



MAKING OUR
VISION A REALITY.



Financial Institutions, Inc.[®]

2007 Annual Report



BUILDING ON STRONG FUNDAMENTALS

Dear Fellow Shareholder,

I am pleased to report that as a result of our continued focus on fundamentals, Financial Institutions, Inc. experienced strong financial performance in 2007 with solid revenue growth. Net interest income improved each quarter in 2007 primarily due to the growth in our loans, our management of deposit pricing and the favorable yield curve.

For the year ended December 31, 2007, net income was \$16.4 million, or \$1.33 per diluted share, compared with \$17.4 million, or \$1.40 per diluted share for 2006 where earnings per share was favorably impacted by the credit provision for loan loss.

Hard work and dedication to community banking serve us well during a challenging time for other banks.

Our positive results were noteworthy in a year that was, to say the least, a difficult one for the banking industry as a whole. While news headlines reported deepening credit concerns at many of the nation's largest banks, we were able to see the fruits of the effort we began in 2005 to address issues of loan quality. As a result, we found ourselves well positioned during this challenging period for other banks.


Our community banking philosophy is another factor that helped guard us against some problems

faced by other institutions. As a strong, well-capitalized community bank, we have never engaged in sub-prime lending as a line of business. Not only are we a vital part of the communities we serve, we also live in those communities. One hundred percent of our lending is within our market area. That percentage stands in stark contrast to the roughly 50% of mortgages granted in upstate New York by out-of-town lenders. We remain committed to serving the needs of the mortgage customers in our communities in a responsible way, with traditional mortgage products.

Growing business opportunities and customer satisfaction levels.

That same spirit of community banking is apparent in our approach to new business development. Our talented people and our grass roots business processes work in concert to build solid customer relationships. One measure of those relationships is customer satisfaction levels. Every one of the 30 categories on our 2007 Customer Satisfaction Survey showed an increase over our 2006 rankings and over two-thirds of those categories were above peer benchmarks.

An even better measure of customer satisfaction and business development can be seen in the growth of our loan business. In 2007, we increased the size of our loan portfolio to \$964.2 million, up from \$926.5 million in 2006. The increase reflects the confident and disciplined



execution of our plans to rebuild our commercial loan portfolio, as well as to grow our consumer indirect auto loan business.

Asset quality also showed strong improvement in 2007 with a significant reduction in nonperforming assets. Nonperforming assets decreased to \$9.5 million in 2007 — a 44% reduction since 2006.

Our net loan charge-offs for 2007 were helped by some meaningful recoveries on previously charged-off loans. We are pleased with the improved risk profile of our loan portfolio and believe we are well positioned to meet the challenges of any adverse changes in the current economic environment.

Strong fundamentals support and guide the expansion of our brand.

Our solid 2007 financial performance enabled us to implement strategic initiatives that include further expansion of Five Star Bank into the greater Rochester area with the opening of offices in Henrietta and Greece anticipated in August 2008.

In 2008, we will continue to focus on the fundamentals and building the Five Star Bank brand across our 10,000-square-mile territory in the 14

counties of central and western New York. As Five Star's recognition continues to grow, we will focus our efforts on capturing a greater market share to grow our loan portfolio, deposit base and overall franchise value.

I appreciate your confidence in Five Star Bank and Financial Institutions, Inc., as we continue to enhance shareholder value.

