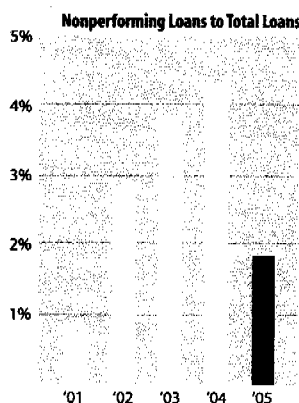
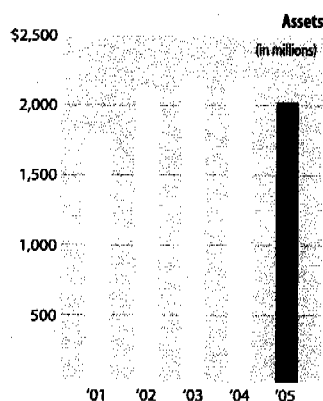
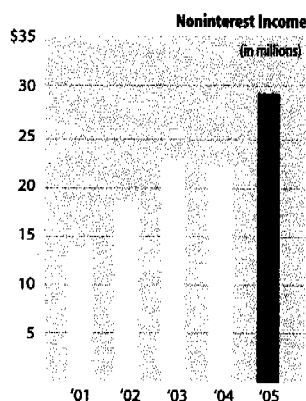
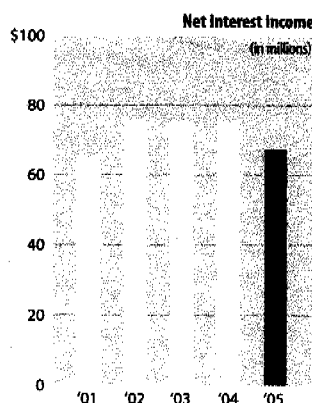


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Financial Institutions, Inc.®
Community Focus. Endless Vision.





About Financial Institutions, Inc.

With total assets of \$2.0 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 72 ATMs in Western and Central New York State.

Through its Investment Services affiliate, FII also provides diversified financial services to its customers and clients, including brokerage, trust and insurance.

More information on FII and its subsidiaries is available through the Company web site at www.fiiwarsaw.com.



Financial Institutions, Inc.®
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PURPOSE. PROGRESS.

down from \$12.9 million, or \$1.02 per diluted share from last year. After the \$2.4 million loss from discontinued operations related to the Burke Group disposal, net income for the year was \$2.2 million, or \$0.06 per diluted share, down from \$12.5 million, or \$0.98 per diluted share, in 2004.

The reduction in net income for the year was due principally to an increase in the provision for loan losses to \$28.5 million related to the sale of problem loans and other loan losses. The other major impacts to net income were the loss from discontinued operations of \$2.4 million and additional expenses incurred to implement organizational changes. These included the \$1.4 million in restructuring charges incurred in the fourth quarter, as well as an additional \$1.4 million in FDIC deposit insurance costs for the full year. These costs are risk based, and we expect 2006 FDIC deposit insurance costs to be reduced by \$1.1 million as a result of our consolidation and improved risk profile.

In June, in order to preserve capital while we worked to improve our loan portfolio, the Board of Directors decided to reduce the quarterly dividend to common shareholders by \$0.08 per share. The total risk-based capital ratio remains strong at 15.01%.

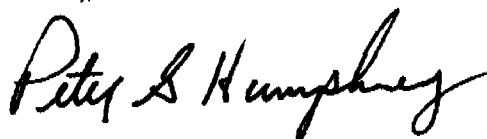
Pace and Progress

While we expect to face the same competitive and somewhat softer Upstate New York economic climate in 2006, we are prepared to meet the challenge with a renewed focus on increasing service to our customers and attracting new customers through the introduction of new products.

