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Earnings Call

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Call Participants

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Presentation

Operator

Good morning all and welcome to the Byline Bancorp 4Q 2025 Earnings Call. My name is Carly, and I'll be coordinating the call today. [Operator Instructions] Please note that this conference call is being recorded.

At this time, I'd like to introduce Brooks Rennie, Head of Investor Relations of Byline Bancorp, Inc. Please go ahead.

Brooks O. Rennie

Head of Investor Relations

Thank you, Carly. Good morning, everyone, and thank you for joining us today for the Byline Bancorp Fourth Quarter and Full Year 2025 Earnings Call. In accordance with Regulation FD, this call is being recorded and is available via webcast on our Investor Relations website along with our earnings release and the corresponding presentation slides. As part of today's call, management may make certain statements that constitute projections, beliefs or other forward-looking statements regarding future events or their future financial performance of the company. We caution that such statements are subject to certain risks, uncertainties and other factors that could cause actual results to differ materially from those discussed.

The company's risk factors are disclosed and discussed in its SEC filings. In addition, our remarks and slides may reference or contain certain non-GAAP financial measures, which are intended to supplement but not substitute for the most directly comparable GAAP measures. Reconciliation of each non-GAAP financial measure to the comparable GAAP financial measure can be found within the appendix of the earnings release. For additional information about risks and uncertainties, please see the forward-looking statement and non-GAAP financial measures disclosure in the earnings release.

As a reminder for investors, this quarter, we plan on attending the KBW Winter Financial Services Conference in Boca Raton, Florida.

With that, I would now like to turn the conference call over to Alberto Paracchini, President of Byline Bancorp.

Alberto J. Paracchini

President & Director

Thank you, Brooks. Good morning, everyone, and Happy New Year to all of you. We appreciate you joining the call this morning to review our fourth quarter and full year 2025 results. With me today are Chairman and CEO, Roberto Herencia; our CFO, Tom Bell; and our Chief Credit Officer, Mark Fucinato. Before we get started, I'd like to pass the call over to our Chairman, Roberto Herencia for his remarks. Roberto.

Roberto R. Herencia

Executive Chairman of the Board & CEO

Thank you, Alberto, and a Happy New Year to all. We extend our best wishes for a successful and healthy year ahead. We are delighted and proud to finish the year on a strong note and excited to announce a 20% increase in our quarterly dividend. No doubt a reflection of our strong financial performance and confidence in our ability to continue to deliver top quartile results in key profitability metrics as Alberto and the team will cover shortly. What our Board and team have accomplished over the last few years is remarkable and provides a great platform for the future.

Our North Star, the preeminent local commercial bank. The Chicago banking market, including verticals we run out of Chicago, offers significant opportunities for growth and development with Byline well positioned to lead. Every day, it feels we're reminded that we live in an era of radical uncertainty where rules-based order is fading. And of course, we care about the impact and outcomes on our customers. The majority of which live in a world that is very distant from billionaires, Davos and geopolitics.

In this environment, we, as the local community and commercial bank become even more relevant to our customers and the people who work with us. As you know, we believe in people first banking where engaged employees delight our customers, enabling Byline to produce top quartile returns for our shareholders.

In December, we were named to America's Best Workplaces for 2026 overall. We wrapped up the year with continued low turnover and an engaged workforce of just over 1,000 employees who work together to deliver value for our customers and community. And that's inspiring to me and the rest of the Byline team. We have at Byline identified our common purpose, becoming the preeminent local bank. We strive to execute consistently with that at all levels all the time. And that defines our future. So others don't have to do it for us. The position of the franchise is enviable as the largest local community bank, the second largest local commercial bank and the largest, most stable platform for quality lenders to bring their books and grow their businesses. We have the balance sheet plus a strategically stable ownership group with all the tools and structure in place that a lender needs to just focus on serving clients and finding new ones.

This gives us an edge over what most banks dream of and the #1 that you show most banks try to solve with deals, organic growth. We are driving everything toward compounding returns and that means reliable, sustainable, prudent growth over the long run. And you can see that in all our actions with capital and recruiting and in our track record for achieving top-tier financial results.

