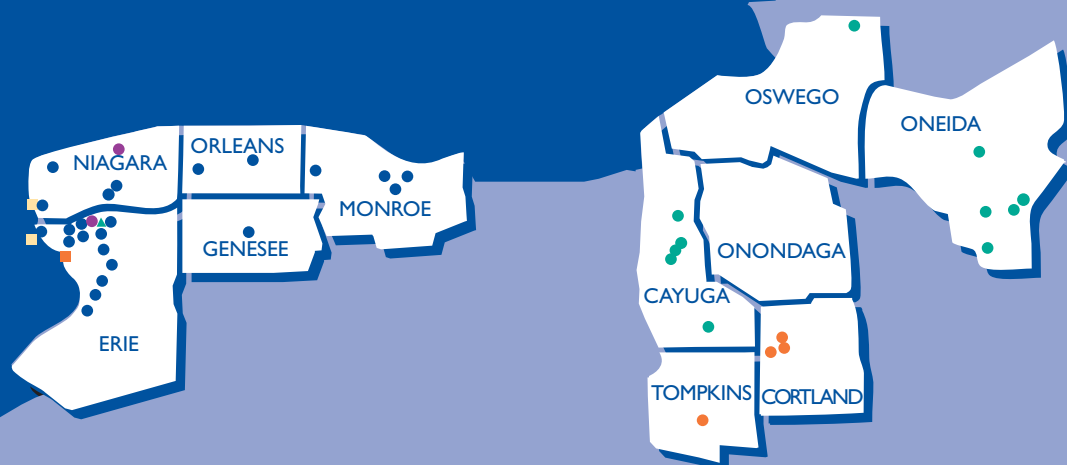


First Niagara.  
Focused.

## COMPANY PROFILE

Based in the Buffalo, New York suburb of Lockport, First Niagara Financial Group, Inc. is the \$2.9 billion multi-bank holding company of three community banks, including Cortland Savings Bank, Cayuga Bank and our principal subsidiary, First Niagara Bank. Our Company has a presence in the Western and Central Regions of New York State with 37 banking centers, 67 ATMs, two loan production offices and a telephone banking center.

A diverse financial services company, First Niagara Financial Group offers equipment lease financing, investment advisory services, third-party administration services and insurance services through independently-operated subsidiaries: First Niagara Leasing, Inc.; Niagara Investment Advisors, Inc.; NOVA Healthcare Administrators, Inc.; Allied Claim Services, Inc. and Warren-Hoffman & Associates, Inc., one of Upstate New York's largest insurance agencies. We employ more than 1,000 valued team members.



● First Niagara Bank	■ NOVA Healthcare
● Cortland Savings Bank	▲ Allied Claim Services
● Cayuga Bank	■ Niagara Investment Advisors
● Warren-Hoffman	

As of and for the year ended December 31,

(Dollars in Thousands)	2001	2000	% Increase
Assets	\$2,857,946	\$2,624,686	9%
Commercial Loans	\$ 584,911	\$ 452,352	29%
Loans, Net	\$1,853,141	\$1,823,174	2%
Deposits	\$1,990,830	\$1,906,351	4%
Stockholders' Equity	\$ 260,617	\$ 244,540	7%
Net Interest Income	\$ 79,016	\$ 60,178	31%
Noninterest Income	\$ 42,072	\$ 34,090	23%
Net Income – GAAP	\$ 21,220	\$ 19,519	9%
Net Income – Cash	\$ 26,898	\$ 22,570	19%

This report may contain projections or other forward-looking statements regarding future events or the future financial performance of the Company that involve risks and uncertainties. Readers are cautioned that these forward-looking statements are only predictions and may differ materially from actual future events or results. These risks are detailed in the Company's periodic reports filed with the Securities and Exchange Commission.

# Focused

We have built a strong foundation  
to create long-term value by staying

on the right things.

Customers P A G E   F O U R

Profitable Growth P A G E   F I V E

Financial Services P A G E   S I X

Credit Quality P A G E   S E V E N

Productivity P A G E   E I G H T

Shareholder Value P A G E   N I N E

A Letter from Our Chairman, President and CEO P A G E   T W O

Focused P A G E   F O U R

Financial Highlights P A G E   T E N

Directors and Executive Officers P A G E   T W E L V E

Investor Information P A G E   T H I R T E E N



# First Niagara Focused.



*Dear valued shareholders, customers, employees and friends,*

2001 was another excellent year for First Niagara. We generated record earnings, made continued progress in our transformation to a diverse financial services company, and as shareholders are all gratified by the 56% increase in the market value of First Niagara stock in 2001. As I reflect on our growth and progress since our initial public offering (IPO) just four years ago, the common thread that ties all of our successes together is that First Niagara has evolved as a truly focused company. We are a company focused on doing the right things for all of our major stakeholders: shareholders, customers, employees, and the communities in which we do business. Because the financial services business is one based on trust and providing customers with service, expertise, and value, we are convinced that this approach is the best way to continue building our valuable First Niagara franchise and consistently produce strong results and value over the long term.

