

FINANCIAL INSTITUTIONS INC
Form DEF 14A
April 27, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

FINANCIAL INSTITUTIONS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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April 30, 2018

Fellow Shareholders:

We are pleased to invite you to attend the 2018 Annual Meeting of Shareholders of Financial Institutions, Inc. to be held on June 20, 2018 at 10:00 a.m. at our corporate headquarters in Warsaw, New York. We will provide an update on the Company and how we are executing on our strategies and initiatives. It is also an excellent opportunity for us to hear directly from you.

Enclosed you will find a notice setting forth the business expected to come before the meeting, a letter from our non-executive Chairman of the Board of Directors, the Proxy Statement, a form of proxy and a copy of our 2017 Annual Report to Shareholders. We hope that you will be able to attend the meeting. Your vote is very important to us and whether or not you plan to attend the meeting in person, we hope that your shares are represented and voted.

In 2017, Financial Institutions, Inc. performed well as a result of our focus on driving our community banking franchise and complementary businesses, coupled with the talent of our associates and their belief in our firm's culture of leadership, teamwork and service. My annual report letter to shareholders describes our focus on achieving sustainable earnings growth and the strategic initiatives that are driving progress in the execution of our strategic plan. We are committed to providing our shareholders with long-term value and I hope that you find the letter informative.

Thank you for your investment in Financial Institutions, Inc. I am confident that the Company is well-positioned to continue to create value for our shareholders. I am proud to be part of a company that has such talented and dedicated people and a Board of Directors comprised of accomplished members, all of whom are committed to our success and to your investment.

Cordially,

/s/ Martin K. Birmingham

Martin K. Birmingham

President and Chief Executive Officer

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April 30, 2018

Dear Fellow Shareholders:

Thank you for your investment in Financial Institutions, Inc. (the Company). Our Chief Executive Officer, the senior management team and I, on behalf of the Board of Directors of your Company (the Board), thank you for the faith and confidence you have entrusted in us. The Board remains focused on enhancing the Company's ability to deliver long-term value to our shareholders through active engagement and oversight of our strategy, capabilities, leadership and risk management. It is our pleasure to be part of this remarkable Company that plays a vital role in the economic well-being of our customers, over 650 employees and the communities we serve.

Strategy

The Board engages regularly with the Company's executive management team, business-line leaders and functional support executives (risk, human resources, audit and finance) to discuss the opportunities and challenges the Company faces and the environment in which it operates. These discussions assist our ability to assess the Company's performance and to highlight areas of focus and direction as part of our Board meetings and annual strategic planning process. Each summer, the Board and the executive team meet for an intensive planning session to review progress and discuss our business opportunities and challenges. The result is a refined strategic vision that is well understood and fully supported by the Board.

Talent Development and Succession Planning

Talent development, recruitment, and succession planning continue to be important components of this Board's governance responsibilities. The Board is actively involved in the ongoing review of our succession plan and the actions of management relative to the implementation of that plan.

Executive Compensation

The Board is actively engaged to ensure that the structure of our compensation programs provide appropriate incentives for our executive leadership to effectively align their interests with those of our shareholders. Our programs are designed to link compensation with Company strategy and provide incentives that correlate with Company performance. We regularly review best compensation policies and practices with our independent compensation consultant. We believe our executive compensation plan directly aligns with the Company's strategic and annual business plans, which is in the best interests of shareholders.

As described in the Proxy Statement, we maintained a consistent short-term incentive structure during the last year. In 2017, based on shareholder feedback and in consultation with our compensation advisors, adjustments were made to the long-term incentive plan.

Engagement

We understand that our shareholders expect our Board to think broadly about our stakeholders as we work with management to create value, including the role the Company plays within the communities in which we work and live. There are several ways in which the Board receives shareholder feedback. Through a combination of formal management presentations and informal conversations, we provide updates regarding developments at the Company and listen to your views on strategy, business and financial issues. Annually, we conduct an outreach initiative with

our largest shareholders, offering to make our management team and myself available for individual meetings where topics of interest can be discussed including performance, governance and executive compensation. Our most recent outreach effort included 20 of our largest shareholders, representing 45% of outstanding shares. This is in addition to our regular meetings and conversations with investors. The Board is also actively engaged with our regulators, customers and key community leaders to gain further insights on performance and underlying opportunities.

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Board Effectiveness and Composition

Appropriate Board composition of capable Directors of high integrity is critical to our Board's ability to fulfill all its responsibilities to represent the long-term interests of shareholders. Refreshing our Board to provide diverse perspectives and expertise, including an evolving mix of skills, experience, geography and backgrounds, has been and continues to be a fundamental focus for us. To that end, in 2017, Don Boswell was elected to the Board in June and we were pleased that Dawn Burlew joined the Board in November. As president and CEO of Western New York Public Broadcasting, Don brings extensive executive, governance and market knowledge of greater Buffalo and the Western New York region. Dawn is a senior leader of Corning, Inc., and a recognized community leader with extensive knowledge of economic and workforce development strategies in both the Southern Tier region and New York State. Since 2014, five new directors, or 42% of the Board, have joined as new members, increasing the diversity of our ranks by 33%.

I also want to note that after 13 years of distinguished service, Erkie Kailbourne has chosen to retire from the Board and not stand for re-election. Erkie's extensive banking, regulatory, business and market knowledge, combined with his leadership experience made him an invaluable voice on our Board. His deep understanding of our business and culture, especially having served as Chairman of the Board during a critical period in our history, has benefited the Company enormously. We thank him for his dedication and leadership.

Conclusion

Our Board remains committed to building long term value in the Company. On behalf of the directors and the senior management team, thank you for your ongoing support of both our Board and the Company. And thank you for choosing to invest in Financial Institutions, Inc. I hope that you find this Proxy Statement informative, and we look forward to continuing our dialogue with you in the year to come.

Sincerely,

/s/ Robert N. Latella

Robert N. Latella

Chairman of the Board

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FINANCIAL INSTITUTIONS, INC.

220 Liberty Street

Warsaw, New York 14569

(585) 786-1100

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be held on June 20, 2018

The Annual Meeting of Shareholders of Financial Institutions, Inc. (the "Annual Meeting") will be held at the Company's corporate headquarters located at 220 Liberty Street, Warsaw, New York 14569 on Wednesday, June 20, 2018, at 10:00 a.m. for the following purposes:

1. ***Election of Directors.*** To elect three directors, each to serve until the Company's 2021 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified;
2. ***Advisory Vote on Executive Compensation.*** To vote on a non-binding, advisory resolution to approve the compensation paid to our named executive officers for the fiscal year ended December 31, 2017, as described in the Compensation Discussion and Analysis, executive compensation tables and enclosed narrative disclosures in this Proxy Statement (commonly referred to as a "say on pay" vote);
3. ***Advisory Vote on the Frequency of Future Advisory Votes on Executive Compensation.*** To vote on a non-binding, advisory resolution to approve the frequency of future advisory votes on the compensation of our named executive officers;
4. ***Ratification of Independent Registered Public Accounting Firm.*** To vote on a proposal to ratify the appointment of RSM US LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018; and
5. ***Other Business.*** To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The record date for the Annual Meeting is April 23, 2018. Only our shareholders of record at the close of business on that date may vote at the meeting or any adjournment or postponement of the meeting. A copy of our Annual Report to Shareholders, including our Annual Report on Form 10-K, for the fiscal year ended December 31, 2017 (Annual Report) is being mailed with this Proxy Statement.

