



First Niagara Reports Third Quarter 2012 Operating Net Income per Share of \$0.19

Highlights:

- Non-GAAP Operating Net Income per Share of \$0.19, a \$0.02 Increase Over the Prior Quarter
 - Net Interest Margin Increases 28 Basis Points to 3.54%
 - Operating Revenues Increase 8%
- Average Commercial Loans Increase 17% Over the Prior Quarter
 - 11th Consecutive Quarter of Double Digit Commercial Loan Growth
 - C&I Loans Increase 24%; Commercial Real Estate Loans Increase 14%
 - 15% Commercial Loan Growth in the New York Market; Continued Growth Across All Geographies
- Fee Income Increases 22%
 - Mortgage Banking Revenues Increase 53% Over Prior Quarter
 - Strength in Capital Markets Activity and Fees Sustained
- Core Deposit Platform Growth Continues
 - Transactional Deposits Increase to 31% of Total Deposits
 - Checking Account Production per Branch Increases 36% over Prior Year
- GAAP EPS of \$0.14 per Share Includes \$29 million of Acquisition and Restructuring Charges

BUFFALO, N.Y., October 19, 2012 – First Niagara Financial Group, Inc. (NASDAQ:FNFG) today announced third quarter 2012 results reflecting continued strength and momentum in its regional banking business. The solid performance continues to be driven by sustained market share gains through new customer acquisition as well as deepening relationships with existing customers and growth in fee income.

“Our team continues to deliver differentiating results and outcomes and strong fundamental performance by helping our customers and communities *Do Great Things*,” said John R. Koelmel, First Niagara President and Chief Executive Officer. “We have worked diligently to put the pieces together by assimilating a strong team and culture, an enviable footprint and franchise and strong ties to our growing base of customers and communities. As we look ahead, our entire organization – from top to bottom – is now singularly focused on running the business we have built and optimally executing our operating plan.”

“First Niagara’s lending franchise continues to deliver solid and differentiated fundamental performance throughout the continuing low-growth economic environment,” said Gregory W. Norwood, Chief Financial Officer. “Our ability and continued success in gaining market share affords us the opportunity to be selective and discerning in credit underwriting. Further, the growth potential in our newer geographies coupled with the greater density in our Upstate New York markets combined with our enhanced fee generation services such as treasury management and online delivery channel are additional levers that will further improve our efficiency and profitability.”

Third Quarter Performance

In the third quarter of 2012, First Niagara reported non-GAAP operating net income available to common shareholders of \$66.5 million, or \$0.19 per diluted share, compared to \$0.17 per share in the second quarter of 2012 and \$0.25 per diluted share in the third quarter of 2011. The decline in earnings per share from the year ago period was driven in large part by the June 2012 sale of \$3.1 billion in mortgage backed securities (MBS) associated with the investment portfolio repositioning.

Total operating revenues of \$366.5 million increased \$27.8 million, or 8% over the second quarter of 2012. Net interest income was up \$10.6 million, or 4%, from the prior quarter. Net interest margin increased by 28 basis points to 3.54% in the third quarter of 2012. Those increases include the benefits of the full quarter impact of the HSBC branch transaction and lower premium amortization on mortgage backed security prepayments partially offset by the loss of net interest income resulting from the June MBS sale.

Non-GAAP operating noninterest income increased 22% from the prior quarter primarily driven by the benefits of the HSBC branch acquisition and strong mortgage banking revenues.

Excluding loans acquired from HSBC, average commercial loans increased \$463 million for the quarter, up 17% annualized over the prior three-month period, marking the eleventh consecutive quarter of organic double-digit average commercial portfolio growth. Indirect auto loan originations totaled \$247 million in the third quarter, an increase of \$76 million over the prior quarter, as that business unit continues to deliver profitable growth across its expanding dealer network.

The provision for credit losses totaled \$22.2 million during the third quarter of 2012, including \$12.1 million to support loan growth and \$10.1 million to cover net charge-offs. Net charge-offs equaled 30 basis points of average originated loans in the third quarter of 2012 compared to 55 basis points in the prior quarter.

