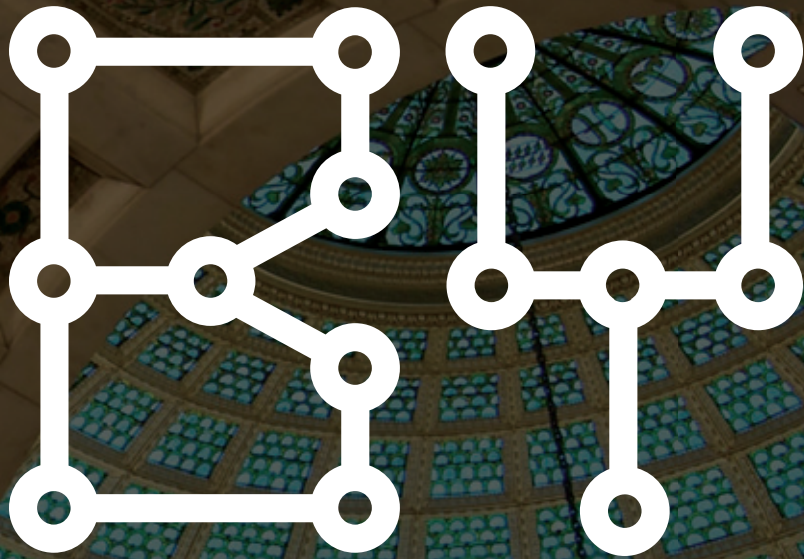
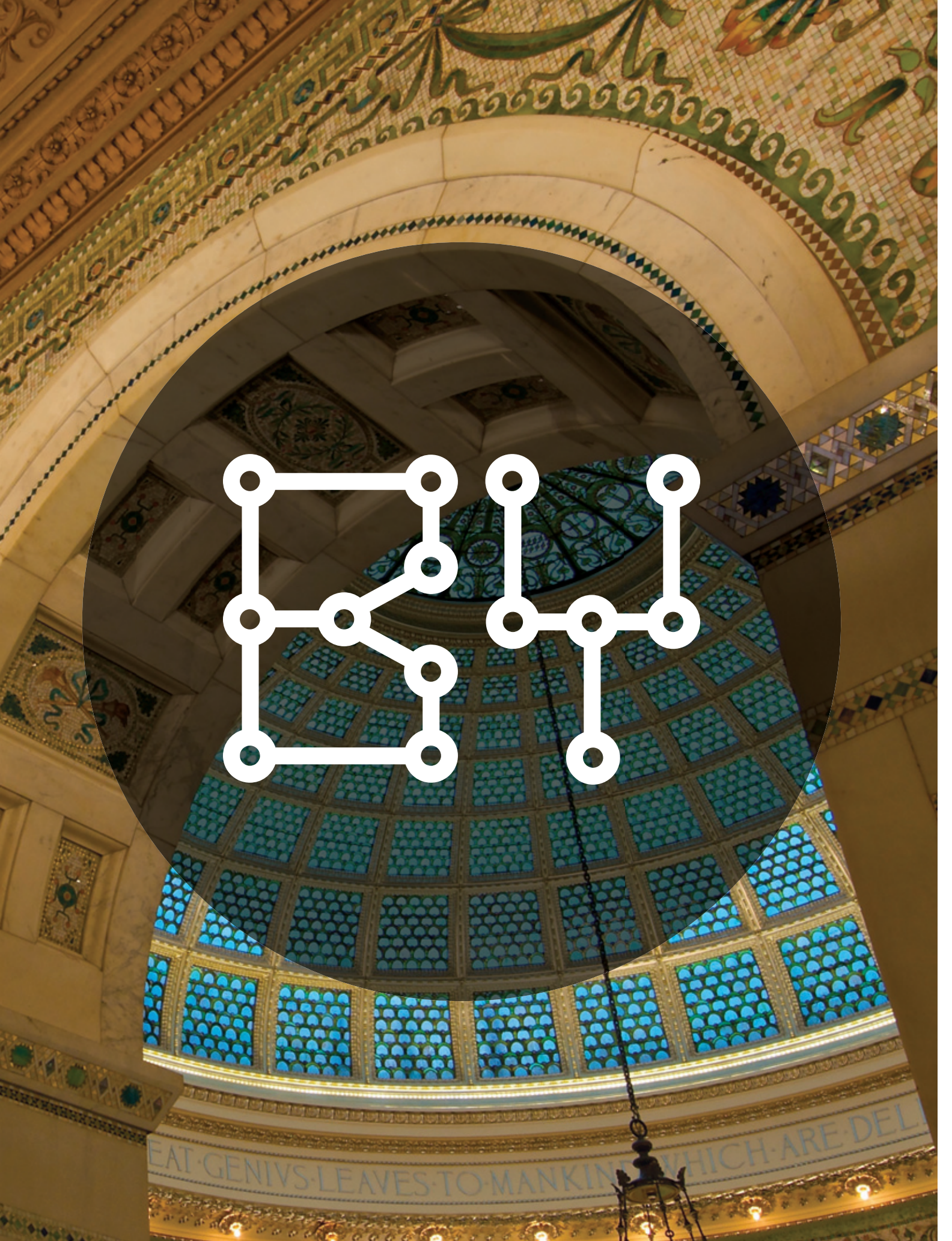


2018

Annual Report



Byline Bancorp, Inc.™



EAT GENIVS LEAVES TO MANKIND WHICH ARE DEL

This past year marked our first annual calendar year as a public company and it was a particularly rewarding one, characterized by significant growth and substantial improvement in key financial metrics.

We closed 2018 nearing \$5 billion in assets, \$3.5 billion in loans, \$3.7 billion in deposits, and \$651 million in total stockholders' equity.

\$5 billion

in assets

\$3.5 billion

in loans

\$3.7 billion

in deposits

\$651 million

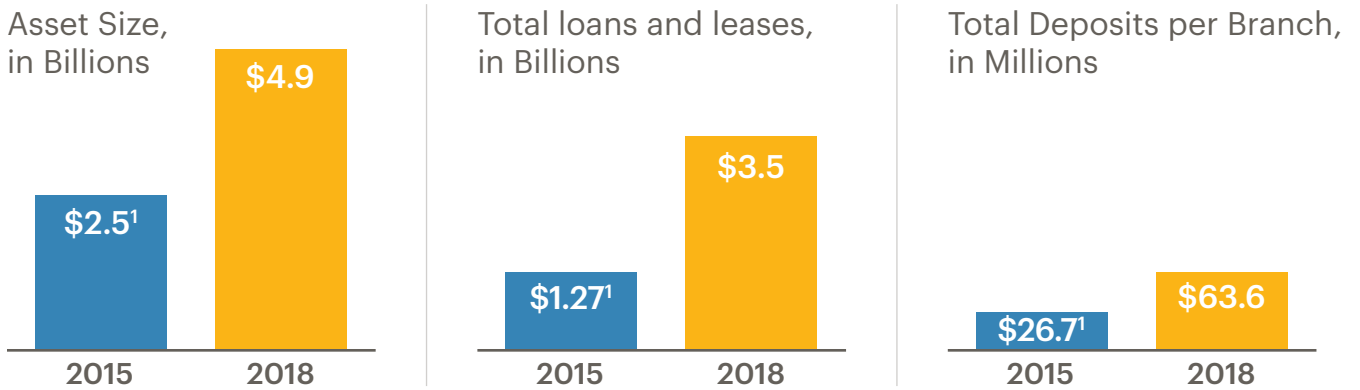
in total stockholders' equity

We were pleased with our financial results, our merger and acquisition execution, the progress made towards our vision to be the bank our customers deserve, and our evolving positioning in the Chicago banking market.

Solid Financial Results

Net income was \$41.2 million, and return on average assets and average tangible common equity were 0.97% and 10.44%, respectively. Excluding merger related charges and other unusual items we consistently disclose and reconcile, adjusted net income for 2018 was

\$49.7 million, and adjusted return on average assets and average tangible common equity were 1.17% and 12.44%, respectively—the highest since the recapitalization of the predecessor Metropolitan Bank Group in June 2013.



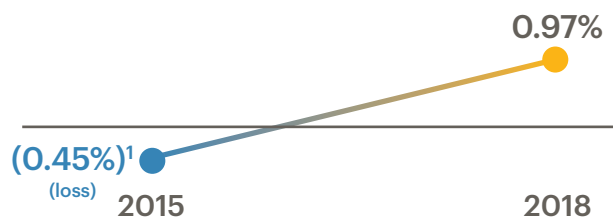
Net Income, in Millions



Efficiency Ratio



Return on Average Assets



¹Based on Q3 2015 performance, at time of initial Strategic Plan rollout.

The growth in our loan portfolio across our commercial banking businesses was robust, both organically and in absolute terms. Our commercial and industrial portfolio ended 2018 with \$1.4 billion in loan outstandings and includes our traditional commercial banking business and our government guaranteed lending business, Byline Small Business Capital. Commercial banking, which caters to small and lower middle market companies with revenue up to \$50 million, has capable leadership in place and an expanded number of experienced relationship bankers. This business represents an important opportunity for loan and deposit growth.

Byline Small Business Capital once again was recognized as the number one SBA lender in both Illinois and Wisconsin and the 5th largest in the United States.

Diversification is a key tenet of prudent risk management and we continue to benefit from a well diversified loan portfolio.

Deposit growth continues to be a top priority for us, both retail and commercial, and a key driver of our profitability targets. Core deposits and non-interest bearing deposits represented an attractive 82% and 32% of total deposits, respectively. We strive to retain an attractive deposit mix, as well as a broad market reach, which has resulted in our top 50 customers accounting for less than 10% of all deposits at year-end 2018.

Our long-standing and high-quality relationships with depositors is due to the convenience and dedicated service we offer through our digital banking capabilities and our 57 branch locations across the Chicago metropolitan area.

Byline Small Business Capital was recognized as the number one SBA lender in Illinois and Wisconsin.

The net interest margin expanded to 4.60% for 2018 from 4.11% for 2017. While average cost of deposits increased to 0.60% in the very competitive Chicago market, loan yields increased more rapidly due to better mix, interest rate risk management, and acquisition accounting accretion.

The adjusted efficiency ratio improved again in 2018, and was 59.87% versus 66.04% in 2017, reflecting solid operating leverage and a disciplined effort to manage branch expenses in a market where digital transactions are increasing. Deposits per branch increased to \$64 million from \$44 million in 2017.

Credit quality metrics remained stable and the allowance for loan and lease losses as a percentage of total loans kept pace with the large increase in loan growth for the year. Importantly, tangible book value per share grew by 2% from \$12.85 at December 2017 to \$13.17 at December 2018. Our capital ratios are comfortably above regulatory requirements for the highest thresholds established for a bank our size.

Acquisitions: A Disciplined Complement to Solid Organic Growth

Since we last wrote to you, we completed the acquisition of First Evanston Bancorp, Inc. (“First Evanston”) in May 2018, following our announcement in November 2017, and announced in October 2018 an agreement to acquire Oak Park River Forest Bankshares, Inc., which is scheduled to close during the second quarter of 2019. We believe these transactions were strategically compelling due to their attractive deposit base and customer demographics in areas of the Chicago MSA where we had little to no presence. Pricing, expected returns, tangible book value dilution and earnback periods were within the range of metrics that we believe the market characterizes as reasonable to attractive, in line with our guidance and consistent with what we said we would do and are capable of doing.

6

We have announced four whole bank acquisitions, completing our solid organic growth strategy.

Including the recapitalization of MBG in 2013, we have announced four whole bank acquisitions, or about one per year, which have complemented our solid organic growth strategy, enabled branch consolidations and the increase of deposits per branch, and extended our reach into attractive Chicago MSA markets.



The Bank Our Customers Deserve

Striving to be the bank our customers deserve is a compelling vision that we put into practice daily by helping customers write their own story. We strive to find ways to connect with and serve our customers, neighborhoods, businesses and not-for-profits. This is our strength and our commitment.

We pride ourselves on helping customers bank the way they want to bank—in our branches, with their relationship manager, online, via phone or mobile and by utilizing our own ATMs as well as more than 45,000 fee-free partner ATMs from Allpoint. Byline has the largest number of branch locations in the Chicago MSA of any bank below \$10 billion in assets. With the First Evanston acquisition, we entered the wealth management business and finished the year with over \$570 million in assets under management.

We are proud to be an active and involved member in our communities. In the past year, we issued 28 community development grants totaling \$125,000, supporting education, financial literacy, housing, small businesses, health and family services, and at-risk youth crisis intervention programs. We made \$8.2 million in community development investments supporting affordable housing, small business, and economic development,

and funded \$66.7 million in community development loans, exceeding our annual target by nearly \$19 million. In addition, Byline employees contributed 1,271 hours of service that benefitted nearly 3,000 people in the communities we serve.

For us, banking is all about relationships. We believe in going the distance with our customers and our goal is to build long-term relationships and deliver on our vision to be the bank that our customers deserve. Our people, Byliners, are essential to realizing this aspiration. One of our strategic priorities is to cultivate a culture that finds, grows and keeps the talent we need to achieve our goals. We are working harder than ever to create a great place to work where our people know they are valued and their contributions are recognized and rewarded.

Technology is an important business imperative for Byline. We continue to invest in technology and digital banking, along with systems and product enhancements. We are confident these investments will allow us to remain increasingly competitive and better serve our customers. In February 2019, we completed the conversion and upgrade of our core banking systems to a platform that will support our growth and business strategies for years to come.

\$125,000

in community development grants issued in 2018

\$8.2 million

in community development investments made in 2018

\$66.7 million

in community development loans made in 2018

Our Positioning in the Chicago Banking Market

We believe that having a certain amount of scale and keeping it simple matters. Over the past five years, five out of 10 of our key local competitors have been acquired. And those local competitors above \$10 billion in assets, some owned by banks headquartered outside of Chicago, have continued to grow and gotten more complex buying non-banking businesses and expanding outside Chicago. We have grown too, but have done so by expanding into product lines we know well and in markets within the Chicago MSA through other high quality commercial banks.

Of banks below \$10 billion in assets, Byline is today the largest commercial bank in the City of Chicago and the Chicago MSA based on assets, deposits and number of branches. We are, at heart, a community bank, dedicated to Chicago and the neighborhoods we call home. We remain steadfastly focused on our customers, offering solution-based banking that allows them to bank their way.

We believe Byline is uniquely positioned to continue to grow and remain a leading community bank for years to come. Our model provides personalized delivery of solutions that larger banks struggle to achieve, while providing more convenient and sophisticated capabilities than many of our smaller bank peers.

As we look to the year ahead for Byline, we are confident in our ability to compete and deliver results. We will continue to seek to leverage our seasoned management team, our diversified lending approach, and track record of successfully integrating acquisitions to drive future growth. We believe we are on the right path and are making real progress towards creating long-term value for stockholders.

We are grateful to our board of directors for their dedication and commitment. In October 2018, our dear colleague Gene Beube, age 78, announced his retirement after serving on our board since 2013. Gene brought a wealth of knowledge, experience and insight during his tenure in his role as director and chairman of the bank's executive credit committee. We wish him and his family the very best in his well-earned retirement. We welcomed in April 2019 the addition of Mary Jo Herseth to our board. Mary Jo is a retired local banking executive with a distinguished banking career and we are fortunate to have her join our board at this very exciting time for Byline.

We want to thank our employees for their hard work and dedication in 2018, our best year yet. Together we are creating a better and brighter future for our stockholders, our customers, the communities we serve, and each other.



Handwritten signature of Roberto Herencia in black ink.

Roberto Herencia
Chairman



Handwritten signature of Alberto Paracchini in black ink.

Alberto Paracchini
President and Chief Executive Officer

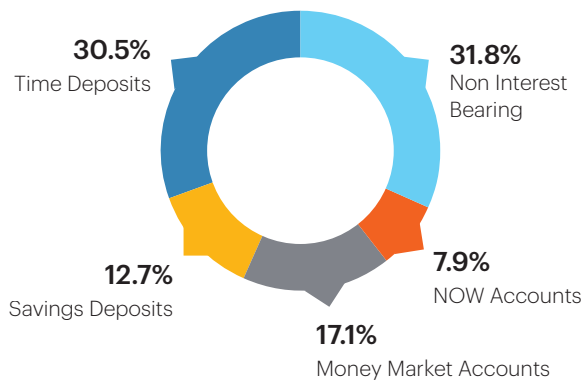
2018 By the Numbers

Net income
\$41.2 million

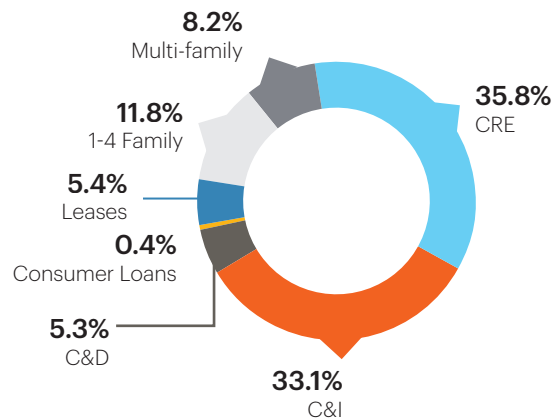
Earnings per share
\$1.21 (Basic)

Earnings per share
\$1.18 (Diluted)

Deposit portfolio composition



Loan and lease portfolio composition



4.60%

YTD Net Interest margin

31.28%

Average non-interest bearing deposits to total deposits

10.44%

Return on average tangible common stockholders' equity

12.44%

Adjusted return on average tangible common stockholders' equity

0.97%

Return on average assets

65.31%

Efficiency ratio

1.17%

Adjusted return on average assets

59.87%

Adjusted efficiency ratio

Forward-Looking Statements

This communication contains forward-looking statements within the meaning of the U.S. federal securities laws. Forward-looking statements include, without limitation, statements concerning plans, estimates, calculations, forecasts and projections with respect to Byline's anticipated future performance. Forward-looking statements involve estimates and known and unknown risks, and reflect various assumptions and involve elements of subjective judgement and analysis, which may or may not prove to be correct, and which are subject to uncertainties and contingencies outside our control, which could cause actual results to differ materially from those presented in this communication. No representations, warranties or guarantees are or will be made by Byline as to the reliability, accuracy or completeness of any forward-looking statements contained in this communication or that such forward-looking statements are or will remain based on reasonable assumptions. You should not place undue reliance on any forward-looking statements contained in this communication.