It is important that your shares be represented and voted at the Annual Meeting whether or not you plan to attend. You may vote by mail or Internet. Instructions for voting by Internet are provided on the enclosed proxy card or the voting instructions provided by your broker.

By Order of the Board of Directors

/s/ Sonia Dumbleton

Sonia M. Dumbleton
Corporate Secretary

Warsaw, New York
April 30, 2018

Important Notice Regarding the Availability of

Proxy Materials for the Annual Meeting of Shareholders to be held on June 20, 2018

Our Proxy Statement is attached. Financial and other information concerning our Company is contained in our Annual Report to Shareholders for the year ended December 31, 2017. Pursuant to rules promulgated by the U.S. Securities and Exchange Commission, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including the Proxy Statement, annual report and a proxy card, and by notifying you of the availability of these proxy materials on the Internet. This Proxy Statement and our Annual Report are available in the *SEC Filings* subsection of the *Financials* section of our website at www.fiiwarsaw.com.

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FINANCIAL INSTITUTIONS, INC.

220 Liberty Street

Warsaw, New York 14569

(585) 786-1100

PROXY STATEMENT

INTRODUCTION

The Financial Institutions, Inc. Board of Directors (the **Board** or the **Board of Directors**) is using this Proxy Statement to solicit proxies from the holders of its common stock for use at the Financial Institutions, Inc. 2018 Annual Meeting of Shareholders and any adjournment or postponement thereof (the **Meeting** or the **Annual Meeting**). The notice of meeting, this Proxy Statement and the enclosed form of proxy card are first being mailed to our shareholders on or about April 30, 2018. In this Proxy Statement, we may also refer to Financial Institutions, Inc. and its subsidiaries as **Financial Institutions**, the **Company**, **we**, **our** or **us**.

Financial Institutions is the holding company for Five Star Bank, Scott Danahy Naylor, LLC and Courier Capital, LLC. In this Proxy Statement, we may also refer to Five Star Bank as the **Bank**.

INFORMATION ABOUT THE MEETING, VOTING AND PROXIES

What are the date, time and place of the meeting?

Date: June 20, 2018

Time: 10:00 a.m., local time

Place: Corporate Headquarters of Financial Institutions, Inc.
220 Liberty Street
Warsaw, New York 14569

What matters are to be voted upon at the meeting?

At the meeting, record holders of our common stock as of April 23, 2018 will consider and vote on the following proposals:

Elect three directors, each to serve a three-year term expiring at the Company's 2021 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified (see Proposal 1 Election of Directors on page 11);

Approve the advisory resolution to approve the compensation paid to our named executive officers for the fiscal year ended December 31, 2017, as described in the Compensation Discussion and Analysis, executive compensation tables and enclosed narrative disclosures in this Proxy Statement (see Proposal 2 - Advisory Vote to Approve the Compensation of Our Named Executive Officers on page 55); and

An advisory vote on the frequency of future advisory votes on the compensation of our named executive officers (see Proposal 3 - Advisory Vote on the Frequency of Future Advisory Votes to Approve the Compensation of Our Named Executive Officers on page 56);

Ratification of the appointment of RSM US LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018 (see Proposal 4 - Ratification of Appointment of Independent Registered Public Accounting Firm on page 59).

As of the date of this Proxy Statement, these four proposals are the only matters that our Board of Directors intends to present at the Annual Meeting. Our Board does not know of any other business to be presented at the meeting. If other business is properly brought before the Annual Meeting, the persons named on the enclosed proxy card will vote on these other matters in their discretion, subject to compliance with Rule 14a-4(c) of the Securities Exchange Act of 1934, as amended (the Exchange Act).

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How does the Board recommend that I vote?

The Board recommends that you vote:

FOR the election of each of the three nominees for director named in this Proxy Statement (**Karl V. Anderson, Jr., Dawn H. Burlew, and Robert N. Latella**), each to serve for a term of three years expiring at the Company's 2021 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified;

FOR the advisory resolution to approve the compensation paid to our named executive officers for the fiscal year ended December 31, 2017, as described in the Compensation Discussion and Analysis, executive compensation tables and enclosed narrative disclosures in this proxy statement;

To hold future advisory votes on the compensation of our named executive officers EVERY YEAR;
and

FOR the ratification of the appointment of RSM US LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018.

Who can vote at the Meeting?

Our shareholders of record as of the close of business on April 23, 2018 are entitled to vote (in person or by proxy) at the Annual Meeting and at any adjournment or postponement thereof. On that date, there were 15,903,415 shares of our common stock outstanding and entitled to vote. No securities other than our common stock are entitled to be voted at the Annual Meeting.

How many shares must be present to conduct the Meeting?

We must have a quorum present in person or by proxy to hold the meeting. A quorum is a majority of the shares entitled to vote that are either present in person or represented by proxy. For purposes of determining whether a quorum exists, we count as present any shares that are voted by proxy over the Internet, by mail or that are represented in person at the Annual Meeting. Proxies received but marked as abstentions and broker non-votes, which are described below, will be counted for the purpose of determining the existence of a quorum. An inspector of elections appointed for the meeting will determine whether a quorum is present and will tabulate votes cast by proxy or in person at the meeting. If a quorum is not present, we expect to adjourn the Annual Meeting until we obtain a quorum.

What is the difference between a record holder and a beneficial owner ?

If your shares are registered directly in your name with our transfer agent, you are considered the record holder of your shares. If, on the other hand, your shares are held in a brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name. As a beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote and you are also invited to attend the meeting. Since a beneficial owner is not the record holder, you may not vote these shares in person at the meeting unless you obtain a legal proxy from your broker, bank or other nominee that holds your shares, giving you the right to vote your shares at the meeting.

Your broker, bank or other nominee has provided you with instructions regarding how to direct the voting of your shares.

How do I vote before the Meeting?

If you are a record holder, you may vote your shares by mail by completing, signing and returning the enclosed proxy card. For your convenience, you may also vote your shares via the Internet by following the instructions on the enclosed proxy card. If you vote via the Internet, you do not need to return your proxy card.

If you are the beneficial owner of shares held in the name of your broker, bank or other nominee, commonly referred to as street name, you may vote by submitting voting instructions to your broker. For directions on how to vote shares held beneficially in street name, please refer to the voting instruction card provided by your broker, bank or other nominee.

With respect to the election of directors (Proposal 1), you may either vote for all three of the nominees to the Board of Directors named on the enclosed proxy card, withhold authority to vote for any nominee(s) you specify or you may withhold authority to vote for all of the nominees as a group. You may vote for, against, or abstain from voting on the advisory resolution to approve the compensation paid to our named executive officers for the fiscal year ended December 31, 2017 (Proposal 2), and the proposal to ratify the appointment of our independent registered public accounting firm for the fiscal year ending December 31, 2018 (Proposal 4). You may vote for every year, every two years, or every three years to hold future advisory votes on the compensation of our named executive officers (Proposal 3).