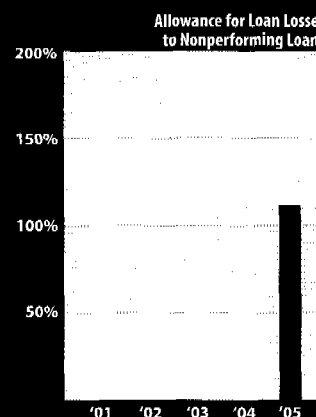
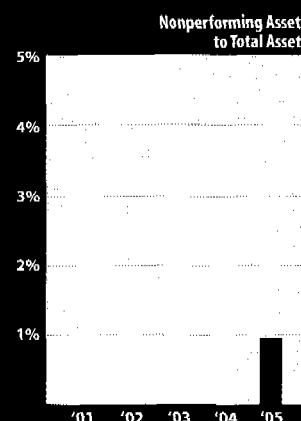
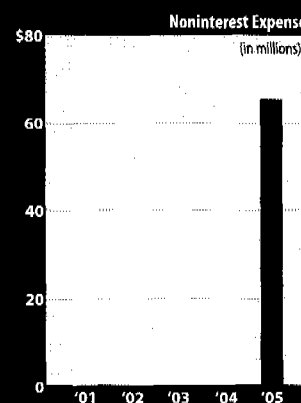
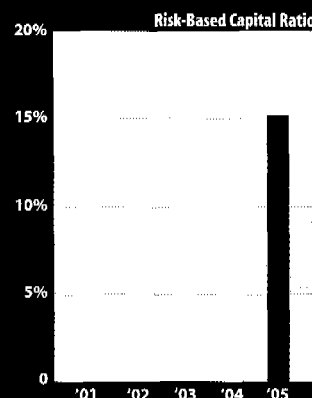
Our foundation is stronger. The right team members are in place. We are ready to move steadily along the path of careful and disciplined growth. With an intensity of purpose, we will continue our service-oriented approach to community banking by offering our customers the highest quality products and services, expanding our market share within our footprint and maintaining our solid asset base and income generating opportunities.

We appreciate your support throughout this transition and look forward to a successful future.

Sincerely,



Peter G. Humphrey
President and CEO
Financial Institutions, Inc.
March 1, 2006





Wolcott Humphrey, Wyoming County Bank
President beginning 1867



Wyoming County Bank main office, Main Street, Warsaw 1913.
Opened in 1851



Downtown Warsaw, New York, circa 1910

Customer and Community Focus

Five Star Bank, while the name is new, represents over 150 years of banking history. The foundation for Five Star Bank was laid when Wolcott Humphrey, great grandfather of our current President and CEO, Peter G. Humphrey, joined Wyoming County Bank in Warsaw, New York, as President in 1867.

Wolcott knew the key to endurance as a strong bank was to remain focused on the needs of his customers and the community in which they all lived together.

During the Great Depression, Financial Institutions was formed as a holding company to manage not only Wyoming County Bank, but three other regional banks, to assure its continued success through this difficult era.

In December 2005, hundreds of years of history in the four subsidiary banks was drawn upon and consolidated to form their legacy – Five Star Bank. Today, as it was in the 1800's, Five Star Bank is guided by its mission to meet the needs of its customers to provide simple and complete financial services and to contribute to their communities.



Chris Hennessey, Architect, and Jeff Morrell of Morrell Builders are seated to the left of Marty Birmingham, Regional President of Five Star Bank, while David Case, Senior Vice President, Commercial Banking, looks on.