To summarize why we are excited. First, the people we have in place from those that have been here for over 40 years, to those who joined us over the last 5 years as a result of merger activity in the market. Second, the results out of that execution have been exquisite, \$130 million reasons in the last year to back up this excitement. Third, the quality and simplicity of our strategic plans have kept us focused. We don't strive to be everything to everyone. We are a commercial bank, striving for preeminence in that segment. Fourth, our position in the marketplace, as I've described, and finally, our unique shareholder base and their representation in our boardroom. This is an incredibly optimistic time for Byline, company populated by exceptionally kind competent people who care about what we do and how we do our work. Differentiate and separate is what we plan to do. I truly believe that among the thousands of community banks, we are unique in our approach and prospects.

And with that, I'm happy to return the call to Alberto.

Alberto J. Paracchini
President & Director

Great. Thank you, Roberto. This morning, I'll walk you through the highlights for the full year as well as the quarter. Tom will follow with the details on the financials, and I'll come back and wrap up before we open it up for questions. As always, you can find the deck for this morning's call on the IR section of our website. Please refer to the disclaimer at the front.

So turning to our full year results on Slide 4. Byline delivered strong results for both the fourth quarter and full year of 2025. Before I get into the numbers, I want to thank our team. The results we're sharing today are a direct reflection of their dedication to customers and the effort they put in throughout the course of the year. A year ago, I said we had excellent momentum and felt confident in our ability to profitably grow the business and deliver value for shareholders. I'm pleased to report we did exactly that. The operating environment evolved differently than we anticipated. Interest rates remained elevated longer-than-expected, macroeconomic uncertainty increase and regulatory and policy changes came faster than in the past. Against that backdrop, we stayed focused on what matters, serving customers, executing our strategy and achieving several important milestones.

First, we closed our transaction with First Security, converted systems and completed the integration all within a single quarter. Second, we upgraded important customer-facing technology platforms. And third, we continued our preparation to cross the \$10 billion asset threshold in 2026. We also grew relationships, sustained profitability, build capital returned \$42 million back to stockholders and grew tangible book value per share by approximately 17%. Overall, 2025 was a productive year in which we continued advancing our strategy to become the preeminent commercial bank in Chicago.

For the year, net income was \$130.1 million or \$2.89 per diluted share on revenue of \$446 million, up 9.7% year-on-year. Profitability was strong with pretax preparation ROA of 219 basis points, ROA of 136 basis points and ROTCE of 13.5%. Year-on-year loan growth came in at 8.9% and deposits grew 2.5%. Capital ratios increased throughout the year and ended strong with TCE at 11.3%, demonstrating strength and financial stability. Lastly, we maintained positive operating leverage, notwithstanding the rate environment towards the end of the year and our continued investment in the business.

Turning to the fourth quarter on Slide 5. Results for the fourth quarter were also strong. Net income was \$34.5 million or \$0.76 per diluted share on revenue of \$117 million. Profitability and returns remain solid. Pre-Tax Pre-Provision income was \$56.6 million, Pre-Tax Pre-Provision ROA was 232 basis points, ROA was 141 basis points, and again, ROTCE notwithstanding a higher capital base was 13%. Revenue was up 1.1% from the prior quarter and 12% year-on-year, driven by higher net interest income.

From a balance sheet standpoint, loans grew 3% linked quarter, deposits declined to \$7.65 billion due largely to balance sheet management at the end of the year. Origination activity was consistent with prior quarters at \$323 million, with growth coming primarily from our commercial and leasing businesses. On the liability side, noninterest-bearing deposits were essentially flat at 24% of total deposits, and deposit costs came down 19 basis points to below 2% for the quarter. Tom will provide you with additional detail on deposit costs, the margin, as well as our rate outlook. Expenses remained well managed and came in at \$60.4 million. Our efficiency ratio was 50.3% and our cost-to-asset ratio was 2.47% as of quarter end. Asset quality remained stable. Credit costs for the quarter were \$9.7 million, driven by net charge-offs of \$6.7 million, down on a quarter-over-quarter basis and a reserve build of \$3 million. Our allowance now stands at 1.45% of total loans, up 3 basis points from last quarter and NPLs increased to 95 basis points.

Turning to capital. Our capital levels remain strong across the board, and that strength gives us real flexibility in how we allocate resources. We put that flexibility to work this quarter by repurchasing approximately 346,000 shares. Looking ahead, our Board authorized a new repurchase program that allows us to buy back up to 5% of outstanding shares. And the Board also approved a 20% increase in our quarterly dividend, which will be paid this quarter.

I'll now turn it over to Tom to walk you through the financials in more detail.