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How do I vote my 401(k) plan shares?

Participants in the Financial Institutions, Inc. 401(k) Retirement Savings Plan (which we refer to as the Plan) who hold shares of our common stock in their Plan accounts, may direct the trustee of the Plan to vote these shares by completing and returning a proxy card. Any shares in a Plan account for which no instruction is received will be voted by the trustee proportionally based upon the votes cast by other plan account holders whose Plan accounts hold such shares.

May I vote at the Meeting?

Yes, you may vote your shares at the meeting if you attend in person. If your shares are held by a broker, bank, or other nominee and you wish to vote at the meeting, you must bring to the meeting a letter from your broker, bank, or other nominee confirming (1) your beneficial ownership of the shares, (2) that the broker, bank, or other nominee is not voting the shares at the meeting, and (3) granting you a legal proxy to vote the shares in person or at the meeting. **You will not be able to vote shares you hold in street name through a bank, broker or other nominee in person at the Annual Meeting unless you have a legal proxy from that bank, broker or other nominee issued in your name giving you the right to vote your shares.** For information on how to obtain directions to the meeting, please contact us at (585) 786-1100. Even if you plan to attend the meeting in person, we recommend that you also submit your proxy card or voting instructions as described above so that your vote will be counted if you later decide not to attend the meeting in person.

What does it mean if I receive more than one set of proxy materials?

You may receive more than one set of these proxy materials, including multiple copies of this Proxy Statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a shareholder of record and your shares are registered in more than one name, you will receive more than one proxy card. To ensure that all of your shares are voted, please vote using each proxy card or voting instruction form that you receive or, if you vote by Internet, you will need to enter each of your Control Numbers. Remember, you may vote by Internet or by signing, dating and returning the proxy card in the postage-paid envelope provided, or by voting by ballot at the Annual Meeting.

How many votes do I have?

Each share that you own as of the close of business on April 23, 2018 entitles you to one vote on each matter voted upon at the meeting. As of the close of business on April 23, 2018, there were 15,903,415 shares of our common stock outstanding. Holders of our common stock do not have cumulative voting rights.

Can I change my vote after I submit my proxy?

Yes, you may change your vote or revoke your proxy at any time before the vote at the meeting. If you are a record holder, you may revoke your proxy and change your vote at any time before the polls close at the meeting by:

Properly submitting a later dated proxy;

Notifying the Corporate Secretary of Financial Institutions in writing before the meeting that you have revoked your proxy; or

Voting in person at the meeting.

If you have instructed a broker, bank or other nominee to vote your shares, you may submit a new, later-dated voting instruction form or contact your bank, broker or other nominee. You may also vote in person at the Annual Meeting if you obtain a legal proxy as described in the answer to the question above entitled May I vote at the meeting?

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How are my shares voted if I submit a proxy but do not specify how I want to vote?

If you submit a properly executed proxy card and specify how you want to vote, the persons named on the proxy card (or, if applicable, their substitutes) will vote your shares as you instruct. If you sign your proxy card and return it without indicating how you would like to vote your shares, your shares will be voted as the Board of Directors recommends, which is:

FOR the election of each of the three nominees for director named in this Proxy Statement (**Karl V. Anderson, Jr., Dawn H. Burlew, and Robert N. Latella**), each to serve for a term expiring at the Company's 2021 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified;

FOR the advisory resolution to approve the compensation paid to our named executive officers for the fiscal year ended December 31, 2017, as described in the Compensation Discussion and Analysis, executive compensation tables and enclosed narrative disclosures in this proxy statement;

To hold future advisory votes on the compensation of our named executive officers EVERY YEAR;
and

FOR the ratification of the appointment of RSM US LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018.

With respect to the transaction of such other business as may properly come before the meeting and any adjournment or postponement thereof, subject to compliance with Rule 14a-4(c) of the Exchange Act, each proxy received will be voted in accordance with the best judgment of the persons named on the enclosed proxy card. At this time, the Board of Directors knows of no such other business.

What is a broker non-vote?

If you are a beneficial owner whose shares of record are held by a broker, you may instruct your broker how to vote your shares. If you do not give instructions to your broker, the broker will determine if it has the discretionary authority to vote on the particular matter. Under the rules of the New York Stock Exchange (NYSE), which are also applicable to Nasdaq-listed companies, brokers have the discretion to vote on routine matters such as Proposal 4, but do not have discretion to vote on non-routine matters such as Proposals 1, 2 and 3. Therefore, if you do not provide voting instructions to your broker or other nominee, your broker or other nominee may only vote your shares on Proposal 4.

A broker non-vote occurs when a broker has not received voting instructions from the beneficial owner of the shares and the broker cannot vote the shares because the matter is not considered a routine matter under NYSE rules. Broker non-votes, if any, will be counted for purposes of calculating whether a quorum is present at the meeting, but will not be counted for purposes of determining the number of votes cast with respect to a particular proposal.

Your vote is important and we strongly encourage you to vote your shares by following the instructions provided on the voting instruction card you receive from your broker. Please return your voting instruction card to your broker and

contact the person responsible for your account to ensure that a proxy is voted on your behalf.

What vote is required to elect directors?

Our shareholders elect directors by a plurality vote, which means that the three director nominees for election who receive the highest number of FOR votes will be elected as directors.

If you are the beneficial owner of shares held by your bank, broker or other nominee in street name and you do not vote your shares, the bank, broker, or other nominee cannot vote such shares for the election of directors. If you do not vote for the election of directors because the authority to vote is withheld, because a proxy is not returned, because the broker holding the shares does not vote, or because of some other reason, the shares will not count in determining the total number of votes for each nominee. Proxy cards signed and returned to the Company unmarked will be voted FOR the three nominees for directors named in this proxy statement (**Karl V. Anderson, Jr., Dawn H. Burlew, and Robert N. Latella**).

What happens if one or more of the nominees for director do not receive a majority of the votes cast?

Any nominee for director who receives a greater number of votes WITHHELD from his or her election than votes FOR shall tender his or her resignation to the Board. The Board's Nominating and Governance Committee will then make a recommendation to the independent directors who were not required to submit their resignation whether to accept or reject the resignation(s) or take other appropriate action with respect to the director nominee(s) who did not receive a majority of votes. Within 90 days of the Annual Meeting, the independent directors will, after due deliberation, determine what action is to be taken.

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What vote is required to approve the advisory resolution to approve the compensation paid to our named executive officers?

This matter is being submitted to enable our shareholders to approve, on an advisory and non-binding basis, the compensation of our named executive officers for the year ended December 31, 2017. In order to be approved on an advisory, non-binding basis, this proposal must receive the FOR vote of a majority of the votes cast on the matter. Abstentions will have no effect on the proposal. Broker non-votes will also have no effect on this proposal as brokers are not entitled to vote on such proposals in the absence of voting instructions from the beneficial owner. Although the advisory vote on the compensation of our named executive officers is non-binding, our Management Development & Compensation Committee values the opinions expressed by our shareholders in their vote on this proposal and will review the results of the vote and evaluate whether any actions are necessary to address such results.

What vote is required to approve, on an advisory basis, the frequency of future advisory votes on the compensation of our named executive officers?