*Our financial results  
continue to demonstrate  
steady and  
consistent growth.*

## **Another Year of Consistent Performance and Steady Progress**

Our financial results continue to demonstrate steady and consistent growth. For 2001, First Niagara's cash net income, which excludes amortization for intangible assets like goodwill, increased 19% to \$26.9 million, or \$1.08 per diluted share from \$22.6 million, or \$0.91 per diluted share for 2000. Net income increased 9% to \$21.2 million, or \$0.85 per diluted share, from \$19.5 million, or \$0.79 per diluted share in 2000. With our adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002, we will significantly reduce our future amortization expense. Based on this change, we believe that current cash results are a more relevant measure of our financial performance. Along with our continued growth in earnings, we made further progress in increasing our cash return on equity, which for 2001 rose to 10.52% from 9.69% for 2000.

A full year contribution from our Cayuga Bank and Cortland Savings Bank acquisitions, combined with internal growth and the shift in our loan portfolio mix to become more commercial bank-like, is producing significant financial benefits for First Niagara. In 2001, net interest income increased 31% and noninterest income rose 23%. A 29% increase in commercial real estate and business loans contributed to a widening of our net interest spread during the year, increasing to 3.17% for the 2001 fourth quarter from 2.86% for the 2001 first quarter.

Our balance sheet also remains in excellent shape. Deposits increased 4% to \$2.0 billion in 2001, with lower-cost core (non-time) deposits rising 6% in 2001. We also reduced our interest-rate sensitivity by holding lower volumes of fixed-rate residential mortgage loans in portfolio, while still remaining a significant originator of residential mortgages — a record \$201.6 million in 2001. Our asset quality remains strong and First Niagara's capital ratios continue to exceed all regulatory requirements for a well-capitalized financial institution.

The year was also noteworthy in that we completed the integration of our acquisitions. In total, we have made three bank acquisitions and four non-bank acquisitions since our IPO in 1998 and have developed a successful track record in making and integrating acquisitions. We also launched our Adding Value Always (AVA) initiative in May, which is designed to enhance our efficiency and focus our efforts on value-added decision-making and activities.

## **A Focused Strategy for Continued Growth**

First Niagara's strategy to maintain our growth momentum covers three major areas of focus: customer relationships, optimizing performance and increasing our market share in all of our businesses. Because we are known for building and maintaining loyal customer relationships, we are confident that we can leverage that ability to generate new internal growth from our franchise. A key component of this strategy will be to expand our offerings of relationship-based products and pricing. We will continue our efforts at developing a sales culture that best identifies ways to serve the needs of our customers, service them beyond their expectations and fully realize all the opportunity our franchise holds.

Optimizing our financial performance is also an important component of our growth strategy. With the AVA awareness process and initial basic productivity gains well underway, in 2002 we will move onto AVA's next steps of completing basic productivity gains and beginning implementation of significant process improvement and best practices. As part of this effort, we will also be setting performance benchmarks in 2002 at every level of our organization.

We recognize and value the importance of technology in optimizing performance. Reflecting the size of our organization, our corporate technology goal is to be "in the game" and invest at appropriate levels to stay competitive and in step with customer needs and financial industry changes.

Increasing our market share and position is also a significant part of First Niagara's growth strategy. While we now have the capacity to generate fairly meaningful growth internally, we continue to see acquisitions as an effective way to accelerate growing our business, market share and geographic market reach. Our growth strategy going forward will include a combination of building (de novo and internal growth) and buying (acquisition). Our expansion over the last few years demonstrates that we have the ability to do both successfully. Because we have fully employed the additional capital raised in our IPO, we would likely access the capital markets again if we make another sizable banking acquisition. First Niagara's ability to raise additional capital is enhanced by our track record as a public company and as an acquirer.

### Staying Focused to Stay the Course

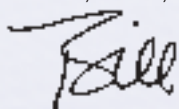
First Niagara is an organization rich in human capital. The strength and ability of our team – over 1,000 strong – to work together to profitably grow the company is a key ingredient to our success. The explosion of capability in our most important asset, our employees, has allowed First Niagara to prosper. Thanks to each of you for your efforts in 2001 on behalf of our company.

I would like to personally thank Christa Caldwell, a retired director of the Lockport Public Library and a First Niagara director since 1986, who retired from the Boards of First Niagara Bank and First Niagara Financial Group in January 2002. Christa's guidance and direction during a period of substantial growth for First Niagara are greatly appreciated.

As we all continue to read the headlines about corporate mistrust, it focuses my attention even more on how important it is today for companies to build and maintain trust. The most desired leadership trait is honesty. Honesty and integrity build trust and trust creates lasting relationships. You may rest assured that our company insists on the highest level of corporate and personal integrity in everything we do. Our Leadership Creed calls for First Niagara leaders to be "role models" and "exemplary representatives." As your CEO, I pledge to you that we will never waiver from our integrity-based values.

We are pleased with our success in employing capital and operating as a public company. As 2002 begins, we are in an excellent position to leverage First Niagara's expanded business and reach for the benefit of our customers and shareholders while staying on our course of steady growth and consistent performance. Our goal is to deliver greater shareholder value by staying focused on the right things and by remaining true to our integrity-based values and our genuine commitment to our customers – the core of First Niagara's approach to the financial services business.