Thomas J. Bell

Executive VP, Treasurer & CFO

Thank you, Alberto, and good morning, everyone. Starting with our loans on Slide 6. Total loans increased 3.3% annually and stood at \$7.5 billion at year-end. Origination activity was solid, which was up 22% compared to the prior quarter. Payoff activity increased \$156 million from Q3 and stood at \$361 million. And line utilization inched up to 60% for the quarter. Our loan pipelines remains strong, and we expect loan growth to continue in the mid-single digits to 2026.

Turning to Slide 7. Total deposits were \$7.6 billion for the quarter, down 2.3% from the prior quarter, primarily due to managing the balance sheet to stay below \$10 billion for year-end and Q4 seasonality outflows. We saw a nice decline in deposit costs for the quarter and continue to see the benefit from disciplined deposit pricing which drove deposit costs lower by 19 basis points.

Turning to Slide 8. We had record high net interest income of \$101 million in Q4, up 1.4% from the prior quarter, primarily due to loan growth, lower rates paid on deposits and lower interest expense related to the sub debt payoff, partially offset by lower yields on loans and securities. This was the third consecutive quarter of NII growth and reflects a 10.7% increase for the full year. The net interest margin grew to 4.35%, up 8 basis points linked quarter, and on a year-over-year basis, NIM expanded 25 basis points. The improvement in the margin was driven by a decrease in the cost of interest-bearing liabilities, which declined by 29 basis points. Our outlook for net interest income is based on the forward curve, which currently assumes 50 basis point decline in the Fed funds rate for 2026. This implies a net interest income range of \$99 million to \$100 million for the first quarter. We continue to remain focused on growing and sustaining our net interest income by growing the balance sheet and reducing our asset sensitivity.

Turning to Slide 9. Noninterest income was \$15.7 million, essentially flat from the prior quarter. Gain on sale of loans was \$5.4 million, down \$1.6 million linked quarter, reflecting lower premiums and mix of loans sold. Swap income was up nicely for the quarter as we continue to focus on growing other fee income categories. Our gain on sale forecast for 2026 is on average, \$5.5 million per quarter with lower Q1 expectations due to typical seasonality.

Turning to Slide 10. Expenses came in at \$60 million, essentially flat from the prior quarter. The modest decrease reflected lower loan-related and data processing expenses, partially offset by higher incentive compensation. For 2026, we expect our quarterly noninterest expense to trend between \$58 million and \$60 million.

Turning to Slide 11. Our allowance for credit losses increased 3% to \$109 million, representing 1.45% of total loans, up 3 basis points from the prior quarter. We recorded a \$9.7 million in provision for credit losses in Q4, compared to \$5.3 million in Q3. Net charge-offs decreased \$6.7 million compared to \$7.1 million in the previous quarter. NPAs to total assets increased to 77 basis points in Q4 from 69 basis points in Q3. The increase was partially driven by a lower balance sheet at year-end.

Moving on to capital on Slide 12. This quarter capped a year of meaningful progress in growing our capital position. For the quarter, CET1 came in at a strong 12.33%, up 18 basis points linked quarter and up 63 basis points year-over-year. Additionally, the TCE/TA ratio stood at 11.29%, up 168 basis points from last quarter.

In closing, we remain focused on long-term stockholder value by growing tangible book value per share, EPS, and increasing our return on tangible common equity.

With that, Alberto, back to you.

Alberto J. Paracchini
President & Director

Thank you, Tom. Before we open the call for questions, let me touch on our priorities heading into 2026. First, we remain on track and expect to cross the \$10 billion asset threshold this year, and we're well prepared for that milestone. We're monitoring the regulatory environment closely, particularly potential changes to asset thresholds, but we're not slowing down in anticipation of what might happen. We will continue to move forward. Second, our focus remains on organic growth. Last April, we launched a commercial payments business and the progress so far has been excellent. We've onboarded 6 customers and have several more in the pipeline for this year. We've also added approximately \$70 million in liability balances and have seen a corresponding increase in ACH volumes, both transactions as well as dollars. We entered 2026 with good pipelines and remain well positioned to continue gaining share across all our commercial businesses.

Third, credit discipline remains a priority. The way we maintain that discipline is by staying close to our portfolio, monitoring it and identifying and addressing issues quickly as they emerge. As we move into 2026, we're excited about where we stand. We've built a strong team. We're generating real operating leverage. Our competitive position is solid and we're able to capitalize on opportunities when they come. In short, we like where we're positioned.