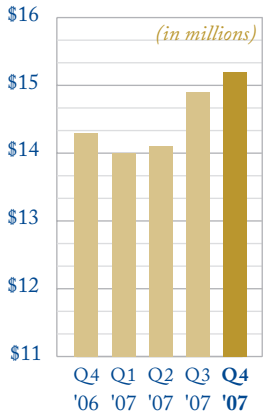
Sincerely,



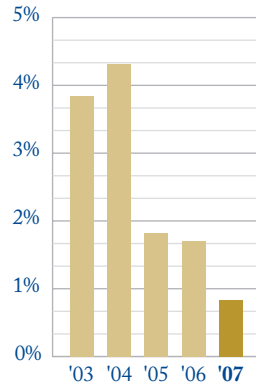
Peter G. Humphrey
President and CEO
March 17, 2008

ABOUT FINANCIAL INSTITUTIONS

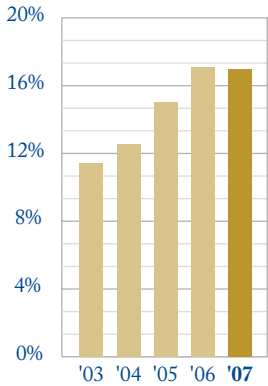
NET INTEREST INCOME
(in millions)



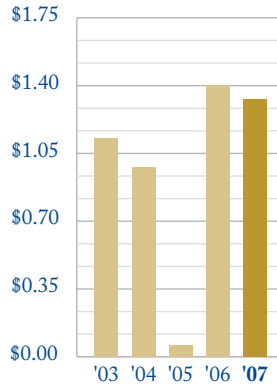
NONPERFORMING LOANS TO TOTAL LOANS



RISK-BASED CAPITAL RATIO

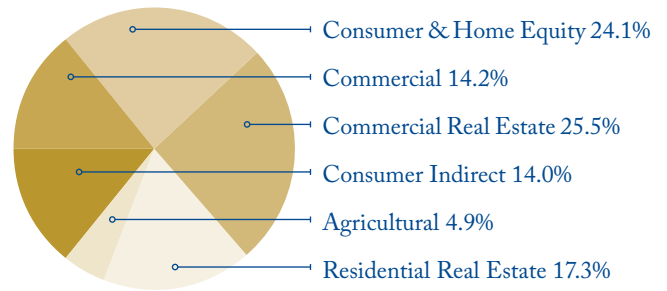


EARNINGS PER SHARE



With total assets of \$1.9 billion, Financial Institutions, Inc. is the parent company of Five Star Bank, which provides a wide range of consumer and commercial banking services to individuals, municipalities and businesses through a network of 50 offices and over 70 ATMs in Western and Central New York State. Through its investment services affiliate, Five Star Investment Services, Inc., FII also provides diversified financial services to its customers and clients, including brokerage and insurance. More information on FII and its subsidiaries is available through the Company web site at www.fiiwarsaw.com.