Certain risks and important factors that could affect our future results are identified in our Annual Report on Form 10-K and other reports we file with the Securities and Exchange Commission, including among other things under the heading "Risk Factors" in such Annual Report on Form 10-K. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement, whether to reflect events or circumstances after the date on which the statement is made, to reflect new information or the occurrence of unanticipated events, or otherwise unless required under the federal securities laws.

Non-GAAP Financial Measures

This communication contains certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Management believes that these non-GAAP financial measures provide useful information to management and investors that is supplementary to the Company's financial condition, results of operations and cash flows computed in accordance with GAAP; however, management acknowledges that our non-GAAP financial measures have a number of limitations. As such, these disclosures should not be viewed as a substitute for results determined in accordance with GAAP financial measures that we and other companies use. Management also uses these measures for peer comparison. See "Selected Financial Data – GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" included in Item 6 of our 2018 Annual Report on Form 10-K for a reconciliation of the non-GAAP financial measures to the comparable GAAP financial measures.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-38139



Byline Bancorp, Inc.™

Byline Bancorp, Inc.

(Exact name of Registrant as specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

180 North LaSalle Street, Suite 300

Chicago, IL

(Address of principal executive offices)

36-3012593

(I.R.S. Employer
Identification No.)

60601

(Zip Code)

Registrant's telephone number, including area code: (773) 244-7000

Securities registered pursuant to Section 12(b) of the Act: common stock, par value \$0.01 per share; Common stock listed on the New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock on the New York Stock Exchange on June 30, 2018, was approximately \$552,556,258.

The number of shares of Registrant's common stock outstanding as of March 14, 2019 was 36,369,982.

Portions of the Registrant's Definitive Proxy Statement relating to its 2019 Annual Meeting of Stockholders, scheduled to be held on June 7, 2019, are incorporated by reference into Part III of this Report.

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Special Note Regarding Forward-Looking Statements

Statements contained in this Annual Report on Form 10-K and in other documents we file with or furnish to the Securities and Exchange Commission (“SEC”) that are not historical facts may constitute “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Any statements about Byline Bancorp, Inc.’s (“Byline”) expectations, beliefs, plans, strategies, predictions, forecasts, objectives or assumptions of future events or performance are not historical facts and may be forward-looking. These statements include, but are not limited to, the expected completion date, financial benefits and other effects of the pending merger of Byline and Oak Park River Forest Bankshares, Inc. These statements are often, but not always, made through the use of words or phrases such as “anticipates,” “believes,” “expects,” “can,” “could,” “may,” “predicts,” “potential,” “opportunity,” “should,” “will,” “estimate,” “plans,” “projects,” “continuing,” “ongoing,” “expects,” “seeks,” “intends” and similar words or phrases. Accordingly, these statements involve estimates, known and unknown risks, assumptions and uncertainties that could cause actual strategies, actions or results to differ materially from those expressed in them, and are not guarantees of timing, future results or other events or performance. Because forward-looking statements are necessarily only estimates of future strategies, actions or results, based on management’s current expectations, assumptions and estimates on the date hereof, and there can be no assurance that actual strategies, actions or results will not differ materially from expectations, readers are cautioned not to place undue reliance on such statements. Factors that may cause such a difference include, but are not limited to, the reaction to the transaction of the companies’ customers, employees and counterparties; customer disintermediation; inflation; expected synergies, cost savings and other financial benefits of the proposed transaction might not be realized within the expected timeframes or might be less than projected; the requisite stockholder and regulatory approvals for the proposed transaction might not be obtained; credit and interest rate risks associated with Byline’s and Oak Park River Forest Bankshares, Inc.’s respective businesses, customers, borrowings, repayment, investment, and deposit practices; general economic conditions, either nationally or in the market areas in which Byline and Oak Park River Forest Bankshares, Inc. operate or anticipate doing business, are less favorable than expected; new regulatory or legal requirements or obligations; and other risks.

Our ability to predict results or the actual effects of future plans, strategies or events is inherently uncertain. Factors which could cause actual results or conditions to differ materially from those reflected in forward-looking statements include:

- uncertainty regarding geopolitical developments and the United States and global economic outlook that may continue to impact market conditions or affect demand for certain banking products and services;
- unforeseen credit quality problems or changing economic conditions that could result in charge-offs greater than we have anticipated in our allowance for loan and lease losses or changes in the value of our investments;
- commercial real estate market conditions in the Chicago metropolitan area and southern Wisconsin;
- deterioration in the financial condition of our borrowers resulting in significant increases in our loan and lease losses and provisions for those losses and other related adverse impacts to our results of operations and financial condition;
- estimates of fair value of certain of our assets and liabilities, which could change in value significantly from period to period;
- competitive pressures in the financial services industry relating to both pricing and loan and lease structures, which may impact our growth rate;
- unanticipated developments in pending or prospective loan and/or lease transactions or greater-than-expected pay downs or payoffs of existing loans and leases;
- inaccurate assumptions in our analytical and forecasting models used to manage our loan and lease portfolio;
- unanticipated changes in monetary policies of the Federal Reserve or significant adjustments in the pace of, or market expectations for, future interest rate changes;
- availability of sufficient and cost-effective sources of liquidity or funding as and when needed;
- our ability to retain or the loss of key personnel or an inability to recruit appropriate talent cost-effectively;
- adverse effects on our information technology systems resulting from failures, human error or cyberattack, including the potential impact of disruptions or security breaches at our third-party service providers, any of which could result in an information or security breach, the disclosure or misuse of confidential or proprietary information, significant legal and financial losses and reputational harm;
- greater-than-anticipated costs to support the growth of our business, including investments in technology, process improvements or other infrastructure enhancements, or greater-than-anticipated compliance or regulatory costs and burdens;
- the impact of possible future acquisitions, if any, including the costs and burdens of integration efforts;
- the ability of the Company to receive dividends from its subsidiaries;

- changes in Small Business Administration (“SBA”) and U.S. Department of Agriculture (“USDA”) U.S. government guaranteed lending rules, regulations and loan products, including specifically the SBA Section 7(a) program, changes in SBA or USDA standard operating procedures or changes to the status of Byline Bank as an SBA Preferred Lender;
- changes in accounting principles, policies and guidelines applicable to bank holding companies and banking generally;
- the impact of a possible change in the federal or state income tax rate on our deferred tax assets and provision for income tax expense;
- the possibility that any of the anticipated benefits of acquisitions will not be realized or will not be realized within the expected time period;
- the risk that the integration of acquisition operations will be materially delayed or will be more costly or difficult than expected;
- the effect of mergers on customer relationships and operating results; and
- other risks detailed from time to time in filings we make with the SEC.

These risks and uncertainties should be considered in evaluating any forward-looking statements, and undue reliance should not be placed on such statements. Additional information concerning the Company, including additional factors and risks that could materially affect our business and financial results, are included herein. See Item 1A. “Risk Factors”. Forward-looking statements speak only as of the date they are made. We assume no obligation to update any of these statements in light of new information, future events or otherwise unless required under the federal securities laws.

PART I

Item 1. Business.

General

Byline Bancorp, Inc., headquartered in Chicago, Illinois, is a bank holding company and we conduct all our business activities through our subsidiary, Byline Bank, a full service commercial bank, and Byline Bank's subsidiaries. The words "the Company," "we," "Byline," "our" and "us" refer to Byline Bancorp, Inc. and its consolidated subsidiaries, unless we indicate otherwise.

Through Byline Bank, we offer a broad range of banking products and services to small and medium sized businesses, commercial real estate and financial sponsors and to consumers who generally live or work near our branches. In addition to our traditional commercial banking business, we provide small ticket equipment leasing solutions through Byline Financial Group, a wholly-owned subsidiary of Byline Bank, headquartered in Bannockburn, Illinois with sales offices in Illinois and New York, and sales representatives in Illinois, Michigan, New Jersey, and New York. Following our acquisition of Ridgestone Financial Services, Inc. ("Ridgestone") in October 2016, we also participate in U.S. government guaranteed lending programs and originate U.S. government guaranteed loans. Byline Bank was the fifth most active originator of SBA loans in the country and the most active SBA lender in Illinois and Wisconsin, as reported by the SBA for the quarter ended December 31, 2018. Following our acquisition of First Evanston Bancorp, Inc. ("First Evanston") and its subsidiary bank, First Bank & Trust, at the end of May 2018, we also provide trust and wealth management services to our customers. As of December 31, 2018, we had consolidated total assets of \$4.9 billion, total gross loans and leases outstanding of \$3.5 billion, total deposits of \$3.7 billion, and total stockholders' equity of \$650.7 million.

Ridgestone acquisition

On October 14, 2016, we completed the acquisition of Ridgestone Financial Services, Inc., under the terms of a definitive merger agreement. As of the acquisition date, Ridgestone had \$447.4 million in assets, including \$347.3 million of loans, \$14.7 million of loans held for sale, \$27.2 million of securities, \$21.5 million of servicing assets and total deposits of \$358.7 million. Ridgestone's loan portfolio was primarily comprised of the retained unguaranteed portion of U.S. government guaranteed loans as a participant in the SBA and USDA (together, "U.S. government guaranteed") lending programs.

First Evanston acquisition

On May 31, 2018, we completed the acquisition of First Evanston, under the terms of a definitive merger agreement. As a result of the merger, First Evanston's wholly owned bank subsidiary, First Bank & Trust, was merged with and into Byline Bank. As of the acquisition date, First Evanston had \$1.1 billion in assets, including \$932.4 million of loans, \$128.1 million of securities, and total deposits of \$1.0 billion.

At the effective time of the merger (the "Effective Time"), each share of First Evanston's common stock (the "First Evanston Common Stock") was converted into the right to receive: (1) 3.994 shares of Byline's common stock, and (2) an amount in cash equal to \$27.0 million divided by the number of outstanding shares of First Evanston Common Stock as of the closing date, with cash paid in lieu of any fractional shares. Options to acquire First Evanston Common Stock that were outstanding at the Effective Time were converted into options of substantially equivalent value to acquire Byline common stock. In the aggregate, Byline paid \$27.0 million in cash and issued 6,682,850 shares of its common stock in respect of the outstanding shares of First Evanston Common Stock. The value of the total merger consideration at closing was approximately \$179.1 million.

Oak Park River Forest acquisition

On October 17, 2018, we entered a definitive merger agreement with Oak Park River Forest Bankshares, Inc. ("Oak Park River Forest"), the parent company of Community Bank of Oak Park River Forest, pursuant to which we will acquire Oak Park River Forest through the merger of Oak Park River Forest with and into us, followed immediately by the merger of Community Bank of Oak Park River Forest with and into Byline Bank. As of December 31, 2018, Oak Park River Forest had \$327.6 million in assets, including \$31.2 million of securities, \$269.5 million of loans, \$2.5 million of loans held for sale, and \$287.1 million of total deposits. Completion of the transaction is subject to the approval of Oak Park River Forest's stockholders, and other customary closing conditions. We expect the acquisition to close during the first half of 2019.

Strategic branch consolidation

We continually perform strategic reviews of our existing banking footprint. With technology improvements and changes to customers' banking preferences, we examine branch growth potential, customer usage, branch profitability, services provided, markets served and proximity to other locations with a goal of minimizing customer impact and deposit runoff. Since our recapitalization which occurred in June 2013, our branch network has been reduced from 88 to 58, including eight branches added through the First Evanston acquisition. During 2018, we consolidated six branches and two other facilities within our current network that had a minimal impact on our customer service levels, convenience, and business development capabilities. We will continue to strategically evaluate our locations based on our growth and profitability standards.

We plan to continue to leverage our seasoned management team, the attractive market opportunity in the Chicago metropolitan area, our diversified lending approach and our track record of successfully integrating acquisitions to drive future growth. We believe that having a deep understanding of customers, longstanding ties to the communities in which we operate, a strong market position and exceptional employees allows us to provide the attention, responsiveness and customized service our clients seek while offering a diverse range of products to serve a variety of needs.

Segments

We have one reportable segment. Our chief operating decision maker, our Chief Executive Officer, evaluates the operations of the Company using consolidated information for purposes of allocating resources and assessing performance.

Our Products and Services

We are a full service, commercial bank offering a broad range of deposit products and lending services to small and medium sized businesses, commercial real estate and financial sponsors, and consumers around our 57 branch locations in the Chicago metropolitan area and one branch in Brookfield, Wisconsin. The products and services we offer are described below.

Retail deposits

We offer customers traditional retail deposit products through our branch network and the ability to access their accounts through online and mobile banking platforms. The wide variety of deposit products we offer include non-interest-bearing accounts, money market demand accounts, savings accounts, interest-bearing checking accounts and time deposits with maturities ranging from seven days to five years. We consider our core deposits, defined as all deposits except for time deposits exceeding \$100,000, to be our primary and most valuable funding source, and as of December 31, 2018, core deposits represented 81.7% of our total deposits. We strive to retain an attractive deposit mix from both large and small customers as well as a broad market reach, which has resulted in our top 50 customers accounting for only 9.7% of all deposits, as of December 31, 2018. Our bankers are incentivized to acquire and maintain quality core deposits as we depend on these deposits to fund the majority of our loans and leases. Our incentive compensation plans are designed so that those arrangements appropriately balance risk and financial rewards, are compatible with effective risk management practices and are supported by effective governance. We believe that our long standing and high quality relationships with our depositors who provide us with long term funding are due to the convenience and dedicated service we offer. We leverage our expansive branch locations and deep network of customer relationships in the Chicago metropolitan area to provide both low cost funding sources for our lending business and deposit related fee income. We had \$3.7 billion of deposits at December 31, 2018, and our average cost of deposits was 0.60% for the year ended December 31, 2018.

Commercial banking

Commercial banking is a fundamental component of our business. We define commercial banking as lending to small and medium sized businesses, real estate and financial sponsors. We offer a comprehensive range of commercial loan, deposit and cash management products. Our primary commercial lending groups are described below:

Commercial & industrial. Our commercial and industrial (“C&I”) group focuses on small and lower middle market businesses with up to \$50 million of annual revenue and seek to establish long term relationships. We believe this customer segment is underserved by larger institutions that do not focus on this space, as well as by smaller institutions that lack product sophistication and capabilities. We offer a broad range of lending products including term loans, revolving lines of credit, and cash management products and services. As of December 31, 2018, the C&I group managed a portfolio of \$1.4 billion in loans outstanding.

Commercial real estate. Our commercial real estate (“CRE”) business focuses on experienced real estate professionals with long track records of performance and access to ample equity capital sources. We believe our specialized expertise and efficient decision making process differentiate us from our competitors. We offer fixed and floating rate term loans, construction financing and revolving lines of credit with a wide range of term options. Our CRE portfolio is broadly diversified by property type including loans secured by multi family, retail, industrial and office properties. As of December 31, 2018, the CRE group had \$538.2 million in loans outstanding.

Sponsor finance. Our sponsor finance group provides senior secured financing solutions to private equity backed lower middle market companies throughout the U.S. with earnings before interest, tax, depreciation and amortization generally between \$2.0 million and \$10.0 million. We support the acquisition, recapitalization and growth investment efforts of private equity firms operating in the lower middle market, and we believe our expertise in this niche is unique for a bank our size. As of December 31, 2018, we had \$217.7 million in sponsor finance loans outstanding.

Syndications. From time to time, our syndications group seeks to deploy excess liquidity by opportunistically participating in syndicated loans, acquiring whole loans, or purchasing participations from lead banks that have existing relationships with well capitalized and experienced sponsors. We employed this strategy extensively following our recapitalization by leveraging our relationships with local, regional and national lenders as we developed our own lending capabilities and had excess liquidity. Now,

with developed lending capabilities, our participation in syndications has decreased and represents a smaller piece of our portfolio. The syndications group targets transactions in the home mortgage, commercial real estate and C&I categories that provide attractive risk/reward characteristics, and we continue to maintain the ability to sell loan positions to manage credit and specific customer and industry concentrations. As of December 31, 2018, the group had \$390.8 million in loan syndications outstanding.

Commercial deposits and cash management. We also support our business clients with a variety of deposit and cash management products, along with business transaction accounts. Our comprehensive suite of products includes treasury services, information reporting, fraud management, cash collection and interest rate derivative products. We believe these tailored products allow us to provide a robust service offering to our clients and to support their day to day funding and risk management needs. These services are provided through multiple points of contact including branch, online and mobile interfaces.

Small Business Capital

We launched our U.S. government guaranteed lending business with the acquisition of Ridgestone in October 2016. This business serves small businesses in need of, and qualifying for, U.S. government guaranteed loans. We also provide SBA lending services throughout the country, with a primary focus on the Midwest, Tennessee and California. We generally sell the government guaranteed portion of SBA and USDA loans into the secondary market while retaining the non-guaranteed portion of the loan and the servicing rights. This allows us to realize one time gain on sale income along with a recurring servicing and interest revenue stream. In addition to the business development officers that we rely on to generate new business, we also have a dedicated servicing, portfolio management and workout staff with specialized expertise in U.S. government guaranteed loans. As of December 31, 2018, total loans and leases included the guaranteed amount of U.S. government guaranteed loans of \$108.7 million. The total unpaid principal balances of loans serviced for others was \$1.3 billion at December 31, 2018.

Small ticket equipment leasing

Through our Bank's subsidiary, Byline Financial Group ("BFG"), we provide financing solutions for equipment vendors and their end users. The vertical markets served by our equipment vendors specialize primarily in healthcare, manufacturing, technology, specialty vehicles and energy efficiency. The end users (i.e., our lessees and borrowers) are primarily physician group practices, other healthcare related entities, manufacturers, retailers, veterinarians, wholesalers and automotive related industries. The average lease size at origination for BFG for the year ended December 31, 2018 was approximately \$51,000. Our sales team originates leases throughout the country, and we have lessees in nearly every state. As of December 31, 2018, BFG had \$191.3 million in leases outstanding with a weighted average life of approximately 1.8 years.

Wealth management and trust

We launched our trust and wealth management services with the acquisition of First Evanston in May 2018. This business provides investment, trust and wealth management services to our clients, including foundations and endowments and high net worth individuals. Services include fiduciary and executor services, financial planning solutions, investment advisory services, and private banking services. These services are provided through credentialed investment, legal, tax, and wealth management professionals who identify opportunities and provide services tailored to our customers' goals and objectives. Assets under management were \$571.5 million as of December 31, 2018.