Before we turn to questions, I want to thank our employees for everything they do for our company and our customers on a daily basis.

And with that, Carly, we can open the call up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Nathan Race from Piper Sandler.

Nathan James Race

Piper Sandler & Co., Research Division

Maybe just to zoom out for a second, Alberto. You guys posted a really strong year in 2025. Pre-tax pre-provision income was up 13% year-over-year. So just curious, as you look at the company broadly, which areas or which verticals are you most excited about to just continue to scale up and where you see an opportunity to become more efficient, whether it's in the technology front where you guys have been proactively investing or in any other areas?

Alberto J. Paracchini

President & Director

Yes. Thanks for the question, Nate. So I touched on it a little bit in the remarks there. So certainly, we continue to be excited with our Commercial Payments team. It's a team that we launched last April. We're being very deliberate in how we approach that market. But we have a great team. We've added people there and we're starting to see the benefit of not only having a pipeline but onboarding customers, growing deposits, growing transaction volumes and correspondingly ultimately, fees that come along with that. So we're certainly excited about that, but we're also excited given our position in Chicago and the current competitive dynamics about our ability to continue to gain share in the commercial banking space here. As you know, we are today the largest community bank in the market. Tomorrow, when we go over \$10 billion, we will be between \$10 billion and probably \$70 billion or \$75 billion, we will be the largest local commercial bank in the market. So we like where we are, and we like the opportunities that we have across really all of our businesses, Nate.

Nathan James Race

Piper Sandler & Co., Research Division

Got it. That's really helpful color. Changing gears to capital. You guys have continued to build at pretty strong clips, just given the profitability profile. And I noticed in the last couple earnings decks, the 8% to 9% TCE target has been absent. So curious if there's anything to read into that just in terms of how you think about capital returns to shareholders and what that implies in terms of the M&A environment these days. Or if you're just looking to maybe operate with higher capital levels going forward versus the previous targets?

Alberto J. Paracchini

President & Director

Yes. I think we always talk a bit about always wanting to have some degree of flexibility. So that comes with it. So we do carry a bit more capital to allow for that. I think our experience has been that, and that has served us well. It has allowed us to move very, very quickly and really without any hesitation or delay when opportunities come up in the market, and we like that.

That being said, I think this past quarter, I think you also saw the comments related to the increase in dividends to the degree that we have excess capital, and we have no immediate use for it. We will find ways to return that capital back to shareholders. As you know, this past quarter, we were active, we were repurchasing shares. We thought we repurchased shares at attractive prices. And also over time, and I think you've heard the comments, we want to have a sustainable and growing dividend over time.

And I think our Board took action in that regard with the dividend increase that we just announced. So hopefully, that's indications of the capital priorities. We obviously want to have capital to take advantage of; to grow the balance sheet, grow organically, support the growth of the business; two, have a sustainable dividend; three, have enough flexibility to pursue M&A when and if those opportunities

surface. And then lastly, we have the buyback program in place. As you know, we also announced an authorization to buy back up to 5% of shares outstanding. So we think the combination of that gives us enough flexibility to do what we need to do in terms of growing the business, but also at the same time, return capital back to shareholders if we have no use for that capital.

Nathan James Race

Piper Sandler & Co., Research Division

Okay. That's very helpful. If I could just sneak 1 more in for Tom. I think you mentioned in your comments that you're looking to reduce the asset sensitivity of the balance sheet going forward. Just curious if you could shed some more light on that and kind of how you think that positions the margin going forward in light of potentially additional Fed cuts this year?

Thomas J. Bell

Executive VP, Treasurer & CFO

Sure, Nate. The margin has been growing. We're happy with that. We like the idea that NII is growing. We are issuing some CDs, but also we have some flexibility to do some more interest-bearing accounts. So just because of the mix of our bank, we really want to have some more floating rate liabilities, and I think we're set up well for that. It will take time to get there. But again, the disciplined pricing we've had going on over the last year here related to deposits has really helped to kind of lift the margin. And the goal is to kind of try and keep it stable. But again, year-end we had a lot of activity in the fourth quarter, and we had some securities that we sold just to keep the bank under \$10 billion. That was a really important effort for us. And so it's likely we'll be buying those securities back here in the first quarter. So obviously, those transactions are a little bit tighter margin trades. That's why we focus on NII. So stable, I would say, stable and growing net interest income.

