bank"), SDN Insurance Agency, LLC ("SDN") and Courier Capital, LLC ("Courier Capital"). The Company offers a broad array of deposit, lending and other financial services to individuals, municipalities and businesses in Western and Central New York through its wholly-owned wholly owned New York-chartered banking subsidiary, the Bank. The Bank also has commercial loan production offices in Ellicott City (Baltimore), Maryland, and Syracuse, New York, serving the Mid-Atlantic and Central New York regions. Our indirect lending network includes relationships with franchised automobile dealers in Western and Central New York, and the Capital District of New York. Effective January 1, 2024, we exited the Pennsylvania automobile market to align our focus more fully around our core Upstate New York and Northern and Central Pennsylvania. SDN provides a broad range of insurance services to personal and business clients. market. Courier Capital provides customized investment advice, wealth management, investment consulting and retirement plan services to individuals, businesses, institutions, foundations and retirement plans. In May 2023,

As of March 31, 2024, the Company's fee-based subsidiaries included SDN Insurance Agency, LLC ("SDN"), which provided a broad range of insurance services to personal and business clients, and Courier Capital, which provides customized investment management, investment consulting and retirement plan services to individuals, businesses, institutions, foundations and retirement plans. On April 1, 2024, the Company announced and closed the completion sale of the merger assets of HNP Capital, its wholly owned subsidiary SDN Insurance Agency, LLC ("HNP Capital" SDN") with and into Courier Capital. to NFP Property & Casualty Services, Inc. ("NFP"), a subsidiary of NFP Corp. Please refer to the "Recent Developments" section below for additional details regarding the sale of SDN.

Our primary sources of revenue are net interest income (interest earned on our loans and securities, net of interest paid on deposits and other funding sources) and noninterest income, particularly fees and other revenue from insurance, prior to the sale of the assets of SDN, investment advisory and financial services provided to customers or ancillary services tied to loans and deposits. Business volumes and pricing drive revenue potential, and tend to be influenced by overall economic factors, including market interest rates, business spending, consumer confidence, economic growth, and competitive conditions within the marketplace. We are not able to predict market interest rate fluctuations with certainty and our asset/liability management strategy may not prevent interest rate changes from having a material adverse effect on our the results of our operations and financial condition.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our business strategy has been to maintain a community bank philosophy, which consists of focusing on and understanding the individualized banking and other financial needs of individuals, municipalities and businesses of the local communities surrounding our primary service area. We believe this focus allows us to be more responsive to our customers' needs and provide a high level of personal service that differentiates us from larger competitors, resulting in long-standing and broad-based banking relationships. Our core customers are primarily small- to medium-sized businesses, individuals and community organizations who prefer to build banking insurance and wealth management relationships with a community bank that combines high quality, competitively-priced competitively priced products and services with personalized service. Because of our identity and origin as a locally operated bank, we believe that our level of personal service provides a competitive advantage over larger banks, which tend to consolidate decision-making authority outside local communities.

A key aspect of our current business strategy is to foster a community-oriented culture where our customers and employees establish long-standing and mutually beneficial relationships. We believe that we are well-positioned to be a strong competitor within our market area because of our focus on community banking needs and customer service, our comprehensive suite of deposit, loan, insurance and wealth management products typically found at larger banks, our highly experienced management team and our strategically located banking centers.

We prioritize customer acquisition through cost-effective, high-demand digital, virtual and physical channels, while maintaining a community bank distinctiveness relative to larger banks and digital-only neobanks. We leverage the retail branch network and customer contact center to build trust and credibility, provide personal financial education and advice, offer convenience, and bridge digital and physical channels. Our enhanced digital capabilities complement a continued focus on a consistent customer experience and engagement across physical and virtual channels, including using branches to create deeper engagement and relationships with customers, balancing customer engagement with efficiency opportunities (e.g., framing outreach to the customer contact center to teach customers how to use digital channels, in addition to addressing the reason for the call), and maintaining and expanding our customer reach digitally, physically or virtually. By employing digital channels across our current products and services, we deepen existing relationships and enter new geographies or market segments that would otherwise be prohibitively expensive targets using traditional approaches. Deepening our existing digital capabilities allows us to capitalize on a shift in customer preferences away from physical branches, while launching opportunities with non-bank entities through BaaS.

We have evolved to meet changing customer needs by opening what we refer to as financial solution center branches. These financial solution center branches have a smaller footprint than our traditional branches, offering complementary physical, digital and virtual channels. We focus on technology to provide solutions that fit our customer customers' preferences for transacting business with us, and these branches us. Branches are staffed by certified personal bankers who are trained to meet a broad array of customer needs. We expanded our footprint into the Mid-Atlantic region with the opening of a loan production office in Baltimore, Maryland in February 2022, and further expanded our footprint in Central New York with the opening of a commercial loan production office in Syracuse, New York in January 2023. Additionally, we are focused on the continued expansion of product delivery channels and are investing in our Our digital banking platform to allow for greater flexibility in the capabilities, interactive teller machine ("ITM") functionality and Customer Contact Center provide additional self-serve and phone options through which customer experience. We believe that the foregoing factors all help to grow our core deposits, which support a central element of our business strategy – the growth of a diversified and high-quality loan portfolio. needs are met effectively.

Our Banking-as-a-Service ("BaaS") BaaS business offers banking capabilities to non-bank financial service providers and other financial technology firms ("FinTechs"), FinTechs, allowing them to provide banking services to their end users. With the help of the Bank's partners, we can offer banking services and products beyond our traditional footprint, creating new fee-based revenue opportunities through service, interchange and other fees, coupled with cost effective deposit gathering opportunities. We are primarily focused on five key BaaS client types where we see strong opportunity: business-to-business, where we help FinTechs innovate solutions while creating new market opportunities and efficiencies; affinity groups, where we help empower traditionally under-banked communities with expanded financial services access; sustainable finance, where we meet customer-led environmental demands by partnering with early movers in the green banking space; cannabis-related businesses, where we can tap into the multi-billion dollar cannabis market by leveraging regulatory and risk experience for sustained operations; and wealth management, which enables wealth managers to meet accelerating client demand for banking services.

We will continue to explore market expansion opportunities that complement current market areas as opportunities arise. Our primary focus will be on increasing the Bank's market share within existing markets, while taking advantage of potential growth opportunities within our noninterest income lines of business by acquiring businesses that can be incorporated into existing operations. We believe our capital position remains strong enough to support an active merger and acquisition strategy and the expansion of our core financial service businesses. Consequently, we continue to explore acquisition opportunities in these activities. When evaluating acquisition opportunities, we will balance the potential for earnings accretion with maintaining adequate capital levels, which could result in our common stock being the predominant form of consideration and/or the need for us to raise capital.

Conversations with potential strategic partners occur on a regular basis. The evaluation of any potential opportunity will favor a transaction that complements our core competencies and strategic intent, with a lesser emphasis being placed on geographic location or size. Additionally, we remain committed to maintaining a diversified revenue stream. Our senior management team has experience in acquisitions and post-acquisition integration of operations and is prepared to act promptly should a potential opportunity arise but will remain disciplined with its approach. We believe this experience positions us to successfully acquire and integrate additional financial services and banking businesses.

Cannabis Banking

The Marijuana Regulation and Taxation Act was signed into law on March 31, 2021, legalizing the possession and sale of recreational marijuana in New York State for adults aged 21 or older and the state has issued adult-use cannabis cultivation, processing and retail dispensary licenses. We have implemented a program to provide financial products and services to legal cannabis-related businesses and partner with other financial institutions who provide such services.

Offering financial products and services to the cannabis industry presents a unique set of regulatory risks due to the conflict between state and federal laws, as marijuana remains illegal at the federal level. In January 2018, the U.S. Department of Justice (the "DOJ") rescinded the "Cole Memo" and related memoranda which characterized the enforcement of the Controlled Substances Act against persons and entities complying

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MANAGEMENT'S DISCUSSION AND ANALYSIS

with state regulatory systems permitting the use, manufacture and sale of medical marijuana as an inefficient use of their prosecutorial resources and discretion. The impact of the DOJ's rescission of the Cole Memo and related memoranda is unclear, but in the future may result in increased enforcement actions against the regulated cannabis industry generally. More recently, the United States Attorney General has indicated that the DOJ, under his leadership, does not intend to pursue cases against parties who comply with the laws in states which have legalized and are effectively regulating marijuana. However, enforcement policies and practices may be highly variable between political administrations. In addition, federal prosecutors have significant discretion and there can be no assurance that the federal prosecutor for any district in which we operate will not choose to strictly enforce the federal laws governing cannabis. In the future, enforcement actions may be taken against cannabis-related businesses or financial services providers that are viewed as aiding and abetting such activities.

The Financial Crimes Enforcement Network ("FinCEN") published guidelines in 2014 for financial institutions servicing state-legal cannabis businesses. These guidelines were issued for the explicit purpose so "that financial institutions can provide services to marijuana-related businesses in a manner consistent with their obligations to know their customers and to report possible criminal activity." The Bank has and will continue to follow this and other FinCEN guidance in the areas of cannabis banking.

RECENT DEVELOPMENTS

Sale of SDN

On April 1, 2024, the Company announced and closed the sale of the assets of SDN to NFP. The sale generated approximately $27 million in proceeds, or an after-tax gain of $11.2 million before selling costs. The all-cash transaction value represented approximately four times our 2023 insurance revenue.

Fraudulent Activity

In early March 2024, the Company discovered fraudulent activity associated with deposit transactions conducted over the course of several business days by an in-market business customer of the Bank, that resulted in an $18.4 million pre-tax loss for deposit-related charged-off items and approximately $600 thousand of legal and consulting expenses, recorded in the first quarter related to this event. The Bank is working with the appropriate law enforcement authorities in connection with this matter and is pursuing all legal recourse available to recover additional funds and minimize the loss. However, there can be no assurance that the Company will be able to recover any further offset to the deposit loss.

EXECUTIVE OVERVIEW

Summary of 2023 Third 2024 First Quarter Results

Net income increased $168 thousand decreased $10.0 million to $14.0 million $2.1 million for the third first quarter of 2023 2024 compared to $13.9 million $12.1 million for the third first quarter of 2022. 2023. Net income available to common shareholders for the third first quarter of 2023 2024 was $13.7 million $1.7 million, or $0.88 $0.11 per diluted share, compared with $13.5 million $11.7 million, or $0.88 $0.76 per diluted share, for the third first quarter of 2022. 2023. Return on average common equity was 13.15% 1.83% and return on average assets was 0.92% 0.13% for the third first quarter of 2023 2024 compared to 12.72% 11.87% and 0.98% 0.84%, respectively, for the third first quarter of 2022. 2023. First quarter 2024 results reflected an $18.4 million pre-tax loss that was recorded in deposit-related charged-off items and approximately $660 thousand of legal and consulting expenses, recorded in professional services expenses related to the previously mentioned fraud event.

Net interest income totaled $41.7 million $40.1 million in the third first quarter of 2023, 2024, a decrease of $1.4 million $1.7 million compared to $43.1 million $41.8 million in the third first quarter of 2022. 2023. Average interest-earning assets for the third first quarter of 2024 were $318.8 million higher than the first quarter of 2023 were $473.3 million higher than the third quarter of 2022 due to a $591.4 million $342.6 million increase in average loans and a $20.5 million $94.8 million increase in the average balance of Federal Reserve interest-earning cash, partially offset by a $138.6 million $118.5 million decrease in average investment securities. Average interest-bearing liabilities for the first quarter of 2024 were $427.7 million higher than the first quarter of 2023 due to a $416.7 million increase in average savings and money market account deposits, a $97.0 million increase in average time deposits, and a $44.5 million increase in average borrowings, partially offset by a $130.6 million decrease in average interest-bearing demand deposits.

Net interest margin was 2.91% 2.78% for the third first quarter of 2024 compared to 3.09% in the first quarter of 2023, compared primarily due to 3.28% in the third quarter of 2022, primarily higher funding costs as a result of higher funding costs amid the rising continued high interest rate environment, as well as seasonality and repricing within the public deposit portfolio, partially offset by an increase in the average yield on interest-earning assets.

The benefit for credit losses was $5.5 million in the first quarter of 2024 compared to a provision for credit losses was $966 thousand of $4.2 million in the third first quarter of 2023 compared to $4.3 million in 2023. The benefit for credit losses for the third first quarter of 2022. 2024 was primarily driven by positive trends in qualitative factors, including an improvement in consumer indirect loan delinquencies during the period, and improvement in forecasted losses, which are based in part on the national unemployment forecast, and a reduction in period-end loan balances. Net charge-offs during the recent quarter were $1.6 million $3.1 million, representing 0.14% 0.28% of average loans on an annualized basis, compared to $2.2 million $2.1 million, or an annualized 0.22% 0.21% of average loans, in the third first quarter of 2022. 2023. See the "Allowance for Credit Losses – Loans" and "Non-Performing Assets and Potential Problem Loans" sections of this Management's Discussion and Analysis for further discussion regarding the provision for credit losses and net charge-offs.

Noninterest income totaled $10.5 million $10.9 million in the third quarter first quarters of 2023, compared to $12.7 million in the third quarter of 2022. The decrease in noninterest 2024 and 2023. Noninterest income for the third first quarter of 2023 2024 included decreases of $1.9 million $341 thousand in investment advisory income, primarily due to lower transaction-based fees on retail accounts, and $322 thousand in income from derivative instruments, net, partially offset by increases of $304 thousand in company owned life insurance income, due to the higher crediting rate and $390 thousand in service charges on deposits, partially offset by a $326 thousand increase in income from investments in limited partnerships. The third quarter of 2022 included a $2.0 million enhancement from associated impact to cash surrender value related to the surrender and redeployment of $25.5 million redeploy strategy executed in cash surrender value of company owned life insurance, which was offset by approximately $1.5 million of incremental income tax expense during the third fourth quarter of 2022. The decrease 2023, and $406 thousand in service charges on deposits reflected a reduction in nonsufficient fees as a result of January 2023 changes implemented in January 2023 to our consumer overdraft program that align with trends in community banking. other income.

Noninterest expense totaled $34.7 million $54.0 million in the third first quarter of 2023, 2024, compared to $32.8 million $33.7 million in the third first quarter of 2022. 2023. The increase in noninterest expense was primarily the result of the deposit fraud-related charge-off and associated legal and consulting expenses totaling $19.0 million. Also contributing to the increase in noninterest expense for the first quarter of 2024 were increases in computer and data processing expense, FDIC assessments expense, and other expenses. The increase due in computer and data processing expense was primarily due part to investments in data efficiency and marketing technology. technology, FDIC assessments expense, increased in part, due to the increase in the base deposit insurance assessment rate schedules by two basis points, coupled with balance sheet growth. The increase in and other expense was driven in part by interest charges related to collateral held for derivative transactions. expenses.

The regulatory Common Equity Tier 1 Ratio and Total Risk-Based Capital Ratio were 9.58% 9.76%, and 11.91% 12.04%, respectively, at September 30, 2023 March 31, 2024. See the “Liquidity and Capital Management” section of this Management’s Discussion and Analysis for further discussion regarding regulatory capital and the Basel III capital rules.

RESULTS OF OPERATIONS

Net Interest Income and Net Interest Margin

Net interest income is our primary source of revenue, comprising approximately 80% 79% of revenue during both the three and nine months ended September 30, 2023 March 31, 2024. Net interest income is the difference between interest income on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing deposits and other borrowings used to fund interest-earning and other assets or activities. Net interest income is affected by changes in interest rates and by the amount and composition of interest-earning assets and interest-bearing liabilities, as well as the sensitivity of the balance sheet to changes in interest rates, including characteristics such as the fixed or variable nature of the financial instruments, contractual maturities and repricing frequencies.

We use interest rate spread and net interest margin to measure and explain changes in net interest income. Interest rate spread is the difference between the yield on interest-earning assets and the rate paid for interest-bearing liabilities that fund those assets. The net interest margin is expressed as the percentage of net interest income to average earning assets. The net interest margin exceeds the interest rate spread because noninterest-bearing sources of funds (“net free funds”), principally noninterest-bearing demand deposits and shareholders’ equity, also support earning assets. To compare tax-exempt asset yields to taxable yields, the yield on tax-exempt investment securities is computed on a taxable equivalent basis. Net interest income, interest rate spread, and net interest margin are discussed on a taxable equivalent basis.

The following table reconciles interest income per the consolidated statements of income to interest income adjusted to a fully taxable equivalent basis (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
Interest income per consolidated statements of income	74,70 $ 0	50,67 $ 5	209,5 $ 86	138,3 $ 02	$ 78,413	$ 63,771
Adjustment to fully taxable equivalent basis	93	129	327	420	86	121
Interest income adjusted to a fully taxable equivalent basis	74,79 3	50,80 4	209,9 13	138,7 22	78,499	63,892

Interest expense per consolidated statements of income	33,023	7,607	83,757	14,079	38,331	21,956
Net interest income on a taxable equivalent basis	$ 41,770	$ 43,197	$ 126,156	$ 124,643	$ 40,168	$ 41,936

Analysis of Net Interest Income for the Three Months Ended September 30, 2023 March 31, 2024 and 2022 2023

Net interest income on a taxable equivalent basis for the three months ended September 30, 2023 March 31, 2024, was $41.8 million $40.2 million, a decrease of $1.4 million $1.8 million versus the comparable quarter last year of $43.2 million $41.9 million. The decrease in net interest income consisted of a $25.4 million increase in interest expense, was primarily as a result of an increase in higher-cost borrowings and time deposits coupled with continued repricing of deposits, as customers responded due to higher funding costs amid the rising current high interest rate environment, partially offset by a $24.0 million increase in interest income, resulting primarily from the impact of market interest rate increases having a positive impact on yields, as well as an increase in average loans of $591.4 million, or 15%, and a $20.5 million increase in the average balance of Federal Reserve interest-earning cash, partially offset by decrease in average investment securities of $138.6 million, or 10%. environment.

Our net interest margin for the third first quarter of 2023 2024 was 2.91% 2.78%, 37-basis 31-basis points lower than 3.28% 3.09% for the same period in 2022 2023 due to higher funding costs as a result of higher funding costs amid the rising continued high interest rate environment, as well as seasonality and repricing within the public deposit portfolio, partially offset by an increase in the average yield on interest-earning assets.

For the third first quarter of 2023, 2024, the average yield on average interest earning assets of 5.21% 5.43% was 135-basis 72-basis points higher than the third first quarter of 2022 2023 of 3.86% 4.71% primarily due to the an increase in market interest rates. Average loan yields increased 153-basis 72-basis points during the third first quarter of 2023 2024 to 6.15% 6.33% from 4.62% 5.61% for the third first quarter of 2022. 2023. The average yield on investment securities increased 7-basis 19-basis points during the third first quarter of 2023 2024 to 1.88% 2.09% from 1.81% 1.90% for the third first quarter of 2022. 2023. Overall, a favorable volume variance increased interest income by $7.9 million $6.0 million during the third first quarter of 2023, 2024, and the average loan yield interest rate changes increased interest income by $16.1 million $8.6 million which collectively drove a $24.0 million $14.6 million increase in interest income.

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Average interest-earning assets were $5.70 billion $5.80 billion for the third first quarter of 2024 compared to $5.49 billion for the first quarter of 2023, compared to $5.23 billion for the third quarter of 2022, an increase of $473.3 million $318.8 million, or 9% 6%, from the comparable quarter last year, with average loans up $591.4 million $342.6 million from $3.82 billion $4.12 billion for the third quarter of 2022 to $4.41 billion for the third first quarter of 2023 to $4.46 billion for the first quarter of 2024, and a $20.5 million $94.8 million increase in average Federal Reserve interest-earning cash, partially offset by a decrease in average securities of $138.6 million $118.5 million from $1.37 billion $1.30 billion for the third first quarter of 2022 2023 to $1.23 billion $1.18 billion for the third first quarter of 2023. Loans 2024. Average loans comprised 77% of average interest-earning assets during the third first quarter of 2023 2024 compared to 73% 75% during the third first quarter of 2022. 2023. The increase in average loans was primarily due to organic growth in commercial mortgages. Loans generally have significantly higher yields compared to other interest-earning assets and, as such, have a more positive effect on the net interest margin. The average yield on average loans was 6.15% 6.33% for the third first quarter of 2023, 2024, an increase of 153-basis 72-basis points compared to 4.62% 5.61% for the comparable quarter in 2022 2023 due to the impact of the increase in higher market interest rates. An increase in the volume of average loans resulted in a $7.9 million $5.5 million increase in interest income and rate changes on average loans increased interest income by $16.1 million $7.7 million. Securities Average investment securities represented 22% 20% of average interest-earning assets during the third first quarter of 2023 2024 compared to 26% 24% during the third first quarter of 2022. 2023. The decrease in average investment securities was primarily due to repayment and maturities of investment securities, and the redeployment use of excess liquidity intended cash to benefit interest income with fund loan originations, including the intent sale of reducing net interest margin compression relative to interest earned on federal funds sold and interest-earning deposits. approximately $54 million in lower yielding available-for-sale agency mortgage-backed securities in the fourth quarter of 2023.

For the third first quarter of 2023, 2024, the average cost of average interest-bearing liabilities of 2.96% 3.34% was 219-basis 122-basis points higher than the third first quarter of 2022 2023 and the average cost of interest-bearing deposits of 2.84% 3.29% was 221-basis 130-basis points higher than the third first quarter of 2022 2023 due to the rising continued repricing of deposits at higher interest rate environment that occurred rates. The average cost of total borrowings decreased 8-basis points to 4.08% in 2022 and continued into the first quarter of 2024, compared to 4.16% in the first quarter of 2023.

Average interest-bearing liabilities were $4.43 billion $4.61 billion for the third first quarter of 2024, compared to $4.19 billion for the first quarter of 2023, compared to $3.91 billion for the third quarter of 2022, an increase of $513.9 million $427.7 million, or 13% 10% driven by increases in both average balances of interest-bearing deposits and average total borrowings. Total average borrowings increased to $347.3 million, up $136.6 million from the third quarter of 2022. On average, interest-bearing deposits grew $377.3 million $383.2 million from $3.70 billion $3.93 billion for the third first quarter of 2022 2023 to $4.08 billion $4.31 billion for the current quarter while noninterest-bearing demand deposits (a principal component of net free funds) decreased $93.3 million $102.2 million to $1.02 billion $962.5 million for the third first quarter of 2023. 2024. The increase in average interest-bearing deposits was primarily due to growth in reciprocal, non-public deposits, public deposits, and brokered reciprocal deposits, partially offset by a decline decrease in public brokered deposits. For further discussion of the our reciprocal deposit programs, and brokered deposits, refer to the “Funding Activities – Deposits” section of this Management’s Discussion and Analysis. Overall, interest-bearing deposit rate changes resulted in a $21.3 million $13.4 million increase in interest expense, and volume changes resulted in a $2.6 million increase in interest expense during the third first quarter of 2023, primarily due 2024. Total average borrowings increased to the higher rate market conditions.

Analysis of Net Interest Income for the Nine Months Ended September 30, 2023 and 2022

Net interest income on a taxable equivalent basis for the nine months ended September 30, 2023 $304.3 million, was $126.2 million, an increase of $1.5 million versus the comparable period in 2022 of $124.6 million. The increase in net interest income was primarily due to a $71.2 million increase in interest income, resulting primarily up $44.5 million from the impact first quarter of the market interest rate increases having a positive impact on yields, as well as an increase in average loans of $523.9 million, or 14%, partially offset by a decrease in average investment securities of $134.7 million, or 10%. The increase in interest income was partially offset by an increase in interest expense of $69.7 million. The increase in interest expense was primarily the result of continued repricing of deposits at higher rates, as well as an increase in higher cost borrowings and time deposits.

Our net interest margin for the nine months ended September 30, 2023 was 2.99%, 20-basis points lower than 3.19% for the same period in 2022 as a result of a shift in our deposit mix from lower cost transactional accounts to higher cost time deposits, as well as repricing within the deposit portfolio.