2007 LOAN PORTFOLIO



FIVE YEAR FINANCIAL HIGHLIGHTS



<i>(Dollars in thousands, except per share data)</i>	2007	2006	2005	2004	2003
SELECTED FINANCIAL CONDITION DATA					
Total Assets	\$ 1,857,876	\$ 1,907,552	\$ 2,022,392	\$ 2,156,329	\$ 2,173,732
Loans	964,173	926,482	992,321	1,252,405	1,340,436
Allowance for loan losses	15,521	17,048	20,231	39,186	29,064
Securities available for sale	695,241	735,148	790,855	727,198	604,964
Securities held to maturity	59,479	40,388	42,593	39,317	47,131
Total Liabilities	1,662,554	1,725,164	1,850,635	1,972,042	1,990,629
Deposits	1,575,971	1,617,695	1,717,261	1,818,949	1,818,889
Borrowings and junior subordinated debentures	68,210	87,199	115,199	132,614	154,223
Total shareholders' equity	195,322	182,388	171,757	184,287	183,103
SELECTED RESULTS OF OPERATIONS DATA					
Net Interest income	\$ 58,073	\$ 59,466	\$ 67,492	\$ 75,407	\$ 75,503
Provision (credit) for loan losses	116	(1,842)	28,532	19,676	22,526
Noninterest income	20,680	21,911	29,384	22,149	22,570
Noninterest expense	57,428	59,612	65,492	61,767	57,283
Income tax expense (benefit) from continuing operations	4,800	6,245	(1,766)	3,170	3,923
Income from continuing operations	16,409	17,362	4,618	12,943	14,341
Loss on discontinued operations, net of tax	-	-	(2,452)	(450)	(94)
Net income	16,409	17,362	2,166	12,493	14,247
PER COMMON SHARE DATA					
BASIC:					
Income from continuing operations	\$ 1.34	\$ 1.40	\$ 0.28	\$ 1.02	\$ 1.15
Net income	1.34	1.40	0.06	0.98	1.14
DILUTED:					
Income from continuing operations	1.33	1.40	0.28	1.02	1.14
Net income	1.33	1.40	0.06	0.98	1.13
Cash dividends declared on common stock	0.46	0.34	0.40	0.64	0.64
Book value	16.14	14.53	13.60	14.81	14.81
Tangible book value	12.69	11.15	10.19	11.31	11.22
Market value	17.82	23.05	19.62	23.25	28.23
SELECTED FINANCIAL RATIOS					
PERFORMANCE RATIOS:					
Return on average assets	0.86 %	0.90 %	0.10 %	0.57 %	0.66 %
Return on average common equity	8.89	10.02	0.43	6.55	7.65
Return on average tangible common equity	11.50	13.23	0.56	8.57	10.12
Common dividend payout (1)	34.33	24.29	666.67	65.31	56.14
Net interest margin (2)	3.53	3.55	3.65	3.90	3.99
Efficiency ratio (3)	68.77	69.78	70.18	60.41	54.26
CAPITAL RATIOS:					
Period end common equity to total assets	9.57 %	8.64 %	7.62 %	7.72 %	7.61 %
Period end tangible common equity to tangible total assets	7.68	6.77	5.82	6.01	5.87
Tier 1 risk-based capital	15.74	15.85	13.75	11.27	10.18
Total risk-based capital	16.99	17.10	15.01	12.54	11.44
ASSET QUALITY RATIOS:					
Nonperforming loans to total loans (4)	0.84 %	1.71 %	1.82 %	4.31 %	3.84 %
Nonperforming assets to total loans, other real estate and repossessed assets (4)	0.98	1.84	1.93	4.40	3.89
Nonperforming assets to total assets (4)	0.51	0.89	0.97	2.56	2.40
Allowance for loan losses to total loans (4)	1.61	1.84	2.04	3.13	2.17
Allowance for loan losses to nonperforming loans (4)	192	108	112	73	56
Net charge-offs to average total loans (4)	0.18	0.14	4.27	0.74	1.11

(1) Cash dividends declared on common stock divided by basic net income per common share.

(2) Represents net interest income divided by average interest-earning assets. The interest earned from tax-exempt and tax-preferred securities includes a tax-equivalent adjustment.

(3) The efficiency ratio represents noninterest expense less other real estate expense and amortization of intangibles (all from continuing operations), divided by net interest income (tax-equivalent) plus other noninterest income less net gain on sale or call of securities, income associated with the proceeds from corporate owned life insurance, net gain on sale of commercial-related loans held for sale and net gain on sale of trust relationships (all from continuing operations).

(4) Ratios exclude nonaccruing commercial-related loans held for sale (which amounted to \$577,000 as of December 31, 2005 and zero for all other years presented) from nonperforming loans and exclude loans held for sale from total loans.

OFFICERS

Peter G. Humphrey
President and Chief Executive Officer

George D. Hagi
Executive Vice President and Chief Risk Officer

Ronald A. Miller
Executive Vice President, Chief Financial Officer,
and Corporate Secretary

James T. Rudgers
Executive Vice President and Chief of Community Banking

Steven R. Ambrose
Senior Vice President
Workout Asset Group Manager

Martin K. Birmingham
Senior Vice President
Commercial Banking Executive/
Eastern Regional President