Alberto J. Paracchini

President & Director

Yes. And it also to add to what Tom said, Nate. Again, just the common theme today seems to be flexibility. But with our margin, it gives us ample flexibility from a competitive standpoint. I mean we're not in a situation like other institutions are where they're trying to get their margin back up to a level that they need to get it to from a base profitability standpoint. I think with our margin today, it certainly gives us a lot of flexibility competitively that we can use when appropriate.

Operator

Our next question comes from Damon DelMonte from KBW.

Damon Paul DelMonte

Keefe, Bruyette, & Woods, Inc., Research Division

Just looking for a little color on the loan growth outlook. I know you mentioned mid-single-digit growth, can you just kind of remind us what areas of your lending platform offer the best opportunities kind of across which segments can drive that?

Alberto J. Paracchini

President & Director

Really, I mean, commercial, I would still say that, Damon. Real estate I think it's going to be a function of transaction activity. It's not to say that there are not transactions happening, but certainly since rates started going up in 2022. I think transaction activity relative to what it was before has been somewhat muted. With rates coming down, is that going to change? Are we going to see some of that. Obviously, if that picks up, then probably what we would tell you at some point is that we probably move that guidance up. But at this point, I think that kind of mid-single-digit range is solid.

Damon Paul DelMonte

Keefe, Bruyette, & Woods, Inc., Research Division

Got it. Okay. And then, Tom, with regards to your commentary on NII for next quarter, is typically first quarter like a seasonally low quarter for you guys and then you'll see like a steady build as we go through the rest of the year.

Thomas J. Bell

Executive VP, Treasurer & CFO

No.

Damon Paul DelMonte

Keefe, Bruyette, & Woods, Inc., Research Division

There's not really much seasonality in the first quarter.

Thomas J. Bell

Executive VP, Treasurer & CFO

Damon, you're right. Obviously, there's fewer days in the quarter. So that's one drag. Loan fees, et cetera, that go through the margin are a little bit lower during the first quarter. But generally speaking, again, stable to growing throughout the year.

Damon Paul DelMonte

Keefe, Bruyette, & Woods, Inc., Research Division

Got it. Okay.

Alberto J. Paracchini

President & Director

Yes. I would also to add to that, Damon. I think always we've gotten some rate cuts here towards the end of the year last year, naturally we're asset sensitive. So notwithstanding the fact that our margin expanded, but just putting that aside for a second. If we're asset sensitive, we see rate cuts there's a transition period, right? We have to catch up probably on a gradual kind of declining rate scenario. We have to catch up. It usually takes us about a quarter to catch up and be able to kind of reprice and reset. So just keep that in mind as you think about the rate environment going forward.

Thomas J. Bell

Executive VP, Treasurer & CFO

Damon, one more thing, Damon, just to point out is, remember, with the Fed cuts in the fourth quarter, the SBA loans reset January 1. So when you see guidance a little bit lower than what we actually reported for the fourth quarter, some of that is driven by the fact that we have loans resetting here January 1.

Damon Paul DelMonte

Keefe, Bruyette, & Woods, Inc., Research Division

Got it. Okay. Great. And then with regards to credit and kind of your outlook for net charge-offs for the upcoming year as you kind of think about provisioning. I think last year, you had around close to 40 basis points of net charge-offs, which was down a little bit from '24. Based on what you're seeing in your portfolio, do you feel like you're kind of going to be in that near 40 basis point range again?

Alberto J. Paracchini

President & Director

I think, Damon, our guidance has been pretty consistent on that like 30 to 40 basis points, somewhere in there. It might be towards the high end of that range. It might be towards the low end of that range, but somewhere in that kind of 30 to 40 basis points range at this point.

Operator

[Operator Instructions] Our next question comes from Brendan Nosal from Hovde Group.

Brendan Jeffrey Nosal

Hovde Group, LLC, Research Division

Yes. Maybe just to start off here on kind of the underlying pieces of the loan growth outlook. Just thinking between origination activity and payoffs. I think originations dropped 17% for this year to \$1.3 billion or so. So like how do you think about the underlying pace of originations that are getting you to that mid-single-digit net growth outlook for 2026?