Financial Highlights

(Dollars in thousands, except per share and ratio data)
Year Ended December 31

Selected Financial Condition Data	2005	2004	2003	2002	2001
Total assets	\$ 2,022,392	\$ 2,156,329	\$ 2,173,732	\$ 2,105,034	\$ 1,794,296
Loans	992,321	1,252,405	1,340,436	1,314,921	1,160,222
Allowance for loan losses	20,231	39,186	29,064	21,660	19,074
Securities available for sale	790,855	727,198	604,964	596,862	428,423
Securities held to maturity	42,593	39,317	47,131	47,125	61,281
Total liabilities	1,850,635	1,972,042	1,990,629	1,926,740	1,645,109
Deposits	1,717,261	1,818,949	1,818,889	1,708,518	1,433,658
Borrowed funds (1)	115,199	132,614	154,223	195,441	190,238
Total shareholders' equity	171,757	184,287	183,103	178,294	149,187
Selected Results of Operations Data					
Net interest income	\$ 67,492	\$ 75,407	\$ 75,503	\$ 75,862	\$ 64,785
Provision for loan losses	28,532	19,676	22,526	6,119	4,958
Noninterest income	29,384	22,149	22,570	18,680	14,817
Noninterest expense (2)	65,492	61,767	57,283	49,749	42,605
Income taxes from continuing operations	(1,766)	3,170	3,923	12,248	10,932
Income from continuing operations	4,618	12,943	14,341	26,426	21,107
Gain (loss) on discontinued operations, net of tax	(2,452)	(405)	(94)	30	106
Net income	2,166	12,493	14,247	26,456	21,213
Per Common Share Data					
Basic:					
Income from continuing operations	\$ 0.28	\$ 1.02	\$ 1.15	\$ 2.25	\$ 1.78
Net income	0.06	0.98	1.14	2.26	1.79
Diluted:					
Income from continuing operations	0.28	1.02	1.14	2.22	1.76
Net income	0.06	0.98	1.13	2.23	1.77
Cash dividends declared on common stock	0.40	0.64	0.64	0.58	0.48
Book value	13.60	14.81	14.81	14.46	11.93
Market value	19.62	23.25	28.23	29.36	23.40
Selected Financial Ratios					
Performance Ratios:					
Return on average common equity	0.43%	6.55%	7.65%	17.01%	15.84%
Return on average assets	0.10	0.57	0.66	1.35	1.34
Common dividend payout (3)	666.67	65.31	56.14	25.66	26.82
Net interest margin (4)	3.65	3.90	3.99	4.40	4.64
Efficiency ratio (5)	70.18	60.41	54.26	49.18	48.17
Asset Quality Ratios:					
Nonperforming loans to total loans (6)	1.82%	4.31%	3.84%	2.82%	0.86%
Nonperforming loans and other real estate to total loans and other real estate (6)	1.93	4.40	3.89	2.91	0.94
Nonperforming assets to total assets	0.97	2.56	2.40	1.82	0.61
Allowance for loan losses to total loans (6)	2.04	3.13	2.17	1.65	1.64
Allowance for loan losses to nonperforming loans (6)	112	73	56	58	190
Net charge-offs to average total loans (6)	4.27	0.74	1.11	0.30	0.23
Capital Ratios:					
Average common equity to average total assets	7.54%	7.67%	7.74%	7.47%	7.84%
Tier 1 leverage capital	7.60	7.13	7.03	6.96	7.02
Tier 1 risk-based capital	13.75	11.27	10.18	9.82	9.81
Total risk-based capital	15.01	12.54	11.44	11.08	11.37

(1) Includes junior subordinated debentures.

(2) Noninterest expense includes goodwill amortization, which amounted to \$1,653,000 for 2001 compared to zero in all other years presented.

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

(4) Net interest income divided by average interest earning assets. A tax-equivalent adjustment to interest earned from tax-exempt securities has been computed using a federal tax rate of 35%.

(5) 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).

(6) Ratios exclude nonaccruing commercial related loans held for sale from nonperforming loans and exclude loans held for sale from total loans.



We began 2005 with a determined focus on stabilizing our organization, strengthening our team and positioning ourselves on the right path for future success. A number of specific, aggressive goals were identified, and I am pleased to report that we made significant strides in accomplishing them. The key areas requiring our immediate attention this fiscal year were:

- Re-balancing our loan portfolio
- Strengthening our management team in certain key areas
- Remediating our credit administration processes
- Resolving our regulatory issues

Persistent Progress

Our biggest accomplishment in 2005 was resolving a large number of problem loans which were negatively impacting our asset quality and regulatory standing. During the year, we marketed and sold approximately \$169 million in criticized loans. As a result, our ratio of nonperforming assets to total assets dropped to 0.97% for the year-ended 2005 compared with 2.96% a year ago.

Second, we built a strong executive team to lead us through this transition period. In December, with Tom Grover, our Chief Risk Officer, announcing his retirement in March 2006, we were fortunate to hire Dan Hagi as Executive Vice President and Chief Risk Officer. Dan brings more than two decades of risk management and bank examination experience and will lead all risk management functions for the Company and Five Star Bank. Dan's extensive experience and understanding of the regulatory process will bring an extra dimension to our efforts in the risk management arena.