Distribution channels

The primary market in which we operate is the Chicago metropolitan area, and our 57 branch network in this area is our core distribution channel. We operate the largest branch network in the city of Chicago of any Illinois-based bank, and we take advantage of our focused footprint and deep rooted relationships to target local customers with a diversified product offering.

Our expansive local branch network enables us to gather low cost deposits, promote the Byline brand and customer loyalty, originate loans, leases and other products and maintain relationships with our customers through regular community involvement. We believe our branch network is fundamental to our ability to achieve successful customer outreach in line with our culture, which promotes high touch engagement with our customers and proactive solutions.

While our branch network will continue to be our primary delivery channel, we understand the evolving banking environment requires digital interaction to keep pace with our customers' needs. We have rationalized our branch network to increase efficiency while at the same time investing in our product development, particularly our online and mobile banking platforms that allow customers to transact via the digital channel, including bill payments, mobile deposits and peer to peer payment options.

When we deem it advisable, we launch marketing campaigns through our branches and online platform to advertise new products or promotional services. We view these two channels as key touchpoints with our customers and frequently strategize how we can best utilize these distribution networks.

Competition

The financial services industry is highly competitive as we compete for loans, leases, deposits and customer relationships in our market. Competition involves efforts to retain current clients, make new loans and obtain new deposits, increase the scope and sophistication of services offered and offer competitive interest rates paid on deposits and charged on loans. Within our branch footprint, we face competition primarily from national, regional and other local banks that have established branch networks throughout the Chicago metropolitan area, giving them visible retail presence to customers.

In providing wealth management services, we also compete with retail and discount stockbrokers, investment advisors, mutual funds, insurance companies, and other financial institutions for wealth management customers. Competition is generally based on the variety of products and services offered to customers and the performance of funds under management. Our main competitors are financial service providers both within and outside of the geographic areas in which we maintain offices.

We believe our ability to provide a flexible, sophisticated product offering and an efficient process to our customers allows us to stay competitive in the financial services environment. Our local presence and hands-on approach enable us to provide a high level of service that our customers value.

We face competition in attracting and retaining qualified employees. Our ability to continue to compete effectively depends on our ability to attract new employees and retain and motivate existing employees.

Intellectual Property

In the highly competitive banking industry in which we operate, intellectual property is important to the success of our business. We registered the “Byline Bank” and “Byline Bancorp, Inc.” trademarks with the United States Patent and Trademark Office, along with various other trademarks, logos, and tag lines and we intend to protect the use of our trademarks and other intellectual property nationwide.

Employees

As of December 31, 2018, we had 943 full time equivalent employees. None of our employees are parties to a collective bargaining agreement. We consider our relationship with our employees to be good.

Corporate Information

Our principal executive offices are located at 180 North LaSalle Street, Suite 300, Chicago, Illinois 60601, and our telephone number at that address is (773) 244-7000. Our website address is www.bylinebancorp.com. We make available at this address, under the “Investor Relations” tab, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. These filings are also available on the SEC's website at www.sec.gov. The contents of our website are not incorporated by reference into this report.

Supervision and Regulation

We and our subsidiaries are subject to extensive regulation under federal and state banking laws that establish a comprehensive framework for our operations. This framework may materially affect our growth potential and financial performance and is intended primarily for the protection of depositors, customers, federal deposit insurance funds and the banking system as a whole, not for the protection of our stockholders and creditors. Significant elements of the statutes, regulations and policies applicable to us and our subsidiaries are described below.

Regulatory Agencies

We are a bank holding company under the Bank Holding Company (“BHC”) Act. Consequently, we and our subsidiaries are subject to supervision, regulation and examination by the Federal Reserve. The BHC Act provides generally for “umbrella” regulation of bank holding companies and functional regulation of holding company subsidiaries by applicable regulatory agencies. Byline Bank, our bank subsidiary, is a Federal Deposit Insurance Corporation (“FDIC”) insured commercial bank chartered under the laws of Illinois. Our bank is not a member of the Federal Reserve System. Consequently, the FDIC and the Illinois Department of Financial and Professional Regulation (“IDFPR”) are the primary regulators of our bank and also regulate our bank’s subsidiaries. As the owner of an Illinois-chartered bank, we are also subject to supervision and examination by the IDFPR. We are also subject to the disclosure and regulatory requirements of the Securities Act and the Exchange Act as administered by the SEC, and the rules adopted by the New York Stock Exchange (the “NYSE”) applicable to NYSE listed companies.

Permissible Activities for Bank Holding Companies

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto, which include certain activities relating to extending credit or acting as an investment or financial advisor. We currently do not conduct any non-banking activities through any non-bank subsidiaries.

Bank holding companies that qualify and elect to be treated as “financial holding companies” may engage in a broader range of additional activities than bank holding companies that are not financial holding companies. In particular, financial holding companies may engage in activities that are (i) financial in nature or incidental to such financial activities or (ii) complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. These activities include securities underwriting and dealing, insurance underwriting and making merchant banking investments. We have not elected to be treated as a financial holding company and currently have no plans to make a financial holding company election.

The Federal Reserve has the power to order any bank holding company or any of its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuing such activity, ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

Permissible Activities for Banks

As an Illinois-chartered commercial bank, our bank’s business is subject to extensive supervision and regulation by state and federal bank regulatory agencies. Our business is generally limited to activities permitted by Illinois law and any applicable federal laws. Under the Illinois Banking Act, our bank may generally engage in all usual banking activities, including, among other things, accepting deposits; lending money on personal and real estate security; issuing letters of credit; buying, discounting, and negotiating promissory notes and other forms of indebtedness; buying and selling foreign currency and, subject to certain limitations, certain investment securities; engaging in certain insurance activities and maintaining safe deposit boxes on premises.

Illinois law also imposes restrictions on Byline Bank’s activities intended to ensure the safety and soundness of our bank. For example, Byline Bank is restricted under the Illinois Banking Act from investing in certain types of investment securities and is generally limited in the amount of money it can lend to a single borrower or invest in securities issued by a single issuer.

Acquisitions by Bank Holding Companies

The BHC Act, Section 18(c) of the Federal Deposit Insurance Act, popularly known as the “Bank Merger Act”, the Illinois Banking Act, the Illinois Bank Holding Company Act and other federal and state statutes regulate acquisitions of commercial banks and other FDIC-insured depository institutions. We must obtain the prior approval of the Federal Reserve under the BHC Act before (i) acquiring more than 5% of the voting stock of any FDIC-insured depository institution or other bank holding company (other than directly through our bank), (ii) acquiring all or substantially all of the assets of any bank or bank holding company or (iii) merging or consolidating with any other bank holding company. Under the Bank Merger Act, the prior approval of the FDIC is required for our bank to merge with another bank or purchase all or substantially all of the assets or assume any of the deposits of another FDIC-insured depository institution or to assume certain liabilities of non-banks. In reviewing applications seeking approval of merger and acquisition transactions, banking regulators consider, among other things, the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant’s performance record under the Community Reinvestment Act of 1977 (“CRA”), the applicant’s compliance with fair housing and other consumer protection laws and the effectiveness of all organizations involved in combating money laundering activities. In addition, failure to implement or maintain adequate compliance programs could cause banking regulators not to approve an acquisition where regulatory approval is required or to prohibit an acquisition even if approval is not required.

Dividends; Stress Testing

We are a legal entity separate and distinct from Byline Bank and other subsidiaries. As a bank holding company, we are subject to certain restrictions on our ability to pay dividends under applicable banking laws and regulations.

Federal banking regulators are authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In particular, federal banking regulators have stated that paying dividends that deplete a banking organization’s capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. Under the capital rules defined below, institutions that seek to pay dividends must maintain 2.5% in Common Equity Tier 1 capital attributable to the capital conservation buffer, which was phased in over a three year period that began on January 1, 2016. For more information on these financial measures at the Company and Byline Bank, see Note 21 of the notes to our audited consolidated financial statements contained in Item 8 of this report.

A significant portion of our income, on a stand-alone basis, comes from dividends from our bank, which is also the primary source of our liquidity. In addition to the restrictions discussed above, our bank is subject to limitations under Illinois law regarding the level of dividends that it may pay to us. Under the Illinois Banking Act, Byline Bank generally may not pay dividends in excess of its net profits. Under these restrictions, Byline Bank could pay aggregate dividends of approximately \$134.7 million to us without obtaining affirmative regulatory approvals as of December 31, 2018.

As required by the Dodd-Frank Act, the Federal Reserve and the FDIC have implemented final rules regarding company-run stress testing. These rules require bank holding companies and banks with average total consolidated assets greater than \$10 billion to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the federal banking regulators. Neither we nor our bank is currently subject to the stress testing requirements, but we expect that if we become subject to those requirements, the Federal Reserve, the FDIC and the IDFPFR will consider our results and those of our bank as an important factor in evaluating our and our bank's capital adequacy, any proposed acquisitions by us or by our bank and whether any proposed dividends or stock repurchases by us or by our bank may be an unsafe or unsound practice.

Transactions with Affiliates and Insiders

Transactions between our bank and its subsidiaries, on the one hand, and us or any other subsidiary, on the other hand, are regulated under Sections 23A and 23B of the Federal Reserve Act. The Federal Reserve Act imposes quantitative and qualitative requirements and collateral requirements on covered transactions by Byline Bank with, or for the benefit of, its affiliates. Generally, Sections 23A and 23B of the Federal Reserve Act limits the extent to which our bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of our bank's capital stock and surplus, limits the aggregate amount of all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus, and requires those transactions to be on terms at least as favorable to our bank as if the transaction were conducted with an unaffiliated third-party. Covered transactions are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, certain derivative transactions with an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In addition, any credit transactions with any affiliate must be secured by designated amounts of specified collateral.

Federal law also limits our bank's authority to extend credit to its insiders, which is defined under applicable law to include its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of non-repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons individually and in the aggregate. In addition, certain of our stockholders are foreign nationals, and we and certain of these foreign national stockholders have entered into commitments with the Federal Reserve that restrict our ability to engage in certain business transactions without the consent of the Federal Reserve. Certain of our stockholders have also entered into passivity commitments with the Federal Reserve that generally restrict these stockholders from entering into banking or nonbanking transactions with us.

Source of Strength

Federal Reserve policy and federal law require bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, we are expected to commit resources to support Byline Bank, including at times when we may not be in a financial position to provide such resources, and it may not be in our, or our stockholders' or creditors', best interests to do so. In addition, any capital loans we make to our bank are subordinate in right of payment to depositors and to certain other indebtedness of our bank. In the event of our bankruptcy, any commitment by us to a federal banking regulatory agency to maintain the capital of our bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Regulatory Capital Requirements

The Federal Reserve monitors the capital adequacy of our holding company on a consolidated basis, and the FDIC and the IDFPFR monitor the capital adequacy of our bank. The banking regulators use a combination of risk-based guidelines and a leverage ratio to evaluate capital adequacy. The risk-based capital guidelines applicable to us and our bank are based on the Basel Committee's December 2010 final capital framework for strengthening international capital standards, known as Basel III, as implemented by the federal banking regulators. The risk-based guidelines are intended to make regulatory capital requirements sensitive to differences in credit and market risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets.

Basel III and the Capital Rules. In July 2013, the federal banking regulators approved final rules, or the Capital Rules, implementing Basel III and various provisions of the Dodd-Frank Act. The Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and banks, including us and our bank, compared to the previous risk-based capital rules. The Capital Rules revise the components of capital and address other issues affecting the numerator in regulatory capital ratio calculations. The Capital Rules, among other things, (i) include a new capital measure called "Common Equity Tier 1" ("CET1"), (ii)

specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments to capital as compared to prior regulations. The Capital Rules also address risk weights and other issues affecting the denominator in regulatory capital ratio calculations, including replacing the existing risk-weighting approach derived from Basel I with a more risk-sensitive approach based, in part, on the standardized approach adopted by the Basel Committee in its 2004 capital accords, known as Basel II. The Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking regulators’ rules. Subject to a phase-in period for various provisions, the Capital Rules became effective for us and for our bank on January 1, 2015.

Under the Basel III Capital Rules, the minimum capital ratios are (i) 4.5% CET1 to risk-weighted assets, (ii) 6% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets, (iii) 8% total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets and (iv) 4% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the “leverage ratio”).

The current Capital Rules also include a capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and was phased in over a three-year period (increasing by 0.625% on each subsequent January 1) until it reached 2.5% on January 1, 2019. In addition, the Capital Rules provide for a countercyclical capital buffer applicable only to certain covered institutions. We do not expect the countercyclical capital buffer to be applicable to us or our bank. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Beginning on January 1 2019, as a result of the now fully phased-in Capital Rules, we and our bank are required to maintain an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) 7% CET1 to risk-weighted assets, (ii) 8.5% Tier 1 capital to risk-weighted assets, (iii) 10.5% total capital to risk-weighted assets and (iv) a minimum leverage ratio of 4%.

The Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, certain deferred tax assets and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and were to be phased in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). On November 21, 2017, the federal banking regulators finalized rules that otherwise maintain the Capital Rules’ 2017 adjustments for the year 2018. These changes to the Capital Rules became effective beginning on January 1, 2018. On September 27, 2017, the federal banking regulators proposed a rule to simplify the current regulatory capital treatment of mortgage servicing rights, certain deferred tax assets and significant investments in non-consolidated financial entities; however, it is uncertain if this rule will be finalized since Congress passed the Economic Growth Regulatory Relief and Consumer Protection Act (the “Consumer Protection Act”) in May 2018. As discussed below, the Consumer Protection Act included a provision intended to simplify capital rules for certain qualifying community banks. The Capital Rules also generally preclude certain hybrid securities, such as trust preferred securities, from being counted as Tier 1 capital for most bank holding companies. Bank holding companies such as us who had less than \$15 billion in assets as of December 31, 2009 (and who continue to have less than \$15 billion in assets) are permitted to include qualifying trust preferred securities issued prior to May 19, 2010 as Additional Tier 1 capital under the Capital Rules, however.

In addition, under the general risk-based Capital Rules, the effects of accumulated other comprehensive income items included in capital were excluded for the purposes of determining regulatory capital ratios. Under the Capital Rules, the effects of certain accumulated other comprehensive income items are not excluded; however, non-advanced approaches banking organizations, including us and Byline Bank, were able to make a one-time permanent election to continue to exclude these items.

The Capital Rules also prescribed a new standardized approach for risk weightings that expanded the risk-weighting categories from the current four Basel I derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0%, for U.S. government and agency securities, to 600%, for certain equity exposures, and resulting in higher risk weights for a variety of asset categories.

With respect to our bank, the Capital Rules also revised the prompt corrective action regulations pursuant to Section 38 of the Federal Deposit Insurance Act (the “FDIA”).

On November 20, 2018, pursuant to the Consumer Protection Act, the federal banking regulators issued a proposed rule meant to simplify the capital rules for community banks. Under the proposal, most depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets, that meet risk-based qualifying criteria, and that have a community bank leverage ratio of greater than 9% would be eligible to opt into a community bank leverage ratio framework. Under the proposal, should a qualified community bank or its holding company elect to use the community bank leverage ratio and maintain a community bank leverage ratio of greater than 9% then it would not be subject to other risk-based and leverage capital requirements, including the risk-based capital rules relating to high volatility commercial real estate, mortgage servicing rights, certain deferred tax assets and significant investments in non-consolidated financial entities, and would be considered to have met the well capitalized ratio requirements for purposes of Section 38 of the Federal Deposit Insurance Act and the generally applicable capital requirements under the federal banking regulators' capital rules.

Liquidity Regulations

Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio, or LCR, is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30 day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio, or NSFR, is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incentivize banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

In September 2014, the federal banking regulators approved final rules implementing the LCR for advanced approaches banking organizations (i.e., banking organizations with \$250 billion or more in total consolidated assets or \$10 billion or more in total on-balance sheet foreign exposure) and a modified version of the LCR for bank holding companies with at least \$50 billion in total consolidated assets that are not advanced approaches banking organizations. Neither of these final versions of the LCR apply to us or our bank. In the second quarter of 2016, the federal banking regulators issued a proposed rule that would implement the NSFR for certain U.S. banking organizations. The proposed rule would require certain U.S. banking organizations to ensure they have access to stable funding over a one-year time horizon and has an effective date of January 1, 2018. The proposed rule has yet to be finalized. The proposed rule would not apply to U.S. banking organizations with less than \$50 billion in total consolidated assets such as us and Byline Bank.

Prompt Corrective Action Framework

The FDIA also requires the federal banking regulators to take prompt corrective action in respect of depository institutions that fail to meet specified capital requirements. The FDIA establishes five capital categories: "well-capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", and "critically undercapitalized". The federal banking regulators are required to take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions that are undercapitalized, significantly undercapitalized or critically undercapitalized. The severity of these mandatory and discretionary supervisory actions depends upon the capital category in which the institution is placed. The relevant capital measures, which reflect changes under the Capital Rules that became effective on January 1, 2015, are the total capital ratio, the CET1 capital ratio, the Tier 1 capital ratio and the leverage ratio.

A bank will be (i) "well capitalized" if the institution has a total risk-based capital ratio of 10% or greater, a CET1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8% or greater and a leverage ratio of 5% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if the institution has a total risk-based capital ratio of 8% or greater, a CET1 capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6% or greater and a leverage ratio of 4% or greater and is not "well capitalized"; (iii) "undercapitalized" if the institution has a total risk-based capital ratio that is less than 8%, a CET1 capital ratio less than 4.5%, a Tier 1 risk-based capital ratio of less than 6% or a leverage ratio of less than 4%; (iv) "significantly undercapitalized" if the institution has a total risk-based capital ratio of less than 6%, a CET1 capital ratio less than 3%, a Tier 1 risk-based capital ratio of less than 4% or a leverage ratio of less than 3%; and (v) "critically undercapitalized" if the institution's tangible equity is equal to or less than 2% of average quarterly tangible assets. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of Byline Bank's overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be “undercapitalized”. An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking regulator. Under the FDIA, in order for the capital restoration plan to be accepted by the appropriate federal banking agency, a bank holding company must guarantee that a subsidiary depository institution will comply with its capital restoration plan, subject to certain limitations. The bank holding company must also provide appropriate assurances of performance. The obligation of a controlling bank holding company under the FDIA to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary’s assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions and capital distributions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. Institutions that are undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions are subject to appointment of a receiver or conservator.