Alberto J. Paracchini

President & Director

I think I would point you to that page in the deck that shows the kind of the trend of originations and payoffs. It's slide 6 of the deck where it talks about portfolio trends. I know throughout the year, we get questions sometimes in terms of, well, your loan growth is exceeding kind of the target and probably the answer that you hear us give is we have a pretty good handle in terms of what we're seeing from an origination standpoint. We think we know the activity that's going to pay off. But obviously, that's at times, the timing of it, and it also can be a little bit harder to predict. And I think the past quarter, the fourth quarter, certainly, you saw payoffs catch up a bit. So I would point you to that chart and kind of that mid-single-digit range in the categories that I highlighted, which is primarily our kind of commercial banking categories is really where we're going to expect to see growth.

And just the nuance quarter-on-quarter is going to be really that payoff number and our ability to actually be as accurate as we can be with that. So hopefully, that answers your question.

Brendan Jeffrey Nosal

Hovde Group, LLC, Research Division

Yes, yes. That's helpful. Switching gears here to net interest income, but a bit more of a conceptual question. Like you folks have been outperforming your quarterly NII guide pretty consistently for the past I would say, 2 years or so, despite the short-term part of the curve coming down and your asset sensitivity. Is there a point at which you just gain a little more comfort with how your balance sheet is responding to this environment? Do you get a little more bullish with the NII outlook that you're giving.

Thomas J. Bell

Executive VP, Treasurer & CFO

That's a good question. I mean I think Alberto touched on it with the loan payoffs. I think loan payoffs were probably lower overall for the year than expected. So we benefited from some NII related to that. We continue to hear that payoffs will probably be a little bit higher. So I think that's where we probably provide some caution. But generally speaking, I think we've done a really good job on deposit pricing. We still are growing, so we need to grow more deposits. I mean we just had some, call the fourth quarter noise because of the \$10 billion, but we continue to focus on deposit, growing core deposits first and foremost and then sprinkling in some other deposits to help support the balance sheet.

But look, we're continuing to grow NII. I think it's grown meaningfully. I think we've done well on the rates down scenarios that have happened that we've been able to have stable and growing NII. I think at some point, you run out of room there to continue to drop deposit costs in a meaningful way. And I think you still have to be mindful of the competition and the other banks that are growing. So I think our numbers are really strong still. And I think we're really proud of the results we've had. But it really is a function of loan growth and low-cost deposits, and we have seasonality that happens and a lot of our deposits that we saw leave in the fourth quarter, we've already seen a recovery on some of that. So we will benefit from that as well. And I think then, furthermore, we'll just see how the payment scheme does and then the benefits we get from that will probably give us a chance to say guidance could be better.

Roberto R. Herencia*Executive Chairman of the Board & CEO*

Yes. I would add...

Thomas J. Bell*Executive VP, Treasurer & CFO*

Those are couple of thoughts.

Alberto J. Paracchini*President & Director*

Just to add a bit more on the deposit pricing thing. We've been outperforming our own internal models as it pertains to it. So you're probably a question that you have in your mind is, well, what are you guys doing? Why is that? And I think I touched on that a quarter or a couple of quarters ago that look, I think analytically, we're getting a little bit better and being able to segment our portfolio more granularly and therefore, be able to make more precise pricing decisions in different pockets or segments of the portfolio. So I think we're getting better at that operationally, and that's resulted in some of the, call it, the -- even against internally what we expect some of the outperformance.

So there's some of that, that you're seeing come into play, and I think you saw it in terms of how quickly we've been able to reprice liabilities here in the fourth quarter with a changing environment. But that said, ultimately, we will exhaust that. And that ultimately will have limits, meaning it will catch up, but that's just something to keep in mind in that it hasn't been just how confident are you to provide higher guidance? We've actually been kind of performing better than what we thought internally we could do. And that's been obviously a positive overall. So just keep that in the back of your mind.

Brendan Jeffrey Nosal*Hovde Group, LLC, Research Division*

Yes. That's super helpful. I'm going to sneak 1 more in here. Just on the SBA business. I mean, the gains on sale have been compressing for a couple of years now. Is there a point at which like the risk-adjusted return that you're getting for the overall business, including lending plus gains isn't up to where you want it to be? And like how far are we from that point today?

Thomas J. Bell*Executive VP, Treasurer & CFO*

I still think, Brendan, we're pretty far from that. And I would also point you when you look at the compression and the gain on sale margin, a lot of that has to do with the mix. I mean, as you can see on the chart on Page 9, where any time that you have a higher proportion of loans that are longer tenor loans, so like 25-year term versus 10. That mix between 10 and 25 drives that. And certainly, to a degree that you have other types of government guaranteed loans like a USDA loan here or there, that also impacts the gain on sale margin. But to answer your question on the big picture side of it, I think you would have to see materially much more compression for it to get to a point where you start to rethink whether on a risk-adjusted basis, this is still attractive.