This matter is being submitted to enable shareholders to express a preference as to whether future advisory votes on executive compensation should be held every year, every two years or every three years. Abstentions and broker non-votes will not be counted as expressing any preference. If none of the frequency alternatives (one year, two years or three years) receives a majority of the votes cast, the Board of Directors will consider the frequency that receives a plurality of the votes cast as being selected by shareholders. However, because this vote is advisory and not binding on us or our Board in any way, our Board may decide that it is in our and our shareholders' best interests to hold an advisory vote on executive compensation more or less frequently than the alternative selected by our shareholders.

What vote is required to ratify the appointment of RSM US LLP as our independent registered public accounting firm?

For the ratification of the appointment of RSM US LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018 to be approved, this proposal must receive the FOR vote of a majority of the votes cast on the matter. Abstentions will have no effect on this proposal. Brokers have authority to vote on this proposal and therefore there will be no broker non-votes on this proposal.

Although shareholder ratification of the appointment of RSM US LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2018 is not required, we believe that it is advisable to give shareholders an opportunity to ratify this appointment. If such ratification is not approved at the Annual Meeting, the Board's Audit Committee may reconsider its appointment of RSM US LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2018 and reserves the discretion to appoint RSM US LLP or another independent registered public accounting firm.

Who will count the vote?

Representatives of American Stock Transfer & Trust Company, the transfer agent for our common stock, will count the vote and act as Inspector for the election.

Who pays for the solicitation of proxies?

We will pay for the entire cost of soliciting proxies. We will also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to the beneficial owners of our shares. In addition, our directors and employees may solicit proxies in person, by telephone, via the Internet, or by other means of communication.

Directors and employees will not be paid any additional compensation for soliciting proxies. In addition, we have engaged Saratoga Proxy Consulting, LLC, 520 8th Avenue, New York, New York 10018 to assist in proxy solicitation and collection at a cost of \$7,500, plus out-of-pocket expenses.

How can I find out the results of the voting at the Meeting?

We will report the voting results in a filing with the U.S. Securities and Exchange Commission (SEC) on a Current Report on Form 8-K within four business days following the conclusion of the Annual Meeting. If the official results are not available at that time, we will provide preliminary voting results in the Form 8-K and will provide the final results in an amendment to the Form 8-K as soon as practicable after they become available.

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What is the deadline to propose actions for consideration at next year's annual meeting of shareholders?

You may submit proposals for consideration at our 2019 annual meeting of shareholders. For a shareholder proposal to be considered for inclusion in our proxy statement for the annual meeting next year pursuant to Rule 14a-8 of the Exchange Act, our Corporate Secretary must receive the written proposal at our corporate headquarters no later than December 31, 2018. Such proposals also must comply with Rule 14a-8 of the Exchange Act. Such proposals should be addressed to:

Corporate Secretary
Financial Institutions, Inc.
220 Liberty Street
Warsaw, New York 14569

For a shareholder to bring business before the annual meeting of shareholders that is not intended to be included in our proxy statement pursuant to Rule 14a-8 of the Exchange Act, including a proposal or a nominee for election to the Board of Directors, the shareholder must give timely notice to our Corporate Secretary in accordance with our By-laws and include in such notice the information required by our By-laws. In general, our By-laws require that the notice be received by our Corporate Secretary no later than 90 days and not more than 120 days prior to the one-year anniversary date of the Annual Meeting. However, if the 2019 annual meeting is more than thirty days before or more than sixty days after the one-year anniversary date of the Annual Meeting, then notice will need to be received by our Corporate Secretary by the later of (i) 90 days prior to the 2019 annual meeting or (ii) 10 days following the date public disclosure of the date of the 2019 annual meeting was first made public.

In addition, in order for any shareholder proposals submitted outside of Rule 14a-8 of the Exchange Act to be considered timely for purposes of Rule 14a-4(c) of the Exchange Act, the proposal must be received at our principal executive offices not later than 60 days prior to the scheduled date of the 2019 annual meeting of shareholders.

How can I obtain additional copies of these materials or copies of other documents?

Complete copies of this Proxy Statement and the 2017 Annual Report, which includes our Annual Report on Form 10-K for the year ended December 31, 2017, are also available in the *SEC Filings* subsection of the *Financials* section of our website at www.fiiwarsaw.com.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****MANAGEMENT**

The following table shows, as of April 23, 2018, the beneficial ownership of shares of Financial Institutions, Inc. common and preferred stock by (a) all current directors and nominees, (b) all named executive officers, and (c) all of our current directors, nominees and executive officers as a group. Beneficial ownership means that the individual has or shares voting power or investment power with respect to the shares of stock or the individual has the right to acquire the shares of stock within 60 days of April 23, 2018.

Name	Title of class	Number of shares beneficially owned	Number of shares included in the previous column which the individual or group has the right to acquire within 60 days of April 23, 2018	Percent of class outstanding⁽¹⁾
Directors⁽²⁾:				
Karl V. Anderson, Jr.	Common	16,358	2,000	*
Martin K. Birmingham	Common	87,554		*
Donald K. Boswell	Common	2,020		*
Dawn H. Burlew	Common	773		*
Andrew W. Dorn, Jr.	Common	16,999		*
Robert M. Glaser	Common	14,144		*
Samuel M. Gullo	Common	22,587	2,000	*
Susan R. Holliday	Common	24,186		*
Erland E. Kailbourne	Common	45,746	2,000	*
Robert N. Latella	Common	21,102	2,000	*
Kim E. VanGelder	Common	4,488		*
James H. Wyckoff	Common	338,391 ⁽³⁾		2.13%
	Class A Preferred	69 ⁽⁴⁾		4.79%
	Class B Preferred	8,565 ⁽⁵⁾		4.98%
Named executive officers who are not Directors⁽²⁾:				
Michael D. Burneal	Common	7,523		*

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Joseph L. Dugan	Common	930		*
Kevin B. Klotzbach	Common	25,789		*
William L. Kreienberg	Common	22,884		*
All current directors and executive officers as a group (27 persons)	Common	690,240	9,800	4.34%
	Class A Preferred	69		4.79%
	Class B Preferred	8,565		4.98%

* Denotes less than 1%

- (1) As reported by such persons as of April 23, 2018 with percentages based on 15,903,415 shares of Common Stock, 1,439 shares of Series A Preferred Stock and 171,847 shares of Series B-1 Preferred Stock, respectively, outstanding on April 23, 2018, including shares the individual or group has a right to acquire within 60 days of April 23, 2018 (as indicated in the column above), which increases both the number of shares owned by such individual or group and the number of shares outstanding.
- (2) Except as set forth in the footnotes below, each person has sole investment and voting power with respect to the stock beneficially owned by such person.
- (3) Includes 66,995 shares held by Mr. Wyckoff's spouse.
- (4) Includes 8 shares held by Mr. Wyckoff's spouse and 19 shares held in trust.
- (5) Includes 855 shares held by Mr. Wyckoff's spouse.

Table of Contents**PRINCIPAL SHAREHOLDERS**

The following table sets forth certain information concerning each person (including any group) known to us to beneficially own more than 5% of the outstanding shares of common stock of the Company as of April 23, 2018.