For the nine months ended September 30, 2023, the average yield on average interest earning assets of 4.98% was 143-basis points higher than the nine months ended September 30, 2022 of 3.55%. The average yield on loans increased 138-basis points during the nine months ended September 30, 2023, to 5.90% from 4.52% for the comparable period last year. The average yield on investment securities increased 10-basis points to 1.89% for the nine months ended September 30, 2023 compared to 1.79% for the nine months ended September 30, 2022. Overall, volume variances in average interest-earning assets and average interest-bearing liabilities increased net interest income by $18.1 million during the nine months ended September 30, 2023, and the impact of the interest rate increases in 2022 and 2023 had an overall positive impact on yields, contributing another $53.1 million to interest income.

Average interest-earning assets were $5.63 billion for the nine months ended September 30, 2023 compared to $5.22 billion for the nine months ended September 30, 2022, an increase of $413.1 million, or 8%, with average loans up $523.9 million from $3.76 billion for the nine months ended September 30, 2022 to $4.29 billion for the nine months ended September 30, 2023, partially offset by a decrease in average securities of $134.7 million from $1.40 billion for the nine months ended September 30, 2022 to $1.27 billion for the nine months ended September 30, 2023. Securities represented 23% of average interest-earning assets during the nine months ended September 30, 2023 compared to 27% during the nine months ended September 30, 2022. Loans comprised 76% of average interest-earning assets during the nine months ended September 30, 2023 compared to 72% during the nine months ended September 30, 2022. 2023. The increase in average loans was primarily due borrowings volume contributed $439 thousand to organic growth in commercial mortgages. Loans generally have significantly higher yields compared to other interest-earning assets and, as such, have a more positive effect on the net interest margin. An increase in the volume of average loans resulted in a $19.9 million increase in interest income and higher interest rates increased interest income by $53.1 million. expense.

For the nine months ended September 30, 2023, the average cost of average interest-bearing liabilities of 2.57% was 209-basis points higher than the nine months ended September 30, 2022 of 0.48% with the average cost of average interest-bearing deposits of 2.42% increasing 207-basis points from 0.35% for the nine months ended September 30, 2022 due to the rising interest rate environment that occurred in 2022 and continued into 2023.

Average interest-bearing liabilities of $4.35 billion in the nine months ended September 30, 2023 were $431.6 million, or 11%, higher than the nine months ended September 30, 2022. The increase was driven by increases in both total borrowings and interest-bearing deposits. Total average borrowings increased to $342.4 million for the nine months ended September 30, 2023, up $182.8 million from the nine months ended September 30, 2022. On average, interest-bearing deposits grew $248.8 million from $3.76 billion for the nine months ended September 30, 2022 to $4.01 billion for the current period, while noninterest-bearing demand deposits (a principal component of net free funds) decreased $60.4 million to $1.04 billion for the nine months ended September 30, 2023. The increase in average deposits was primarily due to growth in brokered, non-public and reciprocal deposits, partially offset by a decrease in public deposits. For further discussion of the reciprocal deposit programs, refer to the “Funding Activities – Deposits” section of this Management’s Discussion and Analysis. Overall, interest-bearing deposit rate changes resulted in a $59.7 million increase in interest expense during the nine months ended September 30, 2023, primarily due to the rising interest rate environment.

The following tables set table sets forth certain information relating to the consolidated balance sheets and reflects the average yields earned on interest-earning assets, as well as the average rates paid on interest-bearing liabilities for the periods indicated (dollars in thousands). Average balances were derived from daily balances.

	Three months ended September 30,						Three months ended March 31,					
	2023			2022			2024			2023		
	Average Balance	Interest	Average Rate (3)	Average Balance	Interest	Average Rate (3)	Average Balance	Interest	Average Rate (3)	Average Balance	Interest	Average Rate (3)
Interest-earning assets:												
Federal funds sold and interest-earning deposits	$ 62,673	$ 723	4.58 %	$ 42,183	$ 188	1.77 %	$ 158,075	$ 1,985	5.05 %	$ 63,311	$ 616	3.95 %
Investment securities (1):												
Taxable	1,166,649	5,350	1.83	1,275,390	5,599	1.76	1,125,365	5,768	2.05	1,215,608	5,601	1.84
Tax-exempt (2)	63,941	447	2.79	93,776	608	2.59	57,628	413	2.87	85,898	577	2.69
Total investment securities	1,230,590	5,797	1.88	1,369,166	6,207	1.81	1,182,993	6,181	2.09	1,301,506	6,178	1.90
Loans:												
Commercial business	712,224	13,356	7.44	623,916	7,890	5.02	722,720	13,599	7.57	670,354	11,232	6.80
Commercial mortgage	1,977,978	33,336	6.69	1,514,138	18,976	4.97	2,029,841	34,300	6.80	1,744,963	26,400	6.14
Residential real estate loans	621,074	5,864	3.78	577,094	4,903	3.40	648,921	6,476	3.99	589,747	5,245	3.56
Residential real estate lines	75,847	1,444	7.55	76,853	822	4.24	76,396	1,491	7.85	76,627	1,303	6.89
Consumer indirect	989,614	13,662	5.48	1,012,787	11,428	4.48	934,380	13,711	5.90	1,024,362	12,525	4.96
Other consumer	34,086	611	7.11	14,648	390	10.55	51,535	756	5.90	15,156	393	10.51
Total loans (4)	4,410,823	68,273	6.15	3,819,436	44,409	4.62	4,463,793	70,333	6.33	4,121,209	57,098	5.61
Total interest-earning assets	5,704,086	74,793	5.21	5,230,785	50,804	3.86	5,804,861	78,499	5.43	5,486,026	63,892	4.71

Less: Allowance for credit losses	(50,868)			(43,088)			(51,534)			(46,668)		
Other noninterest-earning assets	420,435			412,267			472,433			404,428		
Total assets	$ 6,073,653			$ 5,599,964			$ 6,225,760			$ 5,843,786		
Interest-bearing liabilities:												
Deposits:												
Interest-bearing demand	$ 766,636	$ 1,607	0.83%	$ 854,015	$ 395	0.18%	$ 749,512	$ 2,076	1.11%	$ 880,093	$ 1,399	0.64%
Savings and money market	1,749,202	11,048	2.51	1,817,413	2,567	0.56	2,081,815	15,948	3.08	1,665,075	6,556	1.60
Time deposits	1,564,035	16,562	4.20	1,031,162	2,913	1.12	1,479,133	17,214	4.68	1,382,131	11,339	3.33
Total interest-bearing deposits	4,079,873	29,217	2.84	3,702,590	5,875	0.63	4,310,460	35,238	3.29	3,927,299	19,294	1.99
Short-term borrowings	222,871	2,235	3.98	136,610	672	1.95	179,747	1,529	3.42	145,533	1,202	3.35
Long-term borrowings	124,407	1,571	5.05	74,096	1,060	5.72	124,562	1,564	5.02	114,251	1,460	5.11
Total borrowings	347,278	3,806	4.35	210,706	1,732	3.26	304,309	3,093	4.08	259,784	2,662	4.16
Total interest-bearing liabilities	4,427,151	33,023	2.96	3,913,296	7,607	0.77	4,614,769	38,331	3.34	4,187,083	21,956	2.12
Noninterest-bearing demand deposits	1,022,423			1,115,759			962,522			1,064,754		
Other noninterest-bearing liabilities	194,914			133,002			193,434			174,014		
Shareholders' equity	429,165			437,907			455,035			417,935		
Total liabilities and shareholders' equity	$ 6,073,653			$ 5,599,964			$ 6,225,760			$ 5,843,786		
Net interest income (tax-equivalent)		$ 41,770			$ 43,197			$ 40,168			$ 41,936	
Interest rate spread			2.25%			3.09%			2.09%			2.59%
Net earning assets	$ 1,276,935			$ 1,317,489			$ 1,190,092			$ 1,298,943		
Net interest margin (tax-equivalent)			2.91%			3.28%			2.78%			3.09%

Ratio of average interest-earning assets to average interest-bearing liabilities	12 8.8 4 %	13 3.6 7 %	125.79 %	131.02 %

(1) Investment securities are shown at amortized cost.

(2) The interest on tax-exempt securities is calculated on a tax-equivalent basis assuming a Federal federal income tax rate of 21%.

(3) Annualized.

(4) Loans include net unearned income, net deferred loan fees and costs and non-accruing loans. Net deferred loan fees (costs) included in interest income were as follows (in thousands):

	Three months ended September 30,	
	2023	2022
Commercial business	$ (29)	$ 243
Commercial mortgage	572	692
Residential real estate loans	(414)	(438)
Residential real estate lines	(99)	(94)
Consumer indirect	(997)	(1,127)
Other consumer	8	6
Total	$ (959)	$ (718)

	Nine months ended September 30,					
	2023			2022		
	Average Balance	Interest	Average Rate (3)	Average Balance	Interest	Average Rate (3)
Interest-earning assets:						
Federal funds sold and interest-earning deposits	$ 72,977	$ 2,526	4.63 %	$ 49,048	$ 315	0.86 %
Investment securities (1):						
Taxable	1,190,631	16,402	1.84	1,297,216	16,832	1.73
Tax-exempt (2)	76,201	1,563	2.73	104,324	1,997	2.55
Total investment securities	1,266,832	17,965	1.89	1,401,540	18,829	1.79
Loans:						
Commercial business	697,728	37,289	7.15	626,121	20,462	4.37
Commercial mortgage	1,879,077	90,563	6.44	1,458,961	47,533	4.36

Residential real estate loans	603,268	16,557	3.66	578,354	14,544	3.35
Residential real estate lines	76,219	4,118	7.22	77,062	2,172	3.77
Consumer indirect	1,008,311	39,458	5.23	1,009,475	33,725	4.47
Other consumer	23,712	1,437	8.10	14,454	1,142	10.56
Total loans (4)	4,288,315	189,422	5.90	3,764,427	119,578	4.52
Total interest-earning assets	5,628,124	209,913	4.98	5,215,015	138,722	3.55
Less: Allowance for credit losses	(48,922)			(42,067)		
Other noninterest-earning assets	411,873			413,363		
Total assets	$ 5,991,075			$ 5,586,311		
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	$ 831,345	$ 4,642	0.75 %	$ 905,224	$ 970	0.14 %
Savings and money market	1,691,783	25,887	2.05	1,882,342	4,451	0.32
Time deposits	1,484,919	42,036	3.78	971,681	4,525	0.62
Total interest-bearing deposits	4,008,047	72,565	2.42	3,759,247	9,946	0.35
Short-term borrowings	221,392	6,596	3.98	85,585	952	1.49
Long-term borrowings	121,033	4,596	5.06	74,020	3,181	5.73
Total borrowings	342,425	11,192	4.37	159,605	4,133	3.46
Total interest-bearing liabilities	4,350,472	83,757	2.57	3,918,852	14,079	0.48
Noninterest-bearing demand deposits	1,038,798			1,099,234		
Other noninterest-bearing liabilities	176,313			113,195		
Shareholders’ equity	425,492			455,030		
Total liabilities and shareholders’ equity	$ 5,991,075			$ 5,586,311		
Net interest income (tax-equivalent)		$ 126,156			$ 124,643	
Interest rate spread			2.41 %			3.07 %
Net earning assets	$ 1,277,652			$ 1,296,163		
Net interest margin (tax-equivalent)			2.99 %			3.19 %
Ratio of average interest-earning assets to average interest-bearing liabilities			129.37 %			133.08 %

(1) Investment securities are shown at amortized cost.

(2) The interest on tax-exempt securities is calculated on a tax-equivalent basis assuming a Federal income tax rate of 21%.

(3) Annualized.

(4) Loans include net unearned income, net deferred loan fees and costs and non-accruing loans. Net deferred loan fees (costs) included in interest income were as follows (in thousands):

	Nine months ended September 30,	
	2023	2022
Commercial business	$ (33)	$ 1,947
Commercial mortgage	1,718	1,675
Residential real estate loans	(1,215)	(1,402)
Residential real estate lines	(275)	(248)
Consumer indirect	(3,158)	(3,287)
Other consumer	12	13
Total	$ (2,951)	$ (1,302)

	Three months ended March 31, 2024	Three months ended March 31, 2023
Commercial business	$ 4	$ (1)
Commercial mortgage	613	548
Residential real estate loans	(358)	(404)
Residential real estate lines	(83)	(74)
Consumer indirect	(922)	(537)
Other consumer	10	—
Total	$ (736)	$ (468)

The following table presents, on a tax-equivalent basis, the relative contribution of changes in volumes and changes in rates to changes in net interest income for the periods indicated. The change in interest income not solely due to changes in volume or rate has been allocated in proportion to the absolute dollar amounts of the change in each (in thousands). No out-of-period adjustments were included in the rate/volume analysis.

	Three months ended September 30, 2023 vs. 2022			Nine months ended September 30, 2023 vs. 2022			Three months ended March 31, 2024 vs. 2023		
Increase (decrease) in:	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest income:									
Federal funds sold and interest-earning deposits	$ 125	$ 410	$ 535	$ 222	$ 1,989	$ 2,211	$ 1,146	$ 223	$ 1,369
Investment securities:									
Taxable	(491)	242	(249)	(1,432)	1,002	(430)	(435)	602	167
Tax-exempt	(206)	45	(161)	(569)	135	(434)	(201)	37	(164)
Total investment securities	(697)	287	(410)	(2,001)	1,137	(864)	(636)	639	3
Loans:									
Commercial business	1,239	4,227	5,466	2,567	14,260	16,827	919	1,448	2,367
Commercial mortgage	6,756	7,604	14,360	16,149	26,881	43,030	4,604	3,296	7,900
Residential real estate loans	391	570	961	645	1,368	2,013	555	676	1,231
Residential real estate lines	(11)	633	622	(24)	1,970	1,946	(4)	192	188
Consumer indirect	(266)	2,500	2,234	(39)	5,772	5,733	(1,167)	2,353	1,186
Other consumer	381	(160)	221	606	(311)	295	597	(234)	363
Total loans	8,490	15,374	23,864	19,904	49,940	69,844	5,504	7,731	13,235
Total interest income	7,918	16,071	23,989	18,125	53,066	71,191	6,014	8,593	14,607
Interest expense:									
Deposits:									

Interest-bearing demand	(44)	1,256	1,212	(85)	3,757	3,672	(234)	911	677
Savings and money market	(100)	8,581	8,481	(496)	21,932	21,436	1,966	7,426	9,392
Time deposits	2,160	11,489	13,649	3,533	33,978	37,511	844	5,031	5,875
Total interest-bearing deposits	2,016	21,326	23,342	2,952	59,667	62,619	2,576	13,368	15,944
Short-term borrowings	767	796	1,563	2,743	2,901	5,644	310	17	327
Long-term borrowings	647	(136)	511	1,821	(406)	1,415	129	(25)	104
Total borrowings	1,414	660	2,074	4,564	2,495	7,059	439	(8)	431
Total interest expense	3,430	21,986	25,416	7,516	62,162	69,678	3,015	13,360	16,375
Net interest income	$ 4,488	$ (5,915)	$ (1,427)	$ 10,609	$ (9,096)	$ 1,513	$ 2,999	$ (4,767)	$ (1,768)

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(Benefit) Provision for Credit Losses

The provision benefit for credit losses for the three and nine months ended September 30, 2023 first quarter of 2024 was $966 thousand and $8.4 million, respectively, $5.5 million compared to $4.3 million and $7.2 million a provision for credit losses of $4.2 million for the corresponding periods in 2022. first quarter of 2023. The decrease benefit for credit losses – loans was $4.9 million for the first quarter of 2024, compared to a provision for credit losses – loans of $4.2 million for the loan loss provision first quarter of 2023. The benefit for credit losses – loans in the third first quarter of 2023 reflected 2024 was driven by a modest decrease combination of factors, including improvement in forecasted losses, positive trends in qualitative factors, including a reduction in consumer indirect loan delinquencies during the national unemployment forecast, coupled with sustained low levels of overall net charge-offs, driven in the current quarter by the payoff of one commercial loan that we previously recorded a partial charge-off for, period, and a decline reduction in the level of unfunded commitments. The increase in the total period-end loan loss provision for the nine months ended September 30, 2023 was primarily due to a $2.0 million recovery in connection with the pay-off of a commercial loan that was downgraded to non-performing status with a partial charge-off in the second quarter of 2021 being balances. Also included in the nine months ended September 30, 2022. (benefit) provision for credit losses was a credit loss benefit for unfunded commitments of $569 thousand and $11 thousand for the first quarters of 2024 and 2023, respectively.

See the “Allowance for Credit Losses – Loans” and “Non-Performing Assets and Potential Problem Loans” sections of this Management’s Discussion and Analysis for further discussion.

Noninterest Income

The following table details the major categories of noninterest income for the periods presented (in thousands):

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
Service charges on deposits	$ 1,207	$ 1,597	$ 3,457	$ 4,403	$ 1,077	$ 1,027

Insurance income	1,678	1,571	5,093	4,902	2,134	2,087
Card interchange income	2,094	2,076	6,140	6,131	1,902	1,939
Investment advisory	2,544	2,722	8,286	8,669	2,582	2,923
Company owned life insurance	1,027	2,965	2,974	4,667	1,298	994
Investments in limited partnerships	391	65	1,111	1,102	342	251
Loan servicing	135	139	395	383	175	146
Income from derivative instruments, net	219	99	1,418	1,263	174	496
Net gain on sale of loans held for sale	115	308	349	1,045	88	112
Net loss on investment securities	—	—	—	(15)		
Net (loss) gain on other assets	(1)	(22)	31	(15)	(13)	39
Net loss on tax credit investments	(333)	(385)	(45)	(704)	(375)	(201)
Other	1,410	1,517	3,667	3,503	1,517	1,111
Total noninterest income	$ 10,486	$ 12,652	$ 32,876	$ 35,334	$ 10,901	$ 10,924

Service charges on deposits Investment advisory income decreased $390 $341 thousand, or 24% 12%, to $1.2 million $2.6 million for the third first quarter of 2024 compared to $2.9 million for the first quarter of 2023, compared primarily due to $1.6 million for lower transaction-based fees on retail accounts in the third quarter of 2022. For the first nine months of 2023, service charges on deposits decreased $946 thousand, or 21%, to $3.5 million compared to $4.4 million for the first nine months of 2022. The decrease for both periods was primarily driven by a reduction in nonsufficient funds fees as a result of January 2023 changes in our consumer overdraft program that align with trends in community banking. most recent period.

Income from company owned life insurance decreased $1.9 million, increased $304 thousand, or 65% 31%, to $1.0 million for the third quarter of 2023 compared to $3.0 million for the third quarter of 2022. For the first nine months of 2023, income from company owned life insurance decreased $1.7 million, or 36% to $3.0 million compared to $4.7 million $1.3 million for the first nine months of 2022. Included in the third quarter of 2022 was a $2.0 million enhancement from the surrender and redeployment of $25.5 million in cash surrender value of company owned life insurance.

Investments in limited partnerships income increased $326 thousand to $391 thousand for the third quarter of 2023 compared to $65 thousand for the third quarter of 2022. Investments in limited partnerships income for the first nine months of 2023 of $1.1 million was relatively flat compared to the first nine months of 2022. The Company has made several investments in limited partnerships, primarily small business investment companies, and accounts for these investments under the equity method. Income from these investments fluctuates based on the maturity and performance of the underlying investments.

Net gain on sale of loans held for sale was $115 thousand for the third quarter of 2023 compared to $308 thousand for the third quarter of 2022. For the first nine months of 2023, net gain on sale of loans held for sale was $349 thousand 2024 compared to $1.0 million for the first nine months quarter of 2022. Included 2023, primarily due to the higher crediting rate and associated impact to cash surrender value recorded in the first nine months of 2022 was a gain of $586 thousand linked quarter related to the sale of a $31.2 million portfolio of indirect loans previously mentioned surrender and redeploy strategy executed in the second fourth quarter of 2022. 2023.

Net loss on tax credit investments was $333 Income from derivative instruments, net decreased $322 thousand, or 65%, to $174 thousand for the third first quarter of 2023, 2024 compared to $385 thousand for $496 thousand. Income from derivative instruments, net is based on the third number and value of interest rate swap transactions executed during the quarter combined with the impact of 2022. For changes in the first nine months fair value of 2023, net loss on tax credit investments was $45 thousand compared to $704 thousand for the first nine months of 2022. The net losses include amortization of tax credit investments, partially offset by New York investment tax credits that are refundable and recorded in noninterest income.

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borrower-facing trades.

Noninterest Expense

The following table details the major categories of noninterest expense for the periods presented (in thousands):

	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023

Salaries and employee benefits	$ 18,160	$ 17,950	$ 54,047	$ 51,532	$ 17,340	$ 18,133
Occupancy and equipment	3,791	3,793	11,059	11,564	3,752	3,730
Professional services	1,076	1,247	3,844	4,172	2,372	1,495
Computer and data processing	5,107	4,407	14,548	12,959	5,386	4,691
Supplies and postage	455	440	1,418	1,450	475	490
FDIC assessments	1,232	651	3,586	1,785	1,295	1,115
Advertising and promotions	744	651	1,556	1,437	297	314
Amortization of intangibles	225	244	689	747	217	234
Restructuring charges	(55)	—	(74)	1,269		
Deposit-related charged-off items					19,179	323
Other	4,000	3,444	11,505	8,934	3,700	3,136
Total noninterest expense	$ 34,735	$ 32,827	$ 102,178	$ 95,849	$ 54,013	$ 33,661

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Salaries and employee benefits expense increased $210 decreased $793 thousand, or 1% 4%, to $18.2 million $17.3 million for the third first quarter of 2024 compared to $18.1 million for the first quarter of 2023. The decrease was driven in part by lower salaries and wages and lower bonuses in the current quarter, as a result of our previously disclosed leadership and organizational changes completed in the fourth quarter of 2023 compared to $18.0 million for the third quarter of 2022. For the first nine months of 2023, salaries and employee benefits higher earnout compensation associated with a past insurance subsidiary acquisition.

Professional services expense increased $2.5 million, $877 thousand, or 5% 59%, to $54.0 million compared to $51.5 million $2.4 million for the first nine months quarter of 2022. 2024 compared to $1.5 million for the first quarter of 2023. The increase was primarily due to higher legal and consulting expenses in the first nine months quarter of 2023 was 2024 primarily related to the result of investments in personnel and wage pressures driven by the current labor market, along with an increase in health insurance benefit expense due to higher medical claims. fraud event.

Computer and data processing expense increased $700 $695 thousand, or 16% 15%, to $5.1 million for the third quarter of 2023 compared to $4.4 million for the third quarter of 2022. For the first nine months of 2023, computer and data processing expense increased $1.6 million, or 12%, to $14.5 million compared to $13.0 million $5.4 million for the first nine months quarter of 2022. 2024 compared to $4.7 million for the first quarter of 2023. The increase for during the 2023 periods 2024 period was a result of our strategic investments in data efficiency and marketing technology.

FDIC assessments expense increased $581 thousand, or 89%, to $1.2 million for the third quarter Deposit-related charged-off items of 2023 compared to $651 thousand for the third quarter of 2022. For the first nine months of 2023, FDIC assessments expense increased $1.8 million to $3.6 million compared to $1.8 million $19.2 million for the first nine months of 2022. The increases were due in part to the impact of an increase in base deposit insurance assessment rate schedules by two basis points, coupled with balance sheet growth.

Restructuring charges of $1.3 million for the first nine months of 2022 includes charges recognized in the second quarter of 2022 in connection 2024 included the $18.4 million loss associated with the write-down of real estate assets to fair market value based upon existing purchase offers and current market conditions for five locations that were closed in the second half of 2020. fraud event described above.

Other expense increased $556 $564 thousand, or 16% 18%, to $4.0 million for the third quarter of 2023 compared to $3.4 million for the third quarter of 2022. For the first nine months of 2023, other expense increased $2.6 million, or 29%, to $11.5 million compared to $8.9 million $3.7 million for the first nine months quarter of 2022. 2024 compared to $3.1 million for the first quarter of 2023. The increase for the 2023 periods was due to a combination of factors, including interest charges related to collateral held for derivative transactions, primarily driven by an increase in New York State capital base franchise tax accrual and the timing of deposit account-related fraud charge-offs, higher insurance costs and the impact of inflationary pressures. Community Reinvestment Act (“CRA”) grant donations.

