



First Niagara Reports Successful Integration of HSBC Branches and Second Quarter 2012 Operating Net Income per Share of \$0.17

Second Quarter Highlights:

- Performance of Acquired HSBC Branches Ahead of Expectations
 - Retail Deposit Retention to date of 97% Better than Anticipated
 - Strong Deposit and Loan Activity
- Lending Franchise Continues to Outperform
 - 17% Commercial Loan Growth
 - Indirect Auto Originations Total \$170 million
- Core Deposit Platform Growth Continues
 - Retail Checking Account Balances up 20%, Excluding Acquired Balances
- Sustained Strength in Capital Markets and Mortgage Banking Revenues
- GAAP Loss of \$0.05 per Share Includes \$135 million of HSBC Branch Acquisition and Restructuring Charges

BUFFALO, N.Y., July 27, 2012 – First Niagara Financial Group, Inc. (NASDAQ:FNFG) today announced second quarter 2012 results reflecting the continuing strong fundamentals of its regional banking business, as well as better than expected initial outcomes from the recently acquired and converted HSBC branches across New York State and Connecticut.

“We continue to execute and deliver on our core banking strategy by expanding and strengthening relationships with our new and existing customers,” said John R. Koelmel, First Niagara President and Chief Executive Officer. “The fundamentals of our business are stronger than ever as evidenced by the continuing momentum across each of our operating units and markets. And with the benefit of the very successful conversion in May of the former HSBC branches across New York and Connecticut, our team continues to play offense very effectively with our differentiating customer-centric approach in each of our markets.”

HSBC Branch Acquisition Update

On May 18, 2012, the company acquired \$9.8 billion in deposits and \$1.6 billion in loans through the HSBC branch transaction. The company successfully transferred 1.2 million loan and deposit accounts in converting nearly 500,000 households over that weekend, while also transforming the 100 acquired branches and welcoming 1,200 new team members. The company also completed the planned sale of 57 branches to KeyBank, Community Bank Systems and Five Star. The sale of seven remaining branches will be completed later in this quarter.

Customer retention has been strong, with more than 97% of the converted deposit balances retained to date. The overall cost of the acquired retail deposits averaged 31 basis points. To date, the pace of new checking account production at acquired branches is running 20% above established branches. In addition, customers acquired in the transaction transferred more products and services per household compared to the legacy company relationships.

Retail, small business, and consumer finance lending activity at the new branches was also strong. In the small business segment, the on-boarding of 20 new relationship managers has resulted in a \$90 million, or 50% increase in the pipeline in that segment.

Second Quarter Performance

In the second quarter of 2012, First Niagara posted non-GAAP operating net income available to common shareholders of \$59.1 million, or \$0.17 per diluted share, compared to \$0.19 per share in the first quarter of 2012.

Total operating revenues of \$338.7 million, which do not include the previously announced \$15.9 million gain recorded on the sale of mortgage-backed securities, increased \$26.4 million, or 8% over the first quarter of 2012. Net interest income was up \$16.6 million, or 7%, from the prior quarter. Those increases include the benefits of the loans and deposits acquired through the HSBC branch transaction. Net interest margin was 3.26%, an eight basis point decline from the prior quarter, principally as a result of \$14 million of additional premium amortization on mortgage-backed securities. Excluding the incremental premium amortization, the second quarter net interest margin was 3.43%.

Excluding loans acquired from HSBC, average commercial loans increased \$429 million for the quarter, up 17% annualized over the prior three-month period. That is the tenth consecutive quarter of double-digit average commercial portfolio growth. Indirect auto loan originations totaled \$170 million in the second quarter, as that new business unit begins to create significant momentum across its dealer network. Noninterest income increased 14% from the prior quarter driven by impacts of the HSBC branch acquisition as well as continued strength in both mortgage banking and capital markets businesses.