The appropriate federal banking agency may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. The FDIA provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice. The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

As of December 31, 2018, our bank was considered “well capitalized” with a Tier 1 capital ratio of 12.71%, total capital ratio of 13.40%, Tier 1 leverage ratio of 10.56%, and a CET1 capital ratio of 12.71%, as calculated under Basel III. For more information on these financial measures at the Company and Byline Bank, see Note 21 of the notes to our audited consolidated financial statements contained in Item 8 of this report.

Safety and Soundness Standards

The FDIA requires the federal banking agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. The federal banking agencies have adopted the Interagency Guidelines for Establishing Standards for Safety and Soundness. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. These guidelines also prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the banking regulator must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution may be subject under the FDIA. See Item 1. “Business—Supervision and Regulation—Prompt Corrective Action Framework”. If an institution fails to comply with such an order, the banking regulator may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Deposit Insurance

FDIC insurance assessments

As an FDIC-insured bank, our bank must pay deposit insurance assessments to the FDIC based on its average total assets minus its average tangible equity. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government.

As an institution with less than \$10 billion in assets, our bank's assessment rates are based on the level of risk it poses to the FDIC's deposit insurance fund ("DIF"). Pursuant to changes adopted by the FDIC that were effective July 1, 2016, the initial base rate for deposit insurance is between three and 30 basis points. Total base assessment after possible adjustments now ranges between 1.5 and 40 basis points. For established smaller institutions, like Byline Bank, supervisory ratings are used along with (i) an initial base assessment rate, (ii) an unsecured debt adjustment (which can be positive or negative), and (iii) a brokered deposit adjustment, to calculate a total base assessment rate.

Under the Dodd-Frank Act, the limit on FDIC deposit insurance was increased to \$250,000. The coverage limit is per depositor, per insured depository institution for each account ownership category. The Dodd-Frank Act also set a new minimum DIF reserve ratio at 1.35% of estimated insured deposits. In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. In September 2018, the FDIC announced that the DIF reserve ratio had surpassed 1.35% ahead of the September 30, 2020 deadline.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that an institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Other assessments

In addition, the Deposit Insurance Funds Act of 1996 authorized the Financing Corporation ("FICO") to impose assessments on certain deposits in order to service the interest on the FICO's bond obligations from deposit insurance fund assessments. The amount assessed on individual institutions is in addition to the amount, if any, paid for deposit insurance according to the FDIC's risk-related assessment rate schedules. Assessment rates may be adjusted quarterly to reflect changes in the assessment base. It is currently anticipated that final assessments will be made in 2019.

All Illinois state-chartered banks are required to pay supervisory assessments to the IDFP to fund the operations of that agency. The amount of the assessment is calculated on the basis of Byline Bank's total assets.

The Volcker Rule

The Dodd-Frank Act, pursuant to a statutory provision commonly called the "Volcker Rule", prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring hedge funds and private equity funds. The Volcker Rule became effective in July 2015, and on May 30, 2018, the federal banking regulators proposed revisions to the Volcker Rule which would, among other things, tailor compliance requirements to a covered institution based on a banking entity's level of trading activity. The Volcker Rule does not significantly affect the operations of us and our subsidiaries, as we do not have any significant engagement in the businesses prohibited by the Volcker Rule.

Depositor Preference

The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the United States and the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Interstate Branching

Illinois state-chartered banks, such as Byline Bank, have the authority under Illinois law to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) any state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) has historically been permitted only in those states the laws of which expressly authorize such expansion. However, the Dodd-Frank Act permits well-capitalized and well-managed banks to establish new branches across state lines without these impediments.

Consumer Financial Protection

We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our customers. These laws include the Equal Credit Opportunity Act (“ECOA”), the Fair Credit Reporting Act, the Truth in Lending Act (“TILA”), the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Fair Credit Reporting Act, the Service Members Civil Relief Act, the Right to Financial Privacy Act, the Telephone Consumer Protection Act, the CAN-SPAM Act, and these laws’ respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, restrict our ability to raise interest rates on extensions of credit and subject us to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys’ fees. Federal banking regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, customer rescission rights, action by the state and local attorneys general in each jurisdiction in which we operate and civil money penalties. Failure to comply with consumer protection requirements may also result in our failure to obtain any required bank regulatory approval for merger or acquisition transactions we may wish to pursue or our prohibition from engaging in such transactions even if approval is not required.

The Dodd-Frank Act created a new, independent federal agency, the Consumer Financial Protection Bureau (“CFPB”), which was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws with respect to certain consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations. The CFPB has the authority to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB is also authorized to engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. Although all institutions are subject to rules adopted by the CFPB and examination by the CFPB in conjunction with examinations by the institution’s primary federal regulator, the CFPB has primary examination and enforcement authority over banks with assets of \$10 billion or more. The FDIC has primary responsibility for examination of our bank and enforcement with respect to various federal consumer protection laws so long as our bank has total consolidated assets of less than \$10 billion, and state authorities are responsible for monitoring our compliance with all state consumer laws. The CFPB also has the authority to require reports from institutions with less than \$10 billion in assets, such as our bank, to support the CFPB in implementing federal consumer protection laws, supporting examination activities, and assessing and detecting risks to consumers and financial markets.

The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. The CFPB has significant authority to implement and enforce federal consumer finance laws, including the TILA, the ECOA and new requirements for financial services products provided for in the Dodd-Frank Act.

The CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks including, among other things, the authority to prohibit “unfair, deceptive, or abusive” acts and practices. Abusive acts or practices are defined in the Dodd-Frank Act as those that (1) materially interfere with a consumer’s ability to understand a term or condition of a consumer financial product or service, or (2) take unreasonable advantage of a consumer’s (a) lack of financial savvy, (b) inability to protect herself or himself in the selection or use of consumer financial products or services, or (c) reasonable reliance on a covered entity to act in the consumer’s interests. The review of products and practices to prevent such acts and practices is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but it could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

Federal Home Loan Bank Membership

Byline Bank is a member of the Federal Home Loan Bank of Chicago (“FHLB”), which serves as a central credit facility for its members. The FHLB is funded primarily from proceeds from the sale of obligations of the FHLB system. It makes loans to member banks in the form of FHLB advances. All advances from the FHLB are required to be fully collateralized as determined by the FHLB.

Ability-To-Pay Rules and Qualified Mortgages

As required by the Dodd-Frank Act, the CFPB issued a series of final rules in January 2013 amending Regulation Z, implementing TILA, which requires mortgage lenders to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a residential mortgage loan has a reasonable ability to repay the loan according to its terms. These final rules prohibit creditors, such as Byline Bank, from extending residential mortgage loans without regard for the consumer’s ability to repay and add restrictions and requirements to residential mortgage origination and servicing practices. In addition, these rules restrict the imposition of prepayment penalties and restrict compensation practices relating to residential mortgage loan origination. Mortgage lenders are required to determine consumers’ ability-to-repay in one of two ways. The first

alternative requires the mortgage lender to consider eight underwriting factors when making the credit decision. Alternatively, the mortgage lender can originate “qualified mortgages”, which are entitled to a presumption that the creditor making the loan satisfied the ability to repay requirements. In general, a qualified mortgage is a residential mortgage loan that does not have certain high risk features, such as negative amortization, interest-only payments, balloon payments, or a term exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount and the borrower’s total debt-to-income ratio must be no higher than 43% (subject to certain limited exceptions for loans eligible for purchase, guarantee or insurance by a government sponsored enterprise or a federal agency).

Commercial Real Estate Guidance

In December 2015, the federal banking regulators released a statement entitled “Interagency Statement on Prudent Risk Management for Commercial Real Estate Lending” (the “CRE Guidance”). In the CRE Guidance, the federal banking regulators (i) expressed concerns with institutions that ease commercial real estate underwriting standards, (ii) directed financial institutions to maintain underwriting discipline and exercise risk management practices to identify, measure and monitor lending risks, and (iii) indicated that they will continue to pay special attention to commercial real estate lending activities and concentrations going forward. The federal banking regulators previously issued guidance in December 2006, entitled “Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices”, which stated that an institution is potentially exposed to significant commercial real estate concentration risk, and should employ enhanced risk management practices, where (1) total commercial real estate loans represent 300% or more of its total capital and (2) the outstanding balance of such institution’s commercial real estate loan portfolio has increased by 50% or more during the prior 36 months.

Leveraged Lending Guidance

In March 2013, the federal banking regulators jointly issued guidance on leveraged lending that updates and replaces the guidance for leveraged finance activities issued by the federal banking regulators in April 2001. The revised leveraged lending guidance describes regulatory expectations for the sound risk management of leveraged lending activities, including the importance for institutions to maintain, among other things, (i) a credit limit and concentration framework consistent with the institution’s risk appetite, (ii) underwriting standards that define acceptable leverage levels, (iii) strong pipeline management policies and procedures and (iv) guidelines for conducting periodic portfolio and pipeline stress tests.

Community Reinvestment Act of 1977

Under the CRA, our bank has an obligation, consistent with safe and sound operations, to help meet the credit needs of the market areas where it operates, which includes providing credit to low- and moderate-income individuals and communities. In connection with its examination of our bank, the FDIC is required to assess our bank’s compliance with the CRA. Our bank’s failure to comply with the CRA could, among other things, result in the denial or delay of certain corporate applications filed by us or our bank, including applications for branch openings or relocations and applications to acquire, merge or consolidate with another banking institution or holding company. Our bank received a rating of “Satisfactory” in its most recently completed CRA examination which is dated February 17, 2016.

Financial Privacy

The federal banking regulators have adopted rules limiting the ability of banks and other financial institutions to disclose non-public information about consumers to unaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to an unaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering and the USA PATRIOT Act

A major focus of governmental policy on financial institutions in recent years has been combating money laundering and terrorist financing. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, substantially broadened the scope of United States anti money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States in these areas: customer identification programs, money laundering, terrorist financing, identifying and reporting suspicious activities and currency transactions, currency crimes, and cooperation between financial institutions and law enforcement authorities. The U.S. Treasury Department’s Financial Crimes Enforcement Network, among other federal agencies, also promulgates rules and regulations regarding the USA PATRIOT Act with which financial institutions are required to comply. Financial institutions are prohibited from entering into specified financial transactions and account relationships and must use enhanced due diligence procedures in their dealings with certain types of high-risk customers and implement a written customer identification program. Financial institutions must take certain steps to assist government agencies in detecting and preventing money laundering and report certain types of suspicious transactions. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to

approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and significant civil money penalties against institutions found to be violating these obligations and have in some cases brought criminal actions against some institutions for these types of violations.

Office of Foreign Assets Control Regulation

The U.S. Treasury Department's Office of Foreign Assets Control, or OFAC, under authority of various laws, administers and enforces economic and trade sanctions against targeted foreign countries and regimes, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. We and our bank are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences and could result in civil money penalties imposed on the institution by OFAC. Failure to comply with these sanctions could also cause applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Incentive Compensation

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as us, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In June 2010, the federal banking regulators issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (1) provide incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk, (2) be compatible with effective internal controls and risk management and (3) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

During the second quarter of 2016, certain U.S. regulators, including the Federal Reserve, the FDIC and the SEC, proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least \$1 billion in total assets (including us and Byline Bank). The proposed revised rules would establish general qualitative requirements applicable to all covered entities, which would include: (i) prohibiting incentive arrangements that encourage inappropriate risks by providing excessive compensation; (ii) prohibiting incentive arrangements that encourage inappropriate risks that could lead to a material financial loss; (iii) establishing requirements for performance measures to appropriately balance risk and reward; (iv) requiring board of director oversight of incentive arrangements; and (v) mandating appropriate record-keeping.

Pursuant to rules adopted by the stock exchanges and approved by the SEC in January 2013 under the Dodd-Frank Act, public company compensation committee members must meet heightened independence requirements and consider the independence of compensation consultants, legal counsel and other advisors to the compensation committee. A compensation committee must have the authority to hire advisors and to have the public company fund reasonable compensation of such advisors.

Public companies will be required, once stock exchanges impose additional listing requirements under the Dodd-Frank Act, to implement "clawback" procedures for incentive compensation payments and to disclose the details of the procedures which allow recovery of incentive compensation that was paid on the basis of erroneous financial information necessitating a restatement due to material noncompliance with financial reporting requirements. This clawback policy is intended to apply to compensation paid within a three-year look-back window of the restatement and would cover all executives who received incentive awards.

Cybersecurity

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyberattacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to-date we have not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third party service providers are under constant threat and it is possible that we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of internet banking, mobile banking and other technology-based products and services by us and our customers.

Future Legislation and Regulation

Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of the proposed legislation could affect the regulatory structure under which we operate and may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital or modify our business strategy, or limit our ability to pursue business opportunities in an efficient manner. Our business, financial condition, results of operations or prospects may be adversely affected, perhaps materially, as a result.

Item 1A. Risk Factors.

The material risks and uncertainties that management believes affect us are described below. You should carefully consider these risks, together with all of the information included herein. Any of the following risks, as well as risks that we do not know or currently deem immaterial, could have a material adverse effect on our business, financial condition or results of operations.

Risks Related to Our Business

Credit and Interest Rate Risks

Our business depends on our ability to successfully manage credit risk.

The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans and leases according to their terms, and that the collateral securing repayment of their loans or leases, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan or lease, including risks with respect to the period of time over which the loan or lease may be repaid, risks relating to proper loan or lease underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers, including the risk that a borrower may not provide information to us about its business in a timely manner, and/or may present inaccurate or incomplete information to us, and risks relating to the value of collateral. In order to manage credit risk successfully, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans or leases, a lack of discipline or diligence in underwriting and monitoring loans and leases, the inability to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers and the quality of our loan and lease portfolio, may result in loan or lease defaults, foreclosures and additional charge-offs and may necessitate that we significantly increase our allowance for loan and lease losses, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition or results of operations.

We may underestimate the credit losses inherent in our loan and lease portfolio and have credit losses in excess of the amount we provide for loan and lease losses.

The credit quality of our loan and lease portfolio can have a significant impact on our earnings. We maintain an allowance for loan and lease losses, which is a reserve established through a provision for loan and lease losses charged to expense representing management's estimate of probable losses that may be incurred within our existing portfolio of loans and leases. The allowance, in the judgment of management, is necessary to reserve for probable incurred loan and lease losses and risks inherent in our loan and lease portfolio. The level of the allowance reflects management's continuing evaluation of specific credit risks; the quality of the loan and lease portfolio; the value of the underlying collateral; the level of non-accruing loans and leases; incurred losses inherent in the current loan and lease portfolio; and economic, political and regulatory conditions. Given our limited history in making loans since our recapitalization, we do not have adequate historical data on loans made by Byline Bank to calculate loan allowances solely based on the Banks's historical loan experience and, as a result, we calculate loan allowances and provisions for loan and lease losses, in part, based on industry and peer data, which could increase the subjectivity of the calculation. In accordance with accounting principles generally accepted in the United States ("GAAP") for business combination accounting, the loans acquired through our recapitalization and our acquisitions of Ridgestone and First Evanston were recorded at their estimated fair value. Therefore, there was no allowance for loan losses associated with those loans at acquisition. Management continues to evaluate the allowance needed on the acquired loans, which includes considering the remaining net acquisition accounting adjustment (\$34.0 million at December 31, 2018).

For our loans and leases, we perform loan reviews and grade loans on an ongoing basis, and we estimate and establish reserves for credit risks and credit losses inherent in our credit exposure (including unfunded lending commitments). The objective of our loan review and grading procedures is to identify existing or emerging credit quality problems so that appropriate steps can be initiated to avoid or minimize future losses. This process, which is critical to our financial results and condition, requires difficult, subjective and complex judgments of loan collectability. As is the case with any such assessments, there is always the chance that we will fail to identify the proper factors or that we will fail to estimate accurately the impact of factors that we do identify.

Although we believe our allowance for loan and lease losses is adequate to absorb probable and reasonably estimable losses in our loan and lease portfolio, this allowance may not be sufficient. We could sustain credit losses that are significantly higher than the amount of our allowance for loan and lease losses. Higher credit losses could arise for a variety of reasons, such as changes in economic conditions affecting borrowers, new information regarding our loans and leases and other factors within and outside our control. If real estate values were to decline or if economic conditions in our markets were to deteriorate unexpectedly, additional loan and lease losses not incorporated in the existing allowance for loan and lease losses might occur. Losses in excess of the existing allowance for loan and lease losses will reduce our net income and could have a material adverse effect on our business, financial condition or results of operations. A severe downturn in the economy generally, in our markets specifically or affecting the business and assets of individual customers, would generate increased charge-offs and a need for higher provision for loan and lease losses.

As of December 31, 2018, our allowance for loan and lease losses as a percentage of total loans and leases was 0.72% and as a percentage of total non-performing loans and leases was 91.15%. Additional credit losses will likely occur in the future and may occur at a rate greater than we have previously experienced. We may be required to take additional provisions for loan and lease losses in the future to further supplement the allowance for credit losses, either due to management's assessment that the allowance is inadequate or requirements by our banking regulators. In addition, bank regulatory agencies periodically review our allowance for loan and lease losses, the policies and procedures we use to determine the level of the allowance and the value attributed to non-performing loans or to real estate acquired through foreclosure. Such regulatory agencies may require us to make further provisions or recognize future charge-offs. Further, if charge-offs in future periods exceed the allowance for loan and lease losses, we may need additional adjustments to increase the allowance for loan and lease losses.

Any increases in our provision for loan and lease losses will result in a decrease in net income and may reduce retained earnings and capital and, therefore, have a material adverse effect on our business, financial condition and results of operations.

In addition, in June 2016, the Financial Accounting Standards Board (the "FASB") issued a new accounting standard that will replace the current approach under GAAP for establishing allowances for loan and lease losses, which generally considers only past events and current conditions, with a forward-looking methodology that reflects the expected credit losses over the lives of financial assets, starting when such assets are first originated or acquired. Under the revised methodology, credit losses will be measured based on past events, current conditions and reasonable and supportable forecasts of future conditions that affect the collectability of financial assets. The new standard is generally expected to result in increases to allowance levels and will require the application of the revised methodology to existing financial assets through a one-time adjustment to retained earnings upon initial effectiveness. The standard will be effective for us in 2020 or, if we remain an emerging growth company and continue to elect not to opt out of the extended transition period for new accounting standards, 2021. See Note 2 of the notes to our audited consolidated financial statements contained in Item 8 of this report for additional information about the standard.

Greater seasoning of our loan portfolio could increase risk of credit defaults in the future.