Our efficiency ratio for the third first quarter of 2023 and 2024 was 105.77%, compared with 63.68% for the first nine months of 2023 was 66.47% and 64.25%, respectively, compared with 58.78% and 59.91% for the third quarter of 2022 and first nine months of 2022, respectively. 2023. The higher efficiency ratio for both periods in 2023 the first quarter of 2024 was primarily due to the result $18.4 million pre-tax loss in deposit-related charged-off items and approximately $660 thousand of an increase legal and consulting expenses, recorded in noninterest professional services expense, in 2023 as described above. related to the fraud event. The efficiency ratio is calculated by dividing total noninterest expense by net revenue, defined as the sum of tax-equivalent net interest income and noninterest income before net gains on investment securities.

An increase in the efficiency ratio indicates that more resources are being utilized to generate the same volume of income, while a decrease indicates a more efficient allocation of resources. The efficiency ratio, a banking industry financial measure, is not required by GAAP. However, the efficiency ratio is used by management in its assessment of financial performance specifically as it relates to noninterest expense control. Management also believes such information is useful to investors in evaluating Company performance.

Income Taxes

For the three and nine months ended September 30, 2023 March 31, 2024, we recorded income tax expense of $2.4 million and $7.6 million, respectively, $356 thousand, versus $4.7 million and $12.0 million $2.8 million for the same periods period in the prior year. The lower level of income tax expense incurred during the first quarter of 2024 was due to a lower level of pre-tax income, reflecting the impact of the fraud event. In the third first quarter of 2023, 2024, we recognized federal and state tax benefits related to tax credit investments placed in service and/or amortized during the period resulting in a reduction in income tax expense of $731 $785 thousand, versus $511 $584 thousand for the same period in the prior year. The nine months ended September 30, 2023 and 2022 also included related benefits of $2.1 million and $1.6 million, respectively. Contributing to the third quarter 2022 income tax expense were approximately $1.5 million of incremental taxes associated with the previously mentioned company owned life insurance surrender and redeploy strategy, which was offset by a $2.0 million enhancement recorded as noninterest income.

Our effective tax rates rate for the three and nine months ended September 30, 2023 were 14.8% and 15.9% March 31, 2024 was 14.7%, respectively, versus 25.4% and 21.3% 18.7%, respectively, for the same periods period in the prior year. Effective tax rates are typically impacted by items of income and expense that are not subject to federal or state taxation. Our effective tax rates reflect the impact of these items, which include, but are not limited to, interest income from tax-exempt securities, earnings on company owned life insurance and the impact of tax credit investments. In addition, our effective tax rate for 2023 2024 and 2022 2023 reflects the New York State tax benefit generated by our real estate investment trust.

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ANALYSIS OF FINANCIAL CONDITION

INVESTING ACTIVITIES

Investment Securities

The following table summarizes the composition of our investment securities portfolio as of the dates indicated (in thousands):

	Investment Securities Portfolio Composition				Investment Securities Portfolio Composition			
	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:								
U.S. Government agency and government-sponsored enterprise securities	$ 24,535	$ 20,909	$ 24,535	$ 21,115	$ 24,535	$ 21,752	$ 24,535	$ 21,811
U.S. Treasury bills					64,698	64,697	—	—
Mortgage-backed securities:								
Agency mortgage-backed securities	1,036,646	832,981	1,102,522	932,919	994,436	836,915	1,013,455	865,594

Non-Agency mortgage-backed securities	—	325	—	337	—	397	—	325
Total available for sale securities	1,061,181	854,215	1,127,057	954,371	1,083,669	923,761	1,037,990	887,730
Securities held to maturity:								
U.S. Government agency and government-sponsored enterprise securities	16,476	15,381	16,363	15,515	16,551	15,877	16,513	15,983
State and political subdivisions	72,666	64,312	97,583	90,435	66,405	60,800	68,854	63,782
Mortgage-backed securities	65,066	56,847	75,034	68,238	60,761	54,592	62,793	57,265
Total held to maturity securities	154,208	136,540	188,980	174,188	143,717	131,269	148,160	137,030
Allowance for credit losses – securities	(4)		(5)		(3)		(4)	
Total held to maturity securities, net	154,204		188,975		143,714		148,156	
Total investment securities	$ 1,215,385	$ 990,755	$ 1,316,032	$ 1,128,559	$ 1,227,383	$ 1,055,030	$ 1,186,146	$ 1,024,760

Our available for sale ("AFS") investment securities portfolio decreased $65.9 million increased $45.7 million from December 31, 2022 December 31, 2023 to September 30, 2023 March 31, 2024. The AFS portfolio had a net unrealized loss of $207.0 million $159.9 million at September 30, 2023 March 31, 2024 and $172.7 million $150.3 million at December 31, 2022 December 31, 2023, respectively. The decline increase in the AFS portfolio balance was primarily the result of the use purchase of portfolio cash flow to fund loan originations.

2024.

Security Yields and Maturities Schedule

The following table sets forth certain information regarding the amortized cost ("Cost"), weighted average yields ("Yield") and contractual maturities of our debt securities portfolio as of September 30, 2023 March 31, 2024. In this table, Yield is defined as the book yield weighted against the ending book value. Mortgage-backed securities are included in maturity categories based on their stated maturity date. Actual maturities may differ from the contractual maturities presented because borrowers may have the right to call or prepay certain investments. No tax-equivalent adjustments were made to the weighted average yields (dollars in thousands).

	Due in one year or less		Due from one to five years		Due after five years through ten years		Due after ten years		Total		Due in one year or less		Due from one to five years		Due after five years through ten years		Due after ten years		Total	
	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield
Available for sale debt securities:																				

U.S. Government agencies and government-sponsored enterprises	$ —	0.00%	$ 15,000	1.70%	$ 9,535	1.90%	$ —	—	$ 24,535	1.78%	$ —	—	$ 15,000	1.70 %	$ 9,535	1.90 %	$ —	—	$ 24,535	1.78 %
U.S. Treasury bills											64,698	5.36 %	—	—	—	—	—	—	64,698	5.36 %
Mortgage-backed securities	2,767	2.21	77,910	2.24	128,367	2.03	827,602	1.70	1,036,646	1.78	29	3.11 %	25,836	1.53 %	122,432	2.05 %	846,139	1.99 %	994,436	1.99 %
	2,767	2.21	92,910	2.15	137,902	2.02	827,602	1.70	1,061,181	1.78	64,727	5.36 %	40,836	1.59 %	131,967	2.04 %	846,139	1.99 %	1,083,669	2.18 %
Held to maturity debt securities:																				
U.S. Government agencies and government-sponsored enterprises	$ —	0.00%	$ 10,000	0.00%	$ 6,476	3.52%	$ —	0.00%	$ 16,476	3.20%	$ —	—	$ 10,000	3.00 %	$ 6,551	3.50 %	$ —	—	$ 16,551	3.20 %
State and political subdivisions	26,552	2.15	19,542	1.98	5,004	1.62	21,568	2.45	72,666	2.15	25,506	2.18 %	14,366	1.99 %	5,003	1.62 %	21,530	2.45 %	66,405	2.19 %

Mortgage-backed securities	—	—	5,187	2.46	19,233	2.27	40,646	2.87	65,066	2.66	—	—	4,516	2.53 %	17,846	2.27 %	38,399	2.88 %	60,761	2.68 %
	26,552	2.15	34,729	2.08	30,713	2.43	62,214	2.73	154,208	2.48	25,506	2.18 %	28,882	2.42 %	29,400	2.43 %	59,929	2.73 %	143,717	2.51 %
Total investment securities	$ 29,319	2.15 %	$ 127,639	2.20 %	$ 168,615	2.10 %	$ 889,816	1.77 %	$ 1,215,389	1.87 %	$ 90,233	4.46 %	$ 69,718	1.94 %	$ 161,367	2.11 %	$ 906,068	2.04 %	$ 1,227,386	2.22 %

Impairment Assessment

For AFS securities in an unrealized loss position, we first assess whether (i) we intend to sell, or (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either case is affirmative, any previously recognized allowances are charged-off and the security's amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Adjustments to the allowance are reported in our income statement as a component of credit loss expense. AFS securities are charged-off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met. For the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, no allowance for credit losses was recognized on AFS securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality.

LENDING ACTIVITIES

Total loans were $4.44 billion at March 31, 2024, a decrease of $20.1 million from $4.46 billion at December 31, 2023. Commercial loans and consumer loans represented 62% and 38% of total loans as of March 31, 2024, respectively. The following table summarizes the composition of our loan portfolio, excluding loans held for sale and including net unearned income and net deferred fees and costs, is summarized as of the dates indicated follows (dollars in thousands).:

	Loan Portfolio Composition				Loan Portfolio Composition			
	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial business	$ 711,538	16.1 %	$ 664,249	16.4 %	$ 707,564	15.9 %	$ 735,700	16.5 %
Commercial mortgage	1,985,279	44.8	1,679,840	41.5	2,045,056	46.1	2,005,319	44.9
Total commercial	2,696,817	60.9	2,344,089	57.9	2,752,620	62.0	2,741,019	61.4
Residential real estate loans	635,209	14.3	589,960	14.5	648,160	14.6	649,822	14.6
Residential real estate lines	76,722	1.7	77,670	1.9	75,668	1.7	77,367	1.7
Consumer indirect	982,137	22.2	1,023,620	25.3	920,428	20.7	948,831	21.3
Other consumer	40,281	0.9	15,110	0.4	45,170	1.0	45,100	1.0
Total consumer	1,734,349	39.1	1,706,360	42.1	1,689,426	38.0	1,721,120	38.6
Total loans	4,431,166	100.0 %	4,050,449	100.0 %	4,442,046	100.0 %	4,462,139	100.0 %
Less: Allowance for credit losses – loans	49,630		45,413		43,075		51,082	
Total loans, net	$ 4,381,536		$ 4,005,036		$ 4,398,971		$ 4,411,057	

Total loans increased $380.7 million to $4.43 billion at September 30, 2023 from $4.05 billion at December 31, 2022. The increase in loans was primarily attributable to our organic growth initiatives.

Total commercial loans increased $352.7 million during the nine months ended September 30, 2023 and represented 60.9% of $2.75 billion, or 62% of total loans as at March 31, 2024, were comprised of September 30, 2023 commercial business loans of $707.6 million, or 16% of total loans, down $28.1 million, or 4%, from December 31, 2023, and commercial mortgage loans of $2.05 billion, or 46% of total loans, up $39.7 million, or 2%, from December 31, 2023. The increase was primarily a result Commercial loans include both owner-occupied and non-owner occupied commercial real estate loans. As of March 31, 2024, commercial real estate ("CRE") loans make up approximately 66% of total commercial loans, and 41% of total loans, commercial and industrial loans approximated 30% of total commercial loans, and 19% of total loans, and business banking unit loans were approximately 4% of total commercial loans and 3% of total loans. Our CRE committed credit exposure at March 31, 2024 related to approximately 42% multi-family, 17% office, 8% retail, 7% hospitality, 7% home builder, and 7% industrial property. Approximately 70% of our continued commercial business development efforts. office exposure at March 31, 2024, or 12% of our total CRE exposure, related to Class B or medical office space. More than 90% of our CRE loans have full or limited personal or corporate recourse.

Total consumer loans increased $28.0 million to $1.73 billion and represented 39.1% of $1.69 billion, or 38% of total loans as at March 31, 2024, decreased $31.7 million from December 31, 2023. Consumer loans at March 31, 2024 were comprised of September 30, 2023. residential real estate loans and lines of credit of $723.8 million, or 16.3% of total loans, consumer indirect loans of $920.4 million, or 21% of total loans, and other consumer loans of $45.2 million, or 1% of total loans. During the first nine three months of 2023, ended March 31, 2024, we originated $238.2 million $57.9 million in indirect automobile loans with a mix of approximately 27% 18% new automobile and 73% 82% used automobile loans. During This compares with the first nine months of 2022, we originated $383.9 million $97.7 million in indirect automobile loans with a mix of approximately 28% 25% new automobile and 72% 75% used automobile loans. loans for the three months ended March 31, 2023. Origination volumes and the mix of new and used vehicles financed fluctuate depending on general market conditions. Effective January 1, 2024, we exited the Pennsylvania automobile market to align our focus more fully around our core Upstate New York market, which includes a strong network of approximately 375 new automobile dealers.

Loans Held for Sale and Loan Servicing Rights

Loans held for sale (not included in the loan portfolio composition table) were entirely comprised of residential real estate loans and totaled $1.9 million $504 thousand and $550 thousand $1.4 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

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We sell certain qualifying newly originated or refinanced residential real estate loans on the secondary market. Residential real estate loans serviced for others, which are not included in the consolidated statements of financial condition, amounted to $270.1 million $268.7 million and $275.3 million $269.4 million as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Allowance for Credit Losses – Loans

The following table summarizes the activity in the allowance for credit losses – loans for the periods indicated (dollars in thousands).

	Credit Loss – Loans Analysis				Credit Loss – Loans Analysis	
	Three months ended September 30,		Nine months ended September 30,		Three months ended March 31,	
	2023	2022	2023	2022	2024	2023
Allowance for credit losses – loans, beginning of period	$ 49,836	$ 42,452	$ 45,413	$ 39,676	$ 51,082	$ 45,413
Net charge-offs (recoveries):						
Commercial business	32	(96)	(59)	(43)	(37)	(124)
Commercial mortgage	(972)	(1)	(958)	(2,020)	(1)	(2)
Residential real estate loans	(4)	(4)	67	37	4	58
Residential real estate lines	—	35	41	18	—	16
Consumer indirect	2,283	1,890	4,421	3,087	2,973	1,838
Other consumer	259	329	811	821	182	303
Total net charge-offs (recoveries)	1,598	2,153	4,323	1,900		
Provision for credit losses – loans	1,392	3,807	8,540	6,330		
Total net charge-offs					3,121	2,089
(Benefit) provision for credit losses – loans					(4,886)	4,204
Allowance for credit losses – loans, end of period	$ 49,630	$ 44,106	$ 49,630	$ 44,106	$ 43,075	$ 47,528
Net loan charge-offs (recoveries) to average loans:						
Commercial business	0.02%	-0.06%	-0.01%	-0.01%	(0.02)%	(0.08)%
Commercial mortgage	-0.19%	—	-0.07%	-0.19%	0.00%	0.00%

Residential real estate loans	0.00 %	—	0.01 %	0.01 %	0.00 %	0.04 %
Residential real estate lines	0.00 %	0.18 %	0.07 %	0.03 %	0.00 %	0.09 %
Consumer indirect	0.92 %	0.74 %	0.59 %	0.41 %	1.28 %	0.73 %
Other consumer	3.00 %	8.90 %	4.57 %	7.59 %	1.41 %	8.10 %
Total loans	0.14 %	0.22 %	0.13 %	0.07 %	0.28 %	0.21 %
Allowance for credit losses – loans to total loans	1.12 %	1.14 %	1.12 %	1.14 %	0.97 %	1.12 %
Allowance for credit losses – loans to nonaccrual loans	522 %	584 %	522 %	584 %	161 %	540 %
Allowance for credit losses – loans to non-performing loans	521 %	517 %	521 %	517 %	161 %	540 %

Loans not analyzed for a specific reserve are segmented into "pools" of loans based upon similar risk characteristics. This is referred to as the "pooled loan" component of the allowance for credit losses estimate. The allowance for credit losses for pooled loans estimate is based upon periodic review of the collectability of the loans quantitatively correlating historical loan experience with reasonable and supportable forecasts using forward looking information. Adjustments to the quantitative evaluation may be made for differences in current or expected qualitative risk characteristics such as changes in: in underwriting standards, delinquency level, regulatory environment, economic condition, Company management and the status of portfolio administration including the Company's Loan Review function. The Company establishes a specific reserve for individually evaluated loans which do not share similar risk characteristics with the loans included in the forecasted allowance for credit losses. These individually evaluated loans are removed from the pooling approach discussed above for the forecasted allowance for credit losses, and include nonaccrual loans, and other loans deemed appropriate by management, collectively referred to as collateral dependent loans. See Note 5. 4. Loans of the notes to the consolidated financial statements for further details on collateral dependent loans.

Assessing the adequacy of the allowance for credit losses – loans involves substantial uncertainties and is based upon management's evaluation of the amounts required to meet estimated charge-offs in the loan portfolio after weighing a variety of factors, including the risk profile of our loan products and customers.

The adequacy of the allowance for credit losses – loans is subject to ongoing management review. While management evaluates currently available information in establishing the allowance for credit losses – loans, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations. In addition, various regulatory agencies, as an integral part of their examination process, periodically review a financial institution's allowance for credit losses – loans. Such agencies may require the financial institution to increase the allowance based on their judgments about information available to them at the time of their examination.

Net charge-offs of $1.6 million $3.1 million in the third first quarter of 2023 2024 represented 0.14% 0.28% of average loans on an annualized basis compared to net charge-offs of $2.2 million $2.1 million, or 0.22% 0.21% of average loans for the third first quarter of 2022. For the nine months ended September 30, 2023, net charge-offs of $4.3 million represented 0.13% of average loans, compared to net charge-offs of $1.9 million, or 0.07% of average loans for the same period in 2022. Net charge-offs for the nine months ended September 30, 2022 included a $2.0 million recovery in connection with the pay-off of a commercial loan that was downgraded to non-performing status with a partial charge-off in the fourth quarter of 2021. 2023. The allowance for credit losses – loans was $49.6 million $43.1 million at September 30, 2023 March 31, 2024, compared with $44.1 million $47.5 million at September 30, 2022 March 31, 2023. The ratio of the allowance for credit losses – loans to total loans was 0.97% at March 31, 2024 and 1.12% at September 30, 2023 and 1.14% at September 30, 2022 March 31, 2023. The ratio of allowance for credit losses – loans to non-performing loans was 521% 161% at September 30, 2023 March 31, 2024, reflecting one large commercial loan relationship totaling $13.6 million that was placed on nonaccrual status during the fourth quarter of 2023, compared with 517% 540% at September 30, 2022 March 31, 2023.

The following table sets forth the allocation of the allowance for credit losses – loans by loan category as of the dates indicated (dollars in thousands). The allocation is made for analytical purposes and is not necessarily indicative of the categories in which actual losses may occur. The total allowance is available to absorb losses from any segment of the loan portfolio.

	Allowance for Credit Losses – Loans by Loan Category				Allowance for Credit Losses – Loans by Loan Category			
	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
	Credit Loss Allowance	Percentage of loans by category to total loans	Credit Loss Allowance	Percentage of loans by category to total loans	Credit Loss Allowance	Percentage of loans by category to total loans	Credit Loss Allowance	Percentage of loans by category to total loans
Commercial business	$ 12,786	16.1 %	$ 12,585	16.4 %	$ 12,991	15.9 %	$ 13,102	16.5 %
Commercial mortgage	16,277	44.8	14,412	41.5	14,113	46.1	15,858	44.9
Residential real estate loans	3,859	14.3	3,301	14.5	4,630	14.6	5,286	14.6
Residential real estate lines	537	1.7	608	1.9	794	1.7	764	1.7
Consumer indirect	14,606	22.2	14,238	25.3	9,854	20.7	14,099	21.3
Other consumer	1,565	0.9	269	0.4	693	1.0	1,973	1.0
Total	$ 49,630	100.0 %	$ 45,413	100.0 %	$ 43,075	100.0 %	$ 51,082	100.0 %

Non-Performing Assets and Potential Problem Loans

The table below summarizes our non-performing assets at the dates indicated (dollars in thousands).

	Non-Performing Assets		Non-Performing Assets	
	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Nonaccrual loans:				
Commercial business	$ 254	$ 340	$ 5,956	$ 5,664
Commercial mortgage	686	2,564	10,826	10,563
Residential real estate loans	4,992	4,071	6,797	6,364
Residential real estate lines	201	142	235	221
Consumer indirect	3,382	3,079	2,880	3,814
Other consumer	—	1	—	13
Total nonaccrual loans	9,515	10,197	26,694	26,639
Accruing loans 90 days or more delinquent	6	1	36	21
Total non-performing loans	9,521	10,198	26,730	26,660
Foreclosed assets	162	19	140	142
Total non-performing assets	$ 9,683	$ 10,217	$ 26,870	$ 26,802
Nonaccrual loans to total loans	0.21 %	0.25 %	0.60 %	0.60 %
Non-performing loans to total loans	0.21 %	0.25 %	0.60 %	0.60 %
Non-performing assets to total assets	0.16 %	0.18 %	0.43 %	0.44 %

Non-performing assets include non-performing loans and foreclosed assets. Non-performing assets at September 30, 2023 March 31, 2024 were $9.7 million $26.9 million, a decrease an increase of $534 $68 thousand from the $10.2 million $26.8 million balance at December 31, 2022 December 31, 2023. The primary component of non-performing assets is non-performing loans, which were $9.5 million $26.7 million or 0.21% 0.60% of total loans at September 30, 2023, down from $10.2 million or 0.25% of total loans at December 31, 2022 primarily due to a decline in non-accruing commercial mortgage loans as a result of pay-downs or payments received March 31, 2024 and applied to principal for the non-performing loans. December 31, 2023.

Approximately $2.0 million $6.4 million, or 21% 24%, of the $9.5 million $26.7 million in non-performing loans as of September 30, 2023 March 31, 2024 were current with respect to payment of principal and interest but were classified as non-accruing because repayment in full of principal and/or interest was uncertain.

Foreclosed assets consist of real property formerly pledged as collateral for loans, which we have acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. We had $162 $140 thousand and $19 $142 thousand of properties representing foreclosed asset holdings at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Potential problem loans are loans that are currently performing, but information known about possible credit problems of the borrowers causes us to have concern as to the ability of such borrowers to comply with the present loan payment terms and may result in disclosure of such loans as nonperforming non-performing at some time in the future. These loans remain in a performing status due to a variety of factors, including payment history, the value of collateral supporting the credits, and/or personal or government guarantees. We consider loans classified as substandard, which continue to accrue interest, to be potential problem loans. We identified $38.3 million $21.7 million and $25.5 million $29.9 million in loans that continued to accrue interest which were classified as substandard as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Contractual Loan Maturity Schedule

The following table summarizes the contractual maturities of our loan portfolio at September 30, 2023 March 31, 2024. Loans, net of deferred loan origination costs, include principal amortization and non-accruing loans. Demand loans having no stated schedule of repayment or maturity and overdrafts as reported as due in one year or less (in thousands).

	Due in less than one year	Due from one to five years	Due from five to fifteen years	Due after fifteen years	Total	Due in less than one year	Due from one to five years	Due from five to fifteen years	Due after fifteen years	Total
Commercial business	$ 170,350	$ 279,571	$ 18,200	$ 243,417	$ 711,538	$ 150,067	$ 278,386	$ 20,268	$ 258,843	$ 707,564
Commercial mortgage	574,338	1,086,830	322,715	1,396	1,985,279	527,406	1,085,942	428,925	2,783	2,045,056
Residential real estate loans	77,533	217,472	289,130	51,074	635,209	88,954	243,380	292,246	23,580	648,160
Residential real estate lines	1,435	6,610	27,268	41,409	76,722	1,486	6,516	26,735	40,931	75,668
Consumer indirect (1)	330,814	651,323	—	—	982,137	319,363	601,065	—	—	920,428
Other consumer	9,863	19,952	10,346	120	40,281	7,760	16,802	19,313	1,295	45,170
Total loans	$ 1,164,333	$ 2,261,758	$ 667,659	$ 337,416	$ 4,431,166	$ 1,095,036	$ 2,232,091	$ 787,487	$ 327,432	$ 4,442,046

Loans maturing after one year:								
With a predetermined interest rate								
Commercial business	$ 99,244	$ 10,216	$ 15,112	$ 124,572	$ 110,910	$ 10,713	$ 84	$ 121,707
Commercial mortgage	498,282	156,308	243	654,833	478,582	214,524	497	693,603
Residential real estate loans	168,146	250,988	46,257	465,391	178,106	244,864	20,710	443,680
Residential real estate lines	11	37	—	48	—	—	—	—
Consumer indirect (1)	651,323	—	—	651,323	601,065	—	—	601,065
Other consumer	19,952	10,346	120	30,418	16,802	19,313	1,295	37,410
With a floating or adjustable rate								
Commercial business	180,327	7,984	228,305	416,616	167,476	9,555	258,759	435,790
Commercial mortgage	588,548	166,407	1,153	756,108	607,360	214,401	2,286	824,047
Residential real estate loans	49,326	38,142	4,817	92,285	65,274	47,382	2,870	115,526
Residential real estate lines	6,599	27,231	41,409	75,239	6,516	26,735	40,931	74,182
Consumer indirect (1)	—	—	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—	—	—
Total loans maturing after one year	$ 2,261,758	$ 667,659	$ 337,416	$ 3,266,833	$ 2,232,091	$ 787,487	$ 327,432	$ 3,347,010

(1) Amounts include prepayment assumptions based on actual historical experience.