Thank you for your continued loyalty and support.



William E. Swan  
Chairman, President and Chief Executive Officer

## FIRST NIAGARA AT A GLANCE

### Year Founded

The Company was formed in connection with First Niagara Bank's April 1998 conversion to a public company. First Niagara Bank was founded in 1870.

### Keys to Success

Community banking philosophy; personal service; diverse range of financial services.

### Key Strengths

- Strong multi-market community banking franchise
- Comprehensive product line
- Significant level of noninterest income: 35% of net revenues
- Enhanced portfolio mix: 31% commercial loans
- Exceptional asset quality

### What's Ahead

- Deepen customer relationships to generate internal growth
- Grow through acquisition and de novo expansion in core markets
- Expand our financial services group with a focus on wealth and risk management
- Maintain exceptional asset quality
- Continue process improvement to optimize performance
- Continue loan portfolio transition to become more bank-like
- Stay focused on increasing earnings and shareholder value

*We are pleased with  
our success in  
employing capital  
and operating as a  
public company.*



# Customers.

Creating a uniquely positive customer experience is critical to how First Niagara approaches our business. Our focus on the customer covers all sides of the First Niagara customer experience: service, products and convenience. The importance we place on the customer is also reinforced in our corporate value statement *"We believe that providing superior customer service is the reason why we exist"* and in First Niagara's marketing platform, *"Our First Priority is You."*

**Our  
first  
priority  
is you.<sup>SM</sup>**

*We are focused  
on deepening our  
customer relationships  
to generate  
internal growth.*

## Service and relationships

First Niagara sees providing an exceptional level of customer service as a key part of building long-term, brand-loyal customer relationships and to creating powerful and positive "word-of-mouth" marketing in our communities. In 2002, we are focused on deepening our customer relationships to generate additional internal growth from our franchise. This cost-effective approach takes our skill at forming lasting, mutually beneficial customer relationships and broadens it by expanding the relationship-based products offered across all our business lines and by targeted offerings of value-added promotions to customers.

## Value-added products and expertise

4

The offering of value-added products and expertise that uniquely address customer needs is an important way we differentiate First Niagara in our markets. The bi-weekly mortgage has been a standout product for First Niagara since its introduction in 1991. In 2000, we expanded the bi-weekly mortgage to our home equity product line. From a customer perspective, the product has significant appeal because it enables homeowners to accelerate equity build-up and repayment of their loan and save substantially on interest costs over the life of the loan. From the company's perspective, we like the bi-weekly mortgage because it reduces the average life of fixed-rate mortgage loans, adds the core consumer product relationship (checking account), and ensures timely payments through its automatic withdrawal for payment feature. First Niagara's relationship product enhancements introduced in 2001 include "Totally Free Checking" and the expansion of our business banking product line to full service with the addition of cash management services. Value-added products such as these contributed to our \$67.0 million increase in core (non-time) deposits during the year:

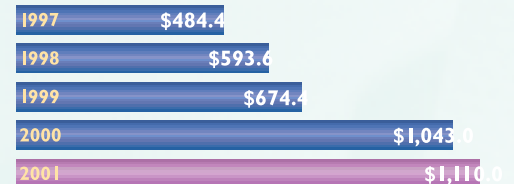
Because customers look to us for sound financial advice, we also invest significantly in our people to ensure that our front-line banking center, financial services and telephone banking staff have the knowledge to effectively deliver this service.

Additionally, because we acquired established, highly respected insurance, investment advisory and equipment leasing firms, we are able to provide First Niagara customers the benefit of proven expertise and experience in our expanded offering of financial services. In business banking the expertise of First Niagara's team of highly experienced relationship managers combined with local decision-making gives smaller business owners access to a level of knowledge and attention

that larger banks typically reserve for their major customers.

## C O R E D E P O S I T S

(In Millions)



## Convenience and flexibility

Making it easy to do business with First Niagara is another way we differentiate ourselves in the marketplace. On the consumer side of our business, we continue to expand our network of banking centers while also enhancing our offering of convenient, lower-cost alternatives. These options include online banking capabilities, in-store banking centers and ATMs located in convenient locations throughout our market area. The thinking behind this approach is to expand our footprint in the market in the most cost-effective way while also enhancing customer convenience. On the commercial side

of our banking business, our ability to be flexible on terms and pricing, and a true commitment and responsiveness to the small and middle market, has enabled us to develop a solid niche in commercial lending in our major markets.

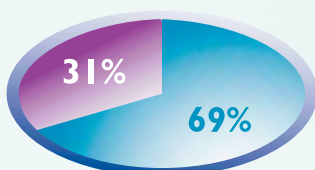


# FOCUSED ON Profitable Growth.

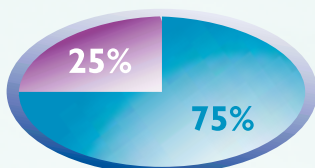
Since our April 1998 initial public offering (IPO), First Niagara has evolved as a public company in both size and scope. Through a combination of acquisitions and internal growth, First Niagara's assets have grown from \$1.2 billion to \$2.9 billion, a 142% increase in the company's asset size over the last four years. Our three banking acquisitions have extended First Niagara's market reach from Western to Central New York. First Niagara's expansion also extends well beyond the growth in our community bank franchise and the geographic markets we serve. Our business growth since our IPO has firmly established First Niagara as a full service provider of financial services in business banking and wealth and risk management. As First Niagara has significantly grown our business, we have done so profitably by making accretive acquisitions and pursuing internal growth in a measured and conservative way.