A significant portion of our loan portfolio is of relatively recent origin. Normally, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time (which varies by loan duration and loan type), a process referred to as "seasoning". As a result, a portfolio of more seasoned loans may more predictably follow a bank's historical default or credit deterioration patterns than a newer portfolio. Because 63.9% of our portfolio has been originated since our recapitalization, the current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned. If delinquencies and defaults increase, we may be required to increase our provision for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations.

Our business, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets or whose securities or obligations we hold.

In addition to relying on borrowers to repay their loans and leases, we are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. A default by a significant market participant, or concerns that such a party may default, could lead to significant liquidity problems, losses or defaults by other parties, which in turn could adversely affect us.

We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. Deterioration in the credit quality of third parties whose securities or obligations we hold, including the Federal Home Loan Mortgage Corporation, Government National Mortgage Association and municipalities, could result in significant losses.

Our business is subject to interest rate risk and fluctuations in interest rates may adversely affect our earnings.

Fluctuations in interest rates may negatively affect our banking business and may weaken demand for some of our products. Our earnings and cash flows are largely dependent on net interest income, which is the difference between the interest income that we earn on interest-earning assets, such as investment securities, loans, and leases, the interest expense that we pay on interest-bearing liabilities, such as deposits and borrowings. Additionally, changes in interest rates also affect the premiums we may receive in connection with the sale of U.S. government guaranteed loans in the secondary market, pre-payment speeds of loans for which we own servicing rights, our ability to fund our operations with customer deposits and the fair value of securities in our investment portfolio. Therefore, any change in general market interest rates, including changes in federal fiscal and monetary policies can have a significant effect on our net interest income and results of operations.

We seek to mitigate our interest rate risk by entering into interest rate swaps and other interest rate derivative contracts from time to time with counterparties. Our hedging strategies rely on assumptions and projections regarding interest rates, asset levels and general market factors and subject us to counterparty risk. There is no assurance that our interest rate mitigation strategies will be successful and if our assumptions and projections prove to be incorrect or our hedging strategies do not adequately mitigate the impact of changes in interest rates, we may incur losses that could adversely affect our earnings.

Our interest-earning assets and interest-bearing liabilities may react in different degrees to changes in market interest rates. Interest rates on some types of assets and liabilities may fluctuate prior to changes in broader market interest rates, while rates on other types of assets and liabilities may lag behind. The result of these changes to rates may cause differing spreads on interest-earning assets and interest-bearing liabilities. Although we take measures intended to manage the risks from changes in market interest rates, we cannot control or accurately predict changes in market rates of interest or be sure our protective measures are adequate.

Interest rates are volatile and highly sensitive to many factors that are beyond our control, such as economic conditions and policies of various governmental and regulatory agencies, and, in particular U.S. monetary policy. For example, we face uncertainty regarding the interest rate risk, and resulting effect on our portfolio, that could result if the Board of Governors of the Federal Reserve System reduces the amount of securities it holds on its balance sheet. In recent years, it has been the policy of the Federal Reserve to maintain interest rates at historically low levels through a targeted federal funds rate and the purchase of U.S. Treasury and mortgage-backed securities. As a result, yields on securities we have purchased, and market rates on the loans we have originated, have been at levels lower than were available prior to the severe economic recession occurring during 2007 through 2009. Consequently, the average yield on banks' interest-earning assets has generally decreased during the current low interest rate environment. If a low interest rate environment persists, we may be unable to increase our net interest income.

As of December 31, 2018, we had \$1.2 billion of non-interest-bearing demand deposits and \$296.3 million of interest-bearing checking accounts. Current interest rates for interest-bearing accounts are low due to current market conditions. However, we do not know what market rates will eventually be, especially if the Federal Reserve increases interest rates. To the extent we offer higher interest rates on checking accounts to maintain current clients or attract new clients, our interest expense will increase, perhaps materially. Furthermore, if we fail to offer interest in a sufficient amount to keep these demand deposits, our core deposits may be reduced, which would require us to obtain funding in other ways or risk slowing our future asset growth.

We may be adversely impacted by the transition from the London Interbank Offered Rate ("LIBOR") as a reference rate.

We have derivative contracts, borrowings, including \$46.5 million in junior subordinated debentures underlying our trust preferred securities, and other financial instruments with attributes that are either directly or indirectly dependent on the U.S. dollar LIBOR. Further, 53.3% of our aggregate loan and lease portfolio bears interest at floating rates, a majority of which is tied to LIBOR, as of December 31, 2018. In 2017, the United Kingdom Financial Conduct Authority (the authority that regulates LIBOR) announced that it will stop compelling banks to submit rates for the calculation of LIBOR after the end of 2021. United States regulatory authorities have voiced similar support for phasing out LIBOR. As a result, the continuation of LIBOR cannot be guaranteed after 2021. At this time, no real consensus exists as to what rate or rates may become acceptable alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, subordinated debentures, or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans and securities in our portfolio, and may impact the availability and cost of hedging instruments and borrowings. If LIBOR rates are no longer available and we are required to implement substitute indices for the calculation of interest rates in our agreements that use LIBOR rates, we may incur expenses in effecting the transition, and may be subject to disputes or litigation with customers and security holders over the appropriateness or comparability to LIBOR of the substitute indices, which could have an adverse effect on our results of operations. The impact of alternatives to LIBOR on the valuations, pricing and operation of our financial instruments is not yet known.

The appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property, other real estate owned ("OREO") and other repossessed assets may not accurately describe the fair value of the asset.

In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may change significantly in relatively short periods of time (especially in periods of heightened economic uncertainty), this estimate may not accurately describe the fair value of the real property collateral after the loan is made. As a result, we may not be able to realize the full amount of any remaining indebtedness if we foreclose on and sell the relevant property. In addition, we rely on appraisals and other valuation techniques to establish the value of our OREO and personal property that we acquire through foreclosure proceedings and to determine certain loan impairments. If any of these valuations are inaccurate, our consolidated financial statements may not reflect the correct value of our OREO, and our allowance for loan and lease losses may not reflect accurate loan impairments. This could have a material adverse effect on our business, financial condition or results of operations.

We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, and in evaluating and monitoring our loan and lease portfolio on an ongoing basis, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers or counterparties or of other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate, incomplete, fraudulent or misleading financial statements, credit reports or other financial or business information, or the failure to receive such information on a timely basis, could result in loan or lease losses, reputational damage or other effects that could have a material adverse effect on our business, financial condition or results of operations.

The value of the financial instruments we own may decline in the future.

As of December 31, 2018, we owned \$916.9 million of investment securities, which consisted primarily of our positions in U.S. government and government-sponsored enterprises and federal agency obligations, mortgage and asset-backed securities and municipal securities. We evaluate our investment securities on at least a quarterly basis, and more frequently when economic and market conditions warrant such an evaluation, to determine whether any decline in fair value below amortized cost is the result of an other-than-temporary impairment. The process for determining whether impairment is other-than-temporary usually requires complex, subjective judgments about the future financial performance of the issuer in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting issuers, we may be required to recognize other-than-temporary impairment in future periods, which could adversely affect our business, results of operations or financial condition.

In addition, an increase in market interest rates may affect the market value of our securities portfolio, potentially reducing accumulated other comprehensive income and/or earnings.

Concentrated exposures to individual obligors may unfavorably impact our operations.

We have cultivated relationships with certain individuals, businesses and institutions that could result in relatively large exposures to select single obligors. The failure to properly anticipate and address risks associated with any concentrated exposures could have a material adverse effect on our business, financial condition or results of operations.

Funding Risks

Liquidity risks could affect operations and jeopardize our business, financial condition and results of operations.

Liquidity risk is the risk that we will not be able to meet our obligations, including financial commitments, as they come due and is inherent in our operations. An inability to raise funds through deposits, borrowings, the sale of loans and/or investment securities and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits. Deposit balances can decrease for a variety of reasons, including when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we could lose a relatively low cost source of funds. This loss would require us to seek other funding alternatives, including wholesale funding, in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income.

Other primary sources of funds consist of cash from operations and investment maturities, redemptions and sales. To a lesser extent, proceeds from the issuance and sale of securities to investors are also a source of funds and we may issue additional equity or debt securities in the future. Additional liquidity may be provided by brokered time deposits and repurchase agreements and we have the ability to borrow from the Federal Reserve Bank of Chicago and the FHLB. We also may borrow from third-party lenders from time to time. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Economic conditions and a loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve System. There is also the potential risk that collateral calls with respect to our repurchase agreements could reduce our available liquidity.

Any decline in available funding could adversely impact our ability to continue to implement our business plan, including originating loans, investing in securities, meeting our expenses or fulfilling obligations such as repaying our borrowings and meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

Our liquidity is dependent on dividends from Byline Bank.

We are a legal entity separate and distinct from Byline Bank, our wholly-owned banking subsidiary. A substantial portion of our cash flow from operating activities, including cash flow to pay dividends on our preferred stock, interest on our junior subordinated debentures, and principal and interest on any debt we may incur, comes primarily from dividends we receive from Byline Bank. Various federal and state laws and regulations limit the amount of dividends that our bank may pay to us. As of December 31, 2018, Byline Bank had the capacity to pay us a dividend of up to \$134.7 million without the need to obtain prior regulatory approval. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event Byline Bank is unable to pay dividends to us, we may not be able to service our existing debt or any debt we may incur, pay obligations or pay dividends on our preferred stock, which could have a material adverse effect on our business, financial condition or results of operations.

Loss of deposits could increase our funding costs.

As do many banking companies, we rely on customer deposits to meet a considerable portion of our funding needs, and we continue to seek customer deposits to maintain this funding base. We accept deposits directly from consumer and commercial customers and, as of December 31, 2018, we had \$3.7 billion in deposits. These deposits are subject to potentially dramatic fluctuations in availability or the price we must pay (in the form of interest) to obtain them due to certain factors outside our control, such as a loss of confidence by customers in us or the banking sector generally; customer perceptions of our financial health and general reputation; increasing competitive pressures from other financial services firms for consumer or corporate customer deposits; and changes in interest rates and returns on other investment classes, which could result in significant outflows of deposits within short periods of time or significant changes in pricing necessary to maintain current customer deposits or attract additional deposits. The loss of customer deposits for any reason could increase our funding costs.

We may be adversely affected by changes in the actual or perceived soundness or condition of other financial institutions.

Financial services institutions that deal with each other are interconnected as a result of trading, investment, liquidity management, clearing, counterparty and other relationships. Concerns about, or a default by, one institution could lead to significant liquidity problems and losses or defaults by other institutions, as the commercial and financial soundness of many financial institutions is closely related as a result of these credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by various institutions. This systemic risk may adversely affect financial intermediaries with which we interact on a daily basis or key funding providers such as the FHLB, any of which could have a material adverse effect on our access to liquidity or otherwise have a material adverse effect on our business, financial condition or results of operations.

We may need to raise additional capital in the future, and such capital may not be available when needed or at all.

We may need to raise additional capital, in the form of debt or equity securities, in the future to have sufficient capital resources to meet our commitments and fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial condition. We may not be able to obtain capital on acceptable terms or at all. Any occurrence that may limit our access to capital, including a disruption in capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed, or at all, could have a material adverse effect on our business, financial condition or results of operations.

Operational Risks

We may not be able to implement our growth strategy or manage costs effectively, resulting in lower earnings or profitability.

There can be no assurance that we will be able to continue to grow and to be profitable in future periods, or, if profitable, that our overall earnings will remain consistent or increase in the future. Our strategy focuses on organic growth, supplemented by opportunistic acquisitions.

Our growth requires that we increase our loan and deposit growth while managing risks by following prudent loan underwriting standards without increasing interest rate risk or compressing our net interest margin, maintaining more than adequate capital at all times, hiring and retaining qualified employees and successfully implementing strategic projects and initiatives. Even if we are able to increase our interest income, our earnings may nonetheless be reduced by increased expenses, such as additional employee compensation or other general and administrative expenses and increased interest expense on any liabilities incurred or deposits solicited to fund increases in assets. Additionally, if our competitors extend credit on terms we find to pose excessive risks, or at interest rates which we believe do not warrant the credit exposure, we may not be able to maintain our lending volume and could experience deteriorating financial performance.

Our inability to manage our growth successfully or to continue to expand into new markets could have a material adverse effect on our business, financial condition or results of operations.

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition or results of operations.

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks, and malware or other cyber-attacks. In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity, security breaches and cybersecurity-related incidents in recent periods. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which could increase their risks of identity theft and other fraudulent activity that could involve their accounts with us.

We also face risks related to cyber-attacks and other security breaches in connection with debit card transactions that typically involve the transmission of sensitive information regarding our customers through various third parties, including retailers and payment processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could affect us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them, including costs to replace compromised debit cards and address fraudulent transactions.

Information pertaining to us and our customers is maintained, and transactions are executed, on networks and systems maintained by us and certain third-party partners, such as our online banking or reporting systems. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our customers against fraud and security breaches and to maintain our customers' confidence. Breaches of information security also may occur, through intentional or unintentional acts by those having access to our systems or our customers' or counterparties' confidential information, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our customers and underlying transactions, as well as the technology used by our customers to access our systems. Although we have developed, and continue to invest in, systems and processes that are designed to detect and prevent security breaches and cyber-attacks and periodically test our security, our or our third-party partners' inability to anticipate, or failure to adequately mitigate, breaches of security could result in: losses to us or our customers; our loss of business and/or customers; damage to our reputation; the incurrence of additional expenses; disruption to our business; our inability to grow our online services or other businesses; additional regulatory scrutiny or penalties; or our exposure to civil litigation and possible financial liability—any of which could have a material adverse effect on our business, financial condition or results of operations.

More generally, publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as a means of conducting commercial transactions. Such publicity may also cause damage to our reputation as a financial institution. As a result, our business, financial condition or results of operations could be adversely affected.

We depend on information technology and telecommunications systems of third parties, and any systems failures, interruptions or data breaches involving these systems could adversely affect our operations and financial condition.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems, third-party servicers, accounting systems, mobile and online banking platforms and financial intermediaries. We outsource to third parties many of our major systems, such as data processing, loan servicing, deposit processing and internal audit systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to process loans or gather deposits and provide customer service, compromise our ability to operate effectively, result in potential noncompliance with applicable laws or regulations, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations. In addition, failure of third parties to comply with applicable laws and regulations, or fraud or misconduct on the part of employees of any of these third parties, could disrupt our operations or adversely affect our reputation.

It may be difficult for us to replace some of our third-party vendors, particularly vendors providing our core banking, debit card services and information services, in a timely manner if they are unwilling or unable to provide us with these services in the future for any reason and even if we are able to replace them, it may be at higher cost or result in the loss of customers. Any such events could have a material adverse effect on our business, financial condition or results of operations.

Our operations rely heavily on the secure processing, storage and transmission of information and the monitoring of a large number of transactions on a minute-by-minute basis, and even a short interruption in service could have significant consequences. We also interact with and rely on retailers, for whom we process transactions, as well as financial counterparties and regulators. Each of these third parties may be targets of the same types of fraudulent activity, computer break-ins and other cybersecurity breaches described above or herein, and the cybersecurity measures that they maintain to mitigate the risk of such activity may be different than our own and may be inadequate.

As a result of financial entities and technology systems becoming more interdependent and complex, a cyber incident, information breach or loss, or technology failure that compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including ourselves. Although we review business continuity and backup plans for our vendors and take other safeguards to support our operations, such plans or safeguards may be inadequate. As a result of the foregoing, our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact.

Our use of third-party vendors and our other ongoing third-party business relationships is subject to increasing regulatory requirements and attention.

Our use of third-party vendors for certain information systems is subject to increasingly demanding regulatory requirements and attention by our federal bank regulators. Recent regulation requires us to enhance our due diligence, ongoing monitoring and control over our third-party vendors and other ongoing third-party business relationships. In certain cases we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third-party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third-party vendors or other ongoing third-party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect on our business, financial condition or results of operations.

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new, technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to serve customers better and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we do. We may not be able to effectively implement new, technology-driven products and services or be successful in marketing these products and services to our customers. In addition, the implementation of technological changes and upgrades to maintain current systems and integrate new ones may also cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. Failure to successfully keep pace with technological change affecting the financial services industry and failure to avoid interruptions, errors and delays could have a material adverse effect on our business, financial condition or results of operations.

We expect that new technologies and business processes applicable to the banking industry will continue to emerge, and these new technologies and business processes may be better than those we currently use. Because the pace of technological change is high and our industry is intensely competitive, we may not be able to sustain our investment in new technology as critical systems and applications become obsolete or as better ones become available. A failure to maintain current technology and business processes could cause disruptions in our operations or cause our products and services to be less competitive, all of which could have a material adverse effect on our business, financial condition or results of operations.

Our limited operating history following our recapitalization may make it difficult for investors to evaluate our financial trends, and also may impair our ability to accurately forecast our future performance.

We have a limited operating history following our recapitalization transaction in 2013. In connection with our recapitalization, we replaced all senior management of our predecessor and a significant majority of its lending staff. As a result, our limited operating history may not provide an adequate basis for investors to evaluate our business, financial condition and results of operations, and makes accurate financial forecasting more difficult for us. It may also be more difficult for us to evaluate trends that may affect our business. In addition, due to the application of the acquisition method of accounting to record, at fair value, all of the assets acquired and liabilities assumed at the time of our recapitalization, financial information prior to our recapitalization is not comparable to such information post-recapitalization. Thus, any predictions about our future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in a more predictable business environment.

Current or former employee or predecessor misconduct could expose us to significant legal liability and reputational harm.

We are vulnerable to reputational harm because we operate in an industry in which integrity and the confidence of our customers are of critical importance. Our employees could engage, or our former directors, employees, or controlling stockholders could have engaged, in misconduct that adversely affects our business. For example, if such a person were to engage, or previously engaged, in fraudulent, illegal or suspicious activities, we could be subject to regulatory sanctions and suffer serious harm to our reputation (as a consequence of the negative perception resulting from such activities), financial position, customer relationships and ability to attract new customers. Our business often requires that we deal with confidential information. If our employees were to improperly use or disclose this information, or if former directors, employees, or controlling stockholders previously improperly used or disclosed this information, even if inadvertently, we could suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not always be effective. Misconduct by our employees or former directors, employees, or controlling stockholders, or even unsubstantiated allegations of misconduct, could result in a material adverse effect on our business, financial condition or results of operations.

We may not be able to attract and retain key personnel and other skilled employees.