Name and Address of Beneficial Owner	Number of shares beneficially owned	Percent of outstanding common stock⁽¹⁾
BlackRock, Inc. 55 East 52nd Street New York, New York 10055	1,115,102 ⁽²⁾	7.01%
Dimensional Fund Advisors LP Building One 6300 Bee Cave Road Austin, Texas 78746	1,126,390 ⁽³⁾	7.08%

* Denotes less than 1%

(1) Based on 15,903,415 shares of Common Stock outstanding as of April 23, 2018.

(2) Based on information set forth in Amendment number 8 to Schedule 13G filed with the SEC on January 29, 2018 by BlackRock, Inc. reporting beneficial ownership in the following manner: sole voting power, 1,080,158 shares; and sole dispositive power, 1,115,102 shares. Blackrock, Inc. is reporting beneficial ownership for the following subsidiaries: BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A., BlackRock Investment Management, LLC and BlackRock Investment Management (UK) Limited.

(3) Based on information set forth in Amendment number 2 to Schedule 13G filed with the SEC on February 9, 2018 by Dimensional Fund Advisors LP (Dimensional) reporting beneficial ownership in the following manner: sole voting power, 1,077,918 shares; and sole dispositive power, 1,126,390 shares. Dimensional reports beneficial ownership for four investment companies it advises or sub-advises and certain comingled funds, group trusts and separate accounts it advises. Dimensional disclaims beneficial ownership of all such shares.

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PROPOSAL 1 ELECTION OF DIRECTORS

Our By-laws provide for a classified Board of Directors, with directors divided into three classes of approximately equal number. One class is elected at each annual meeting of shareholders for a term expiring at the third successive annual meeting and until their respective successors have been elected and qualified. The Board of Directors is authorized by our By-laws to fix, from time to time, the number of directors that constitute the whole Board of Directors. The Board size is currently set at twelve members but will be reduced to eleven members at the call to order of the Annual Meeting. Erland E. Kailbourne, whose term expires in 2018, has elected to retire as a Director and is not standing for re-election. Accordingly, Mr. Kailbourne's term as a director will expire at the Annual Meeting. The nominees for director at the 2018 Annual Meeting are: **Karl V. Anderson, Jr., Dawn H. Burlew, and Robert N. Latella**. Messrs. Anderson and Latella and Ms. Burlew are nominated for election to the Board. Each of these individuals has been nominated by the Board of Directors, upon the recommendation of its Nominating and Governance Committee, to stand for election for a term expiring at the Company's annual meeting to be held in 2021 and until his or her respective successors are duly elected and qualified.

The nominees recommended by the Board of Directors have consented to serving as nominees for election to the Board, to being named in this proxy statement and to serving as members of the Board if elected by the Company's shareholders. As of the date of this proxy statement, the Company has no reason to believe that any nominee will be unable or unwilling to serve if elected as a director. However, if for any reason a nominee becomes unable to serve or for good cause will not serve if elected, the Board upon the recommendation of its Nominating and Governance Committee may designate substitute nominees, in which event the shares represented by proxies returned to us will be voted for such substitute nominees. If any substitute nominees are so designated, the Company will file an amended proxy statement that, as applicable, identifies the substitute nominees, discloses that such nominees have consented to being named in the amended proxy statement and to serve as directors if elected, and includes certain biographical and other information about such nominees required by the applicable rules promulgated by the SEC.

Our corporate governance guidelines include a director resignation policy. If any nominee receives a majority of WITHHELD votes, that nominee will be required to immediately submit his or her resignation to the Board (broker non-votes will not be counted as either for or withheld). The Board's Nominating and Governance Committee will then make a recommendation to the independent directors as to whether that resignation should be accepted or rejected or whether another action is appropriate. Within 90 days of the Annual Meeting, the independent directors will, after due deliberation, determine what action is to be taken. The director nominee(s) who received a majority of WITHHELD votes shall play no part in these deliberations or in the decision reached by the independent directors.

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The Board believes that its director nominees bring or will bring skills, experience and expertise to the Board as a result of their other business activities and associations.

Core Qualifications and Experiences All of our Director Nominees Possess	Diversity of Skills and Experiences Represented on our Board	
Integrity, business judgment and commitment	Financial industry	Business ethics
Demonstrated management ability	Complex regulated industries	Strategic thinking
Extensive experience in the public, private or not-for-profit sectors	Risk management	Operations
Leadership and expertise in their respective fields	Reputational considerations	Knowledge of growth markets
Financial literacy	Corporate governance	Credit evaluation
Active involvement in educational, charitable and community organizations in the communities we serve	Technology and cyber security	Environmental, social & governance factors
	Accounting & preparation of financial statements	Human capital management
	Compliance	Academia
	In-market experience	Government, public policy & regulatory affairs

The business experience of each director or director nominee of the Company for at least the past five years, and the experience and qualifications supporting his or her service are set forth on the following pages. The ages shown are as

of December 31, 2017. No director, director nominee, or executive officer has any family relationship with any director, executive officer or person nominated or chosen by the Company to become a director or executive officer.

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The Board of Directors unanimously recommends that shareholders elect nominees Karl V. Anderson, Jr., Dawn H. Burlew and Robert N. Latella, and recommends that you vote FOR ALL NOMINEES

Karl V. Anderson, Jr.

Dawn H. Burlew

Director Since: 2006

Term Expires: 2018

Director Since: 2017

Term Expires: 2018

Age: 71

Independent

Age: 53

Independent

Qualifications:

Of Counsel at the law firm Snavely, Plaskov and Mullen, PLLC since 2016

Qualifications:

Director of Business Development at Corning Enterprises, the economic development government affairs division of Corning Incorporated, since 2008

Prior Business Experience

Has practiced law in Western New York since 1972 and operated a solo law practice from 2002 to 2016

Director of National Bank of Geneva and Bath National Bank until their merger with and into the Bank in 2005

President and Chief Executive Officer of Bank of Avoca from 1981 to 2002 when it was acquired by the Company, and a director from 1980 to 2002

Past Not-for-Profit Boards

Ira Davenport Memorial Hospital in Bath, New York (Board President)

District Director for Boy Scouts of America

Education

University at Buffalo - State University of New York

JD, Albany Law School

Prior Business Experience

Corning Incorporated: Corporate Real Estate Portfolio Manager (2002 - 2008); Progressive corporate and management roles (1984 - 2002)

Town of Erin Supervisor (2014 - 2017)

Current Not-for-Profit Boards

Bethany Village

Chemung County Industrial Development Agency

Chemung County Property Development Corp.