FUNDING ACTIVITIES

Deposits

The following table summarizes the composition of our deposits at the dates indicated (dollars in thousands):

	Deposit Composition				Deposit Composition			
	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Noninterest-bearing demand	$ 1,035,350	19.5 %	$ 1,139,214	23.1 %	$ 972,801	18.0 %	$ 1,010,614	19.4 %
Interest-bearing demand	827,842	15.6 %	863,822	17.5 %	798,831	14.8	713,158	13.7
Savings and money market	1,943,794	36.5 %	1,643,516	33.4 %	2,064,539	38.3	2,084,444	40.0
Time deposits	1,508,987	28.4 %	1,282,872	26.0 %	1,560,586	28.9	1,404,696	26.9
Total deposits	$ 5,315,973	100.0 %	$ 4,929,424	100.0 %	$ 5,396,757	100.0 %	$ 5,212,912	100.0 %

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the aggregate amount of uninsured deposits (deposits in amounts greater than $250 thousand, which is the maximum amount for federal deposit insurance) was $1.82 billion $1.91 billion, or 35% of total deposits, and $1.76 billion $1.82 billion, or 35% of total deposits, respectively. The portion of our time deposits by account that were in excess of the FDIC insurance limit was $258.3 million $315.9 million and $258.7 million $302.6 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. The maturities of our uninsured time deposits at September 30, 2023 March 31, 2024 were as follows: $112.7 million $140.8 million in three months or less; $39.5 million $61.5 million between three months and six months; $65.7 million $49.1 million between six months and one year; and $40.4 million $64.5 million over one year. Approximately $1.09 billion $1.14 billion and $1.05 billion $956.3 million of uninsured reciprocal and public deposits, characterized as preferred deposits for FDIC call report purposes, were collateralized by government-backed securities as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. As of March 31, 2024, uninsured nonpublic deposits were approximately 14% of total deposits.

We offer a variety of deposit products designed to attract and retain customers, with the primary focus on building and expanding long-term relationships. At September 30, 2023 March 31, 2024, total deposits were $5.32 billion $5.40 billion, representing an increase of $386.5 million $183.8 million from December 31, 2022 December 31, 2023. The increase was primarily due to growth in public, reciprocal, brokered, and non-public deposits. Time deposits were approximately 28% 29% and 26% 27% of total deposits at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Non-public deposits, the largest component of our funding sources, totaled $2.99 billion $3.13 billion and $2.77 billion $3.12 billion at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively, and represented 56% 58% and 60% of total deposits as of each date. date, respectively. We have managed this segment of funding through a strategy of competitive pricing that minimizes the number of customer relationships that have only a single service high-cost deposit account.

As an additional source of funding, we offer a variety of public (municipal) deposit products to the towns, villages, counties and school districts within our market area. Public deposits generally range from 20% to 30% of our total deposits. There is a high degree of seasonality in this component of funding because the level of deposits varies with the seasonal cash flows for these public customers. We maintain the necessary levels of short-term liquidity to accommodate the seasonality associated with public deposits. Total public deposits were $1.09 billion $1.21 billion and $1.12 billion $1.02 billion at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively, and represented 20% 22% and 23% 20% of total deposits as of each date, respectively. The decrease increase in public deposits as of September 30, 2023 March 31, 2024 in comparison to December 31, 2022 December 31, 2023 was due largely due to a shift in customer demand. seasonality.

We also participate in reciprocal deposit programs, which enable depositors to receive FDIC insurance coverage for deposits otherwise exceeding the maximum insurable amount. Through these programs, deposits in excess of the maximum insurable amount are placed with multiple participating financial institutions. Prior to the Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA") enacted on May 14, 2018, all reciprocal deposits were considered brokered deposits for regulatory reporting purposes. With the enactment of EGRRCPA, reciprocal deposits, subject to certain restrictions, are no longer required to be reported as brokered deposits. Reciprocal deposits totaled $846.6 million $872.7 million at September 30, 2023 March 31, 2024, compared to $696.1 million $817.6 million at December 31, 2022 December 31, 2023, as this product has been an attractive option for customers with more than $250 thousand on deposit desiring FDIC insurance. Reciprocal deposits represented 16% and 14% of total deposits as of each date, respectively.

Brokered deposits totaled $392.7 million and $347.2 million at September 30, 2023 and December 31, 2022, respectively, and represented 7% of total deposits as of each date.

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Table Brokered deposits totaled $176.7 million and $256.8 million at March 31, 2024 and December 31, 2023, respectively, and represented 3% and 5% of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

total deposits as of each date. As of March 31, 2024 and December 31, 2023, respectively, $26.7 million and $206.8 million of interest-bearing demand deposits and $150.0 million and $50.0 million of time deposits are brokered deposit accounts.

Borrowings

The Company classifies borrowings as short-term or long-term in accordance with the original terms of the applicable agreement. Outstanding borrowings consisted of the following as of the dates indicated (in thousands):

	September 30,	**December 31,**

	2023		2022	
Short-term borrowings – FHLB	$	55,000	$	205,000
Short-term borrowings – FRB		15,000		-
Total short-term borrowings		70,000		205,000
Long-term borrowings – FHLB		50,000		-
Long-term borrowings – Subordinated notes, net		74,454		74,222
Total long-term borrowings		124,454		74,222
Total borrowings	$	194,454	$	279,222

	March 31, 2024		December 31, 2023	
Short-term borrowings:				
FHLB	$	55,000	$	107,000
FRB		78,000		78,000
Total short-term borrowings		133,000		185,000
Long-term borrowings:				
FHLB		50,000		50,000
Subordinated notes, net		74,610		74,532
Total long-term borrowings		124,610		124,532
Total borrowings	$	257,610	$	309,532

Short-term Borrowings

Short-term Federal Home Loan Bank ("FHLB") borrowings have original maturities of less than one year and include overnight borrowings which we typically utilize to address short term funding needs as they arise. Short-term FHLB borrowings at September 30, 2023 March 31, 2024 and December 31, 2022 consisted of $70.0 million December 31, 2023 totaled $55.0 million and $205.0 million $107.0 million, respectively. The FHLB borrowings are collateralized by securities from the Company's investment portfolio and certain qualifying loans. In the second quarter of May 2023, we borrowed $15.0 million under the Federal Reserve Bank ("FRB") Bank Term funding program at a rate of 4.8% 4.80%, which matures on May 8, 2024. In December 2023, we borrowed an additional $50 million under the program at an interest rate of 4.89%, which matures on December 13, 2024, and $13.0 million at an interest rate of 4.88%, which matures on December 20, 2024. Short-term borrowings and brokered deposits have historically been utilized to manage the seasonality of public deposits.

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As of September 30, 2023 March 31, 2024, $50.0 million of the short-term borrowings balance is designated as a cash-flow hedge, which became effective in April 2022, at a fixed rate of 0.787%, $30.0 million is designated as a cash-flow hedge, which became effective in January 2023, at a fixed rate of 3.669%, and $25.0 million is designated as a cash-flow hedge, which became effective in May 2023, at a fixed rate of 3.4615%.

We have credit capacity with the FHLB and can borrow through facilities that include amortizing and term advances or repurchase agreements. We had approximately $446.1 million $364.6 million of immediate credit capacity with the FHLB, as of September 30, 2023. We had and approximately $579.5 million $906.4 million in secured borrowing capacity at the FRB discount window none as of which was outstanding at September 30, 2023 March 31, 2024. The FHLB and FRB credit capacity are collateralized by securities from our investment portfolio and certain qualifying loans. We had $165.0 million $155.0 million of credit available under unsecured federal funds purchased lines with various banks as of September 30, 2023 March 31, 2024, with no amounts outstanding. Additionally, we had approximately $200.2 million $29.5 million of unencumbered liquid securities available for pledging at September 30, 2023 March 31, 2024.

The Parent has a revolving line of credit with a commercial bank allowing borrowings up to $20.0 million in total as an additional source of working capital. At September 30, 2023 March 31, 2024, no amounts have been drawn on the line of credit.

Long-term Borrowings

As of September 30, 2023 March 31, 2024 we had a long-term advance payable to FHLB of $50.0 million. The advance matures on January 20, 2026 and bears interest at a fixed rate of 4.05%. FHLB advances are collateralized by securities from our investment portfolio and certain qualifying loans.

On October 7, 2020, we completed a private placement of $35.0 million in aggregate principal amount of fixed-to-floating rate subordinated notes to qualified institutional buyers and accredited institutional investors that were subsequently exchanged for subordinated notes with substantially the same terms (the “2020 Notes”) registered under the Securities Act of 1933, as amended. The 2020 Notes have a maturity date of October 15, 2030 and bear interest, payable semi-annually, at the rate of 4.375% per annum, until October 15, 2025. Commencing on that date, the interest rate will reset quarterly to an interest rate per annum equal to the then current three-month SOFR plus 4.265%, payable quarterly until maturity. The 2020 Notes are redeemable by us, in whole or in part, on any interest payment date on or after October 15, 2025, and we may redeem the Notes in whole at any time upon certain other specified events. We used the net proceeds for general corporate purposes, organic growth and to support regulatory capital ratios at Five Star Bank. Proceeds, net of debt issuance costs of $740 thousand, were $34.3 million. The 2020 Notes qualify as Tier 2 capital for regulatory purposes.

On April 15, 2015, we issued $40.0 million of subordinated notes (the “2015 Notes”) in a registered public offering. The 2015 Notes bear interest at a fixed rate of 6.0% per year, payable semi-annually, for the first 10 years. From April 15, 2025 to the April 15, 2030 maturity date, the interest rate will reset quarterly to an annual interest rate equal to the then current three-month CME Term SOFR plus 4.20561%. The 2015 Notes are redeemable by us at any quarterly interest payment date beginning on April 15, 2025 to maturity at par, plus accrued and unpaid interest. Proceeds, net of debt issuance costs of $1.1 million, were $38.9 million. The 2015 Notes qualify as Tier 2 capital for regulatory purposes.

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity

We continue to actively monitor our liquidity profile and funding concentrations in accordance with our Board approved Liquidity Policy. Management is actively monitoring customer activity by way of commercial and consumer line of credit utilization, as well as deposit flows. As of September 30, 2023 March 31, 2024, all structural liquidity ratios and early warning indicators remain in compliance, with what we believe are ample funding sources available in the event of a stress scenario.

The objective of maintaining adequate liquidity is to assure that we meet our financial obligations. These obligations include the withdrawal of deposits on demand or at their contractual maturity, the repayment of matured borrowings, the ability to fund new and existing loan commitments and the ability to take advantage of new business opportunities. We achieve liquidity by maintaining a strong base of both core customer funds and maturing short-term assets; we also rely on our ability to sell or pledge securities and lines-of-credit and our overall ability to access to the financial and capital markets.

Liquidity for the Bank is managed through the monitoring of anticipated changes in loans, the investment portfolio, deposits and wholesale funds. The strength of the Bank’s liquidity position is a result of its base of core customer deposits. These core deposits are supplemented by wholesale funding sources that include credit lines with other banking institutions, the FHLB, the FRB Discount Window, and newly-established the Bank Term Funding Program, and brokered deposit relationships.

The primary source of our non-deposit short-term borrowings is FHLB advances, of which $55.0 million we had were outstanding at September 30, 2023 March 31, 2024. In addition to this amount, we have additional collateralized wholesale borrowing capacity of approximately $1.19 billion $1.43 billion as of September 30, 2023 March 31, 2024 from various funding sources which include the FHLB, the FRB and commercial banks that we can use to fund lending activities, liquidity needs, and/or to adjust and manage our asset and liability position.

The Parent’s funding requirements consist primarily of dividends to shareholders, debt service, income taxes, operating expenses, funding of non-bank subsidiaries, repurchases of our stock, and acquisitions. The Parent obtains funding to meet obligations from dividends received from the Bank, net taxes collected from subsidiaries included in the federal consolidated tax return, and the issuance of debt and equity securities. In addition, the Parent maintains a revolving line of credit with a commercial bank for an aggregate amount of up to $20.0 million, all of which was available at September 30, 2023 March 31, 2024. The line of credit has a one-year term and matures in May 2024. Funds drawn would be used for general corporate purposes and backup liquidity.

Cash and cash equivalents were $192.1 million $237.0 million as of September 30, 2023 March 31, 2024, up $61.6 million $112.6 million from $130.5 million $124.4 million as of December 31, 2022 December 31, 2023. Net During the three months ended March 31, 2024, net cash provided by operating activities totaled $58.6 million $12.3 million and the principal source of operating activity cash flow was net income adjusted for noncash income and expense items. Net cash used in investing activities totaled $283.1 million $26.2 million, which primarily included outflows of $385.0 million $41.9 million for net loan originations, purchases of investment securities, and $1.2 million of purchases of premises and equipment, partially offset by $103.4 million net cash provided from investment securities. loan proceeds of $17.0 million. Net cash provided by financing activities of $286.2 million $126.5 million was primarily attributed to a $386.5 million $183.9 million net increase in deposits, and partially offset by a $50.0 million $52.0 million net increase in long-term borrowings, partially offset by a $135.0 million net decrease in short-term borrowings, and $14.8 million $5.4 million in dividend payments.

Capital Management

We actively manage capital, commensurate with our risk profile, to enhance shareholder value. We also seek to maintain capital levels for the Company and the Bank at amounts in excess of the regulatory “well-capitalized” thresholds. Periodically, we may respond to market conditions by implementing changes to our overall balance sheet positioning to manage our capital position.

Banks and financial holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material impact on our consolidated financial statements. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

Shareholders’ equity was $408.7 million $445.7 million at September 30, 2023 March 31, 2024, a decrease of $9.1 million from $454.8 million at December 31, 2023, primarily due to lower net income in the current quarter coupled with an increase of $3.1 million from $405.6 million at December 31, 2022. Net income for the nine months ended September 30, 2023 increased shareholders’ equity by $40.5 million, offset by common and preferred stock dividends declared of $14.9 million. Accumulated in accumulated other comprehensive loss included in shareholders’ equity decreased $23.9 million of $6.3 million during the nine three months ended September 30, 2023 March 31, 2024 due primarily to a decrease an increase in net unrealized losses on securities available for sale.

The FRB and FDIC have adopted a system using risk-based capital guidelines to evaluate the capital adequacy of banks and bank holding companies. companies on a consolidated basis. As of September 30, 2023 March 31, 2024, the Company’s capital levels remained characterized as “well-capitalized” under the Basel Committee on Banking Supervision’s (“BCBS”) capital guidelines for U.S. banks.

See the “Basel III Capital Rules” section below for further discussion.

The following table reflects the ratios and their components (dollars in thousands):

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Common shareholders’ equity	$ 395,693	$ 394,716	$ 430,576	$ 441,773
Less: Goodwill and other intangible assets	69,887	70,643	69,342	69,594
Net unrealized loss on investment securities (1)	(153,937)	(128,440)	(118,936)	(111,761)
Hedging derivative instruments	5,861	4,735	4,586	3,911
Net periodic pension and postretirement benefits plan adjustments	(13,157)	(13,588)	(11,780)	(11,946)
Other	(156)	(194)	(134)	(145)
Common Equity Tier 1 (“CET1”) Capital	487,195	461,560	487,498	492,120
Plus: Preferred stock	17,292	17,292	17,292	17,292
Less: Other	—	—		
Tier 1 Capital	504,487	478,852	504,790	509,412

Plus: Qualifying allowance for credit losses	47,867	40,895	43,225	48,916
Subordinated Notes	74,454	74,222	74,610	74,532
Total regulatory capital	$ 626,808	$ 593,969	$ 622,625	$ 632,860
Adjusted average total assets (for leverage capital purposes)	$ 6,151,525	$ 5,748,203	$ 6,286,844	$ 6,224,339
Total risk-weighted assets	$ 5,264,147	$ 4,896,451	$ 5,172,262	$ 5,218,724
Regulatory Capital Ratios				
Tier 1 Leverage (Tier 1 capital to adjusted average assets)	8.20 %	8.33 %	8.03 %	8.18 %
CET1 Capital (CET1 capital to total risk-weighted assets)	9.26 %	9.42 %	9.43 %	9.43 %
Tier 1 Capital (Tier 1 capital to total risk-weighted assets)	9.58 %	9.78 %	9.76 %	9.76 %
Total Risk-Based Capital (Total regulatory capital to total risk-weighted assets)	11.91 %	12.13 %	12.04 %	12.13 %

(1) Includes unrealized gains and losses related to the Company's reclassification of available for sale investment securities to the held to maturity category.

We have elected to apply the 2020 Current Expected Credit Losses ("CECL") transition provision related to the impact of the CECL accounting standard on regulatory capital, as provided by the US banking agencies' March 2020 interim final rule. Under the 2020 CECL transition provision, the regulatory capital impact of the Day 1 adjustment to the allowance for credit losses (after-tax) upon the January 1, 2020 CECL adoption date has been deferred and has begun to phase into regulatory capital at 25% per year commencing January 1, 2022. For the ongoing impact of CECL, we were allowed to defer the regulatory capital impact of the allowance for credit losses in an amount equal to 25% of the change in the allowance for credit losses (pre-tax) recognized through earnings for each period between January 1, 2020, and December 31, 2021. The cumulative adjustment to the allowance for credit losses between January 1, 2020, and December 31, 2021, also began to phase into regulatory capital at 25% per year commencing January 1, 2022.

Basel III Capital Rules

Under the Basel III Capital Rules, the current minimum capital ratios, including an additional capital conservation buffer applicable to the Company and the Bank, are:

- 7.0% CET1 to risk-weighted assets;
- 8.5% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets; and
- 10.5% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets.

Banking institutions with a capital conservation buffer below the minimum level will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Company or the Bank. Strict eligibility criteria for regulatory capital instruments were also implemented under the Basel III Capital Rules.

March 31, 2024, the Company and Bank's capital levels remained characterized as "well capitalized" under the Basel III rules, including the additional capital conversion buffer.

The following table presents actual and required capital ratios as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 for the Company and the Bank under the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, under the Basel III Capital Rules (dollars in thousands):

Required to be	**Required to be**

	Actual		Minimum Capital Required – Basel III		Considered Well Capitalized		Actual		Minimum Capital Required – Basel III		Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2023												
March 31, 2024												
Tier 1 leverage:												
Company	$ 504,487	8.20%	$ 246,061	4.00%	$ 307,576	5.00%	$ 504,790	8.03%	$ 251,474	4.00%	$ 314,342	5.00%
Bank	551,881	8.99	245,496	4.00	306,870	5.00	556,607	8.88	250,856	4.00	313,571	5.00
CET1 capital:												
Company	487,195	9.26	368,490	7.00	342,170	6.50	487,498	9.43	362,059	7.00	336,198	6.50
Bank	551,881	10.52	367,285	7.00	341,051	6.50	556,607	10.79	360,950	7.00	335,168	6.50
Tier 1 capital:												
Company	504,487	9.58	447,452	8.50	421,132	8.00	504,790	9.76	439,643	8.50	413,782	8.00
Bank	551,881	10.52	445,989	8.50	419,755	8.00	556,607	10.79	438,297	8.50	412,515	8.00
Total capital:												
Company	626,808	11.91	552,735	10.50	526,415	10.00	622,625	12.04	543,089	10.50	517,227	10.00
Bank	599,748	11.43	550,928	10.50	524,963	10.00	599,831	11.63	541,426	10.50	515,643	10.00
December 31, 2022												
December 31, 2023												
Tier 1 leverage:												
Company	$ 478,852	8.33%	$ 229,928	4.00%	$ 287,410	5.00%	$ 509,412	8.18%	$ 248,974	4.00%	$ 311,217	5.00%
Bank	525,997	9.17	229,434	4.00	286,793	5.00	562,775	9.06	248,385	4.00	310,481	5.00
CET1 capital:												
Company	461,560	9.42	342,852	7.00	318,363	6.50	492,120	9.43	365,311	7.00	339,217	6.50
Bank	525,997	10.77	341,944	7.00	317,520	6.50	562,775	10.82	364,191	7.00	338,177	6.50
Tier 1 capital:												
Company	478,852	9.78	416,321	8.50	391,831	8.00	509,412	9.76	443,592	8.50	417,498	8.00
Bank	525,997	10.77	415,218	8.50	390,794	8.00	562,775	10.82	442,232	8.50	416,218	8.00

Total capital:												
Company	593,969	12.13	514,278	10.50	489,789	10.00	632,860	12.13	547,966	10.50	521,872	10.00
Bank	566,891	11.60	512,917	10.50	488,492	10.00	611,691	11.76	546,286	10.50	520,272	10.00

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Dividend Restrictions

In the ordinary course of business, the Company is dependent upon dividends from the Bank to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk refers to the potential impact on earnings or capital arising from movements in interest rates. The Bank’s market risk management framework has been developed to control both short-term and long-term exposure within Board approved policy limits and is monitored by the Asset-Liability Management Committee and Board of Directors. Quantitative and qualitative disclosures about market risk were presented at December 31, 2022 December 31, 2023 in Item 7A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023, as filed with the Securities and Exchange Commission on March 9, 2023 March 13, 2024. The following is an update of the discussion provided therein.

Portfolio Composition

There was no material change in the composition of assets, deposit liabilities or borrowings from December 31, 2022 December 31, 2023 to September 30, 2023 March 31, 2024. See the section titled “Analysis of Financial Condition” in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of asset, deposit and borrowing activity during the period.

Net Interest Income at Risk

A primary tool used to manage interest rate risk is “rate shock” simulation to measure the rate sensitivity. Rate shock simulation is a modeling technique used to estimate the impact of changes in rates on net interest income as well as economic value of equity.

Net interest income at risk is measured by estimating the changes in net interest income resulting from instantaneous and sustained parallel shifts in interest rates of different magnitudes over a period of 12 months. The following table sets forth the estimated changes to net interest income over the 12-month period ending September 30, 2024 March 31, 2025 assuming instantaneous changes in interest rates for the given rate shock scenarios (dollars in thousands):

Changes in Interest Rate				Changes in Interest Rate			
-100 bp	+100 bp	+200 bp	+300 bp	-100 bp	+100 bp	+200 bp	+300 bp

Estimated change in net interest income	$ (4,149)	$ 2,640	$ 5,288	$ 7,927	$ (4,018)	$ 3,062	$ 6,131	$ 9,228
% Change	-2.35%	1.50%	3.00%	4.49%	-2.27%	1.73%	3.47%	5.22%

In the rising rate scenarios, the static model results indicate that net interest income is modeled to increase compared to the flat rate scenario over a one-year timeframe. This is a combination of an increase across the entire deposit portfolio, which has decreased wholesale borrowings and the higher cost associated with the borrowings. This simulation does not consider balance sheet growth or a change in the balance sheet mix. As intermediate and longer-term assets continue to mature and are replaced at higher yields, net interest income should improve over longer-term timeframes. Model results in the declining rate scenario show a decreasing in net interest income due to a combination of increases in the yield curve, as well as increases in higher yield public and nonpublic deposits, that which will reprice downward slower due to market deposit competition.