*First Niagara  
has profitably grown  
through accretive  
acquisitions and  
conservative  
internal growth.*

## LOAN PORTFOLIO COMPOSITION



2001



2000

■ Residential & Consumer  
■ Commercial Real Estate  
& Business

## Commercial lending growth

First Niagara has developed a solid niche as a commercial lender in Western and Central New York by focusing on the small-to-middle market and by providing a level of personal service, attention and flexibility consistent with our community banking philosophy. First Niagara's commercial loan portfolio (real estate & business loans) increased by 29% to \$584.9 million in 2001, and commercial loans as a percent of the loan portfolio increased from 25% to 31%. In 2001, our second year as a dedicated Small Business Administration (SBA) lender, First Niagara ranked fifth in volume in Western New York among a field of 30 SBA lenders. We also received certified lender status from the SBA in 2001, which reflects our ability to adopt the SBA's processing and underwriting requirements enabling us to provide our SBA borrowers with faster approvals. Overall, the higher yields and shorter terms associated with commercial lending enhance our net interest margin and ability to manage interest-rate risk.

## Core market focus

In our banking business, First Niagara has adopted a core market strategy where our marketing and acquisition efforts will primarily be focused on the Western and Central New York banking markets where the aggregate deposit market provides significant scale to grow our banking franchise. This approach will enable us to optimize our investments in our banking distribution channels and marketing where there is the greatest opportunity and where we are best positioned for new growth. In Niagara, Cayuga and Cortland counties, we are already a market leader with respective deposit market shares<sup>1</sup> of 25%, 46% and 40% and are focused there on incremental share growth. The greatest potential for meaningful share growth is currently in Erie County (the Buffalo market), Monroe County (the Rochester market) and Oneida County (the Rome-Utica market), which respectively are \$16.0 billion, \$11.1 billion and \$2.9 billion deposit markets.<sup>1</sup> Of these three markets, we see the greatest near-term potential in Erie and Oneida Counties where we have a stronger presence and greater name recognition than in Monroe County. Monroe County is an attractive opportunity based on the size of this market, its proximity to our Western New York headquarters and the lack of a significant locally headquartered bank there. Our interest in this market is reinforced by the success of our Rochester loan production office which has closed over \$100 million in loans since its opening in 1999. In late 2001, we began a de novo branch expansion initiative, which in the next few years will significantly increase our presence in both Erie and Monroe Counties, the state's two largest deposit markets outside New York City.

<sup>1</sup> Source: FDIC

## Business Banking Products

### LOANS

- SBA Loans
- Commercial mortgages
- Term loans
- Lines of credit
- Construction loans
- Equipment lease financing
- Corporate credit cards
- Letters of credit

### CASH MANAGEMENT SERVICES

- Business checking  
& savings
- Sweep accounts
- Merchant services
- PC banking
- Lockbox
- Account reconciliation

Profitable  
First Niagara



# FOCUSED ON Financial Services.

First Niagara's transformation to a full service financial services company over the last three years is the product of a focused strategy to broaden our product line and enhance our wealth and risk management services. Our goal is to fully serve the financial needs of customers in our markets and to capitalize on growing consumer and business demand for one-stop shopping for financial services. The Financial Services Group helps us to meet this demand while providing significant noninterest income and a strong platform for growth.

*The Financial Services Group helps us better serve customer needs while providing significant noninterest income and a strong platform for growth.*

## NONINTEREST INCOME

(In Millions)



## Organized for growth

Our focus in the last year has been on organizing our financial services product offerings to maximize relationship selling. In 2001, we grouped all of our financial services businesses within one business unit, the First Niagara Financial Services Group, which is organized along the lines of wealth management and risk management. Wealth management covers mutual fund and annuity sales, trust services, and investment advisory services offered through Niagara Investment Advisors. Risk management covers our insurance, risk

management advisory services and third party administration businesses. The anchor of First Niagara's risk management business is Warren-Hoffman & Associates, one of the largest insurance brokerages in Upstate New York, which First Niagara acquired in 1999.

## Risk management

First Niagara is targeting small-to-middle market businesses through our significant insurance and risk management capabilities. As we look to expand our commercial insurance revenues, the marketing of commercial insurance with business banking services is a natural fit and we have stepped up our efforts to link the marketing of these product offerings. Over the last year, we developed a more coordinated and focused relationship team within our business banking and insurance operations through team-building, training and stronger communication.

On the consumer side, we also offer personal lines of insurance including auto, home, long-term care, and life insurance. Both our customer base and major consumer products – mortgages, home equity and deposit accounts – offer opportunity to identify needs for our insurance products. For example, long-term care insurance is becoming an important risk management tool for the aging population to protect assets and we are effectively positioned to meet this need of our customers.