Our success depends, in large part, on the skills of our management team and our ability to retain, recruit and motivate key officers and employees. There are a limited number of qualified persons with requisite knowledge of, and experience in, certain of our specialized business lines, including our equipment leasing and U.S. government guaranteed lending businesses. A number of our employees have considerable tenure with Byline Bank and some will be nearing retirement in the next few years, which makes succession planning important to the continued operation of our business. We need to continue to attract and retain key personnel and to recruit qualified individuals who fit our culture to succeed existing key personnel to ensure the continued growth and successful operation of our business. Leadership changes may occur from time to time, and we cannot predict whether significant retirements or resignations will occur or whether we will be able to recruit additional qualified personnel. Competition for senior executives and skilled personnel in the financial services and banking industry is intense, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase. This could have a material adverse effect on our business, financial condition or results of operations. In addition, our ability to effectively compete for senior executives and other qualified personnel by offering competitive compensation and benefit arrangements may be restricted by applicable banking laws and regulations, including restrictions recently proposed for adoption by U.S. regulatory agencies, including the Federal Reserve and the FDIC. The loss of the services of any senior executive or other key personnel, the inability to recruit and retain qualified personnel in the future or the failure to develop and implement a viable succession plan, could have a material adverse effect on our business, financial condition or results of operations.

New lines of business, products, product enhancements or services may subject us to additional risks.

From time to time, we may implement new lines of business or offer new products and product enhancements as well as new services within our existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances in which the markets are not fully developed. In implementing, developing or marketing new lines of business, products, product enhancements or services, we may invest significant time and resources, although we may not assign the appropriate level of resources or expertise necessary to make these new lines of business, products, product enhancements or services successful or to realize their expected benefits. Further, initial timetables for the introduction and development of new lines of business, products, product enhancements or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also affect the ultimate implementation of a new line of business or offerings of new products, product enhancements or services. Furthermore, any new line of business, product, product enhancement or service or system conversion could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or offerings of new products, product enhancements or services could have a material adverse effect on our business, financial condition or results of operations.

External Risks

Our business may be adversely affected by conditions in the financial markets and economic conditions generally.

Our financial performance generally, and in particular the ability of our borrowers to pay interest on and repay principal of outstanding loans and leases and the value of collateral securing those loans and leases, as well as demand for loans and leases and other products and services we offer, is highly dependent upon the business environment in the markets in which we operate and in the United States as a whole. Unlike larger banks that are more geographically diversified, we provide banking and financial services to customers primarily in the Chicago metropolitan area. The economic conditions in this local market may be different from, or worse than, the economic conditions in the United States as a whole. Some elements of the business environment that affect our financial performance include short-term and long-term interest rates, the prevailing yield curve, inflation and price levels, tax policy, monetary policy, unemployment and the strength of the domestic economy and the local economy in the markets in which we operate. Unfavorable market conditions can result in a deterioration in the credit quality of our borrowers and the demand for our products and services, an increase in the number of loan and lease delinquencies, defaults and charge-offs, additional provisions for loan and lease losses, adverse asset values and an overall material adverse effect on the quality of our loan and lease portfolio. Unfavorable or uncertain economic and market conditions can be caused by, among other factors, declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; changes in inflation or interest rates; increases in real estate and other state and local taxes; high unemployment; natural disasters; or a combination of these or other factors.

The City of Chicago and State of Illinois currently face significant financial difficulties, which could adversely affect our business.

We have significant loan exposure in the Chicago metropolitan area and both the City of Chicago and the State of Illinois currently face significant fiscal challenges, including large budget deficits, substantial unfunded pension obligations and low credit ratings compared to other local entities, which could negatively impact us to the extent this leads to declines in business activity and overall economic conditions in Illinois and the Chicago metropolitan area. These fiscal challenges may also lead to significant increases in real estate taxes on properties in the Chicago metropolitan area, which could negatively affect certain of our borrowers' ability to make payments on our loans.

Some of our commercial loan borrowers are not-for-profit entities that may be dependent on the receipt of contractual payments and reimbursements from the State of Illinois for services rendered. To the extent the City of Chicago or State of Illinois, as applicable, delays or suspends these payments and reimbursements, this could adversely affect the ability of borrowers to meet their loan repayment obligations to us. Any resulting delinquencies and defaults on these loans would in turn adversely affect our financial condition and results of operations.

Our business is significantly dependent on the real estate markets in which we operate, as a significant percentage of our loan portfolio is secured by real estate.

Many of the loans in our portfolio are secured by real estate. As of December 31, 2018, our real estate loans held for investment include \$185.4 million of construction and development loans, \$287.1 million of multifamily loans, \$502.1 million of non-owner occupied commercial real estate ("CRE") loans and \$414.8 million of residential mortgage loans, with the majority of these real estate loans concentrated in the City of Chicago and the State of Illinois. Real property values in our market may be different from, and in some instances worse than, real property values in other markets or in the United States as a whole, and may be affected by a variety of factors outside of our control and the control of our borrowers, including national and local economic conditions, generally. The Chicago metropolitan area has experienced volatility in real estate values over the past decade. Declines in real estate values, including prices for homes and commercial properties in the Chicago metropolitan area, could result in a deterioration of the credit quality of our borrowers, an increase in the number of loan delinquencies, defaults and charge-offs, and reduced demand for our products and services, generally. Our CRE loans may have a greater risk of loss than residential mortgage loans, in part because these loans are generally larger or more complex to underwrite. In particular, real estate construction and acquisition and development loans have certain risks not present in other types of loans, including risks associated with construction cost overruns, project completion risk, general contractor credit risk and risks associated with the ultimate sale or use of the completed construction. In addition, declines in real property values in the states in which we operate could reduce the value of any collateral we realize following a default on these loans and could adversely affect our ability to continue to grow our loan and lease portfolio consistent with our underwriting standards. We may have to foreclose on real estate assets if borrowers default on their loans, in which case we are required to record the related asset to the then fair market value of the collateral, which may ultimately result in a loss. An increase in the level of non-performing assets increases our risk profile and may affect the capital levels regulators believe are appropriate in light of the ensuing risk profile. Our failure to effectively mitigate these risks could have a material adverse effect on our business, financial condition or results of operations.

Our small business customers may lack the resources to weather a downturn in the economy.

One of our primary strategies is serving the banking and financial services needs of small and medium sized businesses. These businesses generally have fewer financial resources than larger entities and less access to capital sources and loan facilities. If economic conditions are generally unfavorable in our market areas, our small business borrowers may be disproportionately affected and their ability to repay outstanding loans may be negatively affected, resulting in an adverse effect on our results of operations and financial condition.

We operate in a highly competitive and changing industry and market area and compete with both banks and non-banks.

We operate in the highly competitive financial services industry and face significant competition for customers from financial institutions located both within and beyond our principal markets. We compete with national commercial banks, regional banks, private banks, savings banks, credit unions, non-bank financial services companies and other financial institutions operating within or near the areas we serve, many of whom target the same customers we do in the Chicago metropolitan area. As customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for banks to expand their geographic reach by providing services over the internet and for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. The banking industry is experiencing rapid changes in technology, and, as a result, our future success will depend in part on our ability to address our customers' needs by using technology. Customer loyalty can be influenced by a competitor's new products, especially offerings that could provide cost savings or a higher return to the customer. Increased lending activity of competing banks following the severe economic recession occurring during 2007 through 2009 has also led to increased competitive pressures on loan rates and terms for high-quality credits. We may not be able to compete successfully with other financial institutions in our markets, particularly with larger financial institutions operating in our markets that have significantly greater resources than us, and we may have to pay higher interest rates to attract deposits, accept lower yields to attract loans and pay higher wages for new employees, resulting in lower net interest margins and reduced profitability. Many of our non-bank competitors are not subject to the same extensive regulations that govern our activities and may have greater flexibility in competing for business. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. In addition, some of our current commercial banking customers may seek alternative banking sources as they develop needs for credit facilities larger than we may be able to accommodate or more expansive product mixes offered by larger institutions. We also face increased competition in our U.S. government guaranteed lending business which can adversely affect our volume and the premium, if any, recognized on sales of the guaranteed portions of such U.S. government guaranteed loans. Our inability to compete successfully in the markets in which we operate could have a material adverse effect on our business, financial condition or results of operations.

Our ability to maintain, attract and retain customer relationships is highly dependent on our reputation.

We rely, in part, on the reputation of our bank to attract customers and retain our customer relationships. Damage to our reputation could undermine the confidence of our current and potential customers in our ability to provide high-quality financial services. Such damage could also impair the confidence of our counterparties and vendors and ultimately affect our ability to effect transactions. Maintenance of our reputation depends not only on our success in maintaining our service-focused culture and controlling and mitigating the various risks described in this prospectus, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti-money laundering, customer personal information and privacy issues, customer and other third-party fraud, record-keeping, regulatory investigations and any litigation that may arise from the failure or perceived failure of us to comply with legal and regulatory requirements. Maintaining our reputation also depends on our ability to successfully prevent third parties from infringing on the "Byline Bank" brand and associated trademarks and our other intellectual property. Defense of our reputation, trademarks and other intellectual property, including through litigation, could result in costs that could have a material adverse effect on our business, financial condition or results of operations.

Downgrades to the credit rating of the U.S. government or of its securities or any of its agencies by one or more of the credit ratings agencies could have a material adverse effect on general economic conditions, as well as our business.

On August 5, 2011, Standard & Poor's cut the credit rating of the U.S. federal government's long-term sovereign debt from AAA to AA+, while also keeping its outlook negative. Moody's had lowered its own outlook for the same debt to "Negative" on August 2, 2011, and Fitch also lowered its outlook for the same debt to "Negative", on November 28, 2011. In 2013, both Moody's and Standard & Poor's revised their outlooks from "Negative" to "Stable", and on March 21, 2014, Fitch revised its outlook from "Negative" to "Stable". Further downgrades of the U.S. federal government's sovereign credit rating, and the perceived creditworthiness of U.S. government-backed obligations, could affect our ability to obtain funding that is collateralized by affected instruments and our ability to access capital markets on favorable terms. Such downgrades could also affect the pricing of funding, when funding is available. A downgrade of the credit rating of the U.S. government, or of its agencies, government-sponsored enterprises or related institutions or instrumentalities, may also adversely affect the market value of such instruments and, further, exacerbate the other risks to which we are subject and any related adverse effects on our business, financial condition or results of operations.

Severe weather, natural disasters, pandemics, acts of war or terrorism or other external events could significantly impact our business.

Severe weather, natural disasters, widespread disease or pandemics, acts of war or terrorism or other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans and leases, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause us to incur additional expenses. The occurrence of any of these events in the future could have a material adverse effect on our business, financial condition or results of operations.

Guaranteed Loans Risks

Small Business Administration lending is an important part of our business. Our SBA lending program is dependent upon the U.S. federal government, and we face specific risks associated with originating SBA loans.

Our SBA lending program is dependent upon the U.S. federal government. As an approved participant in the SBA Preferred Lender's Program (an "SBA Preferred Lender"), we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender's SBA Preferred Lender status. If we lose our status as an SBA Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders, and as a result we could experience a material adverse effect to our financial results. Any changes to the SBA program, including but not limited to changes to the level of guarantee provided by the federal government on SBA loans, changes to program-specific rules impacting volume eligibility under the guaranty program, as well as changes to the program amounts authorized by Congress, may also have a material adverse effect on our business. In addition, any default by the U.S. government on its obligations or any prolonged government shutdown could, among other things, impede our ability to originate SBA loans or sell such loans in the secondary market, which could materially adversely affect our business, results of operations and financial condition.

The SBA's 7(a) Loan Program is the SBA's primary program for helping start-up and existing small businesses, with financing guaranteed for a variety of general business purposes. Generally, we sell the guaranteed portion of our SBA 7(a) loans in the secondary market. These sales result in premium income for us at the time of sale and create a stream of future servicing income, as we retain the servicing rights to these loans. For the reasons described above, we may not be able to continue originating these loans or sell them in the secondary market. Furthermore, even if we are able to continue originate and sell SBA 7(a) loans in the secondary market, we might not continue to realize premiums upon the sale of the guaranteed portion of these loans or the premiums may decline due to economic and competitive factors. When we originate SBA loans, we incur credit risk on the non-guaranteed portion of the loans, and if a customer defaults on a loan, we share any loss and recovery related to the loan pro-rata with the SBA. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us. Generally, we do not maintain reserves or loss allowances for such potential claims and any such claims could materially adversely affect our business, financial condition or results of operations.

The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies and especially our organization, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our ability to operate profitably.

The recognition of gains on the sale of loans and servicing asset valuations reflect certain assumptions.

We continue to expect that gains on the sale of U.S. government guaranteed loans will continue to comprise a significant component of our revenue. The gains on such sales recognized for the twelve months ended December 31, 2018 was \$31.6 million. The determination of these gains is based on assumptions regarding the value of unguaranteed loans retained, servicing rights retained and deferred fees and costs, and net premiums paid by purchasers of the guaranteed portions of U.S. government guaranteed loans. The value of retained unguaranteed loans and servicing rights are determined based on market-derived factors such as prepayment rates, current market conditions and recent loan sales. Deferred fees and costs are determined using internal analysis of the cost to originate loans. Significant errors in assumptions used to compute gains on sale of loans or servicing asset valuations could result in material revenue misstatements, which may have a material adverse effect on our business, results of operations and profitability. In addition, while we believe these valuations reflect fair value and such valuations are subject to validation by an independent third-party, if such valuations are not reflective of fair market value then our business, results of operations and financial condition may be materially and adversely affected.

A prolonged U.S. government shutdown or default by the U.S. on government obligations would harm our results of operations.

Our results of operations, including revenue, non-interest income, expenses and net interest income, would be adversely affected in the event of widespread financial and business disruption on account of a default by the United States on U.S. government obligations or a prolonged failure to maintain significant U.S. government operations, particularly those pertaining to the SBA and USDA. Any such failure to maintain such U.S. government operations would impede our ability to originate SBA and USDA loans and our ability to sell such loans in the secondary market.

Legal, Accounting and Compliance Risks

Our accounting estimates and risk management processes and controls rely on analytical and forecasting techniques and models and assumptions, which may not accurately predict future events.

Our accounting policies and methods are fundamental to the manner in which we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with GAAP and reflect management's judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet which may result in our reporting materially different results than would have been reported under a different alternative.

Certain accounting policies and estimates are critical to presenting our financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies and estimates include (i) acquisition-related fair value computations, (ii) the carrying value of loans and leases, (iii) determining the provision and allowance for loan and lease losses, (iv) the valuation of intangible assets such as goodwill, servicing assets, core deposit intangibles, and customer relationship intangible (v) the determination of fair value for financial instruments, including other-than-temporary impairment losses, (vi) the valuation of real estate held for sale, and (vii) the valuation of or recognition of deferred tax assets and liabilities. See Note 1 of the notes to our audited consolidated financial statements contained in Item 8 of this report for further information. Because of the uncertainty of estimates involved in these matters, we may be required to do one or more of the following: significantly increase the allowance for loan and lease losses or sustain loan and lease losses that are significantly higher than the reserve provided; reduce the carrying value of an asset measured at fair value; or significantly increase our accrued tax liability. Any of these could have a material adverse effect on our business, financial condition or results of operations. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Our internal controls, disclosure controls, processes and procedures, and corporate governance policies and procedures are based in part on certain assumptions and can provide only reasonable (not absolute) assurances that the objectives of the system are met. Furthermore, we currently outsource our internal audit function. Any failure or circumvention of our controls, processes and procedures or failure to comply with regulations related to controls, processes and procedures could necessitate changes in those controls, processes and procedures, which may increase our compliance costs, divert management attention from our business or subject us to regulatory actions and increased regulatory scrutiny. Any of these could have a material adverse effect on our business, financial condition or results of operations.

Our goodwill may become impaired, which may adversely impact our results of operations and financial condition and may limit Byline Bank's ability to pay dividends to us, thereby causing liquidity issues.

As of December 31, 2018, we had goodwill of \$128.2 million, or 19.7% of our total stockholders' equity. The excess purchase consideration over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is more likely than not that an impairment has occurred. In testing for impairment, we conduct a qualitative assessment and we also estimate the fair value of net assets based on analyses of our market value, discounted cash flows and peer values. Consequently, the determination of the fair value of goodwill is sensitive to market-based economics and other key assumptions. Variability in market conditions or in key assumptions could result in impairment of goodwill, which is recorded as a non-cash adjustment to income. An impairment of goodwill could have a material adverse effect on our business, financial condition and results of operations.

The accounting for loans acquired in connection with our recapitalization and acquisitions is based on numerous subjective determinations that may prove to be inaccurate and have a negative impact on our results of operations.

All loans acquired as part of our recapitalization in 2013 as well as loans acquired in connection with our subsequent acquisitions, including the Ridgestone acquisition in October 2016 and First Evanston acquisition in May 2018, have been recorded at their estimated fair value on their acquisition date without a carryover of the related allowance for loan losses. The determination of estimated fair value of acquired loans requires management to make subjective determinations regarding discount rate, estimates of losses on defaults, market conditions and other factors that are highly subjective in nature. A risk exists that our estimate of the fair value of acquired loans will prove to be inaccurate and that we ultimately will not recover the amount at which we recorded such loans on our balance sheet, which would require us to recognize losses.

Loans acquired that have evidence of credit deterioration since origination and for which it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments are accounted for under Accounting Standards Codification (“ASC”) Topic 310-30, *Accounting for Purchased Loans with Deteriorated Credit Quality*. These credit-impaired loans, like non-credit-impaired loans acquired, have been recorded at estimated fair value on their acquisition date, based on subjective determinations regarding risk ratings, expected future cash flows and fair value of the underlying collateral, without a carryover of the related allowance for loan and lease losses. We evaluate these loans quarterly to assess expected cash flows. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges or a reclassification of the difference from non-accretable to accretable yield with a positive impact on interest income prospectively. Because the accounting for these loans is based on subjective measures that can change frequently, we may experience fluctuations in our net interest income and provisions for loan losses attributable to these loans. These fluctuations could negatively affect our results of operations.

Our ability to recognize the benefits of deferred tax assets is dependent on future cash flows and taxable income.