In addition to the changes in interest rate scenarios listed above, other scenarios are typically modeled to measure interest rate risk. These scenarios vary depending on the economic and interest rate environment. Furthermore, given the static balance sheet approach, retained earnings are considered to be reinvested in a non-interest noninterest earning asset.

The simulation referenced above is based on our assumption as to the effect of interest rate changes on assets and liabilities and assumes a parallel shift of the yield curve. It also includes certain assumptions about the future pricing of loans and deposits in response to changes in interest rates. Further, it assumes that delinquency rates would not change as a result of changes in interest rates, although there can be no assurance that this will be the case. While this simulation is a useful measure as to net interest income at risk due to a change in interest rates, it is not a forecast of future results, does not measure the effect of changing interest rates on noninterest income and is based on many assumptions that, if changed, could cause a different outcome.

Economic Value of Equity At at Risk

The economic (or “fair”) value of financial instruments on our balance sheet will also vary under the interest rate scenarios previously discussed. This variance is measured by simulating changes in our economic value of equity (“EVE”), which is calculated by subtracting the estimated fair value of liabilities from the estimated fair value of assets. Fair values for financial instruments are estimated by discounting projected cash flows (principal and interest) at current replacement rates for each account type, while fair values of non-financial assets and liabilities are assumed to equal book value and do not vary with interest rate fluctuations. An economic value simulation is a static measure for balance sheet accounts at a given point in time, but this measurement can change substantially over time as the characteristics of our balance sheet evolve and as interest rate and yield curve assumptions are updated.

The amount of change in economic value under different interest rate scenarios depends on the characteristics of each class of financial instrument, including the stated interest rate or spread relative to current market rates or spreads, the likelihood of prepayment, whether the rate is fixed or floating, and the maturity date of the instrument. As a general rule, fixed-rate financial assets become more valuable in declining rate scenarios and less valuable in rising rate scenarios, while fixed-rate financial liabilities gain in value as interest rates rise and lose value as interest rates decline. The longer the duration of the financial instrument, the greater the impact a rate change will have on its value. In our economic value simulations, estimated prepayments are factored in for financial instruments with stated maturity dates, and decay rates for non-maturity deposits are projected based on historical data (back-testing).

The analysis that follows presents the estimated EVE resulting from market interest rates prevailing at a given quarter-end (“Pre-Shock Scenario”), and under other interest rate scenarios (each a “Rate Shock Scenario”) represented by immediate, permanent, parallel shifts in interest rates from those observed at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 (dollars in thousands). The analysis additionally presents a measurement of the interest rate sensitivity at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. EVE amounts are computed under each respective Pre-Shock Scenario and Rate Shock Scenario. An increase in the EVE amount is considered favorable, while a decline is considered unfavorable. The following table sets forth the estimated changes to EVE assuming instantaneous changes in interest rates for the given rate shock scenarios (dollars in thousands):

September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023

Rate Shock Scenario:	EVE	Change	Percentage Change	EVE	Change	Percentage Change	EVE	Change	Percentage Change	EVE	Change	Percentage Change
Pre-Shock Scenario	$ 729,821			$ 848,308			$ 662,257			$ 627,519		
- 100 Basis Points	723,181	$ (6,640)	-0.91 %	851,921	$ 3,613	0.43 %	645,165	$ (17,092)	-2.58 %	616,940	$ (10,579)	-1.69 %
+100 Basis Points	728,694	(1,127)	-0.15	838,462	(9,846)	-1.16	664,549	2,292	0.35	626,463	(1,056)	-0.17
+ 200 Basis Points	729,556	(265)	-0.04	832,558	(15,750)	-1.86	669,985	7,728	1.17	628,434	915	0.15
+ 300 Basis Points	729,774	(47)	-0.01	825,826	(22,482)	-2.65	671,769	9,512	1.44	628,229	710	0.11

The decrease increase in the Pre-Shock Scenario EVE at September 30, 2023 March 31, 2024 compared to December 31, 2022 December 31, 2023 is the result of a deposit mix shift from non-maturity combination of increased cash at the federal reserve, a concentrated effort to time-deposits and non-interest bearing grow the Bank's deposits, which also improved the valuation of the deposits, as well as continued decreases to interest bearing deposits, while rising rates have muted asset valuation, specifically on fixed assets. borrowings. The sensitivity in the -100-basis point Rate Shock Scenario to EVE shifted grows more negative at September 30, 2023 March 31, 2024 compared to December 31, 2022 December 31, 2023. This is a result of a from the concentrated effort to grow the deposit portfolio to decrease wholesale borrowings. As a result, the shift in mix of from wholesale funding to deposits previously noted have become less valuable when rates shock downward, most notably from money market accounts and time deposits, will cause liabilities to reprice lower in comparison to December 31, 2022. December 31, 2023, driving slightly more sensitive.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 30, 2023 March 31, 2024, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b), as adopted by the SEC under the Securities Exchange Act of 1934, as amended ("Exchange Act"). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2023 March 31, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we are a party to or otherwise involved in legal proceedings arising out of the normal course of business. Regardless of the outcome, litigation can have an adverse impact on us because of prosecution, defense and settlement costs, unfavorable awards, diversion of management resources and other factors.

We are party to an action filed against us on May 16, 2017 by Matthew L. Chipego, Charlene Mowry, Constance C. Churchill and Joseph W. Ewing in the Court of Common Pleas in Philadelphia, Pennsylvania. Plaintiffs sought class certification to represent classes of consumers in New York and Pennsylvania along with statutory damages, interest and declaratory relief. The plaintiffs sought to represent a putative class of consumers who are alleged to have obtained direct or indirect financing from us for the purchase of vehicles that we later repossessed. The plaintiffs specifically claim that the notices the Bank sent to defaulting consumers after their vehicles were repossessed did not comply with the relevant portions of the Uniform Commercial Code in New York and Pennsylvania. We dispute and believe we have meritorious defenses against these claims and plan to vigorously defend ourselves.

On September 30, 2021, the Court granted plaintiffs' motion for class certification and certified four different classes (two classes of New York consumers and two classes of Pennsylvania consumers). There are approximately 5,200 members in the New York classes and 300 members in the Pennsylvania classes.

On September 26, 2022, the lower Court denied the plaintiffs' motion for partial summary judgment for most of the relief they seek and found that there were questions of fact as to whether the members of the class had purchased the subject vehicles for "consumer use" within the meaning of the relevant statutes. The Court also denied our motion for partial summary judgment seeking an offset in the form of recoupment reducing any liability that may be imposed against us by the amounts that the borrowers owe for failing to repay their motor vehicle loans, determining that the Court could not enter a judgment on recoupment – which is a set off from liability – without first determining whether there was liability. Also pending with the lower Court is our motion to compel discovery.

On October 7, 2022, the Superior Court of Pennsylvania granted our December 20, 2021 Request for an Interlocutory Appeal of the denial of our motion to dismiss the claims brought by New York borrowers for lack of subject matter jurisdiction and lack of standing. Oral argument

In a Memorandum filed on February 13, 2024, the appeal was conducted on August 30, 2023 Superior Court affirmed the decision of the lower court, holding that trial court has subject matter jurisdiction over the New York part of this action and that the New York plaintiffs have standing to pursue relief against us. The Superior Court also remanded the case continues to be stayed until the lower court for further proceedings, which will include the completion of any remaining discovery and an adjudication of the open claims and defenses that have been asserted in the case. Once the lower court has issued a final adjudication, the parties will have an opportunity to appeal is decided by adverse rulings in the Superior Court. case.

On April 5, 2024, the lower court conducted a Case Management Conference to discuss remaining matters and next steps, and thereafter issued a Scheduling Order setting a deadline of April 19, 2024 for the Company to re-file its motion to compel discovery and motion for re-consideration of the prior striking of its jurisdictional defense and scheduled a pre-trial conference for July 11, 2024. The time for the Company to re-file the aforementioned motions was extended to April 23, 2024, and we timely filed and served them. The case was also re-assigned to another member of the Court of Common Pleas to handle future proceedings.

We have not accrued a contingent liability for this matter at this time because, given our defenses, we are unable to conclude whether a liability is probable to occur nor are we able to currently reasonably estimate the amount of potential loss.

If we settle these claims or the action is not resolved in our favor, we may suffer reputational damage and incur legal costs, settlements or judgments that exceed the amounts covered by our insurer. We can provide no assurances that our insurer will cover the full legal costs, settlements or judgments we incur. If we are unsuccessful in defending ourselves from these claims or if our insurer does not cover the full amount of legal costs we incur, the result may materially adversely affect our business, results of operations and financial condition.

ITEM 1A. Risk Factors

During the quarter ended September 30, 2023 March 31, 2024, there have been no material changes to the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022, as supplemented by our quarterly reports on Form 10-Q for the quarters ended March 31, 2023 and June 30, 2023, each December 31, 2023 as filed with the SEC. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations.

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ITEM 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

In June 2022, the Company's Board of Directors authorized a share repurchase program for up to 766,447 shares of common stock. The program will expire at the earlier of the completion of all share repurchases or a Board vote to retire the program.

The Company's repurchases of its common stock during the third first quarter of 2023 2024 were as follows:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share		Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2023 – July 31, 2023	—	$	—	—	766,447
August 1, 2023 – August 31, 2023	—		—	—	766,447
September 1, 2023 – September 30, 2023	—		—	—	766,447
Total	—	$	—	—	766,447

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share		Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2024 – January 31, 2024	—	$	—	—	766,447
February 1, 2024 – February 29, 2024	826		18.64	—	766,447
March 1, 2024 – March 31, 2024	20,620		18.29	—	766,447
Total	21,446	$	18.30	—	766,447

(1) This column reflects the deemed surrendered to us of common stock to satisfy tax withholding obligations in connection with the vesting of employee restricted stock units.

ITEM 5. Other Information

During the third first quarter of 2023, 2024, none of our directors or officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement,” as that term is used in SEC regulations.

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ITEM 6. Exhibits

(a) The following is a list of all exhibits filed or incorporated by reference as part of this Report:

Exhibit Number	Description	Location
3.1	Amended and Restated Certificate of Incorporation of the Company	Incorporated by reference to Exhibits 3.1, 3.2 and 3.3 of the Form 10-K for the year ended December 31, 2008, dated March 12, 2009
3.2	Amended and Restated Bylaws of Financial Institutions, Inc.	Incorporated by reference to Exhibit 3.1 of the Form 8-K, dated June 25, 2019
10.1	Financial Institutions, Inc. – Executive Incentive Plan, effective January 1, 2024	Filed Herewith
10.2	Financial Institutions, Inc. – Management Incentive Plan, effective January 1, 2024	Filed Herewith
10.3	Form of Restricted Stock Unit Award Agreement Pursuant to the Financial Institutions, Inc. Amended and Restated 2015 Long-Term Incentive Plan	Filed Herewith

10.4	Form of Performance Stock Unit Award Agreement Pursuant to the Financial Institutions, Inc. Amended and Restated 2015 Long-Term Incentive Plan	Filed Herewith
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Principal Executive Officer	Filed Herewith
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Principal Financial Officer	Filed Herewith
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	
101.SCH	Inline XBRL Taxonomy Extension Schema Document	
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase With Embedded Linkbases Document	
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)	

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FINANCIAL INSTITUTIONS, INC.

/s/ Martin K. Birmingham , November 6, 2023 May 6, 2024

Martin K. Birmingham
President and Chief Executive Officer
(Principal Executive Officer)

/s/ W. Jack Plants II , November 6, 2023 May 6, 2024

W. Jack Plants II
Executive Vice President and Chief Financial Officer and Treasurer
(Principal Financial Officer)

/s/ Sonia M. Dumbleton Sandra L. Byers , November 6, 2023 May 6, 2024

Sonia M. Dumbleton Sandra L. Byers
Senior Vice President and Controller
(Principal Accounting Officer)

Exhibit 10.1

FINANCIAL INSTITUTIONS, INC.
EXECUTIVE INCENTIVE PLAN

Section 1. Establishment of Plan.

Financial Institutions, Inc. (the "Company") intends to provide annual cash incentive award opportunities for eligible executives of the Company and its Subsidiaries (defined below) through the use of this Financial Institutions, Inc. Executive Incentive Plan (the "Plan"). The objective of the Plan is to align the interests of Participants (defined below) with the interests of the Company and its Subsidiaries in obtaining superior financial results. The Plan was first approved by the Management Development and Compensation Committee of the Board of Directors of the Company (the "Committee") on March 7, 2024, to be effective as of January 1, 2024.

Section 2. Definitions.

For purposes of the Plan, the following terms shall have the following meanings:

(a) "Award" means the cash incentive award opportunity granted to a Participant under the Plan.

(b) "Award Certificate" means the award certificate given to each Participant evidencing the terms of the Participant's Award opportunity granted under the Plan, substantially in the form attached hereto as Exhibit B.

(c) "Bank" means Five Star Bank, a Subsidiary of the Company.

(d) "CEO" means the Chief Executive Officer of the Company.

(e) "CHRO" means the Chief Human Resource Officer of the Company.

(f) "Disability" means (i) in the case of a Participant whose employment with the Company or a Subsidiary is subject to the terms of an employment or consulting agreement that includes a definition of "Disability," the meaning set forth in such employment or consulting agreement during the period that such employment or consulting agreement remains in effect; and (ii) in all other cases, the meaning as set forth under the long-term disability plan applicable to the Participant as may be amended from time to time, and in the event there is no such plan applicable to a Participant, a physical or mental condition resulting from bodily injury, disease or mental disorder which renders the Participant incapable of continuing his or her usual and customary employment with the Company or a Subsidiary, as the case may be, for a period of not less than 120 days or such other period as may be required by applicable law.

(g) "Funding Percentage" of a Performance Requirement means the percentage used to determine the Award Pool, which is based on the Performance Goal achieved for the Performance Requirement.

(h) "Participant" means an executive officer or senior executive of the Company or a Subsidiary who has been selected by the Committee and granted an Award opportunity under the Plan.

(i) "Performance Goal" means the threshold, target and maximum performance goals for each Performance Requirement, as set forth in the applicable Plan Year Schedule.

(j) "Performance Period" means the Plan Year specified in the applicable Plan Year Schedule.

(k)"Performance Requirement" means a performance requirement measured during a Performance Period, as set forth in the applicable Plan Year Schedule.

(l) "Plan Year" means January 1 to December 31 of a specified year.

(m)"Plan Year Schedule" means the Schedule containing the general terms of the Awards for a given Plan Year, substantially in the form attached hereto as Exhibit A.

(n)"Retire" and "Retirement" mean the resignation or voluntary termination of employment of a Participant after attainment of age 65 and ten or more years of service with the Company or a Subsidiary.

(o)"Subsidiary" means any subsidiary of the Company within the meaning of Rule 405 of the Securities Act of 1933, as amended.

(p)"Weighting Percentage" means the weighting given to a Performance Requirement, as set forth in the applicable Plan Year Schedule.

Section 3.Administration.

(a)Committee. The Plan shall be administered by the Committee. The Committee has the exclusive power, authority and discretion to: (i) designate the Participants for a Plan Year, and if applicable, a Participant's Annual Percentage, Deferral Percentage, Deferral Performance Period and Deferral Performance Requirements; (ii) establish and review an Award's Performance Requirements and their respective Weighting Percentages, Performance Goals and Funding Percentages for a Performance Period; (iii) determine whether and to what extent the Performance Requirements and the Deferral Performance Requirements were achieved for the Performance Period and the Deferral Performance Period, respectively; (iv) calculate the Funding Percentages, the Aggregate Funding Percentage (as defined below), the Individual Performance Factor (as defined below) and the amount of the Award Pool resulting from the achievement of the Performance Requirements for a Performance Period and the application of the Individual Performance Factor; (v) determine the Earned Amount (as defined below) of an Award payable to any Participant based on such objective or subjective factors as the Committee shall deem relevant; (vi) establish, adopt or revise any rules and regulations as it may deem necessary or advisable to administer the Plan; (vii) make all other decisions and determinations that may be required under the Plan or as the Committee deems necessary or advisable to administer the Plan; and (viii) approve, modify, amend, or terminate the Plan as provided herein. The Committee's interpretation of the Plan and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

(b)Delegation. In accordance with applicable law, the Committee may delegate any of the responsibilities listed above in Section 3(a) to the CEO or the CHRO (other than any responsibilities related to an Award to himself or herself), or may receive recommendations from such individuals regarding such responsibilities. Any reference herein to the Committee shall be deemed to include any person to whom any duty of the Committee has been delegated pursuant to this Section 3(b).

Section 4.Eligibility.

(a)Selection. For each Plan Year, the Committee will select the executive officers and senior executives who will participate in the Plan for the upcoming Plan Year, and those executives, if any, to be included in the mandatory deferral portion of the Plan for such Plan Year.

(b)Notification. Following the selection of Participants by the Committee for a Plan Year, each selected Participant shall be notified of his or her participation in the Plan for the Plan Year, and shall receive an Award Certificate (together with the Plan Year Schedule for the Plan Year) setting forth the terms of his or her participation in the Plan for the Plan Year.

Section 5.Award Pool.

(a)Gateway Requirement. As soon as practicable following the end of the Plan Year, the Committee will determine the Tier 1 capital ratio of the Bank as determined under the final US Basel III capital framework (the "Tier 1 Capital Ratio") as of the end of the Plan Year. If the Tier 1 Capital Ratio as of the end of the Plan Year does not meet the requirement set by the Committee, the Award Pool will be zero and no Award shall be paid to any Participant for the Plan Year.

(b)Performance Results. If the Tier 1 Capital Ratio as of the end of the Plan Year meets or exceeds the requirement set by the Committee, then the Committee will determine the Performance Goal achieved for each Performance Requirement for the Performance Period. The "Aggregate Funding Percentage" for the Performance Period will be equal to the sum of the following for each Performance Requirement: (i) the Weighting Percentage for such Performance Requirement, multiplied by (ii) the Funding Percentage for such Performance Requirement based on the Performance Goal achieved, each as set forth in, and determined pursuant to, the Plan Year Schedule for the Plan Year that includes the Performance Period.

(c)Individual Performance Factor. For each Performance Period, the Committee will determine an individual performance factor of 100% to 125% (the “Individual Performance Factor”) based on the Participants’ collective individual performance against the individual performance goals established by the Committee for the Participants for the Performance Period.

(d)Award Pool. The “Award Pool” for a Performance Period will be the Aggregate Funding Percentage for the Performance Period, multiplied by the aggregate sum of the target amount set forth in the Award Certificate for the Plan Year that includes the Performance Period (the “Target Amount”) of each Participant who was employed on the last day of the Performance Period or who is entitled to a pro rata Award pursuant to Section 6(a)(ii), Section 7(c)(i) or Section 7(c)(iv) for the Performance Period, further multiplied by the Individual Performance Factor for the Performance Period.

Section 6.Awards.

(a)Determination of Awards.

(i) *Earned Amount*. The Committee, in consultation with the CEO and the CHRO, will determine and approve the amount of each Participant's Award (respectively, a

Participant's "Earned Amount"), if any, taking into account the Participant's Target Amount and the Participant's absolute and relative individual performance during the Plan Year; provided, however, the aggregate total of all Participants' Earned Amounts for the Plan Year may not exceed the actual Award Pool unless the Committee determines otherwise.

(ii) *Partial Year Participation*. If a person becomes a Participant in the Plan after the beginning of a Plan Year and prior to October 31st of such Plan Year, or a Participant Retires during a Plan Year, then unless the Committee determines otherwise, the Participant's Award for such Plan Year will be prorated based on the number of days such person participated in the Plan during the Performance Period. If a person becomes a Participant in the Plan after October 31st of a Plan Year,then unless the Committee determines otherwise, the Participant is not eligible to participate in the Plan until the next Plan Year. If a Participant takes a leave of absence during the Plan Year for any reason, then unless the Committee determines otherwise, the Participant will receive a pro rata share of an Award, if any, for such Plan Year. Only the portion of the Award actually paid to a Participant pursuant to this Section 6(a)(ii) will count against the Award Pool.

(b)Annual Amount and Deferred Amount. The Earned Amount under a Participant's Award consists of two components:

(i) an Annual Amount determined in accordance with Section 7; and

(ii) if specified in a Participant's Award Certificate, a Deferred Amount determined in accordance with Section 8.

Section 7.Annual Amount.

(a)Calculation. A Participant's "Annual Amount" is equal to the Participant's Earned Amount determined in accordance with Section 6, multiplied by the annual percentage set forth in the Participant's Award Certificate (the "Annual Percentage"). If a Participant's Award Certificate does not contain an Annual Percentage or a Deferral Percentage (as defined below), then the Annual Percentage shall be 100%; and if a Participant's Award Certificate does not contain an Annual Percentage, but does contain a Deferral Percentage, the Annual Percentage shall be 100% minus the Deferral Percentage.

(b)Payment. Subject to Section 7(c), a Participant must be actively employed by the Company or a Subsidiary on the date that the Annual Amount is paid in order to be eligible to receive payment of the Annual Amount. The Annual Amount shall be paid to the Participant in a lump-sum cash payment as soon as administratively practicable following the end of the Performance Period, but in no event later than March 15th immediately following the end of the Performance Period.

(c)Effects of Certain Events on the Annual Amount.

(i) *Death, Disability or Retirement During the Performance Period*. In the event of a Participant's termination of employment due to death or Disability during the Performance Period, the Participant shall be entitled to a pro rata Earned Amount under the Plan for the Plan Year in which the Participant's employment terminates due to death or Disability equal to the sum of (x) and (y), where (x) equals the product of (1) the Target Amount of the Award multiplied by the Annual Percentage; times (2) a fraction, the numerator of which is the number of days that have elapsed in the Performance Period through the date of the Participant's termination of employment due to death or Disability, and the denominator of which is the total number of days during the Performance Period, and where (y) equals the product of (1) the Target Amount of the Award multiplied by the Deferral Percentage; times (2) a fraction, the numerator of which is the number of days that have elapsed from the beginning of the Performance Period through the date of the Participant’s termination of employment due to death or Disability, and the denominator of which is the total number of days during the Performance Period and the Deferral Performance Period. Such amount shall be paid to the Participant as soon as practicable following the Participant's termination of employment due to death or Disability, but in no event later than the earlier of (x) the 75th day following the Participant’s termination of employment due to death or Disability, or (y) March 15th of the calendar year immediately following the end of the Performance Period to which such Earned Amount relates. In the event of a Participant's Retirement during the Performance Period, the Participant may be entitled to a pro rata Annual Amount under the Plan pursuant to Section 6(a)(ii), in which case any Annual Amount payable to the Participant with respect to such Performance Period shall be paid at the same time and in the same form as payments for the Performance Period are paid to actively employed Participants under Section 7(b) or Section 7(c)(iv), as applicable.

(ii) *Termination of Employment (other than Death, Disability or Retirement) During the Performance Period*. If a Participant's employment terminates for any reason other than Retirement, death or Disability during the Performance Period, then such Participant shall not be entitled to payment of the Annual Amount or, in the case of a termination during the Performance Period for any reason other than death or Disability, the Deferred Amount of the Award for the Plan Year in which the Participant's employment terminates.

(iii) *Death, Disability or Retirement Following the Performance Period*. In the event of a Participant's termination of employment due to death, Disability or Retirement after the end of a Performance Period but prior to payment of the Annual Amount for that Performance Period, the Participant shall continue to be entitled to payment of the Annual Amount of the Award for such completed Performance Period, and such Annual Amount shall be paid at the same time and in the same form as payments for the Performance Period are made to actively employed Participants under Section 7(b) or Section 7(c)(iv), as applicable.