The provision for credit losses on originated loans totaled \$25.4 million, including \$10.3 million to support loan growth and \$15.1 million to cover net charge-offs of 55 basis points of originated loans. The total provision for credit losses was \$28.1 million for the quarter, including \$2.4 million related to acquired loans.

On a GAAP basis, First Niagara reported a second quarter loss to common shareholders of \$18.5 million, or \$0.05 per diluted share, compared to net income to common shareholders of \$54.8 million, or \$0.16 per diluted share, in the first quarter of 2012. Reported GAAP results for the second quarter of 2012 include the \$15.9 million gain on securities portfolio sale completed at the end of the quarter as well as \$135.2 million of acquisition and restructuring costs incurred primarily in connection with the HSBC branch acquisition.

“The positive operating performance driven by our very strong loan and deposit growth continues to differentiate us from peers,” said Gregory W. Norwood, Chief Financial Officer. “While the benefits of those increasingly solid fundamentals were somewhat diminished by the impacts of the mortgage-backed security premium amortization and a large commercial loan charge-off during the quarter, we continue to be focused on fully capitalizing on our organic commercial customer growth opportunities, including our new indirect auto capabilities and enhanced credit card product. We will continue to focus on acquiring core retail and business checking accounts and deepening the

product and service relationships with our customers to further drive profitable growth during this prolonged low- rate environment.”

Operating Results (Non-GAAP)	Q2 2012	Q1 2012	Q2 2011
Net interest income	\$ 259.0	\$ 242.4	\$ 230.4
Provision for credit losses	28.1	20.0	17.3
Noninterest income	79.7	69.9	60.9
Noninterest expense	210.4	184.5	166.7
Operating net income before non-operating items	66.6	70.1	71.2
Preferred stock dividend	7.5	5.1	-
Operating net income available to common shareholders	59.1	64.9	71.2
Weighted average diluted shares outstanding	348.9	349.1	282.4
Operating earnings per diluted share	\$ 0.17	\$ 0.19	\$ 0.25

Reported Results (GAAP)

Operating net income before non-operating items	\$ 66.6	\$ 70.1	\$ 71.2
Gain on securities portfolio repositioning (a)	10.3	0.0	0.0
Non-operating expenses (b)	87.9	10.2	57.7
Net income (loss)	(10.9)	59.9	13.6
Preferred stock dividend	7.5	5.1	-
Net income (loss) available to common shareholders	(18.5)	54.8	13.6
Weighted average diluted shares outstanding	348.9	349.1	282.4
Earnings (loss) per diluted share	\$ (0.05)	\$ 0.16	\$ 0.05

All amounts in millions except earnings per diluted share. The Non-GAAP/Operating Results table above summarizes the company’s operating results excluding certain non-operating items. For a detailed reconciliation of non-GAAP measures, refer to the attached tables.

(a) Amount is shown net of tax and represents gain recorded on the sale of \$3.1 billion of mortgage-backed securities

(b) Amounts are shown net of tax and represent expenses related to acquisition, integration and restructuring.

Loans

Average loans increased \$349 million, or 8% annualized over the prior quarter, excluding the impact of loans acquired from HSBC. The organic increase from the prior quarter was driven by sustained strength in commercial loan categories and strong momentum in the Company’s indirect auto origination business.

Average commercial loans increased \$429 million, or 17% annualized, excluding the impact of loans acquired from HSBC. Commercial business (C&I) loans averaged \$4.2 billion, or a 30% annualized increase over the prior quarter, excluding loans acquired from HSBC. Commercial real estate loans, excluding acquired loans, increased 9% annualized to \$6.4 billion. Quarter-over-quarter organic growth of 94% in other consumer loans was driven by \$170 million of indirect auto originations at yields of approximately 3.5%.

Deposits

Core consumer and business checking deposit balances and customer acquisition trends continued the strong momentum from the first quarter. Excluding the acquired HSBC accounts, new checking account openings increased 15% over the prior quarter and 38% over the prior year. The company's New York franchise was the leading contributor to the increase in new checking accounts from the prior quarter driven in part by the disruption in the market.