We recognize the expected future tax benefit from deferred tax assets when it is more likely than not that the tax benefit will be realized. Otherwise, a valuation allowance is applied against deferred tax assets, reducing the value of such assets. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. Estimates of future taxable income are based on forecasted income from operations and the application of existing tax laws in each jurisdiction. The acquisition of Ridgestone in 2016, First Evanston in 2018 and the improved risk profile of the Company are key components used in the determination of our ability to realize the expected future benefit of our deferred tax assets. To the extent that future taxable income differs significantly from estimates as a result of the interest rate environment and loan and lease growth capabilities or other factors, our ability to realize the net deferred tax assets could be affected.

Additionally, significant future issuances of common stock or common stock equivalents, or changes in the direct or indirect ownership of our common stock or common stock equivalents, could cause an ownership change and could limit our ability to utilize our net operating loss carryforwards and other tax attributes pursuant to Section 382 and Section 383 of the Internal Revenue Code of 1986, as amended (the “Code”). Future changes in tax law or changes in ownership structure could limit our ability to utilize our recorded net deferred tax assets. As of December 31, 2018, we did not have a valuation allowance against our net deferred tax assets for certain amounts related to U.S. net operating loss carryforwards, and our net deferred tax assets as of December 31, 2018 were \$35.6 million. See Note 11 of the notes to our audited consolidated financial statements contained in Item 8 of this report for further discussion of our deferred tax assets.

In December 2017, the U.S. Congress passed legislation that decreased the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. As a result of the rate change, our net deferred tax assets were required to be revalued during the period in which the new legislation was enacted, and, as a result, we recorded income tax expense of \$7.2 million, or \$0.24 per diluted share, during the fourth quarter of 2017 as a result of this change. We expect our effective tax rate for 2019 to be approximately 27% to 29%.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition.

From time to time, the FASB and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. As a result of changes to financial accounting or reporting standards, whether promulgated or required by the FASB or other regulators, we could be required to change certain of the assumptions or estimates we have previously used in preparing our financial statements, which could negatively affect how we record and report our results of operations and financial condition generally. For example, in 2016, the FASB approved a new accounting standard that would require companies to include lease obligations on their balance sheets, which will be effective for us in 2020. This new standard will result in changes to our accounting presentation and could adversely affect our balance sheet.

We are an emerging growth company within the meaning of the Securities Act of 1933 (the “Securities Act”), and have decided to take advantage of certain exemptions from various reporting and other requirements applicable to emerging growth companies.

For as long as we remain an “emerging growth company”, as defined in the Jumpstart Our Business Startups (“JOBS”) Act, we will have the option to take advantage of certain exemptions from various reporting and other requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”), being permitted to have an extended transition period for adopting any new or revised accounting standards that may be issued by the FASB or the SEC reduced disclosure obligations regarding executive compensation in our registration statements, periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We have elected to, and expect to continue to, take advantage of certain of these and other exemptions until we are no longer an emerging growth company.

We will remain an emerging growth company until the earliest of (i) the end of the fiscal year during which we have total annual gross revenues of \$1,070,000,000 or more, (ii) the end of the fiscal year following the fifth anniversary of the completion of our initial public offering, (iii) the date on which we have, during the previous three year period, issued more than \$1.0 billion in non-convertible debt, and (iv) the end of the first fiscal year in which (A) the market value of our equity securities that are held by non-affiliates exceeds \$700 million as of June 30 of that year, (B) we have been a public reporting company under the Securities Exchange Act of 1934 (the “Exchange Act”) for at least twelve calendar months and (C) we have filed at least one annual report on Form 10-K.

Because we have elected to use the extended transition period for complying with new or revised accounting standards for an “emerging growth company”, our financial statements may not be comparable to companies that comply with these accounting standards as of the public company effective dates.

We have elected to use the extended transition period for complying with new or revised accounting standards under Section 7(a)(2)(B) of the Securities Act. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with these accounting standards as of the public company effective dates. Because our financial statements may not be comparable to those of companies that comply with public company effective dates, investors may have difficulty evaluating or comparing our business, performance or prospects in comparison to other public companies, which may have a negative impact on the value and liquidity of our common stock.

We recently completed our initial public offering. Fulfilling our public company financial reporting and other regulatory obligations and our ongoing transition to a standalone public company will be expensive and time consuming and may strain our resources.

As a public company, we are subject to the reporting requirements of the Exchange Act and are required to implement specific corporate governance practices and adhere to a variety of reporting requirements under Sarbanes-Oxley and the related rules and regulations of the SEC, as well as the rules of the NYSE. The Exchange Act requires us to file annual, quarterly and current reports with respect to our business and financial condition. Sarbanes-Oxley requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting.

In accordance with Section 404 of Sarbanes-Oxley, our management is required to conduct an annual assessment of the effectiveness of our internal control over financial reporting and include a report on these internal controls in the annual reports we file with the SEC on Form 10-K. Our independent registered public accounting firm is not required to attest formally to the effectiveness of our internal controls until the later of the year following the first annual report required to be filed with the SEC and the date on which we are no longer an “emerging growth company”. When required, this process will require additional documentation of policies, procedures and systems, further review of that documentation by our third-party internal auditing staff and internal accounting staff and our outside independent registered public accounting firm, and additional testing of our internal control over financial reporting by our third-party internal auditing staff and internal accounting staff and our outside independent registered public accounting firm. This process will involve considerable time and attention, may strain our internal resources, and will increase our operating costs. We may experience higher than anticipated operating expenses and outside auditor fees during the implementation of these changes and thereafter. If our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the NYSE, the SEC or other regulatory authorities, which could require additional financial and management resources.

If we are not able to implement the requirements of Section 404 of Sarbanes-Oxley in a timely and capable manner, we may be subject to adverse regulatory consequences and there could be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. This could have a material adverse effect on our business, financial condition or results of operations.

The financial reporting resources we have put in place may not be sufficient to ensure the accuracy of the additional information we are required to disclose as a publicly listed company.

As a result of being a publicly listed company, we are subject to the heightened financial reporting standards under GAAP and SEC rules, including more extensive levels of disclosure. Complying with these standards required enhancements to the design and operation of our internal control over financial reporting as well as additional financial reporting and accounting staff with appropriate training and experience in GAAP and SEC rules and regulations.

If we are unable to meet the demands that are placed upon us as a public company, including the requirements of Sarbanes-Oxley, we may be unable to report our financial results accurately, or report them within the timeframes required by law or stock exchange regulations. Failure to comply with Sarbanes-Oxley, when and as applicable, could also potentially subject us to sanctions or investigations by the SEC or other regulatory authorities. If material weaknesses or other deficiencies occur, our ability to report our financial results accurately and timely could be impaired, which could result in late filings of our annual and quarterly reports under the Exchange Act, restatements of our consolidated financial statements, a decline in our stock price, suspension or delisting of our common stock from the NYSE, and could have a material adverse effect on our business, results of operations or financial condition. Even if we are able to report our financial statements accurately and in a timely manner, any failure in our efforts to implement the improvements or disclosure of material weaknesses in our future filings with the SEC could cause our reputation to be harmed and our stock price to decline significantly.

We did not engage our independent registered public accounting firm to perform an audit of our internal control over financial reporting as of any balance sheet date reported in our financial statements as of December 31, 2018. The JOBS Act provides that, so long as we qualify as an “emerging growth company”, we will be exempt from the provisions of Section 404(b) of Sarbanes-Oxley, which would require that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting. We may take advantage of this exemption so long as we qualify as an “emerging growth company”.

Certain banking laws and certain provisions of our certificate of incorporation may have an anti-takeover effect.

Provisions of federal banking laws, including regulatory approval requirements, could make it difficult for a third-party to acquire us, even if doing so would be perceived to be beneficial to our stockholders. Acquisition of 10% or more of any class of voting stock of a bank holding company or depository institution, including shares of our common stock, generally creates a rebuttable presumption that the acquirer “controls” the bank holding company or depository institution. Also, a bank holding company must obtain the prior approval of the Federal Reserve before, among other things, acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, including our bank.

There also are provisions in our amended and restated certificate of incorporation, which we refer to as our certificate of incorporation, and amended and restated bylaws, which we refer to as our bylaws, such as limitations on the ability to call a special meeting of our stockholders, that may be used to delay or block a takeover attempt. In addition, our board of directors is authorized under our certificate of incorporation to issue shares of our preferred stock, and determine the rights, terms, conditions and privileges of such preferred stock, without stockholder approval. These provisions may effectively inhibit a non-negotiated merger or other business combination, which, in turn, could have a material adverse effect on the market price of our common stock.

The banking industry is highly regulated, and the regulatory framework, together with any future legislative or regulatory changes, may have a significant adverse effect on our operations.

The banking industry is extensively regulated and supervised under both federal and state laws and regulations that are intended primarily for the protection of depositors, customers, federal deposit insurance funds and the banking system as a whole, not for the protection of our stockholders and creditors. We are subject to regulation and supervision by the Federal Reserve, and our bank is subject to regulation and supervision by the FDIC and the IDFP. The laws and regulations applicable to us govern a variety of matters, including permissible types, amounts and terms of loans and investments we may make, the maximum interest rate that may be charged, the amount of reserves we must hold against deposits we take, the types of deposits we may accept, maintenance of adequate capital and liquidity, changes in the control of us and our bank, restrictions on dividends and establishment of new offices. We must obtain approval from our regulators before engaging in certain activities, and there is the risk that such approvals may not be obtained, either in a timely manner or at all. Our regulators also have the ability to compel us to take certain actions, or restrict us from taking certain actions entirely, such as actions that our regulators deem to constitute an unsafe or unsound banking practice. Our failure to comply with any applicable laws or regulations, or regulatory policies and interpretations of such laws and regulations, could result in sanctions by regulatory agencies, civil money penalties or damage to our reputation, all of which could have a material adverse effect on our business, financial condition or results of operations.

Since the severe economic recession occurring during 2007 through 2009, federal and state banking laws and regulations, as well as interpretations and implementations of these laws and regulations, have undergone substantial review and change. In particular, the Dodd-Frank Act drastically revised the laws and regulations under which we operate. As an institution with less than \$10 billion in assets, certain elements of the Dodd-Frank Act have not been applied to us. While we endeavor to maintain safe banking practices and controls beyond the regulatory requirements applicable to us, our internal controls may not match those of larger banking institutions that are subject to increased regulatory oversight.

Financial institutions generally have also been subjected to increased scrutiny from regulatory authorities. These changes and increased scrutiny have resulted and may continue to result in increased costs of doing business and may in the future result in decreased revenues and net income, reduce our ability to compete effectively to attract and retain customers, or make it less attractive for us to continue providing certain products and services. Any future changes in federal and state laws and regulations, as well as the interpretation and implementation of such laws and regulations, could affect us in substantial and unpredictable ways, including those listed above or other ways that could have a material adverse effect on our business, financial condition or results of operations. Recent political developments have led to additional uncertainty as to the implementation, scope and timing of regulatory reforms.

There is uncertainty surrounding the potential legal, regulatory and policy changes by the presidential administration in the United States that may directly affect financial institutions and the global economy.

The presidential administration has indicated that it would like to see changes made to certain financial reform regulations, including the Dodd-Frank Act, which has resulted in increased regulatory uncertainty, and we are assessing the potential impact on financial and economic markets and on our business. Changes in federal policy and at regulatory agencies are expected to occur over time through policy and personnel changes, which could lead to changes involving the level of oversight and focus on the financial services industry. The nature, timing and economic and political effects of potential changes to the current legal and regulatory framework affecting financial institutions remain highly uncertain. At this time, it is unclear what additional laws, regulations and policies may change and whether future changes or uncertainty surrounding future changes will adversely affect our operating environment and therefore our business, financial condition and results of operations.

Certain of our activities are restricted due to commitments entered into with the Federal Reserve by us and certain of our foreign national stockholders.

Certain of our stockholders who invested in our recapitalization are foreign nationals, and we and certain of these foreign national stockholders have entered into commitments with the Federal Reserve that restrict some of our activities. In particular, without approval of the Federal Reserve, we are restricted from engaging in certain transactions with these foreign national stockholders, their immediate families, and any company controlled by such foreign national stockholders or by their immediate families. Such transactions include (i) extensions of credit described in the Federal Reserve's Regulation O, (ii) covered transactions described in sections 23A and 23B of the Federal Reserve Act and the Federal Reserve's Regulation W, and (iii) subject to certain limited exceptions, business transactions or relationships with companies controlled by such foreign national stockholders or by their immediate families. These restrictions could prevent us from pursuing activities that would otherwise be in our and our other stockholders' best interests. Moreover, if we were to fail to comply with any of these restrictions, we could be subject to enforcement and other legal actions by the Federal Reserve, including civil and criminal penalties, which could have a material adverse effect on our business, financial condition and results of operations.

We are required to act as a source of financial and managerial strength for our bank in times of stress.

As a bank holding company, we are required under federal law to act as a source of financial and managerial strength to our bank, and to commit resources to support our bank if necessary. We may be required to commit additional resources to our bank at times when we may not be in a financial position to provide such resources or when it may not be in our, or our stockholders' or our creditors' best interests to do so. Providing such support is more likely to be necessary during times of financial stress for us and our bank, which may make any capital we are required to raise to provide such support more expensive than it might otherwise be. In addition, any capital loans we make to our bank are subordinate in right of payment to depositors and to certain other indebtedness of our bank. In the event of our bankruptcy, any commitment by us to a federal banking regulator to maintain the capital of our bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

We are subject to capital adequacy requirements and may be subject to more stringent capital requirements.

We are subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital that we must maintain. From time to time, the regulators change these regulatory capital adequacy and liquidity guidelines. If we fail to meet these minimum capital adequacy and liquidity guidelines and other regulatory requirements, we or our subsidiaries may be restricted in the types of activities we may conduct and we may be prohibited from taking certain capital actions, such as paying dividends and repurchasing or redeeming capital securities. See Item 1. "Business—Supervision and Regulation—Regulatory Capital Requirements" for more information on the capital adequacy standards that we must meet and maintain.

In particular, the capital adequacy and liquidity requirements applicable to Byline Bancorp, Inc. and Byline Bank under the capital rules implementing the Basel III capital framework in the United States (the "Capital Rules") began to be phased-in starting in 2015. Basel III not only increases most of the required minimum regulatory capital ratios, it introduces a new Common Equity Tier 1 capital ratio and the concept of a capital conservation buffer. Basel III also expands the current definition of capital by establishing additional criteria that capital instruments must meet to be considered Additional Tier 1 and Tier 2 capital. In order to be a "well-capitalized" depository institution under the new regime, an institution must maintain a Common Equity Tier 1 capital ratio of 6.5% or more; a Tier 1 capital ratio of 8% or more; a total capital ratio of 10% or more; and a leverage ratio of 5% or more. Institutions must also maintain a capital conservation buffer consisting of common equity Tier 1 capital. The Basel III rules also generally preclude certain hybrid securities, such as trust preferred securities, from being counted as Tier 1 capital. However, we are permitted to include

qualifying trust preferred securities issued prior to May 19, 2010 as Additional Tier 1 capital. The Basel III Capital Rules became effective as applied to us and Byline Bank on January 1, 2015 with a phase-in period that generally extended through January 1, 2019 for many of the changes.

While we currently meet the requirements of the Basel III-based Capital Rules, we may fail to do so in the future. The failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect customer and investor confidence, our costs of funds and level of required deposit insurance assessments to the FDIC, our ability to pay dividends on our capital stock, our ability to make acquisitions, and our business, results of operations and financial conditions, generally.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC, and the IDFPR periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we or our predecessor were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place our bank into receivership or conservatorship. Any regulatory action against us could have an adverse effect on our business, financial condition and results of operations.

Our ability to pay dividends may be limited and we do not intend to pay cash dividends on our common stock in the foreseeable future; consequently, our stockholders' ability to achieve a return on their investment will depend on appreciation in the price of our common stock.

Holders of our common stock are entitled to receive only such dividends as our board of directors may declare out of funds legally available for such payments. We expect that we will retain all earnings, if any, for operating capital, and we do not expect our board of directors to declare any dividends on our common stock in the foreseeable future. Even if we have earnings in an amount sufficient to pay cash dividends, our board of directors may decide to retain earnings for the purpose of financing growth. We cannot assure you that cash dividends on our common stock will ever be paid.

In addition, we are a bank holding company, and our ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. It is the policy of the Federal Reserve that bank holding companies should generally pay dividends on capital stock only out of earnings, and only if prospective earnings retention is consistent with the organization's expected future needs, asset quality and financial condition.

Further, if we are unable to satisfy the capital requirements applicable to us for any reason, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our common stock in the event we decide to declare dividends. Any change in the level of our dividends or the suspension of the payment thereof could have a material adverse effect on the market price of our common stock.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act (the “CRA”) and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA requires our bank, consistent with safe and sound operations, to ascertain and meet the credit needs of its entire community, including low and moderate income areas. Our bank’s failure to comply with the CRA could, among other things, result in the denial or delay of certain corporate applications filed by us or our bank, including applications for branch openings or relocations and applications to acquire, merge or consolidate with another banking institution or holding company. In addition, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U.S. Department of Justice, federal banking agencies, and other federal agencies are responsible for enforcing these laws and regulations. A challenge to an institution’s compliance with fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also challenge an institution’s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Rulemaking changes implemented by the Consumer Financial Protection Bureau (“CFPB”) may result in higher regulatory and compliance costs that could adversely affect our results of operations.

The Dodd-Frank Act created a new, independent federal agency, the CFPB, which was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. See Item 1. “Business—Supervision and Regulation—Consumer Financial Protection”. Notwithstanding that insured depository institutions with assets of \$10 billion or less (such as Byline Bank) will continue to be supervised and examined by their primary federal regulators, the ultimate impact of this heightened scrutiny is uncertain and could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, remediation efforts and possible penalties.

Litigation and regulatory actions, including possible enforcement actions, could subject us to significant fines, penalties, judgments or other requirements resulting in increased expenses or restrictions on our business activities.

Our business is subject to increased litigation and regulatory risks as a result of a number of factors, including the highly regulated nature of the financial services industry and the focus of state and federal prosecutors on banks and the financial services industry generally. This focus has only intensified since the severe economic recession occurring during 2007 through 2009, with regulators and prosecutors focusing on a variety of financial institution practices and requirements, including foreclosure practices, compliance with applicable consumer protection laws, classification of “held for sale” assets and compliance with anti-money laundering statutes, the Bank Secrecy Act and sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury.