Also joining the Company this year were John Witkowski as head of Retail Banking and Marty Birmingham as head of Commercial Banking. Both John and Marty bring extensive experience in the financial services and commercial banking areas.

Our credit administration and approval processes were reconfigured this year to separate the sales functions from the credit approval process to ensure our future loan portfolio remains healthy. Although some weak loans remain in our portfolio as we enter 2006, the tighter tracking mechanisms now in place enable us to actively manage and monitor their status.

The Board of Directors has also been taking steps over the past two years to strengthen our corporate governance policies, the most significant of which was the recent election of Erland "Erkie" Kailbourne, retired Chairman and CEO of Fleet National Bank, New York, as Chairman of the Board. The separation of the duties of CEO and Chairman is viewed as a best practice by many institutional investors and shareholders, and this change allows me to concentrate on leading our team in the successful execution of our strategic plan.

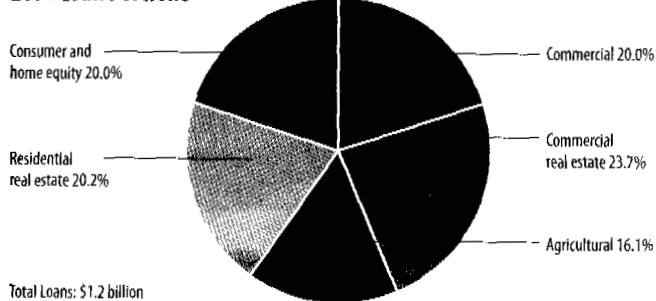
Finally, in order to create an internal structure that balances risk and opportunity, we consolidated our banking subsidiaries into a single, state-chartered bank, Five Star Bank, in December. We also sold the Burke Group subsidiary in the third quarter of 2005 to enable us to focus on our core community banking business. We will realize many benefits from this streamlined organization, including a consistent credit and lending culture. Although the consolidation process involved one-time expenses of \$1.4 million for systems conversions, branding and customer communication campaigns, legal expenses and the disposition of fixed assets, we anticipate a long-term reduction in the number of redundant operational expenses for years to come and expect savings in excess of \$3 million in 2006. Having completed the improvement of our asset quality position, strengthening of the management team and consolidation of our organizational structure, we have resolved the major regulatory issues confronting us in 2005.

Financial Results

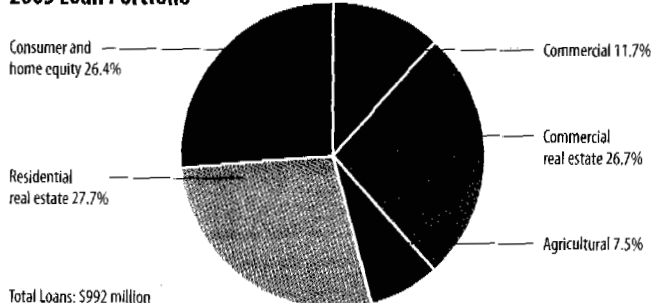
What we accomplished in 2005 required a major investment of time and resources, including significant expenses for legal, consulting and professional services fees. We faced a number of additional challenges this year to maintain revenue growth. Funds from the sale of the problem loans were redeployed into investment assets that generally yield less than loans, which was compounded by a flatter yield curve. The economy in our geographic footprint remained soft in 2005 while we encountered a highly competitive marketplace for loan assets and deposits.

Our earnings in 2005, while lower than the prior year, reflect our efforts to strengthen asset quality and provide a solid asset base for future growth. For the year, income from continuing operations was \$4.6 million, or \$0.28 per diluted share,

2001 Loan Portfolio



2005 Loan Portfolio





Peter G. Humphrey, President and CEO and fourth generation of Humphrey family leadership



New Five Star Bank logo.