Excluding balances acquired through the HSBC branch transaction, average deposit balances were unchanged from prior quarter as growth in interest-bearing checking deposit balances and noninterest bearing deposits was offset by planned run-off of certificate of deposits. Average core deposit balances, excluding deposits acquired through the HSBC branch transaction, increased an annualized 2% over the prior quarter. Excluding the acquired HSBC balances, retail checking deposit balances increased 20% annualized over the prior quarter driven by continued new customer acquisition and balance growth on existing accounts. The quarter-over-quarter growth in retail checking balances included increases of 45% and 28% annualized in Western and Eastern New York, respectively. Average noninterest bearing deposits, excluding acquired HSBC deposits, increased 12% annualized over the prior quarter.

Net Interest Income

Average earning assets increased 37% annualized compared to the prior quarter, including investment securities purchased in anticipation of the HSBC branch transaction, the benefits of continued strong commercial loan growth, and the impact of \$1.6 billion in branch-based loans acquired from HSBC. Investment securities averaged \$14.0 billion, an increase of 48% annualized from the prior quarter.

Net interest income of \$259.0 million increased 7% from the prior quarter, given the beneficial impacts of the increase in earning assets and the repayment of higher-cost borrowings. Those benefits were partially offset by \$14 million in additional premium amortization on mortgage-backed securities which reduced the quarters' net interest margin by 17 basis points. As a result, tax equivalent net interest margin in the second quarter of 2012 was 3.26%, or eight basis points lower than the prior quarter.

Credit Quality

At June 30, 2012, the allowance for loan losses was \$138.5 million, an increase from \$126.7 million at March 31, 2012. Information for both the originated and acquired portfolios follows.

<i>\$ in millions</i>	Q2 2012			Q1 2012		
	Originated	Acquired	Total	Originated	Acquired	Total
Provision for loan losses	\$ 25.4	\$ 2.4	\$ 27.8	\$ 15.5	\$ 4.4	\$ 19.9
Net charge-offs	15.1	0.7	15.8	8.6	4.7	13.3
NCOs/ Avg Loans	0.55 %	0.04 %	0.36 %	0.34 %	0.29 %	0.32 %
Total loans*	\$ 11,392	\$ 7,600	\$ 18,992	\$ 10,517	\$ 6,460	\$ 16,977

(*) Acquired loans before associated credit discount; see accompanying tables for further information

Originated loans

The provision for credit losses on originated loans totaled \$25.4 million, up from \$15.5 million in the prior quarter. As in recent quarters, the company provisioned well in excess of net charge-offs to support continued momentum in originated loan growth. For the second quarter, the provision in excess of net charge-offs was \$10.3 million.

Net charge-offs increased to \$15.1 million or 55 basis points of average originated loans from \$8.6 million or 34 basis points in the prior quarter. The sequential increase resulted from a \$7.7 million charge-off on one large commercial credit based in Upstate New York. Excluding that loan, net charge-offs for the quarter were 27 basis points of the originated portfolio.

At the end of the second quarter, nonperforming assets to total assets were 0.40%, unchanged from the prior quarter. Nonperforming loans as a percentage of originated loans decreased 13 basis points to 0.96% at June 30, 2012 and totaled \$109.7 million. At June 30, 2012, the allowance for loan losses on originated loans totaled \$135.2 million or 1.19% of such loans, compared to \$125.1 million or 1.19% of loans at March 31, 2012.

Acquired loans

The provision for losses on acquired loans totaled \$2.4 million, compared to \$4.4 million in the prior quarter. Net charge-offs during the quarter on those portfolios totaled \$0.7 million, compared to \$4.7 million in the prior period. The provision in excess of net charge-offs provides for losses expected on certain pools of acquired loans. Acquired nonperforming loans totaled \$19.3 million, up only slightly from \$19.0 million at March 31, 2012. At June 30, 2012, remaining credit marks available to absorb losses on a pool-by-pool basis totaled approximately \$229 million.