Operator

[Operator Instructions] Our next question comes from Terry McEvoy from Stephens.

Terence James McEvoy*Stephens Inc., Research Division*

Maybe just circling back to the Commercial Payments team. Are these clients or customers, are they fintech companies? And if so, could you talk about the due diligence you're doing there? Are they more traditional payments to your commercial customers? And Alberto, what maybe some medium-term goals and objectives that we can kind of track over the next couple of years to track the progress?

Alberto J. Paracchini*President & Director*

Yes, good question, Terry. So I think on that Commercial Payments business, I would say so far, think of like, I'll give you an example. So payroll processing companies. So not necessarily kind of like a small commercial customer, but a payroll processor that provides payroll services and as part of those services is the ability to originate and process payroll payments for their client base. And we would be, for example, the banking institution behind that providing the infrastructure to allow that to happen. So that's an example. I would tell you some of the clients that we've onboarded have been in that particular vertical. But we also want to look for opportunities beyond that in terms of, you mentioned fintech companies that would need to have a payment element to their business.

In other words, it could be something along the lines of embedded finance or a company that's trying to embed payments into their product offering to their end clients. So that's certainly something that we could entertain. We could entertain that with just traditional access to the payment rails, but also we could do it through access to supporting their issuing of cards or their acquiring of card transactions. So that's just a flavor of the capabilities of the team that we have and the business that they're going after. And as far as metrics going forward, I think we'll keep you up to date. Certainly, we're off to a good start. I would tell you it's been deliberate. We hired that team, launched the business in April of last year. The team came on board fully a year earlier. So this has not been a quick build. Let's make sure that we have processes, procedures, policies and the infrastructure to properly be in the business and support the clients that we want to do business with.

The last thing I would say is also think about it as not really a shotgun approach. We're not trying to onboard 10 or 15 customers a year. We're trying to onboard 3 or 4 and the onboarding process for the reasons that you are thinking of is 6 to 9 months. And that's just to make sure that from a compliance process, procedures, policies, we are comfortable supporting the banking needs of those customers. So hopefully, that gives you some color on that business.

Terence James McEvoy*Stephens Inc., Research Division*

Yes. That's great. And then maybe just 1 quick last one. Did the government shutdown impact the SBA business in Q4, and it didn't look like it from a revenue standpoint. And did anything get pushed out into the first quarter? I know Tom said Q1 is going to be down a bit, but just wondering there.

Alberto J. Paracchini*President & Director*

It always has a little bit of an impact, Terry, but I think we would just tell you it was immaterial.

Operator

Our next question comes from Brian Martin from Janney Montgomery Scott.

Brian Joseph Martin*Janney Montgomery Scott LLC, Research Division*

I think I'm not sure who mentioned it, but maybe whoever was talking about the swap income, just talked about maybe a bit more focus on fee income this year. You've already touched on the SBA. I guess just kind of wondering the run rate we're at today, around \$16 million and kind of is that a good sustainable level and then it grows from there given kind of focus there and maybe where the focus is to maybe improve that run rate as you look into '26?

Alberto J. Paracchini*President & Director*

I think it's a good level. We want to see that absolute number go up. The answer is yes. I think a couple of areas. Tom mentioned swaps and derivatives and things of that sort. So we want to continue to do as much as we can there. Obviously, that's a bit of a rate-sensitive dynamic, but we certainly want to continue to offer those products and services and take advantage of situations where we can do that.

Second would be I touched on the commercial payments business, while the side effect of that is fee income, treasury management fees and the like. So certainly, that's one area that we want to see grow. Our wealth management business, which is a small part of our business today, but we grew nicely this year. We're getting closer and closer to be able to eclipse the \$1 billion in assets under management, which is a milestone given the size of that business today. So hopefully, over time, that business gets to contribute a bit more. And then you obviously have the gain on sale business from our SBA government-guaranteed lending business.

Brian Joseph Martin

Janney Montgomery Scott LLC, Research Division

Got you. Okay. That's helpful. And I guess maybe 1 for Tom. Just given some of the noise, I think you talked about Tom at year-end with kind of managing the balance sheet to the \$10 billion level. Can you help us just maybe a guidepost on the average earning assets in 1Q, just given end of period, fourth quarter was a bit lower than the average for the quarter, but knowing your commentary about kind of buying back some here in the first quarter, kind of a landing spot or just kind of a range and I think about the earning asset base for 1Q?