(iv) *Change in Control*. In the event of a change in control (as defined in the Financial Institutions, Inc. 2015 Long-Term Incentive Plan, as amended from time to time, and including any successor plan thereto (the "LTIP")) after the end of a Performance Period but prior to payment of the Annual Amount for that Performance Period, then each Participant who remains employed as of the date of the change in control shall be entitled to payment of the Annual Amount of the Award for such completed Performance Period, and such Annual Amount shall be paid as soon as practicable following the occurrence of the change in control, but in no event later than March 15th immediately following the end of the completed Performance Period. In addition, if a change in control occurs during a Performance Period, then all Participants who remain employed on the date of the change in control shall be entitled to a pro rata Award under the Plan for the Plan Year in which the change in control occurs equal to the product of: (1) the greater of the Earned Amount under the Award, determined based on actual performance through the date of the change in control, and the Target Amount of the Award; and (2) a fraction, the numerator of which is the number of days that have elapsed in the Performance Period, and the denominator of which is the total number of days during the Performance Period. Such amount shall be paid to any eligible Participants as soon as practicable following the occurrence of the change in control, but in no event later than the earlier of (x) the 75th day following the occurrence of the change in control, or (y) March 15th of the calendar year immediately following the end of the calendar year in which the change in control occurs.

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Section 8.Deferred Amount.

(a)Calculation. To further promote prudent and sound behaviors consistent with the long-term objectives of the Company, certain Participants may be required to defer a portion of the Earned Amount (the “Deferred Amount”) until the end of a deferral performance period specified in the Participant's Award Certificate (the "Deferral Performance Period"). A Participant's "Deferred Amount" is equal to the Participant's Earned Amount determined in accordance with Section 6, multiplied by the deferral percentage, if any, set forth in the Participant's Award Certificate (the "Deferral Percentage"). If a Participant's Award Certificate does not contain a Deferral Percentage, then the Deferral Percentage shall be 0%. At the payment date for any Annual Amount, the Deferred Amount will be credited to a hypothetical recordkeeping account for the benefit of the Participant. Whether all or a portion of the Deferred Amount becomes payable to a Participant is determined based on the satisfaction of the service and/or performance requirements specified in the Participant's Award Certificate (the "Deferral Performance Requirements") for a deferral performance period specified in the Participant's Award Certificate (the "Deferral Performance Period")

(b)Payment. Subject to Section 8(c), a Participant must be actively employed by the Company or a Subsidiary on the date that the Deferred Amount is paid in order to be eligible to receive payment of the Deferred Amount. The Deferred Amount shall be paid to the Participant in a lump-sum cash payment as soon as administratively practicable following the end of the Deferral Performance Period, but in no event later than the earlier of (x) the 75th day following the end of the Deferral Performance Period, or (y) March 15th of the calendar year immediately following the end of the calendar year in which the Deferral Performance Period ends.

(c)Effects of Certain Events on the Deferred Amount.

(i) *Death or Disability During the Deferral Performance Period*. If a Participant’s employment terminates due to death or Disability during a Deferral Performance Period, then the Participant shall be entitled to a pro rata payment of any related Deferred Amount equal to the product of: (1) the Deferred Amount; times (2) a fraction, the numerator of which is the number of days that have elapsed from the first day of the original Performance Period for the Deferred Amount through the date of the Participant’s termination of employment due to death or Disability, and the denominator of which is the total number of days in the related Performance Period and Deferral Performance Period. Payment shall be made as soon as practicable following the Participant's termination of employment due to death or Disability, but in no event later than the earlier of (x) the 75th day following the Participant’s termination of employment, or (y) March 15th of the calendar year immediately following the calendar year in which the Participant’s employment terminates.

(ii) *Involuntary Termination of Employment After Commencement of Deferral Performance Period*. If a Participant's employment is involuntarily terminated by the Company or a Subsidiary after the commencement of a Deferral Performance Period but prior to payment of any related Deferred Amount due to a reduction in force, the elimination of his or her position or the closing of his or her office, then the Committee, in its sole discretion, shall determine whether such Participant shall become entitled to a payment of all or a portion of the Deferred Amount. Any such payment shall be made as soon as practicable following the Participant's termination of employment, but in no event later than the earlier of (x) the 75th day following the Participant's termination of employment, (y) March 15th of the calendar year immediately following the calendar year in which the Participant's employment terminates, or (z) March 15th of the calendar

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year immediately following the end of the calendar year in which the Deferral Performance Period ends.

(iii) *Retirement During the Deferral Performance Period*. If a Participant Retires during a Deferral Performance Period, then the Participant shall be entitled to a pro rata payment of any related Deferred Amount equal to the product of: (1) the Deferred Amount, subject to satisfaction of the Deferral Performance Requirements through the date of the Participant's Retirement; and (2) a fraction, the numerator of which is the number of days that have elapsed in the Deferral Performance Period through the date of the Participant's Retirement, and the denominator of which is the total number of days in the Deferral Performance Period. Payment shall be made as soon as practicable following the Participant's Retirement, but in no event later than the earlier of (x) the 75th day following the Participant's Retirement, or (y) March 15th of the calendar year immediately following the calendar year in which the Participant Retires.

(iv) *Death, Disability or Retirement Following the Deferral Performance Period*. If a Participant's employment terminates due to death, Disability or Retirement after the end of a Deferral Performance Period but prior to payment of any related Deferred Amount, then the Participant shall continue to be entitled to payment of the Deferred Amount for such completed Deferral Performance Period, which shall be paid at the same time and in the same form as payments are payable to actively employed Participants under Section 8(b) or 8(c)(iv), as applicable.

(v) *Change in Control*. In the event of a change in control (as defined in the LTIP) occurring after the commencement of a Deferral Performance Period but prior to the payment of any related Deferred Amount, then all Participants with a Deferred Amount who remain employed on the date of the change in control shall be entitled to payment of such Deferred Amount as soon as practicable following the occurrence of the change in control, but in no event later than the earlier of (x) the 75th day following the occurrence of the change in control, (y) March 15th of the calendar year immediately following the calendar year in which the change in control occurs, or (z) March 15th of the calendar year immediately following the end of the calendar year in which the Deferral Performance Period ends.

Section 9.Miscellaneous

(a)Amendment. The Committee may, at any time and from time to time, amend, modify or terminate the Plan and/or any Plan Year Schedule. Termination of the Plan after the end of the Performance Period but before Awards are paid for that Plan Year will not reduce Participants' rights to receive the Annual Amount or, if applicable, the Deferred Amount for such Plan Year. Termination or amendment of the Plan and/or any Plan Year Schedule during the Performance Period may be retroactive to the beginning of the Performance Period, at the discretion of the Committee. If a change in control occurs, no amendment or termination of the Plan after the date of the change in control may adversely affect amounts payable to a Participant without the consent of the Participant.

(b)No Right to Continued Employment. The terms and conditions of the Award, the Award Certificate, any Plan Year Schedule and the Plan shall not be deemed to constitute a contract of employment between the Company or a Subsidiary and a Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, except as otherwise provided in a written employment agreement. Nothing in any Award, any Award Certificate, any Plan Year Schedule or the Plan shall be deemed to give a Participant

the right to be retained in the service of the Company or a Subsidiary as an employee or to interfere with the right of the Company or a Subsidiary to discipline or discharge a Participant at any time.

(c)Withholding Taxes. The Company or a Subsidiary shall be permitted to deduct the amounts required to be withheld by federal, state or local tax law from the Annual Amount and the Deferred Amount.

(d)Notices. All notices relating to the Plan to the Company shall be in writing and sent to the CHRO at 220 Liberty Street, Warsaw, NY 14569 or such other address designated by the Company. Notices to the Participant shall be addressed to the Participant at the Participant's home or work address, including via interoffice mail, as it appears on the records of Participant's employer. Any such notices may be made in electronic format or through means of online or other electronic transmission.

(e)Officer Titles. If the Company or the Bank changes the current titles of its officers, the references to specific officer titles in the Plan will be construed to mean the title of the officer in the new or revised system that, in the Company's discretion, most closely approximates the title of the officer under the current system.

(f) Compensation Recovery Policy. Notwithstanding any other provision of the Plan to the contrary, any amount received under the Plan shall be subject to potential cancellation, recoupment, rescission, payback, recovery, or other action in accordance with the terms of the Financial Institutions, Inc. Clawback Policy, as amended from time to time, and any other compensation recovery policy, if any, that the Company may adopt from time to time (collectively, the "Policy"). The Participant agrees and consents to the Company's application, implementation and enforcement of (i) the Policy that may apply to the Participant and (ii) any provision of applicable law relating to cancellation, rescission, payback, recovery or recoupment of compensation, and expressly agrees that the Company may take such actions as are necessary to effectuate the Policy or applicable law without further consent or action being required by the Participant. To the extent that the terms of the Plan and the Policy or any similar policy conflict, then the terms of such Policy shall prevail.

(g)Section 409A. The compensation under the Plan is intended to be exempt from or comply with the requirements of Section 409A of the Code and any regulations promulgated and other guidance issued thereunder (collectively, "Section 409A"), and the Plan shall be administered and interpreted consistent with such intention. Accordingly, references to “termination of employment” and similar terms used in the Plan mean, to the extent necessary to comply with Section 409A, the date that the Participant incurs a “separation from service” within the meaning of Section 409A. In addition, to the extent necessary to comply with Section 409A, a change in control under the Plan must represent a change in control event under Section 409A. Notwithstanding anything in the Plan to the contrary, if at the time of a Participant’s separation from service, the Participant is a “specified employee” for purposes of Section 409A, and payment under the Plan as a result of such separation from service is required by Section 409A to be delayed by six months, then the Company shall make such payment on the day following the six-month anniversary of the Participant’s separation from service to the extent required to comply with Code Section 409A. The preceding sentences, however, shall not be construed as a guarantee by the Company or any Subsidiary of any particular tax effect to Participants under the Plan. The Company and its Subsidiaries shall not be liable to any Participant for any adverse tax consequences incurred by a Participant under Section 409A, nor for reporting in good faith any amount or payment under the Plan as being includible in gross income under Section 409A.

(h)Governing Law. The Plan, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of New York, without reference to principles of conflict of laws, and construed accordingly.

* * * * *

EXHIBIT A

FINANCIAL INSTITUTIONS, INC.
EXECUTIVE INCENTIVE PLAN

PLAN YEAR SCHEDULE

Performance Period: 2024 Plan Year

Performance Requirements. The Performance Requirements, the Weighting Percentage for each Performance Requirement, the applicable Performance Goals for each Performance Requirement and the Funding Percentage for each Performance Goal are as follows:

Performance Requirement	Weighting Percentage	Performance Goals [1]		
		Threshold [2]	Target	Maximum [3]
Pre-Provision Net Income (PPNI $MM)	[40%]	$44.87	$59.83	$68.80
Total Loan Growth	[20%]	0.94%	1.45%	1.81%
Non-Public Deposit Growth	[20%]	4.22%	6.49%	8.11%
Net Charge-offs (NCO)	[20%]	0.43%	0.34%	0.26%
Funding Percentage		50%	100%	150%

[1] If actual performance for the Performance Period is between a Performance Requirement's Performance Goals, the Funding Percentage for such Performance Requirement will be determined using straight line interpolation between the Funding Percentage for the Performance Goal above and below the actual performance achieved for that Performance Requirement.

[2] In the event that actual performance for the Performance Period is below a Performance Requirement's Threshold, the Funding Percentage for such Performance Requirement will be zero.

[3] If actual performance for a Performance Period is at or above Maximum, the Funding Percentage for such Performance Requirement will be the Funding Percentage at Maximum.

Definitions. In addition to the definitions set forth in the Plan set forth above, for purposes of the Award and the Plan, the following terms shall have the following meanings:

(i) "Non-Public Deposit Growth" means December year-over-year month-to-date average balances in total non-public deposits (includes DDA, NOW, savings, money market and time). Excludes ICS, CDARS, municipality, and accounts owned and maintained by FII or the Bank

(j) "Net Charge-off Ratio" means the ratio of the Bank's net charge-offs to average loans outstanding as reported in the Company's annual report to shareholders on Form 10-K.

(k)"Pre-Provision Net Income" or "PPNI" means net income excluding provision adjustment net of tax (utilizing marginal tax rate).

(l) "Total Loan Growth" means annual growth in gross loans including loans held for sale, including deferred costs (fees) and prior to reduction for allowance for loan losses of the Bank. The calculation excludes PPP Loan Balances from 2022 and 2023.

EXHIBIT B

FINANCIAL INSTITUTIONS, INC.
EXECUTIVE INCENTIVE PLAN

AWARD CERTIFICATE

Financial Institutions, Inc., a New York financial holding company (the "Company"), hereby grants to the Participant set forth below, as of the Award Date set forth below, a cash Award (the "Award"), based on attainment of the Performance Requirements and as determined pursuant to the terms of the Financial Institutions, Inc. Executive Incentive Plan (the "Plan") and the applicable Plan Year Schedule.

Participant Tier: Tier X

Award Date: March 7, 2024

Plan Year: 2024

Target Amount: XX% of the Participant's annualized base salary in effect as of December 31 of the Plan Year, except as follows:

(a) Subject to any applicable proration under clauses (c) and (d) below, if the Participant incurs a termination of employment during the Performance Period and remains eligible to receive any Earned Amount for the Performance Period, the Participant's annualized base salary used in determining the Target Amount will be determined as of the date on which the Participant incurs a termination of employment;

(b) Subject to any applicable proration under clauses (c) and (d) below, if there is a change in control during the Performance Period and the Participant is eligible to receive an Award under Section 7(c)(iv) of the Plan, the Participant's annualized base salary used in determining the Target Amount will be determined as of the date of the change in control;

(c) If, during the Performance Period, a Participant receives a base salary increase outside of the Company's standard merit cycle other than in connection with a promotion of the Participant as set forth in clause (d) below, the annualized base salary increase is greater than 10% of the Participant's existing annualized base salary, and the increase in the Participant's annualized base salary is effective after July 1 of the Plan Year, then the Participant's annualized base salary used in determining the Target Amount will equal the sum of (i) the Participant's annualized base salary in effect immediately prior to the increase, prorated based on the number of days during the Performance Period before the increase in base salary takes effect, plus (ii) the Participant's annualized base salary following the increase in base salary, prorated based on the number of days during the Performance Period in which such increased annualized base salary is in effect; and

(d) If, during the Performance Period, a Participant is promoted or demoted and, in connection with such promotion or demotion, there is an increase or decrease in the Participant's annualized base salary, then the Participant's annualized base salary used in determining the Target Amount will equal the sum of (i) the Participant's annualized base salary in effect immediately prior to the change in base salary in connection with the Participant's promotion or demotion, prorated based on the number of days during the Performance Period before such change in base salary takes effect, plus (ii) the Participant's annualized base salary following the change in base salary in connection with the Participant's promotion or demotion, prorated based on the number of days during the Performance Period after such change in base salary takes effect.

The applicable Performance Period, Performance Requirements, Performance Goals, Weighting Percentages and Funding Percentages are set forth in the attached Plan Year Schedule.

Deferred Amount (*if applicable*)

Annual Percentage: [___]%

Deferral Percentage: [___]%

Deferral Performance Period: January 1, 2025 - December 31, 2026

Deferral Performance Requirements. The Deferred Amount is subject to the additional Deferral Performance Requirements:

(a)*Net Charge-Off Ratio Requirement*. Provided that the Net Charge-Off Ratio for the Deferral Performance Period is less than or equal to one percent, 50% of the Deferred Amount shall become payable to the Participant. If the Net Charge-Off Ratio is greater than one percent, then 50% of the Deferred Amount is forfeited and shall not be paid. "Net Charge-Off

Ratio" means the percentage of net charge-offs to average loans outstanding.

(b) *Committee Discretionary Requirement*. The remaining 50% of the Deferred Amount shall become payable to the Participant based on factors determined by the Committee, in its sole discretion. The Committee may award all, part or none of the remaining 50% of the Deferred Amount.

The Award is subject to the terms and conditions set forth in this Award Certificate, the applicable Plan Year Schedule and the Plan. All terms and provisions of the Plan, as the same may be amended from time to time, are incorporated and made part of this Award Certificate. If any provision of this Award Certificate is in conflict with the terms of the Plan, then the terms of the Plan shall govern. All capitalized terms used in this Award Certificate and not defined herein shall have the meanings assigned to them in the Plan. The Participant hereby expressly acknowledges receipt of a copy of the Plan.

IN WITNESS WHEREOF, the parties have executed this Award Certificate as of the Award Date.

FINANCIAL INSTITUTIONS, INC.

By: img227012907_0.jpg
Name: Andrew W. Dorn Jr.
Title: Chair – MD&C Committee

By checking the box below, the Participant hereby accepts and agrees to be bound by all of the terms and conditions of this Award Certificate, the applicable Plan Year Schedule and the Plan.

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Exhibit 10.2

FINANCIAL INSTITUTIONS, INC.
MANAGEMENT INCENTIVE PLAN

Section 1.Establishment of Plan.

Financial Institutions, Inc. (the "Company") intends to provide annual cash incentive award opportunities for eligible employees of the Company and its Subsidiaries (defined below) through the use of this Financial Institutions, Inc. Management Incentive Plan (the "Plan"). The objective of the Plan is to align the interests of Participants (defined below) with the interests of the Company and its Subsidiaries in obtaining superior financial results. The Plan was first approved by the Management Development and Compensation Committee of the Board of Directors of the Company (the "Committee") on March 7, 2024, to be effective as of January 1, 2024.

Section 2.Definitions.

For purposes of the Plan, the following terms shall have the following meanings:

(a)"Award" means the cash incentive award opportunity granted to a Participant under the Plan.

(b)"Award Certificate" means the award certificate given to each Participant evidencing the terms of the Participant's Award opportunity granted under the Plan, substantially in the form attached hereto as Exhibit B.

(c)"Bank" means Five Star Bank, a Subsidiary of the Company.

(d)"CEO" means the Chief Executive Officer of the Company.

(e)“CHRO” means the Chief Human Resource Officer of the Company.

(f) "Disability" means (i) in the case of a Participant whose employment with the Company or a Subsidiary is subject to the terms of an employment or consulting agreement that includes a definition of "Disability," the meaning set forth in such employment or consulting agreement during the period that such employment or consulting agreement remains in effect; and (ii) in all other cases, the meaning as set forth under the long-term disability plan applicable to the Participant as may be amended from time to time, and in the event there is no such plan applicable to a Participant, a physical or mental condition resulting from bodily injury, disease or mental disorder which renders the Participant incapable of continuing his or her usual and customary employment with the Company or a Subsidiary, as the case may be, for a period of not less than 120 days or such other period as may be required by applicable law.

(g) "Funding Percentage" of a Performance Requirement means the percentage used to determine the Award Pool, which is based on the Performance Goal achieved for the Performance Requirement.

(h) "Participant" means an eligible employee of the Company or a Subsidiary who has been selected by the CEO and the CHRO and granted an Award opportunity under the Plan.

(i) "Performance Goal" means the threshold, target and maximum performance goals for each Performance Requirement, as set forth in the applicable Plan Year Schedule.

(j) "Performance Period" means the Plan Year specified in the applicable Plan Year Schedule.

(k) "Performance Requirement" means a performance requirement measured during a Performance Period, as set forth in the applicable Plan Year Schedule.

(l) "Plan Year" means January 1 to December 31 of a specified year.

(m) "Plan Year Schedule" means the Schedule containing the general terms of the Awards for a given Plan Year, substantially in the form attached hereto as Exhibit A.

(n) "Retire" and "Retirement" mean the resignation or voluntary termination of employment of a Participant after attainment of age 65 and ten or more years of service with the Company or a Subsidiary.

(o) "Subsidiary" means any subsidiary of the Company within the meaning of Rule 405 of the Securities Act of 1933, as amended.

(p) "Weighting Percentage" means the weighting given to a Performance Requirement, as set forth in the applicable Plan Year Schedule.

Section 3. Administration.

(a) Committee. The Committee has the exclusive power, authority and discretion to: (i) establish and review an Award's Performance Requirements and their respective Weighting Percentages, Performance Goals and Funding Percentages for a Performance Period; (ii) determine whether and to what extent the Performance Requirements were achieved for the Performance Period; (iii) calculate the Funding Percentages, the Aggregate Funding Percentage (as defined below), the Individual Performance Factor (as defined below) and the amount of the Award Pool resulting from the achievement of the Performance Requirements for a Performance Period and the application of the Individual Performance Factor; and (iv) approve, modify, amend, or terminate the Plan as provided herein.

(b)CHRO. The Plan shall be administered by the CHRO. The CHRO has the power, authority and discretion to: (i) approve the Earned Amount (as defined below) of an Award payable to any Participant based on such objective or subjective factors as he or she shall deem relevant; (ii) establish, adopt or revise any rules and regulations as he or she may deem necessary or advisable to administer the Plan; (iii) make all other decisions and determinations that may be required under the Plan or as he or she deems necessary or advisable to administer the Plan. The CHRO's interpretation of the Plan and all decisions and determinations by him or her with respect to the Plan are final, binding, and conclusive on all parties.

(c)Delegation. In accordance with applicable law, the Committee may delegate any of the responsibilities listed above in Section 3(a) to the CEO or the CHRO, or may receive recommendations from such individuals regarding such responsibilities. Any reference herein to the Committee shall be deemed to include any person to whom any duty of the Committee has been delegated pursuant to this Section 3(c).

Section 4.Eligibility.

(a)Eligibility. In order to be eligible to participate in the Plan for a Plan Year, an individual must: (i) be an employee of the Company or one of its Subsidiaries in salary grade C or above, and (ii) not be a participant in the Financial Institutions, Inc. Executive Incentive Plan for such Plan Year.

(b)Selection. For each Plan Year, the CEO and CHRO will select the eligible employees of the Company and its Subsidiaries who will participate in the Plan for the upcoming Plan Year.

(c)Notification. Following the selection of Participants by the Committee for a Plan Year, each selected Participant shall be notified of his or her participation in the Plan for the Plan Year, and shall receive an Award Certificate (together with the Plan Year Schedule for the Plan Year) setting forth the terms of his or her participation in the Plan for the Plan Year.

Section 5.Award Pool.

(a)Gateway Requirement. As soon as practicable following the end of the Plan Year, the Committee will determine the Tier 1 capital ratio of the Bank as determined under the final US Basel III capital framework (the "Tier 1 Capital Ratio") as of the end of the Plan Year. If the Tier 1 Capital Ratio as of the end of the Plan Year does not meet the requirement set by the Committee, the Award Pool will be zero and no Award shall be paid to any Participant for the Plan Year.

(b)Performance Results. If the Tier 1 Capital Ratio as of the end of the Plan Year meets or exceeds the requirement set by the Committee, then the Committee will determine the Performance Goal achieved for each Performance Requirement for the Performance Period. The "Aggregate Funding Percentage" for the Performance Period will be equal to the sum of the following for each Performance Requirement: (i) the Weighting Percentage for such Performance Requirement, multiplied by (ii) the Funding Percentage for such Performance Requirement based on the Performance Goal achieved, each as set forth in, and determined pursuant to, the Plan Year Schedule for the Plan Year that includes the Performance Period.

(c) Individual Performance Factor. For each Performance Period, the Committee will determine an individual performance factor of 100% to 125% (the "Individual Performance Factor") based on the Participants' collective individual performance against the individual performance goals established by the Committee for the Participants for the Performance Period.

(d) Award Pool. The "Award Pool" for a Performance Period will be the Aggregate Funding Percentage for the Performance Period, multiplied by the aggregate sum of the target amount set forth in the Award Certificate for the Plan Year that includes the Performance Period (the "Target Amount") of each Participant who was employed on the last day of the Performance Period or who is entitled to a pro rata Award pursuant to Section 6(a)(ii), Section 7(c)(i) or Section 7(c)(iv) for the Performance Period, further multiplied by the Individual Performance Factor for the Performance Period.

Section 6. Awards.

(a) Determination of Awards.

(i) *Earned Amount*. The CHRO, in consultation with the CEO and executive leaders as appropriate, will determine and approve the amount of each Participant's Award (respectively, a Participant's "Earned Amount"), if any, taking into account the Participant's Target Amount and the Participant's absolute and relative individual performance during the Plan Year; provided, however, the aggregate total of all Participants' Earned Amounts for the Plan Year may not exceed the actual Award Pool unless the Committee determines otherwise.