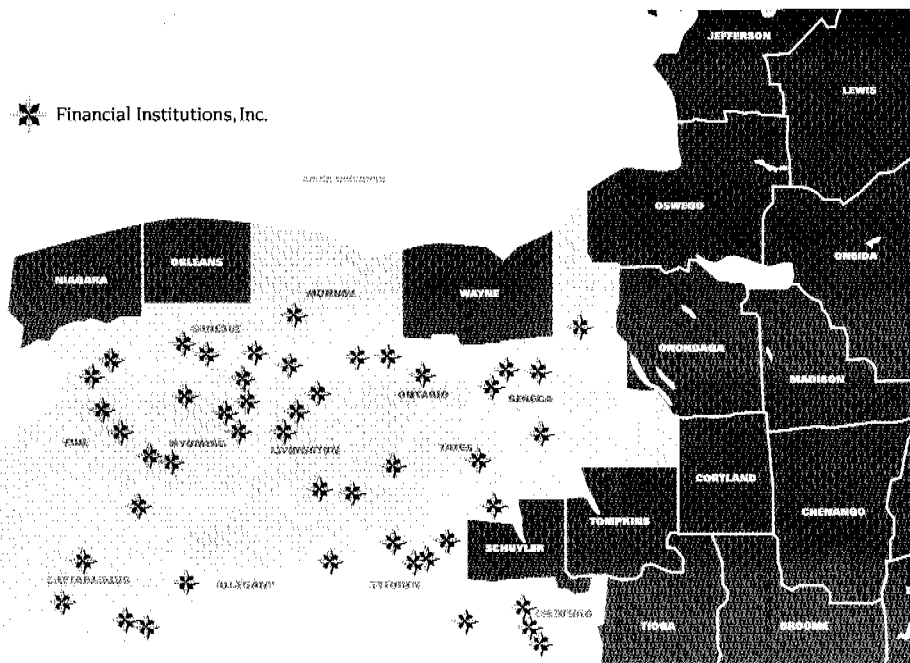
Enduring through Generations

A core component of our sustainability is the quality of our people that know our customers well. The communities in which we work and live, and our roles within those communities, also provide for a solid core deposit base. With dedication, resilience and focus, we believe we have a bright future ahead of us.

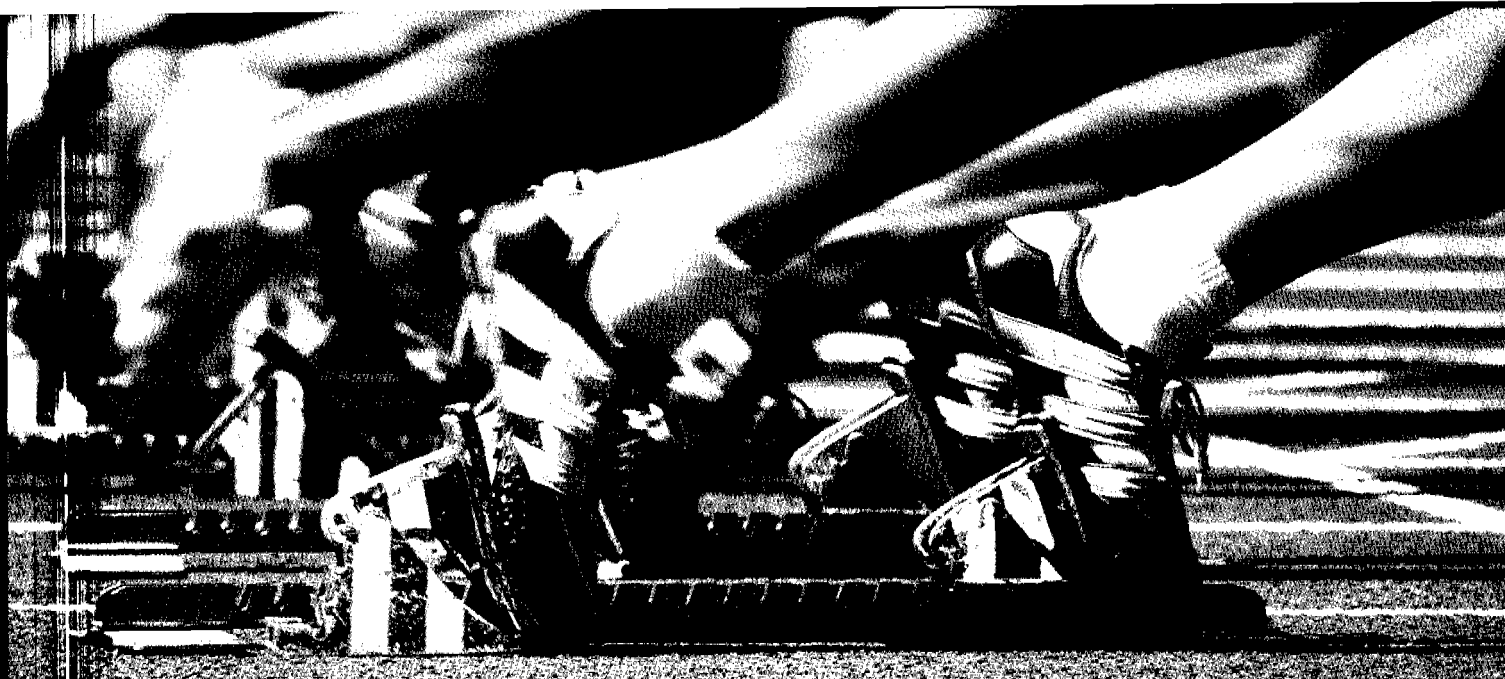
Maureen Torrey-Marshall of Torrey Farms, Inc. consults with John Witkowski, Regional President of Five Star Bank, and Marty Griffith, Senior Vice President, Retail Banking.