## Wealth management

The target market for our wealth management business is the middle market which we see as an important underserved niche as larger financial institutions are moving toward reserving their one-on-one attention for individuals to those with larger balance accounts. With our corporate focus on personal service and attention, First Niagara is in a strong position to service this niche. To prepare to do that most effectively, we are hiring highly experienced investment professionals, expanding our training programs and upgrading technology. We are also focused on linking the selling of wealth management products to business banking because many of our small commercial lending and insurance customers are business owners with significant investment needs. An important future focus for our wealth management business will be to achieve more scale in both our investment advisory and trust services.



### Wealth Management Products

Mutual funds  
Annuities  
Trust services  
Investment advisory services  
Retirement planning services

### Risk Management Products

**COMMERCIAL**  
Risk assessments  
Commercial insurance  
Construction insurance  
Contract surety  
Employee benefits  
Surety bonds  
Third-party administration

### CONSUMER

Life insurance  
Disability insurance  
Long-term care insurance  
Property insurance  
Auto insurance

Financial Services



# Credit Quality.

Exceptionally strong credit quality has been an important part of First Niagara's heritage and our success. Over the last five years, First Niagara's nonperforming assets-to-total assets ratio has consistently remained well below 1%. This track record reflects First Niagara's conservative approach to lending and the collateralized nature of our loan portfolio. Over 83% of First Niagara's loan portfolio is secured by real estate.

## Continued strength in credit quality

At year-end 2001, First Niagara's nonperforming assets-to-total assets (NPAs) ratio and nonperforming loans-to-total loans (NPLs) ratio were a modest 0.42% and 0.61%, despite the continued growth in our commercial loan portfolio and the year's economic downturn. The comparable average ratios



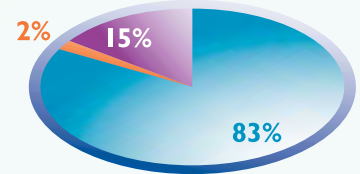
for our peer group<sup>1</sup> are 0.54% for NPAs and 0.95% for NPLs.

First Niagara's reserve coverage also remained strong, finishing the year at 163% of nonperforming loans. At 0.17% of average loans, First Niagara's charge-offs in 2001 are comparable to the average of 0.18% for our peer group.

## A secured and conservative loan portfolio

The consistency of First Niagara's credit quality is the product of our portfolio mix, conservative underwriting standards and the stability of our markets. First Niagara reduces its business loan exposure by focusing on small-to-middle market businesses and on fully collateralized loans. We also target the lower risk loan

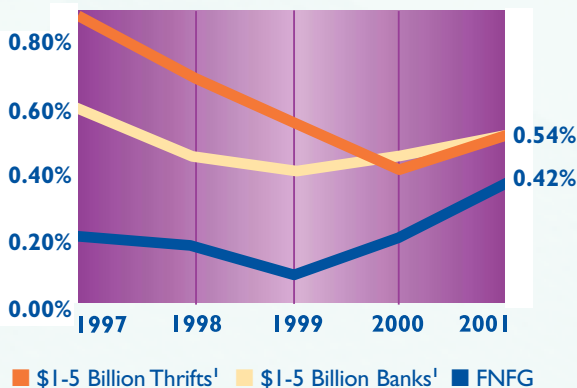
### CONSERVATIVE PORTFOLIO MIX



- Secured by Real Estate
- Unsecured
- Government Guaranteed/Secured by Non-Real Estate

categories in commercial real estate lending, with a focus on smaller multi-family apartment properties (\$1-\$2 million) which limits risk and provides stronger collateral than other classes of commercial property. First Niagara's commercial lending exposure is further reduced by our status as an emerging SBA lender; a government-guaranteed loan program that protects lenders against loss.

### NONPERFORMING ASSETS / TOTAL ASSETS



<sup>1</sup>Source: SNL Securities

In our residential mortgage portfolio, First Niagara's 2001 charge-offs of 0.03% — just 3/100ths of one percent — of average residential loans is indicative of the conservative nature of this portfolio and the strength of its underlying collateral. This portfolio also has an extremely low level of delinquency — 1.33% of residential mortgages were delinquent over 30 days at year-end 2001. Contributing to our low level of residential mortgage delinquency is that payments on First Niagara's bi-weekly mortgages, which make up over one-third of the residential loan portfolio, typically are pre-authorized and withdrawn from customer accounts.

*The consistency of First Niagara's credit quality is the product of our portfolio mix, conservative underwriting standards and the stability of our markets.*

# Productivity.

With the final phases of the integration of our 2000 acquisitions completed in 2001, First Niagara's operational focus has turned to improving the company's efficiency. Over the next three years, First Niagara is targeting productivity gains in excess of 10%. Our current efficiency ratio level reflects the continued growth in First Niagara's significant financial services business, which produces a higher level of noninterest income and has a lower cost of capital than our traditional banking business.

## Integrating acquisitions effectively

First Niagara's business model for acquisitions continues to be centralizing back office functions and maintaining continuity and decision-making in front-line customer-facing functions. The effectiveness of this approach is reflected in First Niagara's high level of post-acquisition customer retention. Another major focus in integrating acquisitions that has kept our financial performance on track has been enhanced control and monitoring of expenses and the setting of realistic performance goals for our businesses. In 2001, a major component of our acquisition integration activities was organizing our financial services businesses under one group – First Niagara Financial Services – to provide focus and maximize synergies and efficiencies from this diverse, but complementary set of businesses.