David G. Case
Senior Vice President
Commercial Market Executive

David R. Caster
Senior Vice President
Commercial Market Executive

Sonia M. Dumbleton
Senior Vice President
Controller

Martin T. Griffith
Senior Vice President
Commercial Market Executive

Richard J. Harrison
Senior Vice President
Senior Retail Lending
Administrator

Jeffrey P. Kenefick
Senior Vice President
Commercial Market Executive/
Southeast Regional President

Kevin B. Klotzbach
Senior Vice President
Treasurer

Douglas J. Malone
Senior Vice President
Internal Reporting and
Analysis Manager

Robert J. McKnight
Senior Vice President
Commercial Market Executive

**Ronald Mitchell
McLaughlin**
Senior Vice President
Chief Information Officer

Matthew T. Murtha
Senior Vice President
Director of Sales and Marketing

Bruce H. Nagle
Senior Vice President
Director of Human Resources

Edward S. Oexle
Senior Vice President
Commercial Market Executive

Gary M. Rougeau
Senior Vice President
Commercial Market Executive/
Southwest Regional President

David P. Squire
Senior Vice President
Loan Review Administrator

David C. Watson
Senior Vice President
Chief Credit Officer

Kenneth V. Winn
Senior Vice President
Sr. Credit Administrator

John J. Witkowski
Senior Vice President
Retail Banking Executive /
Western Regional President

David A. Young
Senior Vice President
Commercial Market Executive

BOARD OF DIRECTORS

Karl V. Anderson, Jr.¹
Retired President and CEO
Bank of Avoca

John E. Benjamin^{2,3}
President
Three Rivers Development Corporation

Thomas P. Connolly³
Retired President
McNamee, Lochner, Titus & Williams PC

Barton P. Dambra¹
President
Markin Tubing LP

Samuel M. Gullo^{2,3}
Owner and Operator, Family Furniture
President and Chief Executive Officer, American Classic Outfitters, Inc.

Susan R. Holliday^{2,3}
President and Publisher
Rochester Business Journal, Inc.

Peter G. Humphrey
President and Chief Executive Officer
Financial Institutions, Inc.

Erland E. Kailbourne
Chairman of the Board
Financial Institutions, Inc. and Five Star Bank

Robert N. Latella²
Partner and Attorney
Hiscock & Barclay, LLP

James L. Robinson¹
Retired President, CEO and Treasurer
Olean Wholesale Grocery Cooperative

John R. Tyler, Jr.^{1,2}
Retired Partner
Nixon Peabody LLP

James H. Wyckoff²
Professor
Curry School of Education at the University of Virginia

¹ Audit Committee
Barton P. Dambra, Chair

² Executive/Nominating and Governance Committee
John R. Tyler, Jr., Chair

³ Management Development and Compensation Committee
Susan R. Holliday, Chair

INVESTOR INFORMATION

STOCK EXCHANGE LISTING
NASDAQ_GSM: FISI

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at Financial Institutions, Inc. offices, 220 Liberty Street, Warsaw, New York, 14569, on Tuesday, May 6, 2008, at 10:00 a.m.

TRANSFER AGENT

For services such as change of address, replacement of lost certificates and changes in registered ownership, or for inquiries regarding your account, contact:

American Stock Transfer & Trust Co.

59 Maiden Lane
New York, NY 10038
Tel: (800) 937-5449
Fax: (718) 236-2641
Website: www.amstock.com

INVESTOR RELATIONS

Investors, Stock Brokers, Security Analysts and others seeking information about Financial Institutions, Inc. should contact:

Ronald A. Miller, Executive Vice President,
Chief Financial Officer & Corporate Secretary at
585.786.1100 or e-mail info@fiwarsaw.com

ATTORNEYS

Nixon Peabody LLP
Rochester, New York

INDEPENDENT AUDITORS

KPMG LLP
Buffalo, New York

AFFILIATES

Five Star Bank
Five Star Investment Services, Inc.

WEBSITE ADDRESS

www.fiwarsaw.com



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