Corning Area Chamber of Commerce

Corning's Gaffer District

Donald Guthrie Foundation

Guthrie Corning Hospital (Treasurer)

I-86 Steering Committee

Incubator Works

Project Seneca Steering Committee

Southern Tier Economic Growth (STEG)

Southern Tier Regional Economic Development Council Loan Fund

Regional Economic Development and Energy Corporation (REDEC) (Chair)

Watson Homestead Conference & Retreat Center (Treasurer)

Education

Cazenovia College and Keuka College

Leadership Risk Oversight Business Development/M&A Not-for-Profit Board/Community Involvement
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The Board of Directors unanimously recommends that shareholders elect nominees Karl V. Anderson, Jr., Dawn H. Burlew and Robert N. Latella, and recommends that you vote FOR ALL NOMINEES

Robert N. Latella

Director Since: 2005 **Term Expires:** 2018

Age: 75 **Independent**

Qualifications:

Chairman of the Board of the Company since 2014 Of Counsel at the law firm Barclay Damon, LLP since 2009, and Chief Operating Officer of Integrated Nano-Technologies, LLC, a research and development organization, since 2009

Prior Business Experience

Vice Chairman of the Board of the Company (2012 2014)

Partner of Barclay Damon, LLP (2004 to 2009)

Chief Operating Officer of the Genesee Corporation

Chief Financial Officer of The Case Hoyt Corporation

Managing Partner of Harter Secrest & Emery LLP

Past Public Company Boards

Genesee Corporation

Current Not-for-Profit Boards

University of Rochester Medical Center (Former Chair)

Highland Hospital of Rochester (Senior Member of Board and Former Chair)

Highland Community Development Corporation

Highland Living Center

The Highlands at Brighton

Past Not-for-Profit Boards

Former Trustee and Chair of Monroe Community College

Monroe Community College Foundation, Inc.

Served on several additional community and not-for-profit boards

Education

Fordham College

LLB, Vanderbilt University School of Law

LLM, New York University School of Law

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Directors Continuing in Office

Martin K. Birmingham

Donald K. Boswell

Director Since: 2013

Term Expires: 2019

Director Since: 2017

Term Expires: 2020

Age: 51

Age: 66

Independent

Qualifications:

President and Chief Executive Officer of the Company and the Bank since March 2013

Qualifications:

President and CEO of the Western New York Public Broadcasting Association (WNED-TV; WBFO-FM) since 1998

Prior Business Experience

President and Chief of Community Banking of the Bank (2012-2013); Senior Vice President, Commercial Banking Executive and Rochester Region President (2005-2012); promoted to Executive Vice President in 2009

President, CEO and Director of subsidiary, The National Bank of Geneva, 2005

President of Rochester Region, Bank of America (2004-2005)

Progressive corporate banking roles including Regional President, Fleet Financial Group (1989-2004)

Current Not-for-Profit Boards

Federal Reserve Bank of NY Community Depository Institutions Advisory Council

New York Bankers Association

AAA of Central and Western New York, Inc. (Past Chair and Past Vice-Chair)

Greater Rochester Chamber of Commerce

MCC Foundation

St. John Fisher College (Chairman)

University of Rochester Medical Center

Past Not-for-Profit Boards

The Strong National Museum of Play; St. Ann's of Greater Rochester Foundation; United Way of Greater Rochester; American Red Cross; Seneca Park Zoo Society; and YMCA of Greater Rochester

Education

St. Lawrence University

MBA, Simon Business School at the University of Rochester

Prior Business Experience

North Texas Public Broadcasting, Inc., Dallas/Fort Worth/Denton: Executive Vice President and COO (1997); Acting President (1996-1997); Vice President of Marketing and Corporate Development (1986-1996); and Vice President of Development (1982-1986)

KCTS-TV, Seattle: Vice President of Development (1981-1982)

WVIA-TV/FM, Pittston, Pennsylvania: Corporate Underwriting Specialist and Director of Community Relations/Producer (1977-1981)

Current Private Company Boards

New Era Cap Company

Past Other Company Boards

HSBC Bank USA, N.A.

Current Not-for-Profit Boards

43 x 79 Group

AAA of Central and Western New York, Inc.

American Friends of the Art Gallery of Ontario (Chair)

Buffalo Niagara Convention & Visitors Bureau

Chautauqua Institution

HealthNow New York, Inc. (Vice Chair)

The John R. Oishei Foundation

PBS (Past Vice Chair)

Education

Pennsylvania State University; BS and M.Ed.

Management Development Certificate, The Wharton School at The University of Pennsylvania

Honorary Doctorate of Laws and Letters, Canisius College and D Youville College

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Directors Continuing in Office

Andrew W. Dorn, Jr.

Robert M. Glaser

Director Since: 2014

Term Expires: 2020

Age: 67

Independent

Qualifications:

Co-Managing Director and Director of Government and Community Relations of Energy Solutions Consortium, LLC, a private company focused on the development of combined cycle power generation, since 2015

Director Since: 2014

Term Expires: 2020

Age: 71

Independent

Qualifications:

Certified Public Accountant and President of Glaser Consulting, LLC, a strategic consulting company, since 2016

Prior Business Experience

Managing member of Moundsville Power LLC (2012 - 2015)

Chairman and Chief Financial Officer of Demand Response Partners, Inc. (2008 - 2015)

President and Chief Investment Officer of Hunterview LLC (2008 - 2013)

Led formation of Great Lakes Bancorp, parent company of Greater Buffalo Savings Bank; President and Chief Executive Officer (1997 - 2008)

Led formation of Jamestown Savings Bank; President and Chief Executive Officer (1994 - 1997)

Past Public Company Boards

Great Lakes Bancorp

Current Not-for-Profit Boards

D Youville College (Former Chairman)

Health Foundation for Western & Central New York

The Western New York Foundation

Willowbank Foundation

Past Not-for-Profit Boards

Brooks Memorial Hospital (Vice Chairman); Buffalo Urban League; Chautauqua County Fund for the Arts (Chairman); Northern Chautauqua Chamber of Commerce (President); United Way of Chautauqua County (Vice Chairman); and several additional boards in Erie and Chautauqua counties

Education

University at Buffalo State University of New York

MBA, Canisius College

Prior Business Experience

Retired Chairman of the Board of Freed Maxick CPAs, P.C. (2011 - 2015)

Joined Freed Maxick as a partner in 1981 and served as Chairman and Managing Director (1994 - 2011)

Price Waterhouse (1968 - 1981)

Former Appointed Positions

Chairman of the Erie County Fiscal Stability Authority

Independent Judicial Election Qualification Commission for the Eighth Judicial District

Private Company Boards

NA Realty Fund I and NA Realty Fund II

Noco, Inc.

Shanor Electric Supply, Inc. (Vice Chairman)

Past Not-for-Profit Boards

Audit Committee for Kaleida Health

CPA Associates, Inc.

Served on several not-for-profit and cultural boards in Western New York

Education

Canisius College

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Directors Continuing in Office

Samuel M. Gullo

Susan R. Holliday

Director Since: 2000

Term Expires: 2019

Director Since: 2002

Term Expires: 2020

Age: 69

Independent

Age: 62

Independent

Qualifications:

Owner and operator of Family Furniture, a retail furniture sales business in Perry, NY, since 1976

Qualifications:

Chief Executive Officer of Dumbwaiter Design, LLC, a full-service web design and development firm, since 2011

Active real estate owner and developer in Wyoming, Genesee and Livingston counties for more than 40 years

Prior Business Experience

Owner and Chief Executive Officer of American Classic Outfitters (2002 - 2009)

Director of subsidiary Wyoming County Bank until its merger with the Bank in 2005

Current Not-for-Profit Boards

Vice Chairman and director of the Wyoming County Business Center

Past Not-for-Profit Boards

Current member, past director and past President of the Wyoming County Chamber of Commerce (formerly the Wyoming County Business Development Corporation)

Iroquois Trail Council, Boy Scouts of America

Education

Niagara University
Prior Business Experience

President and Publisher of the Rochester Business Journal (1988 - 2016)
Past Public Company Boards

Rochester Gas & Electric Corp
Current Private Company Boards

Complemar Partners, Inc.