*The foundation for First Niagara's drive to increase productivity is our AVA initiative which was launched companywide in 2001.*

## AVA initiative launched

The foundation for First Niagara's drive to increase productivity is our AVA (Adding Value Always) initiative which was launched companywide in 2001. AVA's focus is on optimizing the financial performance of the company by seeking out opportunities to enhance revenues, by increasing our operating efficiency, and by bringing a value-added mindset to every decision we make. AVA begins with employee awareness, and is followed by basic productivity gains, process improvement and best practices, and finally systemic continuous improvement. The first two steps of the AVA initiative were taken last year and we will be focusing our efforts in the coming year



to completing all the basic productivity gains, establishing benchmarks and initiating process improvement and best practices. Because AVA represents a significant culture and mindset shift, it is most effectively implemented in stages, building on individual and group successes over a multi-year timeframe.

## Enhanced technological capabilities

With the increase in the company's size and expansion of our businesses, First Niagara has made significant investments in upgrading our technology in the last two years. Our purpose is twofold: to best position the company for future productivity gains and to provide customers with the higher level of convenience expected from financial institutions. With continued upgrading of our platform system and online banking capabilities, First Niagara's technology is keeping pace with the market and keeping us "in the game."

### AVA Timeline

#### 2 0 0 1

Employee awareness

Basic productivity gains

#### 2 0 0 2

Complete basic productivity gains

Process improvement and best practices

#### 2 0 0 3

Systemic continuous improvement



Productivity



# FOCUSED ON Shareholder Value.

As a public company, First Niagara has demonstrated our focus on shareholder value through our delivery of consistent financial results, management of capital and the successful execution of our business and strategic plans. We have fully employed our 1998 IPO capital, which has produced a larger, more profitable company that is poised for continued growth.

*We have fully employed  
our 1998 IPO capital,  
which has produced a larger,  
more profitable company  
that is poised for  
continued growth.*

## Solid improvements in financial performance

First Niagara is making steady progress in our goal of becoming a top-performing financial services company. In 1998, our first year as a public company, First Niagara's operating results, excluding the non-recurring after-tax charge of \$4.0 million to establish our charitable foundation, provided net income of \$14.4 million, earnings per share of \$0.50 and a return on average equity of 6.43%. In 2001, our fourth year as a public company, First Niagara reported net income of \$21.2 million, earnings per diluted share of \$0.85 and a return on average equity of 8.30%. Excluding the non-cash expenses for amortization of goodwill and other intangibles, First Niagara reported 2001 cash net income of \$26.9 million, cash earnings per diluted share of \$1.08 and a cash return on average equity of 10.52%. First Niagara plans to continue our track record of consistent and steadily increasing financial performance through a combination of conservative internal growth, accretive and strategic acquisitions, and our increased focus on productivity.

## Prudent management of capital

Since our IPO, First Niagara has re-deployed over \$200 million of capital to successfully complete and integrate three bank acquisitions and four acquisitions of financial services firms in insurance, investments and equipment leasing. In managing our IPO capital, we also used the opportunity of the 1999 to 2000 downturn in the stock prices of financial institutions to repurchase shares and enhance First Niagara's return on equity and earnings per share. During that period, First Niagara repurchased a total of 4.2 million shares, approximately 15% of shares outstanding, at an average price of \$10.43 per share.

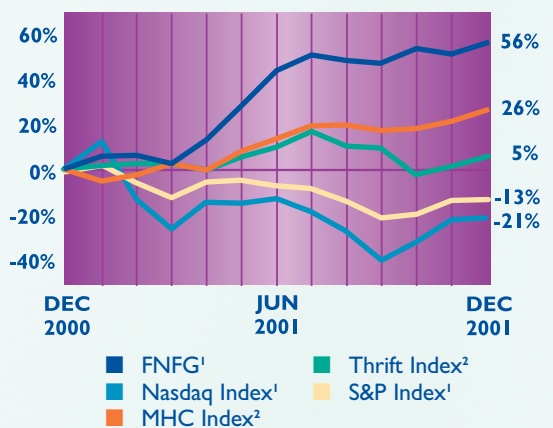


## Delivering shareholder value

The result of First Niagara's value-focused strategy over our four years as a publicly traded company is an

increase from our initial offering price of \$10 per share from our April 20, 1998 IPO to \$18.25 at February 28, 2002. First Niagara has also delivered additional value to shareholders through cash dividends, first declaring a dividend in September 1998 and since then raising the quarterly payout six times to the current quarterly dividend rate of \$.10 per share, representing a 2.4% annualized yield based on our 2001 year-end share price. The cumulative total return on First Niagara's shares, assuming the reinvestment of all cash dividends, for those depositors who purchased and held our shares since the IPO was 81% at December 31, 2001, which exceeds the total return on both the Nasdaq Composite Index and the Mutual Holding Company Index in the same time period. In 2001, First Niagara's share price increased 56%, rising from \$10.81 at year-end 2000 to \$16.83 at year-end 2001.