On a GAAP basis, First Niagara reported third quarter net income to common shareholders of \$50.8 million, or \$0.14 per diluted share, compared to a net loss to common shareholders of \$18.5 million, or \$0.05 per diluted share, in the second quarter of 2012. Reported GAAP results for the third quarter of 2012 include \$29.4 million of acquisition and restructuring costs incurred primarily in connection with the HSBC branch acquisition and a \$5.3 million gain related to the second quarter MBS sale.

Operating Results (Non-GAAP)

	Q3 2012	Q2 2012	Q3 2011
Net interest income	\$ 269.6	\$ 259.0	\$ 235.4
Provision for credit losses	22.2	28.1	14.5
Noninterest income	96.9	79.7	68.7
Noninterest expense	237.1	210.4	178.5
Operating net income before non-operating items	74.0	66.6	73.6
Preferred stock dividend	7.5	7.5	-
Operating net income available to common shareholders	66.5	59.1	73.6
Weighted average diluted shares outstanding	349.4	348.9	292.5
Operating earnings per diluted share	\$ 0.19	\$ 0.17	\$ 0.25

Reported Results (GAAP)

Operating net income before non-operating items	\$ 74.0	\$ 66.6	\$ 73.6
Gain on securities portfolio repositioning (a)	3.5	10.3	-
Non-operating expenses (b)	19.1	87.9	16.7
Net income (loss)	58.4	(10.9)	57.0
Preferred stock dividend	7.5	7.5	-
Net income (loss) available to common shareholders	50.8	(18.5)	57.0
Weighted average diluted shares outstanding	349.4	348.9	292.5
Earnings (loss) per diluted share	\$ 0.14	\$ (0.05)	\$ 0.19

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 the gains recorded on the sale of \$3.1 billion of mortgage-backed securities in the second and third quarters of 2012.

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

Loans

Average total loans increased \$540 million, or 13% annualized over the prior quarter, excluding loans acquired from HSBC on May 18. This organic increase from the prior quarter was driven by sustained strength in all commercial loan categories and indirect auto loans.

Average commercial loans increased \$463 million, or 17% annualized over the prior quarter, excluding the HSBC impact. Commercial business (C&I) loans averaged \$4.5 billion, or a 24% annualized increase over the prior quarter. Commercial real estate loans increased 14% annualized to \$6.6 billion. Average other consumer loan balances increased \$229 million and was driven by \$247 million of indirect auto originations at net yields of approximately 3.5% during the quarter.

Including the impact of the HSBC branch transaction, average loans increased \$1.3 billion, or 29% annualized over the prior quarter.

Deposits

The Company's strategic focus on customer acquisition, in particular increasing consumer and business checking balances, resulted in average transactional deposits, which include interest-bearing checking and non-interest bearing balances, increasing to 31% of the company's deposit base, compared to 25% a year ago. New checking account openings per branch increased an annualized 10% over the prior quarter and 36% over the prior year. The New York state franchise was a meaningful contributor at 32% as the increased branch density and positive brand positioning in these markets continues to drive significant new customer acquisitions.

Average noninterest-bearing deposits, excluding accounts acquired through the HSBC branch transaction, increased 17% over the prior quarter. Interest-bearing checking deposits increased 5% over the prior quarter, excluding the impact of the HSBC deposits. These increases were offset by the company's pricing strategy to reduce higher-cost money market and savings balances.

Net Interest Income

Net interest income of \$269.6 million increased 4% from the prior quarter reflecting the favorable impacts of debt repayments using low-cost deposits acquired through the HSBC branch transaction as well as lower premium amortization expense on mortgage backed securities. Those benefits were partially offset by net interest income foregone on the sale of \$3.1 billion of mortgage backed securities at the end of June. Tax equivalent net interest margin in the third quarter of 2012 was 3.54%, a 28 basis points increase over the prior quarter.

Average earning assets decreased 22% annualized compared to the prior quarter given the sale of the mortgage backed securities. Investment securities averaged \$11.2 billion, a \$2.8 billion decrease from the prior period. This decrease was offset by the \$1.3 billion increase in average loans.

Credit Quality

At September 30, 2012, the allowance for loan losses was \$149.9 million compared to \$138.5 million at June 30, 2012. Information for both the originated and acquired portfolios follows.