Frontier Telephone of Rochester
Past Other Company Boards

Key Bank of New York
Current Not-for-Profit Boards

Common Ground Health (Vice-Chairman, Regional Consortium on Health Care)

Greater Rochester Chamber of Commerce (Past Chair)

Health Care Trustees of New York State (Secretary/Treasurer)

Rochester Institute of Technology (Vice Chair)

University of Rochester Medical Center (Past Chair)
Past Not-for-Profit Boards

Rochester Museum & Science Center (Chair)

United Way of Greater Rochester (Vice Chair)

Served on several additional community and not-for-profit boards

Education

Cornell University

MBA, Rochester Institute of Technology

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Directors Continuing in Office

Kim E. VanGelder

James H. Wyckoff, PhD

Director Since: 2016

Term Expires: 2019

Director Since: 1985

Term Expires: 2019

Age: 53

Independent

Age: 66

Independent

Qualifications:

Chief Information Officer (since 2004) and Senior Vice President (since 2014) of Eastman Kodak Company, a global technology company focused on imaging

Qualifications:

University of Virginia Curry Memorial Professor of Education and Policy since 2011 and Director of the Center for Education Policy and Workforce Competitiveness since 2010

Prior Business Experience

Progressive information technology roles at Kodak since 1984 including leading the group responsible for defining Kodak's global information technology architecture and standards and building the organization responsible for supporting Kodak's worldwide SAP implementation; also served as Director of Worldwide Customer Operations from 2011 to 2014

Current Not-for-Profit Boards

Rochester Institute of Technology

Rochester Area Community Foundation

Western New York Society for Information Management

Past Not-for-Profit Boards

Former Member of Dean's Advisory Council for Golisano College of Computing and Information Sciences, Rochester Institute of Technology

Education

Rochester Institute of Technology
Additional Current Academic Roles

University of Virginia, Professor at the Curry School of Education and the Frank Batten School of Leadership and Public Policy since 2008

Prior Academic Experience

Served on the faculty of the University at Albany State University of New York, progressing from Assistant Professor to Professor (1986-2007)

Served as Chair of the Department of Public Administration and Policy and as Acting Dean of the Graduate School of Public Affairs at the University of Albany

Past Academic Service

President of the Association for Education Finance and Policy

Policy Council for the Association of Public Policy Analysis and Management

Four National Research Council panels

Education

Denison University

PhD, University of North Carolina

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CORPORATE GOVERNANCE OVERVIEW

Board Leadership Structure

The Board of Directors believes that effective corporate governance is best accomplished if the roles of Chairman of the Board and Chief Executive Officer (CEO) are separated. The Board of Directors believes that separating these two positions allows each person to focus on his or her individual responsibilities, which is essential in the current business and economic environment. Under this structure, our CEO can focus his attention on the day-to-day operations and performance of the Company and can work to implement our long-term strategic plans. At the same time, our non-executive Chairman of the Board can focus his attention on long-term strategic issues, setting the agenda for, and presiding at, Board meetings, working collaboratively with our other Board members, and providing insight and guidance to our CEO.

Traditionally, we have separated the roles of Chairman of the Board and CEO and, although we believe that the separation of the roles of Chairman of the Board and CEO is appropriate in the current environment, our board leadership structure may change in the future as our business and industry, and corporate governance practices more generally, evolve.

Board of Directors Role in Risk Oversight

The Board of Directors is actively engaged in the oversight of risks that could affect us. This oversight is conducted primarily through our Board committees. Our Risk Oversight Committee has oversight of our credit, investment, liquidity, interest rate, operational, legal and compliance, cybersecurity and electronic data processing security risks. Our Audit Committee focuses on financial risks, including those that could arise from our accounting and financial reporting processes. Our Management Development & Compensation Committee focuses on the risks arising from our compensation policies and programs and, in particular, our executive compensation programs and policies.

Board Independence

Our Board of Directors has affirmatively determined that each of our directors, except for Mr. Birmingham, is independent under the independence standards of Nasdaq. Relationships described in the section titled Certain Relationships and Related Party Transactions were taken into consideration when determining independence.

Director Resignation Policy

Our Board of Directors has a director resignation policy for director nominees who receive a majority of WITHHELD votes at the Annual Meeting in which they stand for election. If the election is uncontested, i.e. if the number of director nominees does not exceed the number of Board seats up for election and proxies are not being solicited by anyone other than the Company, then once the vote has been tabulated and certified and it is established that a director nominee has received more WITHHELD votes than FOR votes, with broker non-votes not being counted as either, then the director shall immediately submit his or her resignation to the Board.

At such time, the Nominating and Governance Committee shall evaluate what is in the best interests of the Company and the shareholders and shall make a recommendation to the independent directors of the Board. This recommendation may include accepting or rejecting the resignation or taking other appropriate action, which may include addressing what the independent directors believe to be the cause of the WITHHELD votes or determining that the director should not stand for renomination in the future. Within 90 days of the Annual Meeting, the independent directors will make a determination as to the action to be taken, which the Company shall publicly

announce promptly thereafter. The director who did not receive a majority vote at his or her election shall not participate in either the deliberations of the independent directors or their final decision.

Our corporate governance guidelines may be viewed by accessing the *Governance Documents* subsection of the *Governance* section on our website at www.fiiwarsaw.com.

Table of Contents**Board Meetings and Committees**

Our Board of Directors conducts business through board and committee meetings. The Board meets on a regularly scheduled basis during the year to review significant developments affecting us and to act on matters that require Board approval. It also holds special meetings when an important matter requires Board action between regularly scheduled meetings. During 2017, our Board of Directors met 12 times. All directors attended more than 75% of the Board meetings and the meetings of committees on which they serve. The Board of Directors has established the following five standing committees: Audit, Executive, Management Development & Compensation, Nominating and Governance, and Risk Oversight. All the committees function under written charters that outline their respective authority, membership, meetings, duties and responsibilities. These committee charters may be viewed by accessing the *Governance Documents* subsection of the *Governance* section of our website at www.fiiwarsaw.com.

Audit Committee

The Audit Committee monitors our financial reporting process and system of internal controls. Its duties include: (i) reviewing and assessing the performance of the internal audit department and our independent auditors; (ii) engaging, evaluating, replacing, compensating and overseeing our independent auditors; (iii) reviewing all reports of the independent auditors and responses to such reports; (iv) approving the services to be performed by the independent auditors and pre-approving all audit and non-audit services and fees; (v) evaluating the independence of the independent auditor; (vi) establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls and auditing matters; (vii) establishing procedures for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters; (viii) reviewing and discussing with management and the independent auditors our annual and quarterly financial statements, including our disclosure under Management's Discussion and Analysis of Financial Condition and Results of Operations and any material changes in accounting principles or practices used in preparing the financial statements prior to the filing of reports on Forms 10-K or 10-Q with the SEC; and (ix) reviewing and approving related persons transactions. The Audit Committee is required by its charter to meet at least four times annually.