Fee Income

Second quarter 2012 operating noninterest income of \$79.7 million increased \$9.8 million, or 14%, compared to the prior quarter. Mortgage banking revenues increased \$1.5 million or 27% over the prior quarter driven by higher gain-on-sale margins as well as stronger volumes that were positively impacted by the HSBC transaction. Sustained strength in capital markets income reflects the continued value of the Company's more robust commercial product capabilities.

On a GAAP basis, other noninterest income included a \$15.9 million gain recorded on the sale of \$3.1 billion of mortgage-backed securities at the end of June.

Noninterest Expense

Second quarter non-GAAP operating noninterest expense was \$210.4 million, up \$25.9 million from the first quarter of 2012. The increase reflects the partial-quarter cost of operating the acquired HSBC branches and higher FDIC premium expenses related to the HSBC branch transaction. Excluding this impact, operating expenses declined modestly from the prior quarter due to a decline in seasonal compensation expenses. The non-GAAP operating efficiency ratio was 62.1% compared to 59.1% in the prior quarter.

On a GAAP basis, noninterest expense for the second quarter was \$345.6 million, including \$135.2 million in HSBC branch acquisition and restructuring expenses, which were in line with expectations.

Capital

At June 30, 2012, the Company's estimated consolidated Total Risk Based capital and Tier 1 Common Risk Based capital ratios were 11.4% and 7.4%, respectively, reflecting the addition of approximately \$850 million in intangible assets from the HSBC branch transaction. First Niagara remains well above current regulatory guidelines for well-capitalized institutions.

About First Niagara

First Niagara, through its wholly owned subsidiary, First Niagara Bank, N.A., is a multi-state community-oriented bank with nearly 430 branches, approximately \$35 billion in assets, \$28 billion in deposits, and approximately 6,000 employees providing financial services to individuals, families and businesses across Upstate New York, Pennsylvania, Connecticut and Massachusetts. For more information, visit www.firstniagara.com.

Investor Call

A conference call will be held at 8:30 a.m. Eastern Time on Friday, July 27, 2012 to discuss the company's financial results. Those wishing to participate in the call may dial toll-free 1-888-606-8413 with the passcode: FNFG. Presentation slides will be used during the earnings conference call and is available under the investor relations tab of our website at www.firstniagara.com. A replay of the call will be available until August 10, 2012 by dialing 1-866-373-1990, passcode: 9263.

Non-GAAP Measures - This news release contains financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America (GAAP). The Company believes that non-GAAP financial measures provide a meaningful comparison of the underlying operational performance of the company, and facilitate investors' assessments of business and performance trends in comparison to others in the financial services industry. In addition, the company believes the exclusion of these non-operating items enables management to perform a more effective evaluation and comparison of the company's results and to assess performance in relation to the company's ongoing operations. These disclosures should not be viewed as a substitute for financial measures determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Where non-GAAP disclosures are used in this news release, the comparable GAAP financial measure, as well as the reconciliation to the comparable GAAP financial measure, can be found in this document.

Forward-Looking Statements - This press release contains forward-looking statements with respect to the financial condition and results of operations of First Niagara Financial Group, Inc. including, without limitations, statements relating to the earnings outlook of the company. These forward-looking statements involve certain risks and uncertainties. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities: (1) changes in the interest rate environment; (2) competitive pressure among financial services companies; (3) general economic conditions including an increase in non-performing loans that could result from an economic downturn; (4) changes in legislation or regulatory requirements; (5) difficulties in continuing to improve operating efficiencies; (6) difficulties in the integration of acquired businesses; and (7) increased risk associated with an increase in commercial real estate and business loans and non-performing loans.

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