Thomas J. Bell

Executive VP, Treasurer & CFO

I think kind of in that \$150 million to \$200 million Brian. I mean we had in the fourth quarter, we had a number of payoffs. The payoffs kind of came early in the quarter and the loan growth came towards the end of the quarter. So I think that plus the fact that we had about \$100 million of securities that we had cleaned up for the portfolio a little bit. So I would call it \$150 million to \$200 million and more earning assets, but still below \$10 billion in total assets for the first quarter.

Brian Joseph Martin

Janney Montgomery Scott LLC, Research Division

Yes. So the average in the fourth quarter was \$9.2 billion, but the period end was closer to, call it, \$9 billion maybe. So maybe it's a \$9.2 billion level is kind of a decent way to think about 1Q as a landing spot broadly.

Thomas J. Bell

Executive VP, Treasurer & CFO

I think so. It sounds right.

Brian Joseph Martin

Janney Montgomery Scott LLC, Research Division

Yes. Okay. I appreciate that.

Alberto J. Paracchini

President & Director

No, I was going to say, Brian, just I commented on it, and Tom commented on it as well. And just to be clear, towards the end of the year, we just wanted to make sure, and we had levers to pull. We just wanted to simply make sure that we were not going to be over \$10 billion. So that is the comments related to really balance sheet management were really attributed to that. We just wanted to make sure that as of that snapshot of 12/31, we were not going to be over \$10 billion. So we achieved that. We don't have that constraint going forward. So to Tom's point, I think you will not really see any type of management activity to try to keep us below a certain level in terms of assets.

Brian Joseph Martin

Janney Montgomery Scott LLC, Research Division

Yes. No, I appreciate that, Alberto. That's kind of what I figured. I just want to make sure I have the right starting point given all the noise in there that, like you said, was just the management function. So thank you for that commentary. Maybe just 1 or 2 others. Just on the credit quality front, any material changes, I'm assuming no in the criticized or classified levels from third to fourth quarter when we see the filings come out?

Alberto J. Paracchini

President & Director

No material changes just ebbs and flows. I mean, you certainly know us, we're going to be quick if we see something, we're going to be very, very quick to downgrade, even if it means to downgrade something to criticize. And we certainly have a view anytime we do that. We have a plan. Where is the credit? Where is the trajectory of the credit, like we had it in a short period of time. Is this temporary? Do we expect this to be ultimately to correct itself? Is the borrower taking the right corrective actions in which case, you will see us -- we'll see that credit migrate back. If not we don't have confidence in that, then we look to move the credit quickly out of the bank. So I would tell you, it's just ebbs and flows.

Brian Joseph Martin

Janney Montgomery Scott LLC, Research Division

Okay. Okay. And the last 1 for me. I know Tom has talked about the NII dollars. But just in terms of the margin percentage, I guess, would it make sense that given the outlook for rates this year with maybe potentially 2 cuts out there, but really less noise than last year from a rate perspective that maybe the core margin, when you think it ex the accretion, there's a little bit more stability in that margin this year. I'm not sure what's baked into the guidance in terms of NII, but just thinking about it intuitively that we don't see much rate movement, maybe that core margins a bit more stable or steady as you move throughout the year? Or is that not how to think about it?

Alberto J. Paracchini

President & Director

Yes. It's going to be stable, Brian, I hate to talk about margins. But it's going to be stable. I mean it has grown. I don't know that you can expect it to continue to grow, but I think we'll take the margin we have. And if we can maintain it throughout the year, I think we'd be pretty satisfied with that.

Brian Joseph Martin

Janney Montgomery Scott LLC, Research Division

Yes. I apologize for asking the question, Tom. I know it's a bigger financial picture question with the rate environment. So I appreciate the color. And thank you for the questions and congrats on a great year.

Alberto J. Paracchini

President & Director

Yes. Thank you, Brian. We appreciate it.

Operator

Thank you very much. We currently have no further questions. So I'd just like to hand back to Alberto to Paracchini for any further remarks.

Alberto J. Paracchini

President & Director

Great, Carli. So to everyone on the call, thank you for joining us today. We appreciate your interest in Byline, and we look forward to talking to you again next quarter. Thank you very much.

Operator

As we conclude today's call, we'd like to thank everyone for joining. You may now disconnect your lines.

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