(ii) *Partial Year Participation*. If a person becomes a Participant in the Plan after the beginning of a Plan Year and prior to October 31st of such Plan Year, or a Participant Retires during a Plan Year, then unless the CHRO determines otherwise, the Participant's Award for such Plan Year will be prorated based on the number of days such person participated in the Plan during the Performance Period. If a person becomes a Participant in the Plan after October 31st of a Plan Year,then unless the CHRO determines otherwise, the Participant is not eligible to participate in the Plan until the next Plan Year. If a Participant takes a leave of absence during the Plan Year for any reason, then unless the CHRO determines otherwise, the Participant will receive a pro rata share of an Award, if any, for such Plan Year. Only the portion of the Award actually paid to a Participant pursuant to this Section 6(a)(ii) will count against the Award Pool.

(b) Payment. Subject to Section 6(c), a Participant must be actively employed by the Company or a Subsidiary on the date that the Earned Amount is paid in order to be eligible to receive payment of the Earned Amount. The Earned Amount shall be paid to the Participant in a lump-sum cash payment as soon as administratively practicable following the end of the Performance Period, but in no event later than March 15th immediately following the end of the Performance Period.

(c) Effects of Certain Events on the Earned Amount.

(i) *Death, Disability or Retirement During the Performance Period*. In the event of a Participant's termination of employment due to death or Disability during the Performance Period, the Participant shall be entitled to a pro rata Award under the Plan for the Plan Year in which the Participant's employment terminates due to death or Disability equal to the product of: (1) the Target Amount of the Award; times (2) a fraction, the numerator of which is the number of days that have elapsed in the Performance Period through the date of the Participant's termination of employment due to death or Disability, and the denominator of which is the total number of days during the Performance Period. Such amount shall be paid to the Participant as soon as practicable following the Participant's termination of employment due to death or Disability, but in no event later than the earlier of (x) the 75th day following the Participant's termination of employment due to death or Disability, or (y) March 15th of the calendar year immediately following the end of the Performance Period to which the Award relates. In the event of a Participant's Retirement during the Performance Period, the Participant may be entitled to a pro rata Award under the Plan pursuant to Section 6(a)(ii), in which case any pro rata Award payable to the Participant with respect to the Performance Period shall be paid at the same time and in the same form as payments for the Performance Period are made to actively employed Participants under Section 6(b) or 6(c)(iv), as applicable.

(ii) *Termination of Employment (other than Death, Disability or Retirement) During the Performance Period*. If a Participant's employment terminates for any reason other

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than death, Disability or Retirement during the Performance Period, then such Participant shall not be entitled to payment of the Earned Amount for the Plan Year in which the Participant's employment terminates.

(iii) *Death, Disability or Retirement Following the Performance Period*. In the event of a Participant's termination of employment due to death, Disability or Retirement after the end of a Performance Period but prior to payment of the Earned Amount for that Performance Period, the Participant shall continue to be entitled to payment of the Earned Amount of the Award for such Performance Period, and such Earned Amount shall be paid at the same time and in the same form as payments for the Performance Period are made to actively employed Participants under Section 6(b) or 6(c)(iv), as applicable.

(iv) *Change in Control*. In the event of a change in control (as defined in the Financial Institutions, Inc. 2015 Long-Term Incentive Plan, as amended from time to time, and including any successor plan, after the end of a Performance Period but prior to payment of the Earned Amount for that Performance Period, then each Participant who remains employed as of the date of the change in control shall be entitled to payment of the Earned Amount of the Award for such completed Performance Period, and such Earned Amount shall be paid as soon as practicable following the occurrence of the change in control, but in no event later than March 15th immediately following the end of the completed Performance Period. In addition, if a change in control occurs during a Performance Period, then all Participants who remain employed as of the date of the change in control shall be entitled to a pro rata Award under the Plan for the Plan Year in which the change in control occurs equal to the product of: (1) the greater of the Earned Amount under the Award, determined based on actual performance through the date of the change in control, and the Target Amount of the Award; and (2) a fraction, the numerator of which is the number of days that have elapsed in the Performance Period, and the denominator of which is the total number of days during the Performance Period. Such amount shall be paid to any eligible Participants as soon as practicable following the occurrence of the change in control, but in no event later than the earlier of (x) the 75th day following the occurrence of the change in control, or (y) March 15th of the calendar year immediately following the end of the calendar year in which the change in control occurs.

Section 7.Miscellaneous

(a)Amendment. The Committee may, at any time and from time to time, amend, modify or terminate the Plan and/or any Plan Year Schedule. Termination of the Plan after the end of the Performance Period but before Awards are paid for that Plan Year will not reduce Participants' rights to receive the Annual Amount. Termination or amendment of the Plan and/or any Plan Year Schedule during the Performance Period may be retroactive to the beginning of the Performance Period, at the discretion of the Committee. If a change in control occurs, no amendment or termination of the Plan after the date of the change in control may adversely affect amounts payable to a Participant without the consent of the Participant.

(b)No Right to Continued Employment. The terms and conditions of the Award, the Award Certificate, any Plan Year Schedule and the Plan shall not be deemed to constitute a contract of employment between the Company or a Subsidiary and a Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, except as otherwise provided in a written employment agreement. Nothing in any Award, any Award Certificate, any Plan Year Schedule or the Plan shall be deemed to give a Participant the right to be retained in the service of the Company or a Subsidiary as an employee or to

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interfere with the right of the Company or a Subsidiary to discipline or discharge a Participant at any time.

(c)Withholding Taxes. The Company or a Subsidiary shall be permitted deduct the amounts required to be withheld by federal, state or local tax law from the Earned Amount.

(d)Notices. All notices relating to the Plan to the Company shall be in writing and sent to the CHRO at 220 Liberty Street, Warsaw, NY 14569 or such other address designated by the Company. Notices to the Participant shall be addressed to the Participant at the Participant's home or work address, including via interoffice mail, as it appears on the records of Participant's employer. Any such notices may be made in electronic format or through means of online or other electronic transmission.

(e)Officer Titles. If the Company or the Bank changes the current titles of its officers, the references to specific officer titles in the Plan will be construed to mean the title of the officer in the new or revised system that, in the Company's discretion, most closely approximates the title of the officer under the current system.

(f) Compensation Recovery Policy. Notwithstanding any other provision of the Plan to the contrary, any amount received under the Plan shall be subject to potential cancellation, recoupment, rescission, payback, recovery, or other action in accordance with the terms of the Financial Institutions, Inc. Clawback Policy, as amended from time to time, and any other compensation recovery policy, if any, that the Company may adopt from time to time (collectively, the "Policy"). The Participant agrees and consents to the Company's application, implementation and enforcement of (i) the Policy that may apply to the Participant and (ii) any provision of applicable law relating to cancellation, rescission, payback, recovery or recoupment of compensation, and expressly agrees that the Company may take such actions as are necessary to effectuate the Policy or applicable law without further consent or action being required by the Participant. To the extent that the terms of the Plan and the Policy or any similar policy conflict, then the terms of such Policy shall prevail.

(g) Section 280G of the Code. In the event that any payment or benefit to a Participant under this Plan (together with any other payments or benefits payable to the Participant under any agreement with the Participant, or any other plan or policy of the Company or its Subsidiaries, the "Total Payments"), would result in the Participant being subject to the tax imposed by Section 4999 of the Code, or any similar tax that may hereafter be imposed (the "Excise Tax"), then:

(i) Within thirty (30) days following the date the payment or benefit under the Plan becomes payable, but in any case before the deadline for paying the payment or benefit under the Plan, the Company will notify the Participant in writing: (1) whether the payments and benefits under this Plan, when added to any other payments and benefits making up the Total Payments, exceed an amount equal to 299% of the Participant's "base amount" as defined in Section 280G(b)(3) of the Code (the "299% Amount"); and (2) the amount that is equal to the 299% Amount.

(ii) Any payments or benefits otherwise payable to a Participant under this Plan shall be reduced or eliminated to the extent necessary to avoid any portion of the payments or benefits under this Plan being subject to the Excise Tax. Any payment or benefit so reduced will be permanently forfeited and will not be paid to the Participant.

(iii) The calculation of the Total Payments, the 299% Amount and the determination of how much of a Participant's payments and benefits under the Plan must be reduced in order to avoid application of the Excise Tax will be made by a nationally recognized accounting or law firm (the "280G Firm"). The 280G Firm's determination of the Total Payments, the 299% Amount, and the reduction of any payments or benefits under the Plan that is necessary to avoid the Excise Tax will be final and binding on the Company and a Participant. All fees and expenses of the 280G Firm will be borne by the Company.

(iv) For purposes of making the reduction of amounts payable under this Plan, such amounts will be eliminated in compliance with the requirements of Section 409A, to the extent applicable.

(h) Section 409A. The compensation under the Plan is intended to be exempt from or comply with the requirements of Section 409A of the Code and any regulations promulgated and other guidance issued thereunder (collectively, "Section 409A"), and the Plan shall be administered and interpreted consistent with such intention. Accordingly, references to "termination of employment" and similar terms used in the Plan mean, to the extent necessary to comply with Section 409A, the date that the Participant incurs a "separation from service" within the meaning of Section 409A. In addition, to the extent necessary to comply with Section 409A, a change in control under the Plan must represent a change in control event under Section 409A. Notwithstanding anything in the Plan to the contrary, if at the time of a Participant's separation from service, the Participant is a "specified employee" for purposes of Section 409A, and payment under the Plan as a result of such separation from service is required by Section 409A to be delayed by six months, then the Company shall make such payment on the day following the six-month anniversary of the Participant's separation from service to the extent required to comply with Code Section 409A. The preceding sentences, however, shall not be construed as a guarantee by the Company or any Subsidiary of any particular tax effect to Participants under the Plan. The Company and its Subsidiaries shall not be liable to any Participant for any adverse tax consequences incurred by a Participant under Section 409A, nor for reporting in good faith any amount or payment under the Plan as being includible in gross income under Section 409A.

(i) Governing Law. The Plan, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of New York, without reference to principles of conflict of laws, and construed accordingly.

EXHIBIT A

FINANCIAL INSTITUTIONS, INC.
MANAGEMENT INCENTIVE PLAN

PLAN YEAR SCHEDULE

Performance Period: 2024 Plan Year

Performance Requirements. The Performance Requirements, the Weighting Percentage for each Performance Requirement, the applicable Performance Goals for each Performance Requirement and the Funding Percentage for each Performance Goal are as follows:

Performance Requirement	**Weighting Percentage**	**Performance Goals [1]**		
		Threshold [2]	**Target**	**Maximum [3]**
Pre-Provision Net Income (PPNI $MM)	[40%]	$44.87	$59.83	$68.80
Total Loan Growth	[20%]	0.94%	1.45%	1.81%
Non-Public Deposit Growth	[20%]	4.22%	6.49%	8.11%
Net Charge-offs (NCO)	[20%]	0.43%	0.34%	0.26%
Funding Percentage		50%	100%	150%

[1] If actual performance for the Performance Period is between a Performance Requirement's Performance Goals, the Funding Percentage for such Performance Requirement will be determined using straight line interpolation between the Funding Percentage for the Performance Goal above and below the actual performance achieved for that Performance Requirement.

[2] In the event that actual performance for the Performance Period is below a Performance Requirement's Threshold, the Funding Percentage for such Performance Requirement will be zero.

[3] If actual performance for a Performance Period is at or above Maximum, the Funding Percentage for such Performance Requirement will be the Funding Percentage at Maximum.

Definitions. In addition to the definitions set forth in the Plan set forth above, for purposes of the Award and the Plan, the following terms shall have the following meanings:

(j) "Non-Public Deposit Growth" means December year-over-year month-to-date average balances in total non-public deposits (includes DDA, NOW, savings, money market and time). Excludes ICS, CDARS, municipality, and accounts owned and maintained by FII or the Bank.

(k)"Net Charge-off Ratio" means the ratio of the Bank's net charge-offs to average loans outstanding as reported in the Company's annual report to shareholders on Form 10-K.

(l) "Pre-Provision Net Income" or "PPNI" means net income excluding provision adjustment net of tax (utilizing marginal tax rate).

(m)"Total Loan Growth" means annual growth in gross loans including loans held for sale, including deferred costs (fees) and prior to reduction for allowance for loan losses of the Bank. The calculation excludes PPP Loan Balances from 2022 and 2023.

EXHIBIT B

FINANCIAL INSTITUTIONS, INC.
MANAGEMENT INCENTIVE PLAN

AWARD CERTIFICATE

Financial Institutions, Inc., a New York financial holding company (the "Company"), hereby grants to the Participant set forth below, as of the Award Date set forth below, a cash Award (the "Award"), based on attainment of the Performance Requirements and as determined pursuant to the terms of the Financial Institutions, Inc. Management Incentive Plan (the "Plan") and the applicable Plan Year Schedule.

Participant Tier: Tier X

Award Date: March 7, 2024

Plan Year: 2024

Target Amount: XX% of the Participant's annualized base salary in effect as of December 31 of the Plan Year, except as follows:

(a) Subject to any applicable proration under clauses (c) and (d) below, if the Participant incurs a termination of employment during the Performance Period and remains eligible to receive any Earned Amount for the Performance Period, the Participant's annualized base salary used in determining the Target Amount will be determined as of the date on which the Participant incurs a termination of employment;

(b) Subject to any applicable proration under clauses (c) and (d) below, if there is a change in control during the Performance Period and the Participant is eligible to receive an Award under Section 6(c)(iv) of the Plan, the Participant's annualized base salary used in determining the Target Amount will be determined as of the date of the change in control;

(c) If, during the Performance Period, a Participant receives a base salary increase outside of the Company's standard merit cycle other than in connection with a promotion of the Participant as set forth in clause (d) below, the annualized base salary increase is greater than 10% of the Participant's existing annualized base salary, and the increase in the Participant's annualized base salary is effective after July 1 of the Plan Year, then the Participant's annualized base salary used in determining the Target Amount will equal the sum of (i) the Participant's annualized base salary in effect immediately prior to the increase, prorated based on the number of days during the Performance Period before the increase in base salary takes effect, plus (ii) the Participant's annualized base salary following the increase in base salary, prorated based on the number of days during the Performance Period in which such increased annualized base salary is in effect; and

(d) If, during the Performance Period, a Participant is promoted or demoted and, in connection with such promotion or demotion, there is an increase or decrease in the Participant's annualized base salary, then the Participant's annualized base salary used in determining the Target Amount will equal the sum of (i) the Participant's annualized base salary in effect immediately prior to the change in base salary in connection with the Participant's promotion or demotion, prorated based on the number of days during the Performance Period before such change in base salary takes effect, plus (ii) the Participant's annualized base salary following the change in base salary in connection with the Participant's

promotion or demotion, prorated based on the number of days during the Performance Period after such change in base salary takes effect.

The applicable Performance Period, Performance Requirements, Performance Goals, Weighting Percentages and Funding Percentages are set forth in the attached Plan Year Schedule.

The Award is subject to the terms and conditions set forth in this Award Certificate, the applicable Plan Year Schedule and the Plan. All terms and provisions of the Plan, as the same may be amended from time to time, are incorporated and made part of this Award Certificate. If any provision of this Award Certificate is in conflict with the terms of the Plan, then the terms of the Plan shall govern. All capitalized terms used in this Award Certificate and not defined herein shall have the meanings assigned to them in the Plan. The Participant hereby expressly acknowledges receipt of a copy of the Plan.

IN WITNESS WHEREOF, the parties have executed this Award Certificate as of the Award Date.

FINANCIAL INSTITUTIONS, INC.

By: img227936428_0.jpg
Name: Andrew W. Dorn Jr.
Title: Chair – MD&C Committee

By checking the box below, the Participant hereby accepts and agrees to be bound by all of the terms and conditions of this Award Certificate, the applicable Plan Year Schedule and the Plan.

Exhibit 10.3

2024 RESTRICTED STOCK UNIT AWARD AGREEMENT
Pursuant to the
FINANCIAL INSTITUTIONS, INC.
AMENDED AND RESTATED
2015 LONG-TERM INCENTIVE PLAN

Name of Participant:	[[FIRSTNAME]] [[LASTNAME]]
Date of Grant:	[[GRANTDATE]]
Award Number:	[[GRANTNUMBER]]
Number of Restricted Stock Units:	[[SHARESGRANTED]]
Vested Restricted Stock Units and Vesting Schedule:	The Number of Restricted Stock Units set forth above shall become vested Restricted Stock Units in accordance with the terms of this Agreement as of the following Vesting Date(s):

Vesting Date	Vested Restricted Stock Units
Third Anniversary of Date of Grant	100%

This RESTRICTED STOCK UNIT AWARD AGREEMENT (this “Agreement”), dated as of [[GRANTDATE]], is made between Financial Institutions, Inc. (the “Company”) and the above-named individual (the “Participant”) to record the grant to the Participant of a Restricted Stock Unit Award (the “Award”) on the Date of Grant set forth above pursuant to Section 6.5 of the Financial Institutions, Inc. Amended and Restated 2015 Long-Term Incentive Plan (the “Plan”). Capitalized terms not defined in this Agreement shall have the meaning given to such terms under the Plan.

The Company and the Participant hereby agree as follows:

Section 1. Grant of Restricted Stock Units. The Company hereby grants to the Participant, as of the Date of Grant, subject to and in accordance with the terms and conditions of the Plan and this Agreement, a Restricted Stock Unit Award for the Number of Restricted Stock Units set forth above (the “Restricted Stock Units”).

Section 2. Vesting of Restricted Stock Units. Subject to Section 4 below, provided that the Participant provides substantial services and remains in continuous employment with the Company or a Subsidiary through the Vesting Date(s) set forth above, the Restricted Stock Units shall vest pursuant to the Vesting Schedule set forth above. Except as otherwise provided by Section 4 below, if the Participant ceases to provide substantial services or remain in continuous employment with the Company or a Subsidiary for any reason prior to the Vesting Date (or the latest of the Vesting Dates) set forth above, then all of the Participant’s unvested Restricted Stock Units as of the date that the Participant ceases to provide substantial services or remain in continuous employment with the Company or a Subsidiary shall be immediately forfeited.

Section 3. Timing and Form of Payout. Except as otherwise provided by Section 4 below and subject to Section 8 below, within 75 days following a Vesting Date, but in no event later than March 15th of the calendar year immediately following the calendar year that includes theVesting Date (a "Payment Date"), the vested Restricted Stock Units shall be paid to the Participant by the Company delivering to the Participant a number of shares of Common Stock equal to the number of vested Restricted Stock Units as of the Payment Date. The Company may issue the shares of Common Stock either (a) in certificate form or (b) in book entry form, registered in the name of the Participant. Notwithstanding anything herein to the contrary, the Company shall have no obligation to issue shares of Common Stock in payment of the vested Restricted Stock Units unless such issuance and such payment shall comply with all relevant provisions of law and the requirements of any Stock Exchange on which the shares of Common Stock are traded.

Section 4. Effects of Certain Events.

(a) Change in Control. Subject to the terms of the Plan, if prior to the Vesting Date (or the latest of the Vesting Dates) set forth above there is a Change in Control:

(i) if Replacement Awards are not provided to the Participant to replace unvested Restricted Stock Units, then all of the Participant's unvested Restricted Stock Units that have not previously been forfeited shall fully vest as of the date of the Change in Control and, subject to Section 8 below, shall be paid to the Participant within 75 days following the Change in Control, but in no event later than March 15th of the calendar year immediately following the calendar year that includes the date of the Change in Control.

(ii) if Replacement Awards are provided to the Participant to replace unvested Restricted Stock Units, then in the event of the Participant's Involuntary Termination during the period of two (2) years immediately following the Change in Control, all of such Replacement Awards, to the extent not previously vested, shall fully vest as of the date of the Involuntary Termination, and subject to Section 8 below, shall be paid to the Participant within 75 days following the Involuntary Termination, but in no event later than March 15th of the calendar year immediately following the calendar year that includes the date of the Participant's Involuntary Termination.

(b) Death or Disability. If prior to the Vesting Date (or the latest of the Vesting Dates) set forth above, the Participant's employment with the Company or a Subsidiary terminates due to death or Disability, then all of the Participant's unvested Restricted Stock Units shall fully vest as of the date of the Participant's death or Disability, and subject to Section 8 below, shall be paid to the Participant or the Participant’s legal representative in the event of the Disability of the Participant, or in the event of the death of the Participant, to the legal representative of the Participant’s estate, or if no legal representative has been appointed, to the successor in interest determined under the Participant’s will, within 75 days following the Participant’s termination of employment due to death or Disability, but in no event later than March 15th of the calendar year immediately following the calendar year that includes the date of the Participant’s termination of employment due to death or Disability.

Section 5. Dividend Equivalents. No dividend equivalents shall accrue or be paid to the Participant with respect to any Restricted Stock Units.

Section 6. Rights as Shareholder. In addition to the transfer and other restrictions set forth elsewhere in this Agreement and in the Plan, the Participant, as holder of the Restricted Stock Units, shall not possess any rights of a holder of Common Stock (including voting and dividend rights) with respect to the shares of Common Stock underlying such Restricted Stock Unit Award until such time as the Restricted Stock Unit Award vests, is paid and the shares of Common Stock are issued to the holder of the Restricted Stock Unit Award.

Section 7. No Transferability. The Restricted Stock Units may not be sold, transferred, pledged, assigned, encumbered, or otherwise alienated or hypothecated other than by will or the laws of descent and distribution. Vested Restricted Stock Units shall be payable only to the Participant during the Participant’s lifetime, or in the event of the Disability of the Participant, to the Participant or the legal representative of the Participant, or in the event of the death of the Participant, to the legal representative of the Participant’s estate, or if no legal representative has been appointed to the successor in interest determined under the Participant’s will.

Section 8. Withholding Taxes.As a condition of and prior to the payout of any Restricted Stock Units, the Company shall be entitled to require the Participant to remit to the Company an amount sufficient to satisfy the amount of any federal, state, or local taxes required to be withheld with respect to the vesting and payout of the vested Restricted Stock Units, or any other taxable event related thereto. The Committee may permit the Participant to make such payment in any form or manner authorized by the Committee in its sole discretion, including, but not limited to one or more of the forms specified below:

(a) U.S. dollars by personal check, bank draft, or money order payable to the Company, by money transfer or direct account debits;

(b) Delivery to the Company of a number of shares of Common Stock having an aggregate fair market value of not less than the minimum tax withholding required for the Award;

(c) Involvement of a stockbroker in accordance with the federal margin rules set forth in Regulation T;

(d) A cashless exercise if and to the extent permissible by applicable law; or

(e) Any combination of the above forms and methods.

In the event the Participant fails to provide timely payment of all sums required by the Company pursuant to this Section 8, the Company shall have the right and option, but not obligation, to treat such failure as an election by the Participant to provide all or any portion of such required payment by means of tendering vested shares of Common Stock.

Section 9. Adjustment. As provided by the Plan, in the event of any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, stock dividend, combination or exchange of shares, exchange for other securities, reclassification, reorganization, recapitalization, or any other increase or decrease in the number of outstanding shares of Common Stock effected without consideration to the Company, the specified number of Restricted Stock

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Units shall be proportionately adjusted to prevent dilution or enlargement of the rights granted to, or available for, the Participant hereunder.

Section 10. No Employment Rights. Nothing in the Plan or this Agreement confers upon the Participant any right with respect to continuance of employment by the Company or any of its Subsidiaries or affects the right of the Company or any of its Subsidiaries may have to terminate the Participant's employment at any time.

Section 11. Coordination with Plan. The Participant hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all of the terms and provisions thereof including any that may conflict with those contained in this Agreement.

Section 12. Notices. All notices to the Company shall be in writing and sent to the Company's Director of Human Resources at the Company's offices. Notices to the Participant shall be addressed to the Participant at the Participant's address as it appears on the Company's records.

Section 13. Amendment. The Company may alter, amend or terminate this Agreement only with the Participant's consent, except as otherwise expressly provided by the Plan or this Agreement.

Section 14. Governing Law. This Agreement shall be governed by the laws of the State of New York to the extent not preempted by federal law, without reference to principles of conflict of laws, and construed accordingly.