## 2001 STOCK PERFORMANCE



<sup>1</sup>Source: Reuters

<sup>2</sup>Source: SNL Securities

First Niagara



# Financial Highlights

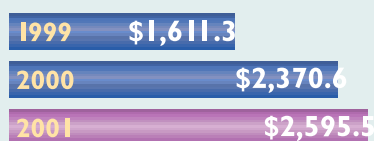
As of and for the year ended December 31,

	2001	2000	1999	1998	1997
<b>End of Period Balance Sheet Data</b>					
	<i>(Dollars in thousands)</i>				
Total assets	\$ 2,857,946	\$ 2,624,686	\$ 1,711,712	\$ 1,508,734	\$ 1,179,026
Interest earning assets	2,595,471	2,370,613	1,611,313	1,408,097	1,120,696
Securities	693,897	501,834	563,473	580,751	466,281
Loans, net	1,853,141	1,823,174	985,628	744,739	635,396
Deposits	1,990,830	1,906,351	1,113,302	1,060,897	995,621
Borrowings	559,040	429,567	335,645	142,597	33,717
Stockholders' equity	260,617	244,540	232,616	263,825	130,471
<b>Asset Quality Ratios</b>					
Non-performing loans to total loans	0.61 %	0.35 %	0.19 %	0.43 %	0.47 %
Non-performing assets to total assets	0.42	0.28	0.18	0.26	0.28
Net charge-offs to average loans	0.17	0.06	0.07	0.15	0.18
Allowance to total loans	1.00	0.96	0.99	1.06	1.08
Allowance to non-performing loans	163.13	273.73	511.27	243.02	227.14

## Sources of Income

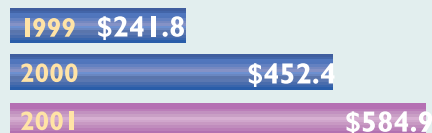
### INTEREST EARNING ASSETS

(In Millions)

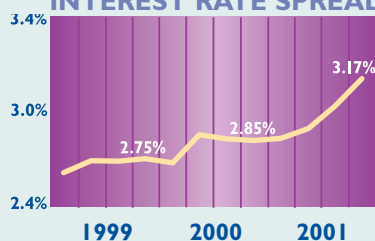


### COMMERCIAL LOANS

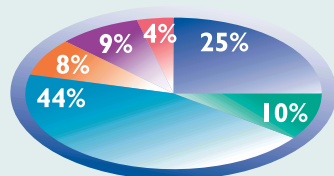
(In Millions)



### QUARTERLY INTEREST RATE SPREAD



### NONINTEREST INCOME



- Banking Service Charges & Fees
- Lending & Leasing Income
- Risk Management Services
- Wealth Management Services
- Investment & Security Income
- Other

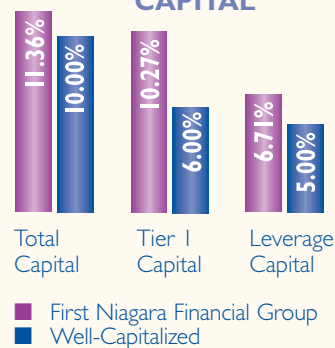
## Capital Strength

### STOCKHOLDERS' EQUITY

(In Millions)



### CAPITAL



As of and for the year ended December 31,

	2001	2000	1999	1998	1997
<b>Income Statement Data</b>					
	<i>(Dollars in thousands, except per share data)</i>				
Net interest income	\$ 79,016	\$ 60,178	\$ 50,754	\$ 44,136	\$ 37,385
Noninterest income	42,072	34,090	27,688	9,182	6,796
Noninterest expense	83,005	61,518	47,643	35,946	25,178
Net income – GAAP	21,220	19,519	18,440	10,382	11,251
Net income – cash	26,898	22,570	19,934	10,382	11,251
<b>Per Share Data</b>					
Diluted earnings per share:					
GAAP	\$ 0.85	\$ 0.79	\$ 0.69	-	-
Cash	1.08	0.91	0.75	-	-
Cash dividends	0.36	0.28	0.14	0.06	-
Book value	10.51	9.91	9.07	9.19	-
<b>Selected Ratios</b>					
Return on average assets:					
GAAP	0.79%	0.98%	1.13%	0.77%	0.98%
Cash	1.00	1.13	1.23	0.77	0.98
Return on average equity:					
GAAP	8.30	8.38	7.52	4.65	9.16
Cash	10.52	9.69	8.13	4.65	9.16
Net interest rate spread	2.99	2.82	2.72	2.75	2.86
Net interest margin	3.25	3.26	3.33	3.48	3.39
Dividend payout ratio	41.86	35.44	20.30	16.60	-

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## Earnings Strength

### NET INCOME – GAAP

(In Millions)

1999	\$18.4
2000	\$19.5
2001	\$21.2

### NET INCOME – CASH

(In Millions)

1999	\$19.9
2000	\$22.6
2001	\$26.9

### CASH RETURN ON EQUITY

1999	8.13%
2000	9.69%
2001	10.52%

First Niagara

# Directors and Executive Officers

## DIRECTORS

### **William E. Swan**

Chairman, President and  
Chief Executive Officer  
First Niagara Financial Group, Inc.