In carrying out its responsibilities, the Committee seeks, in its sole discretion and authority, appropriate third-party counsel and advisors and approves the associated fees and terms of engagement.

The Audit Committee members are Chair Mr. Glaser and Messrs. Anderson, Boswell, and Gullo. Mr. Glaser is the committee's audit committee financial expert as defined by SEC rules. Our Board of Directors has affirmatively determined that all committee members are independent as defined in SEC and Nasdaq rules applicable to audit committees. The Audit Committee met eight times during 2017.

Executive Committee

The Executive Committee is charged with assisting the Board of Directors with strategic planning matters for the Company and its subsidiaries. The Executive Committee's primary responsibilities include: (i) assisting the Board in its oversight responsibility for strategic planning, and merger, acquisition, branching and other business expansion proposals; (ii) acting on behalf of the Board on resolutions involving routine operational matters, and such other matters as are specifically delegated to the Committee by the Board, subject, in each case, to the limitations set forth in the Company's By-laws; and (iii) acting on behalf of the Board to implement emergency CEO and Named Executive Officer succession plan(s) developed by the Management & Development Compensation Committee. The Committee members are Chair Mr. Kailbourne, Ms. Holliday and Messrs. Anderson, Dorn, Glaser and Latella. The Executive Committee met three times during 2017.

Management Development & Compensation Committee

The Management Development & Compensation (MD&C) Committee is responsible for (i) determining executive compensation as further described in the Compensation Discussion and Analysis section of this proxy statement; (ii) reviewing and making recommendations to the full Board with regard to compensation of directors; (iii) retaining, compensating and overseeing, in its sole discretion, compensation consultants, legal counsel or other advisers as described in further detail on page 32 of this Proxy Statement; (iv) reviewing the risks arising from our compensation policies and programs; and (v) overseeing the creation of development plans and succession plans for our CEO and other executive officers. Our Board of Directors has affirmatively determined that all committee members are independent under Nasdaq listing standards. The MD&C Committee is required by its charter to meet at least three times annually. The MD&C Committee met seven times during 2017. The MD&C Committee members are Chair Mr. Dorn and Messrs. Gullo, Kailbourne and Wyckoff.

Table of Contents***Nominating and Governance Committee***

The Nominating and Governance (NG) Committee is charged with assisting the Board of Directors in governance matters for the Company and its subsidiaries, including: (i) identifying qualified individuals to become Directors; (ii) recommending qualified director nominees for election at the annual meeting of shareholders; (iii) determining membership on Board committees; (iv) recommending and monitoring the Corporate Governance Policy; (v) developing and administering orientation and development programs for directors; and (vi) addressing corporate governance issues. The Committee members are Chair Ms. Holliday, Ms. VanGelder and Messrs. Kailbourne and Wyckoff. Our Board of Directors has affirmatively determined that all committee members are considered independent under applicable Nasdaq listing standards. The NG Committee met six times during 2017.

The NG Committee considers recommendations for director candidates made by shareholders. Such recommendations should be sent to the attention of our corporate secretary at our corporate headquarters. The NG Committee evaluates all director candidates on the same basis, provided that current directors may be evaluated primarily on the basis of their record of performance as a director of the Company. All nominees should possess personal and professional integrity, good business judgment, and experience and skills that will enable them, in conjunction with current Board members, to effectively serve the long-term interest of the Company and its shareholders. The consideration process for evaluating director candidates includes, but is not limited to, determining whether the candidate is independent under applicable SEC and Nasdaq listing standards and whether the candidate fits the Board's then current needs for diversity, geographic connections to the Company's market region and professional expertise. The NG Committee conducts such investigations and interviews of director candidates as it deems necessary to make a fair evaluation. Candidates determined to be qualified by a majority vote of the NG Committee may be proposed to the Board as a nominee for election, appointed to fill a vacancy, or held in reserve in a prospective director pool. Our Corporate Governance Policy tasks the NG Committee with composing a board of directors that reflects diverse experience, gender, race, personal qualities and accomplishments. The NG Committee implements this policy through discussions among committee members and assesses its effectiveness annually as part of its self-evaluation process.

The NG Committee believes the years of service provided by our continuing directors have given them extensive knowledge of our business and the banking industry. The NG Committee engages in a thorough vetting process of Director nominees and an annual evaluation of each of our directors. This process helps provide for a Board that is engaged and continually refreshed. The NG Committee has discussed implementing age and term limits for members of our Board of Directors and determined that such limits are not currently needed.

Risk Oversight Committee

The Risk Oversight Committee is responsible for assisting the Board in establishing prudent levels of risk consistent with our strategic objectives, and in reviewing our risk management framework and processes, including the significant policies, procedures and practices employed to identify, measure, monitor and control our risk profile. The committee also has governance oversight for non-bank subsidiaries of the Company. The committee meets with our Chief Risk and Enterprise Administration Officer at least on a quarterly basis, and reports to the Board on various levels of risk associated with our approved business and financial plans relative to credit risk, investment risk, liquidity risk, interest rate risk, operational risk, and legal and compliance risk. The Risk Oversight Committee also has oversight over the Company's cybersecurity risk management program, including the Company's compliance with cybersecurity regulations promulgated by the New York Department of Financial Services that became effective in March 2017. The Risk Oversight Committee receives quarterly updates from our Chief Risk and Enterprise Administration Officer on our cybersecurity risk profile and cybersecurity program initiatives. The Risk Oversight Committee met four times during 2017. The committee members are Chair Mr. Anderson, Mr. Boswell, and Mses. Burlew, Holliday and VanGelder. Our Board of Directors has affirmatively determined that all committee members

are independent under Nasdaq listing standards.

Board Member Attendance at Annual Shareholders Meetings

Directors are expected to attend our annual meeting of shareholders absent extenuating circumstances. All of the current directors who were members of the Board at the time, except Mr. Kailbourne, attended last year's annual meeting of shareholders.

Communications with the Board of Directors

Shareholders may communicate with the Board of Directors or any individual director by sending such communication to the attention of our Corporate Secretary at our corporate headquarters, who will forward all such communication to the Board or the individual directors, as appropriate.

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Code of Ethics

We have a written Code of Business Conduct and Ethics to assist our directors, officers, and employees in adhering to their ethical and legal responsibilities. Additionally, we have a Code of Ethics for our CEO, Chief Financial Officer (CFO) and senior financial officers that describes the conduct expected to be employed in the finance area. The current versions of these policies may be viewed by accessing the *Governance Documents* subsection of the *Governance* section of our website at www.fiiwarsaw.com. In addition, we will provide a copy of the Code of Business Conduct and Ethics to any shareholder, without charge, upon request addressed to our Director of Human Resources at our corporate headquarters. We intend to disclose within four business days any amendment to, or waiver from, a provision of our Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and that relates to any element of the Code of Business Conduct and Ethics, by posting such information on our website.

DIRECTOR COMPENSATION

We use a combination of cash and stock-based compensation to attract and retain qualified candidates to serve on our Board of Directors. In setting director compensation, we consider the significant amount of time that directors expend in fulfilling their duties to us, the skill levels required of members of the Board and the competitive market for director
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