Section 15. Compensation Recovery Policy. Notwithstanding any other provision of this Agreement to the contrary, any Restricted Stock Units granted and/or shares of Common Stock issued hereunder, and/or any amount received with respect to any sale of any such shares of Common Stock, shall be subject to potential cancellation, recoupment, rescission, payback or other action in accordance with the terms of the Financial Institutions, Inc. Clawback Policy, as amended from time to time, and any other compensation recovery policy, if any, that the Company may adopt from time to time (the “Policy”). The Participant agrees and consents to the Company’s application, implementation and enforcement of (i) the Policy that may apply to the Participant and (ii) any provision of applicable law relating to cancellation, rescission, payback or recoupment of compensation, including, but not limited to Section 10D of the Exchange Act, and expressly agrees that the Company may take such actions as are necessary to effectuate the Policy or applicable law without further consent or action being required by the Participant. To the extent that the terms of this Agreement and the Policy conflict, then the terms of the Policy shall prevail.

Section 16. Section 409A. This Agreement and the Restricted Stock Units hereunder are intended to be exempt from, or to the extent they are determined to be not exempt, comply with Code Section 409A, and this Agreement shall be administered and interpreted consistent with such intention. Notwithstanding the foregoing, the Company makes no representations to the Participant regarding the taxation of the Restricted Stock Units under this Agreement, including, but not limited to, the tax effects of Code Section 409A, and the Participant shall be solely responsible for the taxes imposed upon him or her with respect to the Restricted Stock Units. References to “termination of employment” and similar terms used in this Agreement mean, to the extent necessary to comply with Code Section 409A, the date that the Participant first incurs a “separation from service” within the meaning of Code Section 409A. Notwithstanding anything in this Agreement to the contrary, if at the time of the Participant’s separation from service, the

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Participant is a “specified employee” for purposes of Code Section 409A, and payment under this Agreement as a result of such separation from service is required by Code Section 409A to be delayed by six months, then the Company shall make such payment on the day following the six-month anniversary of the Participant’s separation from service to the extent required to comply with Code Section 409A.

IN WITNESS WHEREOF, the Company and the Participant have caused this Agreement to be executed on the date set forth opposite their respective signatures, but effective as of the Date of Grant.

Dated: [[GRANTDATE]] **For the Company:**

By: img228859949_0.jpg

Name: **Martin K. Birmingham**

Title: **Chief Executive Officer**

Dated: [[SIGNATURE_DATE]] **PARTICIPANT:**

By: [[SIGNATURE]]

Name: [[FIRSTNAME]] [[LASTNAME]]

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Exhibit 10.4

2024 PERFORMANCE STOCK UNIT AWARD AGREEMENT
Pursuant to the
AMENDED AND RESTATED
FINANCIAL INSTITUTIONS, INC.
2015 LONG-TERM INCENTIVE PLAN

Name of Participant:	[[FIRSTNAME]] [[LASTNAME]]
Date of Grant:	[[GRANTDATE]]
Award Number:	[[GRANTNUMBER]]
Number of Performance Stock Units:	[[SHARESGRANTED]] [[GRANTCODE1]]
Performance Goal:	
Service Period:	The three-year period beginning on March 7, 2024, and ending on March 1, 2027.
Performance Period:	Set forth in Exhibit A (attached hereby and incorporated by reference).
Earned PSUs and Vesting Schedule:	The Number of Performance Stock Units set forth above shall become “Earned PSUs” in accordance with the terms of this Agreement and based on the achievement of the applicable Performance Goal(s) during the applicable Performance Period(s) in accordance with Exhibit A.

This PERFORMANCE STOCK UNIT AWARD AGREEMENT (this “Agreement”), dated as of [[GRANTDATE]], is made between Financial Institutions, Inc. (the “Company”) and the above-named individual (the “Participant”) to record the grant to the Participant of a Performance Stock Unit Award (the “Award”) on the Date of Grant set forth above pursuant to Section 6.5 of the Financial Institutions, Inc. Amended and Restated 2015 Long-Term

Incentive Plan (the “Plan”). Capitalized terms not defined in this Agreement shall have the meaning given to such terms under the Plan.

The Company and the Participant hereby agree as follows:

Section 1. Grant of Performance Stock Units. The Company hereby grants to the Participant, as of the Date of Grant, subject to and in accordance with the terms and conditions of the Plan and this Agreement, a Performance Stock Unit Award for the Number of Performance Stock Units set forth above (the “Performance Stock Units”). The Number of Performance Stock Units set forth above represents the number of Performance Stock Units that may become Earned PSUs at the target level of performance.

Section 2. Achievement and Vesting of Performance Stock Units. Subject to Section 4 below, and the achievement of the applicable Performance Goal(s) during the applicable Performance Period (both as set forth on Exhibit A), provided that the Participant provides substantial services and remains

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in continuous employment with the Company or a Subsidiary through the end of the Service Period set forth above, the Earned PSUs shall vest on the last day of the Service Period. Except as otherwise provided by Section 4 below, if the Participant ceases to provide substantial services or remain in continuous employment with the Company or a Subsidiary for any reason before the completion of the Service Period, the unvested Performance Stock Units shall be immediately forfeited.

Section 3. Timing and Form of Payout. Except as otherwise provided by Section 4 below and subject to Section 8 below, as soon as practicable following the last day of the Service Period or, if later, as soon as practicable after the Committee has determined the level of achievement of the Performance Goal(s), but in no event later than March 15^{th} of the calendar year immediately following the calendar year that includes the last day of the Performance Period (the “Payment Date”), the vested Earned PSUs shall be paid to the Participant by the Company delivering to the Participant a number of shares of Common Stock equal to the number of vested Earned PSUs as of the Payment Date. The Company may issue the shares of Common Stock either (a) in certificate form or (b) in book entry form, registered in the name of the Participant. Notwithstanding anything herein to the contrary, the Company shall have no obligation to issue shares of Common Stock in payment of the Earned PSUs unless such issuance and such payment shall comply with all relevant provisions of law and the requirements of any Stock Exchange on which the shares of Common Stock are traded.

Section 4. Effects of Certain Events.

(a) Change in Control. Subject to the terms of the Plan, if prior to the completion of the Service Period set forth above there is a Change in Control:

(i) if Replacement Awards are not provided to the Participant to replace unvested Performance Stock Units that have not previously been forfeited, then the number of the Participant's Earned PSUs shall be determined at the target level of performance, and such Earned PSUs shall vest as of the date of the Change in Control. Subject to Section 8 below, any vested Earned PSUs shall be paid to the Participant within 75 days following the Change in Control, but in no event later than the earlier of (x) March 15th of the calendar year immediately following the calendar year that includes the date of the Change in Control, or (y) the date any Earned PSUs would otherwise be paid under Section 3.

(ii) if Replacement Awards are provided to the Participant to replace unvested Performance Stock Units, then in the event of the Participant's Involuntary Termination during the period of two (2) years immediately following the Change in Control, the number of Earned Shares under such Replacement Awards, to the extent not previously vested or forfeited, shall be determined at the target level of performance, and such Earned PSUs shall vest as of the date of the Involuntary Termination. Subject to Section 8 below, any vested Earned PSUs shall be paid to the Participant within 75 days following the Involuntary Termination, but in no event later than March 15th of the calendar year immediately following the calendar year that includes the date of the Participant's Involuntary Termination.

(b) Death or Disability. If during the Service Period, the Participant's employment with the Company or a Subsidiary terminates due to death or Disability, then the number of the Participant's Earned PSUs shall be determined at the target level of performance, and such Earned PSUs shall vest as of such date, and subject to Section 8 below, shall be paid to the

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Participant or the Participant's legal representative in the event of the Disability of the Participant, or in the event of the death of the Participant, to the legal representative of the Participant's estate, or if no legal representative has been appointed, to the successor in interest determined under the Participant's will, on a pro-rata basis within 75 days following the Participant's termination of employment due to death or Disability, but in no event later than the earlier of (x) March 15th of the calendar year immediately following the calendar year that includes the date of the Participant's termination of employment due to death or Disability, or (y) the time at which any similar Performance Stock Units are paid to actively employed participants under Section 3 above. Unless Exhibit A provides otherwise, the pro-rata portion of the Earned PSUs shall be determined in accordance with Section 4(d) below.

(c) Retirement. If a Participant terminates employment during the Service Period due to Retirement, then the Award shall continue and a pro-rata number of Earned PSUs shall be eligible to vest based on achievement of the applicable Performance Goal(s) for the applicable Performance Period. Subject to Section 8 below, any vested Earned PSUs will be paid to the Participant within 75 days following the end of the applicable Performance Period, but in no event later than the earlier of (x) March 15th of the calendar year immediately following the calendar year that includes the last day of the applicable Performance Period, or (y) the time at which any similar Performance Stock Units are paid to actively employed participants under Section 3 above. Unless Exhibit A provides otherwise, the pro-rata portion of the Earned PSUs shall be determined in accordance with Section 4(d) below. "Retirement" shall mean the resignation or voluntary termination of employment after attainment of age 65 and ten or more years of service with the Company or a Subsidiary.

(d) Determination of Pro-Rata Portion. Unless Exhibit A provides otherwise, in the event of the death, Disability or a Retirement of a Participant, the pro-rata portion of the Earned PSUs under Section 4(b) or Section 4(c), as applicable, shall be determined separately for each portion of the Award that is subject to a separate Performance Goal based on the Performance Period for the portion of the Award that is subject to that separate Performance Goal. In the event of a Participant's death, Disability or Retirement prior to the completion of the applicable Performance Period for a portion of the Award that is subject to a given Performance Goal, the pro-rata portion of the Earned PSUs for such portion of the Award shall be determined by multiplying the Earned PSUs for such portion of the Award by a fraction, the numerator of which is the number of completed months in the Performance Period during which the Participant was employed by the Company or a Subsidiary, and the denominator of which is the total number of months in the Performance Period for that portion of the Award. In the event of a Participant's Retirement after the completion of the applicable Performance Period for a portion of the Award that is subject to a given Performance Goal, the pro-rata portion of the Earned PSUs for such portion of the Award shall be the full number of Earned PSUs for that portion of the Award.

Section 5. Dividend Equivalents. No dividend equivalents shall accrue or be paid to the Participant with respect to any Performance Stock Units.

Section 6. Rights as Shareholder. In addition to the transfer and other restrictions set forth elsewhere in this Agreement and in the Plan, the Participant, as holder of the Performance Stock Units, shall not possess any rights of a holder of Common Stock (including voting and dividend rights) with respect to the shares of Common Stock underlying such Performance Stock Unit Award until such time

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as the Performance Stock Unit Award vests, is paid and the shares of Common Stock are issued to the holder of the Performance Stock Unit Award.

Section 7. No Transferability. The Performance Stock Units may not be sold, transferred, pledged, assigned, encumbered, or otherwise alienated or hypothecated other than by will or the laws of descent and distribution. Earned PSUs shall be payable only to the

Participant during the Participant’s lifetime, or in the event of the Disability of the Participant, to the Participant or the legal representative of the Participant, or in the event of the death of the Participant, to the legal representative of the Participant’s estate, or if no legal representative has been appointed to the successor in interest determined under the Participant’s will.

Section 8. Withholding Taxes. As a condition of and prior to the payout of any Performance Stock Units, the Company shall be entitled to require the Participant to remit to the Company an amount sufficient to satisfy the amount of any federal, state, or local taxes required to be withheld with respect to the vesting and payout of the Earned PSUs, or any other taxable event related thereto. The Committee may permit the Participant to make such payment in any form or manner authorized by the Committee in its sole discretion, including, but not limited to one or more of the forms specified below:

(a) U.S. dollars by personal check, bank draft, or money order payable to the Company, by money transfer or direct account debits;

(b) Delivery to the Company of a number of shares of Common Stock having an aggregate fair market value of not less than the minimum tax withholding required for the Award;

(c) Involvement of a stockbroker in accordance with the federal margin rules set forth in Regulation T;

(d) A cashless exercise if and to the extent permissible by applicable law; or

(e) Any combination of the above forms and methods.

In the event the Participant fails to provide timely payment of all sums required by the Company pursuant to this Section 8, the Company shall have the right and option, but not obligation, to treat such failure as an election by the Participant to provide all or any portion of such required payment by means of tendering vested shares of Common Stock.

In the event that the Participant becomes subject to federal, state or local taxes (e.g., social security or Medicare tax) on the Performance Stock Units before the date that the Performance Stock Units are paid, the Company shall accelerate the vesting and payment of, and shall withhold the number of shares of Common Stock underlying the Performance Stock Units (based on the Fair Market Value on the date that the Performance Stock Units become subject to such taxes) necessary to satisfy the minimum amount of the taxes required to be withheld, including the payment of any federal, state or local taxes (e.g., federal and state income taxes) on the withheld shares pursuant to this paragraph.

Section 9. Adjustments. As provided by the Plan, in the event of any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, stock dividend, combination or exchange of shares, exchange for other securities, reclassification, reorganization, recapitalization, or any other increase or decrease in the number of outstanding shares of Common Stock effected without consideration to the Company, the specified number of Performance Stock Units shall be proportionately adjusted to prevent dilution or enlargement of the rights granted to, or available for, the Participant hereunder. Furthermore, the Committee shall adjust the Performance Goal(s) to the extent (if any) it determines that the adjustment is necessary or advisable to preserve the intended incentives and benefits to reflect any material change in corporate capitalization, any material corporate transaction (such as a reorganization, combination, separation, merger, acquisition, or any combination of the foregoing), or any complete or partial liquidation of the Company, or any other similar special circumstances, including the issuance of a significant number of shares of Common Stock.

Section 10. No Employment Rights. Nothing in the Plan or this Agreement confers upon the Participant any right with respect to continuance of employment by the Company or any of its Subsidiaries, or affects the right of the Company or any of its Subsidiaries may have to terminate the Participant's employment at any time.

Section 11. Coordination with Plan. The Participant hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all of the terms and provisions thereof including any that may conflict with those contained in this Agreement.

Section 12. Notices. All notices to the Company shall be in writing and sent to the Company's Director of Human Resources at the Company's offices. Notices to the Participant shall be addressed to the Participant at the Participant's address as it appears on the Company's records.

Section 13. Amendment. The Company may alter, amend or terminate this Agreement only with the Participant's consent, except as otherwise expressly provided by the Plan or this Agreement.

Section 14. Governing Law. This Agreement shall be governed by the laws of the State of New York to the extent not preempted by federal law, without reference to principles of conflict of laws, and construed accordingly.

Section 15. Compensation Recovery Policy. Notwithstanding any other provision of this Agreement to the contrary, any Performance Stock Units granted and/or shares of Common Stock issued hereunder, and/or any amount received with respect to any sale of any such shares of Common Stock, shall be subject to potential cancellation, recoupment, rescission, payback or other action in accordance with the terms of the Financial Institutions, Inc. Clawback Policy, as amended from time to time, and any other compensation recovery policy, if any, that the Company may adopt from time to time (the "Policy"). The Participant agrees and consents to the Company's application, implementation and enforcement of (i) the Policy that may apply to the Participant and (ii) any provision of applicable law relating to cancellation, rescission, payback or recoupment of compensation, including, but not limited to Section 10D of the Exchange Act, and expressly agrees that the Company may take such actions as are necessary to effectuate the Policy or applicable law without further consent or action being required by the Participant. To the extent that the terms of this Agreement and the Policy conflict, then the terms of the Policy shall prevail.

Section 16. Section 409A. This Agreement and the Performance Stock Units hereunder are intended to be exempt from, or to the extent they are determined to be not exempt, comply with Code Section 409A, and this Agreement shall be administered and interpreted consistent with such intention. Notwithstanding the foregoing, the Company makes no representations to the Participant regarding the taxation of the Performance Stock Units under this Agreement, including, but not limited to, the tax effects of Code Section 409A, and the Participant shall be solely responsible for the taxes imposed upon him or her with respect to the Performance Stock Units. References to "termination of employment"

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and similar terms used in this Agreement mean, to the extent necessary to comply with Code Section 409A, the date that the Participant first incurs a "separation from service" within the meaning of Code Section 409A. Notwithstanding anything in this Agreement to the contrary, if at the time of the Participant's separation from service, the Participant is a "specified employee" for purposes of Code Section 409A, and payment under this Agreement as a result of such separation from service is required by Code Section 409A to be delayed by six months, then the Company shall make such payment on the day following the six-month anniversary of the Participant's separation from service to the extent required to comply with Code Section 409A.

IN WITNESS WHEREOF, the Company and the Participant have caused this Agreement to be executed on the date set forth opposite their respective signatures, but effective as of the Date of Grant.

Dated: [[GRANTDATE]] **For the Company:**

By: img229783470_0.jpg**Name: Martin K. Birmingham**
Title: Chief Executive Officer

Dated: [[SIGNATURE_DATE]] **PARTICIPANT:**

By: [[SIGNATURE]]

Name: [[FIRSTNAME]] [[LASTNAME]]

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EXHIBIT A

PERFORMANCE PERIOD(S) AND PERFORMANCE GOAL(S)

Performance Goal	Performance Period	Service Period	Performance Goals		
			Threshold	Target	Maximum

Relative ROAE	The three (3) year average rROAE for years 2024, 2025 and 2026	03/7/2024 – 03/01/2027	30th %ile	50th %ile	80th %ile
ROAA	The three (3) year average ROAA for years 2024, 2025 and 2026	03/7/2024 – 03/01/2027	0.849%	0.884%	0.920%
	Earned PSUs subject to vesting Performance is interpolated between performance goals.		50%	100%	150%

1. Definitions

"Relative ROAE" for the Relative ROAE Performance Period has the meaning given to such term by, and is calculated as set forth under, "Calculation of Relative ROAE" below.

"Relative ROAE Performance Period" means the Performance Period for the Relative ROAE component, as set forth in the table above.

"ROAA" means Return on Average Assets as reported in public filings.

"ROAA Performance Period" means the Performance Period for the ROAA component, as set forth in the table above.

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1. Calculation of Relative ROAE

(a) "Relative ROAE" for the Relative ROAE Performance Period means the Company's ROAE relative to the ROAE of each of the Peer Companies for the Relative ROAE Performance Period. "Relative ROAE" for the Relative ROAE Performance Period will be determined by ranking the Company and the Peer Companies from highest to lowest according to their respective ROAEs for the Relative ROAE Performance Period. After this ranking, the percentile performance of the Company relative to the Peer Companies will be determined as follows:

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where:

"P" represents the percentile performance which will be rounded, if necessary, to the nearest whole percentile by application of regular rounding.

"N" represents the remaining number of Peer Companies, plus the Company.

"R" represents Company's ranking among the Peer Companies.

Example: If there are 12 remaining Peer Companies, and the Company ranked 7th, the performance would be at the 50th percentile: .50 = 1 – ((7-1)/(13-1)).

(b) "ROAE" for a company means the company's return on average equity as reported in public filings.

(c) "Peer Companies" means the companies included on the CBNK - NASDAQ Bank Index as of the Date of Grant that remain included on such index on the last day of the Relative ROAE Performance Period. For the avoidance of doubt, any company that leaves the CBNK - NASDAQ Bank Index before the last day of the Relative ROAE Performance Period or is added to the CBNK - NASDAQ Bank Index after the Date of Grant, shall not be includible in the "Peer Companies." In addition, the Committee may modify the Peer Companies to remove any constituent company in the CBNK - NASDAQ Bank Index that has not timely disclosed data required to complete the calculation of Relative ROAE by the deadline for paying any vested Earned PSUs under the Agreement.

2. Gateway Requirement

If Five Star Bank's Tier 1 Capital Ratio (as defined below) as of December 31st of each year in the Performance Period does not meet the requirement set by the MD&C Committee, all Performance Stock Units under this Agreement shall be forfeited and shall not become Earned PSUs. "Tier 1 Capital Ratio" means the Tier 1 capital ratio as determined under the final US Basel III capital framework.

3. Individual Performance Requirement

If the Participant's individual performance for the Performance Period is not satisfactory, as determined by the Company in its sole discretion, all Performance Stock Units under this Agreement shall be forfeited and shall not become Earned PSUs.

4. Performance Goals

The Performance Stock Units consist of two components: (i) a Relative ROAE component, which shall constitute 50 percent of the Number of Performance Stock Units; and (ii) an ROAA component, which shall constitute 50 percent of the Number of Performance Stock Units. Each component of the Performance Stock Units are earned based on satisfaction of the applicable Performance Goal(s) set forth above on this Exhibit A.

(a)Below Threshold. In the event that the Company's actual performance for the Performance Period does not meet the Threshold for a Performance Goal, no Performance Stock Units shall be Earned PSUs for such Performance Goal.

(b)Performance Goal Achievement. For each Performance Goal, the number of Performance Stock Units that become Earned PSUs based on the achievement of that Performance Goal at Threshold, Target and Maximum is equal to the product of (i) the Number of Performance Stock Units subject to the Performance Goal; and (ii) the percentage set forth above on this Exhibit A at Threshold, Target or Maximum, respectively, rounded down to a whole number.

(c)Interpolation. If the Company's actual performance for the Performance Period is between Threshold and Target for a Performance Goal, or between Target and Maximum for a Performance Goal, the number of Earned PSUs for that Performance Goal is equal to the product of: (i) the Number of Performance Stock Units subject to the Performance Goal; and (ii) the percentage determined using straight line interpolation between Threshold and Target (or Target and Maximum, as applicable), rounded down to a whole number.

(d)Above Maximum. If the Company's actual performance for the Performance Period is at or above Maximum for a Performance Goal, the number of Earned PSUs is equal to the product of: (i) the Number of Performance Stock Units subject to the Performance Goal; and (ii) the percentage set forth above on this Exhibit A at Maximum, rounded down to a whole number.

(e)Negative ROAE Modifier. Regardless of the level of achievement against the Relative ROAE Performance Goal, in the event that the Company's ROAE is less than zero, the number of Earned PSUs for the Relative ROAE Performance Goal shall not exceed the product of: (i) the Number of Performance Stock Units subject to the Relative ROAE Performance Goal; and (ii) the percentage set forth above on this Exhibit A at Target, rounded down to a whole number.

(f)Preliminary Number of Earned PSUs. The Number of Performance Stock Units that become Earned PSUs shall be the number of Earned PSUs for the Performance Goal(s).

5. Actual Performance

The Committee shall review and approve: (a) the Relative ROAE for the Relative ROAE Performance Period; and (b) the ROAA for the ROAA Performance Period.

6. Final Number of Earned PSUs

Subject to the requirements set forth under "Gateway Requirement" and "Individual Performance Requirement" above, the number of Earned PSUs may be adjusted downward by the Committee, in its sole and absolute discretion, to a whole number.

7. Vested Earned PSUs

Subject to Section 4 of the Agreement, the Earned PSUs shall become vested Earned PSUs only if the Participant provides substantial services to the Company or a Subsidiary and remains in the continuous employment of the Company or a Subsidiary through the last day of the Service Period.

Exhibit 31.1

Certification of Principal Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Martin K. Birmingham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Financial Institutions, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2023 May 6, 2024

/s/ Martin K. Birmingham

Martin K. Birmingham

President and Chief Executive Officer

Exhibit 31.2

Certification of Principal Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, W. Jack Plants II, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Financial Institutions, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2023 May 6, 2024

/s/ W. Jack Plants II

W. Jack Plants II

Chief Financial Officer

Exhibit 32

Certification pursuant to
18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

Martin K. Birmingham, President and Chief Executive Officer, and W. Jack Plants II, Chief Financial Officer of Financial Institutions, Inc. (the "Company"), each certify in his capacity as an officer of the Company that he has reviewed the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2023 March 31, 2024 and that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2023 May 6, 2024

/s/ Martin K. Birmingham

Martin K. Birmingham

President and Chief Executive Officer

(Principal Executive Officer)

Date: November 6, 2023 May 6, 2024

/s/ W. Jack Plants II

W. Jack Plants

Chief Financial Officer

(Principal Financial Officer)

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002. A signed original of this written statement required by Section 906 has been provided to Financial Institutions, Inc. and will be retained by Financial Institutions, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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