### **Gordon P. Assad**

President and Chief Executive Officer  
Erie & Niagara Insurance Association

### **John J. Bisgrove, Jr.**

President & Owner (Retired)  
Red Star Express Lines

### **James W. Currie**

President  
Ag Pak, Inc.

### **Gary B. Fitch**

President & Owner  
Ontario Orchards, Inc.

### **Daniel W. Judge**

President  
Dansam, Inc.

### **Harvey Kaufman**

Deputy Director  
Rural Schools Program, Cornell University  
Superintendent (Retired)  
Cortland City School District

### **B. Thomas Mancuso**

President  
Mancuso Business Development Group

### **James Miklinski**

General Manager  
Niagara Milk Cooperative

### **Robert G. Weber**

Managing Partner (Retired)  
KPMG LLP

## EXECUTIVE OFFICERS

### **William E. Swan**

Chairman, President and  
Chief Executive Officer

### **G. Gary Berner**

Executive Vice President –  
Commercial Banking

### **Paul J. Kolkmeier**

Executive Vice President –  
Consumer Banking

### **Kathleen P. Monti**

Executive Vice President –  
Administration

### **Daniel E. Cantara**

Senior Vice President –  
Financial Services Group

### **Daniel A. Dintino, Jr.**

Senior Vice President –  
Chief Financial Officer

### **Frank J. Polino**

Senior Vice President –  
Technology & Operations

## AFFILIATE PRESIDENTS AND CEOs

### **Mary Collins Sanborn**

President and Chief Executive Officer  
Niagara Investment Advisors, Inc.

### **Joseph E. David**

President  
First Niagara Leasing, Inc.

### **Gregory J. Dendler**

President  
Allied Claim Services, Inc.

### **John D. Hoffman**

Chief Executive Officer  
Warren-Hoffman & Associates, Inc.

### **David J. Nasca**

President and Chief Executive Officer  
Cayuga Bank

### **F. Michael Stapleton**

President and Chief Executive Officer  
Cortland Savings Bank

### **Larry Thompson**

President  
NOVA Healthcare Administrators, Inc.

### **Michael C. Tylwalk**

President  
Warren-Hoffman & Associates, Inc.



# Investor Information

## ANNUAL REPORT ON FORM 10-K

Investor and shareholder information regarding First Niagara Financial Group, Inc., including all filings with the Securities and Exchange Commission, is available through the Company's website [www.firstniagarafinancial.com](http://www.firstniagarafinancial.com). Copies may also be obtained without charge upon request to:

First Niagara Financial Group, Inc.  
Attn: Christopher J. Thome  
Assistant Vice President  
Reporting and Investor Relations Manager  
6950 South Transit Road  
P.O. Box 514  
Lockport, NY 14095-0514  
(716)625-7645

## TRANSFER AGENT

Communications regarding change of address, transfer of stock and lost certificates should be sent to:

Mellon Investor Services, LLC  
P.O. Box 3315  
South Hackensack, NJ 07606  
(877) 785-9670  
Website: [melloninvestor.com](http://melloninvestor.com)

## ANNUAL MEETING OF SHAREHOLDERS

The Annual Shareholders Meeting will be held on Tuesday, May 7, 2002 at 10:00 a.m.:

Sean Patrick's Banquet Facility  
3480 Millersport Highway  
Getzville, NY 14068

## STOCK DATA

First Niagara Financial Group, Inc.'s, common stock is traded on the NASDAQ National Market System under the symbol FNFG. At March 11, 2002, there were 25,944,112 shares of common stock outstanding and approximately 6,700 shareholders of record. Set forth below are the high, low and closing prices for the Company's common shares by quarter. Data was supplied by NASDAQ:

Fiscal Year Ended December 31, 2001	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
High	\$12.00	\$15.99	\$17.90	\$17.45
Low	\$10.75	\$10.75	\$12.76	\$15.20
Close	\$11.19	\$15.53	\$15.87	\$16.83

Fiscal Year Ended December 31, 2000	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
High	\$10.38	\$10.16	\$9.75	\$11.06
Low	\$8.25	\$9.00	\$8.50	\$8.75
Close	\$9.75	\$9.38	\$9.25	\$10.81

Common stock dividends were paid as follows:

## RATE PER SHARE

Feb 20, 2001	\$ .08
May 22, 2001	\$ .09
Aug 14, 2001	\$ .09
Nov 13, 2001	\$ .10
Feb 19, 2002	\$ .10

### *Our Vision*

To be the first choice  
in financial services.

### *Our Mission*

To excel as an independent,  
profitable and growing  
financial services company,  
committed to increasing  
long-term shareholder value.

To exceed the expectations  
of our customers by building  
loyal relationships through  
products and service  
of high quality and value.

To attract, develop and  
retain employees who  
demonstrate a genuine  
commitment to our core  
values and success.

To enhance the quality of life  
in the communities we serve.



**First Niagara**  
Financial Group, Inc.

Administrative Center  
6950 South Transit Rd., P.O. Box 514, Lockport, NY 14095-0514, 716-625-7500  
[www.firstniagarafinancial.com](http://www.firstniagarafinancial.com)