<i>\$ in millions</i>	Q3 2012			Q2 2012		
	<u>Originated</u>	<u>Acquired</u>	<u>Total</u>	<u>Originated</u>	<u>Acquired</u>	<u>Total</u>
Provision for loan losses*	\$ 21.4	\$ 0.4	\$ 21.8	\$ 25.4	\$ 2.4	\$ 27.8
Net charge-offs	9.1	1.0	10.1	15.1	0.7	15.8
NCOs/ Avg Loans	0.30 %	0.06 %	0.21 %	0.55 %	0.04 %	0.36 %
Total loans**	\$ 12,232	\$ 7,086	\$ 19,318	\$ 11,392	\$ 7,600	\$ 18,992

(*) Excludes provision for unfunded commitments of \$0.4 million and \$0.3 million in 3Q12 and 2Q12, respectively

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

Originated loans

The provision for loan losses on originated loans totaled \$21.4 million, down \$4 million from the prior quarter. The company provided \$12.3 million in excess of net charge-offs to support the ongoing momentum in originated loans. Net charge-offs decreased significantly to \$9.1 million or 30 basis points of average originated loans from \$15.1 million or 55 basis points in the prior quarter.

At the end of the third quarter, nonperforming assets to total assets were 0.42%, comparable to the prior quarter. Nonperforming originated loans as a percentage of originated loans decreased slightly to 0.93% at September 30, 2012 and totaled \$114.2 million. At September 30, 2012, the allowance for loan losses on originated loans totaled \$147.2 million or 1.20% of such loans, compared to \$135.2 million or 1.19% of loans at June 30, 2012.

Acquired loans

The provision for losses on acquired loans totaled \$0.4 million, compared to \$2.4 million in the prior quarter. Net charge-offs on those portfolios totaled \$1.0 million during the quarter, compared to \$0.7 million in the prior period. At September 30, 2012, the allowance for loan losses on acquired loans totaled \$2.7 million, compared to \$3.3 million at June 30, 2012. Acquired nonperforming loans totaled \$28.2 million, up from \$19.4 million at June 30, 2012. At September 30, 2012, remaining credit marks available to absorb losses on a pool-by-pool basis totaled \$212 million.

Fee Income

Third quarter 2012 non-GAAP operating noninterest income of \$96.9 million increased 22% or \$17.2 million compared to the prior quarter. The increase was driven by stronger mortgage banking revenues as well as the full quarter benefit of the HSBC transaction. Deposit service charges increased \$5.0 million or 23% over the prior quarter primarily with the benefit of the accounts acquired from HSBC. Mortgage banking revenues increased \$3.8 million or 53% over the prior quarter driven by higher gain-on-sale margins as well as sustained strength in origination volumes. Merchant and card fees increased 30% over the prior quarter to \$12.0 million reflecting the upside of the credit card accounts acquired from HSBC.

On a GAAP basis, noninterest income totaled \$102.2 million, including a \$5.3 million gain recognized on the sale of mortgage-backed securities in the second quarter. The gain represents the company's share of the sale proceeds in excess of the floor price set on the date of original sale to a third party.

Noninterest Expense

Third quarter non-GAAP operating noninterest expense was \$237.1 million, up \$26.7 million, or 13% over the second quarter of 2012. The increase primarily reflects the full quarter cost of operating the acquired HSBC branches. The non-GAAP operating efficiency ratio increased to 64.7% compared to 62.1% in the prior quarter given the impact of the loss of revenue attributed to the MBS sale.

On a GAAP basis, noninterest expense for the second quarter was \$266.5 million, including \$29.4 million in acquisition and restructuring expenses primarily associated with the HSBC branch transaction.

Capital

At September 30, 2012, the company's estimated consolidated Total Risk Based capital and Tier 1 Common Risk Based capital ratios were 11.5% and 7.6%, respectively. The company 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 approximately 430 branches, approximately \$36 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 10:30 a.m. Eastern Time on Friday, October 19, 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 November 2, 2012 by dialing 1-866-353-3016, passcode: 7253.

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.

###

First Niagara Contacts

Investors:	Ram Shankar Senior Vice President, Investor Relations (716) 270-8623 ram.shankar@fnfg.com
News Media:	David Lanzillo Senior Vice President, Corporate Communications (716) 819-5780 david.lanzillo@fnfg.com