 Financial Institutions, Inc.



Five Star Bank serves the communities contained within 14 contiguous counties in Western and Central New York. They offer customers a broad and competitive range of efficient banking products and services through their network of 50 branches and 72 ATMs.



Executive Officers

Peter G. Humphrey
President and Chief Executive Officer

George Daniel 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

Board of Directors

John E. Benjamin
President
3 Rivers Development Corporation
Committees: Nominating and Governance

Thomas P. Connolly
Retired President
McNamee, Lochner, Titus & Williams PC
Committees: Special

Barton P. Dambra
President
Markin Tubing LP
Committees: Audit, Executive*

Samuel M. Gullo
Owner and Operator, Family Furniture
President and Chief Executive Officer,
American Classic Outfitters, Inc.
Owner, SMG Development, LLC
Owner, Adams Holding, LLC
*Committee: Management Development and Compensation**

Susan R. Holliday
President and Publisher
Rochester Business Journal, Inc.
*Committees: Executive, Management Development and Compensation,
Nominating and Governance*

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

Joseph F. Hurley
Founder and Chief Executive Officer
Savingforcollege.com LLC
Committees: Audit

Erland E. Kailbourne
Chairman of the Board
Retired Chairman & Chief Executive Officer
Fleet National Bank, New York

Robert N. Latella
Partner and Attorney
Hiscock & Barclay, LLP
Committees: Special

James E. Stitt
President and Chief Executive Officer
Alcas Corporation
*Committees: Management Development
and Compensation*

John R. Tyler, Jr.
Retired Partner
Nixon Peabody LLP
*Committees: Audit, Nominating and Governance**

James H. Wyckoff
Professor
Departments of Public Administration and Economics
State University of New York Albany
Committees: Executive, Nominating and Governance

* Chair

Investor Information

Stock Listing

NASDAQ NM: FISI

Annual Meeting

The Annual Meeting of Shareholders will be held at Financial Institutions, Inc. Corporate Headquarters, 220 Liberty Street, Warsaw, N.Y. at 10:00 a.m. on May 3, 2006.

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 and Corporate Secretary at (585) 786-1100 or e-mail info@fiiwarsaw.com

Attorneys

Nixon Peabody LLP

Rochester, New York

Independent Auditors

KPMG LLP

Buffalo, New York

Affiliates

Five Star Bank

Five Star Investment Services, Inc. (formerly known as FI Group, Inc.)

Rochester, New York

Website Address

www.fiiwarsaw.com



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