In the normal course of business, from time to time, we have in the past and may in the future be named as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our current and/or prior business activities. Legal actions could include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. In addition, while the arbitration provisions in certain of our customer agreements historically have limited our exposure to consumer class action litigation, there can be no assurance that we will be successful in enforcing our arbitration clause in the future. Further, we have in the past and may in the future be subject to consent orders with our regulators. We may also, from time to time, be the subject of subpoenas, requests for information, reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding our current and/or prior business activities. Any such legal or regulatory actions may subject us to substantial compensatory or punitive damages, significant fines, penalties, obligations to change our business practices or other requirements resulting in increased expenses, diminished income and damage to our reputation. Our involvement in any such matters, whether tangential or otherwise and even if the matters are ultimately determined in our favor, could also cause significant harm to our reputation and divert management attention from the operation of our business. Further, any settlement, consent order or adverse judgment in connection with any formal or informal proceeding or investigation by government agencies may result in litigation, investigations or proceedings as other litigants and government agencies begin independent reviews of the same activities. As a result, the outcome of legal and regulatory actions could be material to our business, results of operations, financial condition and cash flows depending on, among other factors, the level of our earnings for that period, and could have a material adverse effect on our business, financial condition or results of operations.

Non-compliance with the USA PATRIOT Act, the Bank Secrecy Act or other laws and regulations could result in fines or sanctions against us.

The USA PATRIOT Act of 2001 and the Bank Secrecy Act require financial institutions to design and implement programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the Financial Crimes Enforcement Network of the U.S. Department of the Treasury. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Federal and state bank regulators also have focused on compliance with Bank Secrecy Act and anti-money laundering regulations. Failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or establishing new branches. In recent years, several banking institutions have received large fines for non-compliance with these laws and regulations. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, these policies and procedures may not be effective in preventing violations of these laws and regulations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us, which could have a material adverse effect on our business, financial condition or results of operations.

Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.

We are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively affected by these laws. For example, our business is subject to the Gramm-Leach-Bliley Act which, among other things: (i) imposes certain limitations on our ability to share nonpublic personal information about our customers with nonaffiliated third parties; (ii) requires that we provide certain disclosures to customers about our information collection, sharing and security practices and afford customers the right to “opt out” of any information sharing by us with nonaffiliated third parties (with certain exceptions), and (iii) requires that we develop, implement and maintain a written comprehensive information security program containing appropriate safeguards based on our size and complexity, the nature and scope of our activities, and the sensitivity of customer information we process, as well as plans for responding to data security breaches. Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Moreover, legislators and regulators in the United States are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of consumer or employee information, and some of our current or planned business activities. This could also increase our costs of compliance and business operations and could reduce income from certain business initiatives. This includes increased privacy-related enforcement activity at the federal level, by the Federal Trade Commission and CFPB, as well as at the state level, such as with regard to mobile applications.

Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting customer or employee data to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could have a material adverse effect on our business, financial condition or results of operations. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition or results of operations.

We are subject to environmental liability risk associated with our lending activities and with the properties we own.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans and there is a risk that hazardous or toxic substances could be found on these properties, notwithstanding our prior due diligence. We also own many of our branches and it is possible that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property’s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, results of operations and financial condition.

Risks Related to Acquisition Activity

We may be adversely affected by risks associated with completed and potential acquisitions, including execution risks, failure to realize anticipated transaction benefits, and failure to overcome integration risks, which could adversely affect our growth and profitability.

We have continued to grow our business both organically and through the acquisition of smaller banks that management believes strategically fit within our franchise and that we believe support our businesses and make financial and strategic sense, such as our acquisition of Ridgestone in 2016, First Evanston in 2018, and our recently announced pending acquisition of Oak Park River Forest Bankshares, Inc. In the event that we continue to pursue further acquisitions, we may have difficulty executing on and may not realize the anticipated benefits of any transaction we complete. Any of the foregoing matters could materially and adversely affect us.

Generally, any acquisition of target financial institutions, branches or other banking assets by us will require approval by, and cooperation from, a number of governmental regulatory agencies, possibly including the Federal Reserve and the FDIC as well as the IDFP. In evaluating applications seeking approval of acquisitions, such regulators consider factors such as, among other things, the competitive effect and public benefits of the transaction, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the CRA, the applicant's compliance with fair housing and other consumer protection laws and the effectiveness of all organizations involved in combating money laundering activities. Such regulators could deny our application, which would restrict our growth, or the regulatory approvals may not be granted on terms that are acceptable to us. For example, we could be required to sell branches as a condition to receiving regulatory approvals, and such a condition may not be acceptable to us or may reduce the benefit of an acquisition.

As to any acquisition that we complete, including the Ridgestone and First Evanston acquisitions, which took place in October 2016 and May 2018, respectively, as well as the anticipated acquisition of Oak Park River Forest, we may fail to realize some or all of the anticipated transaction benefits if the integration process takes longer or is more costly than expected or otherwise fails to meet our expectations.

In addition, acquisition activities could be material to our business and involve a number of risks, including the following:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- actual results of the acquired business may vary significantly from projected results;
- intense competition from other banking organizations and other inquirers for acquisitions, causing us to lose opportunities or overpay for acquisitions;
- potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- unexpected asset quality problems;
- the time and expense required to integrate the operations of the combined businesses, including the integration or replacement of information technology and other systems;
- difficulties in integrating and retaining employees of acquired businesses;
- higher operating expenses relative to operating income from the new operations;
- creating an adverse short-term effect on our results of operations;
- losing key employees or customers as a result of an acquisition that is poorly received;
- significant problems relating to the conversion of the financial and customer data of the entity;
- integration of acquired customers into our financial and customer product systems;
- risk of assuming businesses with internal control deficiencies; or
- risks of impairment to goodwill or other assets.

Depending on the condition of any institution or assets or liabilities that we may acquire, that acquisition may, at least in the near term, adversely affect our capital and earnings and, if not successfully integrated with our organization, may continue to have such effects over a longer period. We may not be successful in overcoming these risks or any other problems encountered in connection with potential acquisitions, and any acquisition we may consider will be subject to prior regulatory approval.

Also, acquisitions may involve the payment of a premium over book and market values and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. Our inability to overcome these risks could have a material adverse effect on our profitability, return on equity, return on assets, and our ability to implement our business strategy and enhance stockholder value, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

Other Risks

Our principal stockholder, MBG Investors I, L.P. has significant influence over us, and its interests could conflict with those of our other stockholders.

Currently, our principal stockholder, MBG Investors I, L.P., owns approximately 31.6% of the outstanding shares of our common stock and its general partner is one of our directors. As a result, MBG Investors I, L.P. is able to influence matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other extraordinary transactions. MBG Investors I, L.P. may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. The concentration of ownership may also have the effect of delaying, preventing or deterring a change of control of the Company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

MBG Investors I, L.P. could sell its interest in us to a third-party in a private transaction, which may not lead to your realization of any change of control premium on shares of our common stock and would subject us to the influence of a presently unknown third-party.

The ability of MBG Investors I, L.P. to sell its shares of our common stock privately, with no requirement for a concurrent offer to be made to acquire all of the shares of our outstanding common stock, could prevent our stockholders from realizing any change of control premium on shares of our common stock that they own that may accrue to MBG Investors I, L.P. on its private sale of our common stock.

Future sales of our common stock in the public market, including by our pre-IPO stockholders, could lower our stock price.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock or from the perception that such sales could occur. These sales, or the possibility that these sales may occur, also may make it more difficult for us to raise additional capital by selling equity securities in the future, at a time and price that we deem appropriate.

Certain of our pre-IPO stockholders, including affiliates such as MBG Investors, I, L.P., hold restricted shares that could be sold in accordance with the volume, manner of sale and other limitations under Rule 144 or through registration under the Securities Act. We cannot predict the size of future issuances or sales of our common stock by our pre-IPO stockholders or the effect, if any, that future issuances or sales of shares of our common stock may have on the market price of our common stock. Sales or distributions of substantial amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may cause the market price of our common stock to decline.

We may be adversely affected by risks associated with our successful banking system conversion, including failure to realize anticipated benefits and to overcome integration risks, which could adversely affect our growth, profitability, and customer experience.

In order to support our continued growth and to continue to provide first-rate banking products and services to our customers, we have converted our core bank processing platform to FIS's Integrated Banking Services. We successfully finalized the conversion in February of 2019. However, there can be no assurance that we will be able to realize the full anticipated benefits of the conversion and overcome associated integration risks.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

Our corporate headquarters is located at 180 North LaSalle Street, Suite 300, Chicago, IL 60601. In addition to our corporate headquarters, we operate 57 branch offices located in the Chicago metropolitan area and one branch office in Brookfield, Wisconsin. We lease 24 of our retail branch offices and our headquarters and own the remainder of our retail branch offices. We are continually evaluating opportunities to improve our existing branches, and we have closed and may close branches in certain circumstances to improve our efficiency.

Item 3. Legal Proceedings.

We operate in a highly regulated environment. From time to time we are a party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock trades on the New York Stock Exchange (the “NYSE”) under the symbol “BY.” There were approximately 762 holders of record of our common stock as of March 14, 2019.

The timing and amount of cash dividends paid depends on our earnings, financial condition, capital requirements and other relevant factors. The primary sources for payment of dividends to our stockholders are dividends paid to us by Byline Bank and cash on hand. The Company is subject to state law limitations on the payment of dividends. Delaware law generally limits dividends if: (a) the corporation does not have a surplus; or (b) the corporation does not have net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. We have an internal policy that prohibits the Board of Byline Bank from declaring, and Byline Bank from paying, dividends that would cause the minimum capital amounts required for Byline Bank to be considered less than “well capitalized” for regulatory purposes. See Item 1. “Business – Supervision and Regulations – Dividends; Stress Testing” above and Note 21 of notes to consolidated financial statements contained in Item 8 of this report.

Issuer Purchases of Equity Securities.

The Company did not repurchase any of its common stock during the quarter ended December 31, 2018.

Equity Compensation Plan Information.

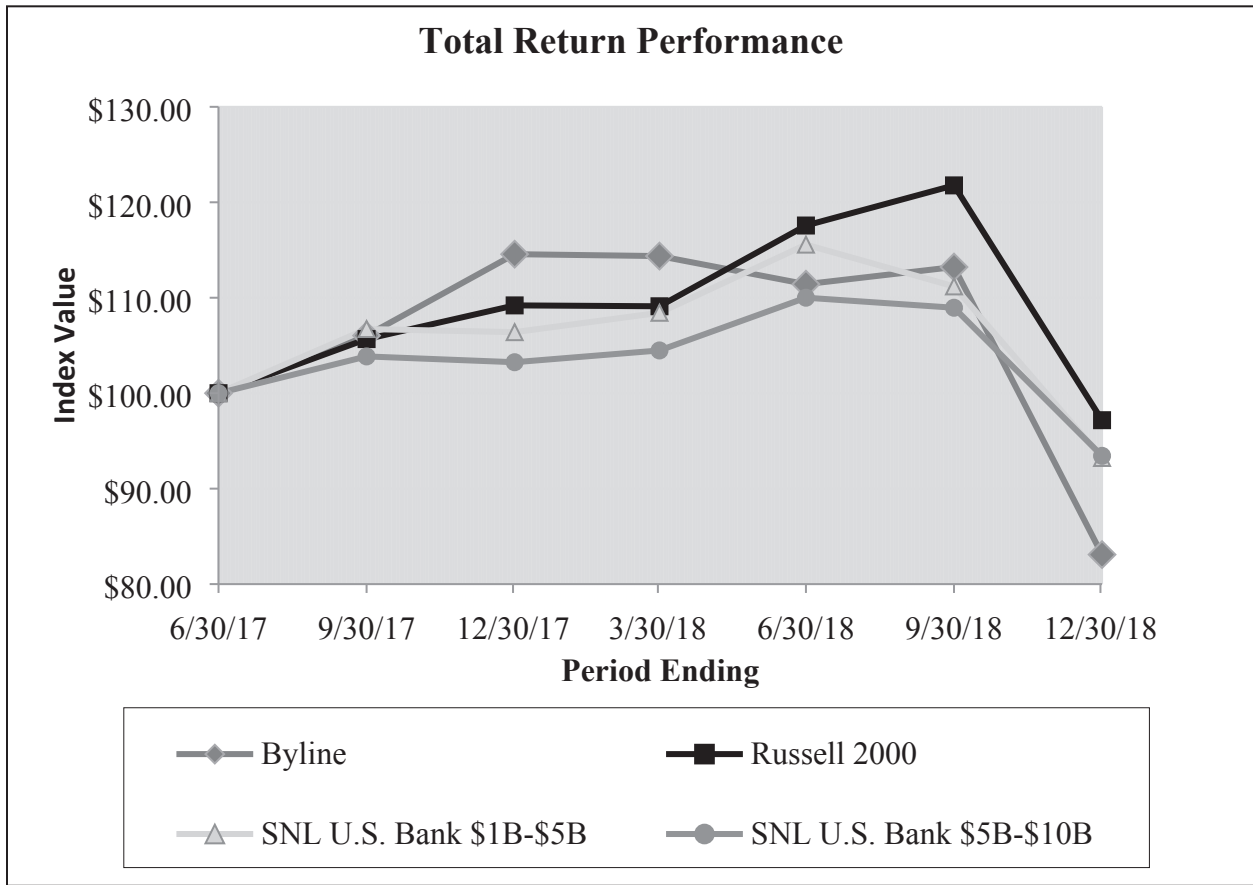
The equity compensation plan information is presented under Part III, Item 12 of the report and is incorporated herein by reference.

Recent Sales of Unregistered Securities; Use of Proceeds From Registered Securities.

None.

Stock Performance Graph.

The following graph compares the cumulative total stockholder return on the Company’s common stock from June 30, 2017 (the date of our initial public offering and listing on the NYSE) through December 31, 2018, with the cumulative total return of: (1) the Russell 2000 (U.S. Stock) Index, (2) a peer group of the SNL \$1 Billion to \$5 Billion Asset U.S. Bank Index, and (3) a peer group of the SNL \$5 Billion to \$10 Billion Asset U.S. Bank Index. Total return assumes the reinvestment of all dividends.



| Index | 6/30/2017 | 9/30/2017 | 12/31/2017 | 3/31/2018 | 6/30/2018 | 9/30/2018 | 12/31/2018 |
|-------------------------------|-----------|-----------|------------|-----------|-----------|-----------|------------|
| Byline Bancorp, Inc. | \$ 100.00 | \$ 106.03 | \$ 114.56 | \$ 114.36 | \$ 111.42 | \$ 113.22 | \$ 83.09 |
| Russel 2000 | 100.00 | 105.67 | 109.20 | 109.11 | 117.57 | 121.77 | 97.17 |
| SNL U.S. Bank \$1B-\$5B..... | 100.00 | 106.72 | 106.39 | 108.42 | 115.56 | 111.19 | 93.21 |
| SNL U.S. Bank \$5B-\$10B..... | 100.00 | 103.85 | 103.24 | 104.48 | 110.00 | 108.95 | 93.44 |

* The information assumes that \$100 was invested at the closing price on June 30, 2017 in the Company’s stock and each index, and that all dividends are reinvested.

Item 6. Selected Financial Data.

The following table summarizes certain selected historical consolidated financial data of Byline as of or for the fiscal years ended December 31, 2018, 2017, 2016, 2015, and 2014, and is derived from our audited financial statements. You should read this information in conjunction with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this report and our consolidated financial statements and related notes included in Item 8 of this report. Management uses the non-GAAP financial measures set forth herein in its analysis of our performance, and believes that these non-GAAP financial measures provide useful information to management and investors; however, you should not view these disclosures as a substitute for results determined in accordance with GAAP financial measures. See “GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures” included in Item 6 of this report, for more information.

| (Dollars in thousands except share and per share data) | As of or for the years ended December 31, | | | | |
|---|---|--------------|--------------|--------------|--------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Income Statement Data | | | | | |
| Net interest income..... | \$ 178,605 | \$ 122,912 | \$ 90,618 | \$ 76,632 | \$ 84,090 |
| Provision for loan and lease losses..... | 18,795 | 12,653 | 10,352 | 6,966 | 5,711 |
| Non-interest income..... | 51,639 | 50,058 | 25,904 | 20,839 | 18,253 |
| Non-interest expense..... | 156,009 | 119,523 | 100,686 | 105,172 | 97,919 |
| Income (loss) before income taxes..... | 55,440 | 40,794 | 5,484 | (14,667) | (1,287) |
| Provision (benefit) for income taxes..... | 14,247 | 19,099 | (61,245) | 307 | — |
| Net income (loss)..... | 41,193 | 21,695 | 66,729 | (14,974) | (1,287) |
| Dividends on preferred shares..... | 783 | 11,277 | — | — | — |
| Income available (loss attributable) to common stockholders..... | 40,410 | 10,418 | 66,729 | (14,974) | (1,287) |
| Earnings per Common Share | | | | | |
| Basic earnings (loss) per common share..... | \$ 1.21 | \$ 0.39 | \$ 3.31 | \$ (0.86) | \$ (0.07) |
| Diluted earnings (loss) per common share..... | \$ 1.18 | \$ 0.38 | \$ 3.27 | \$ (0.86) | \$ (0.07) |
| Adjusted diluted earnings (loss) per share ⁽²⁾⁽³⁾⁽⁴⁾ | \$ 1.43 | \$ 0.52 | \$ 0.38 | \$ (0.80) | \$ (0.07) |
| Weighted-average common shares outstanding (basic)..... | 33,292,619 | 26,963,517 | 20,141,630 | 17,332,775 | 17,332,775 |
| Weighted-average common shares outstanding (diluted) ⁽¹⁾ | 34,179,754 | 27,547,314 | 20,430,783 | 17,332,775 | 17,332,775 |
| Common shares outstanding..... | 36,343,239 | 29,317,298 | 24,616,706 | 17,332,775 | 17,332,775 |
| Balance Sheet Data | | | | | |
| Loans and leases held for investment, before allowance for loan and lease losses ⁽⁵⁾ | \$ 3,501,626 | \$ 2,277,492 | \$ 2,148,011 | \$ 1,345,437 | \$ 1,284,969 |
| Loans and leases held for sale..... | 19,827 | 5,212 | 23,976 | 268 | 351 |
| Allowance for loan and lease losses (ALLL)..... | 25,201 | 16,706 | 10,923 | 7,632 | 4,794 |
| Acquisition accounting adjustments ⁽⁶⁾ | 34,029 | 31,693 | 43,242 | 19,171 | 69,834 |
| Interest-bearing deposits in other banks..... | 91,670 | 38,945 | 28,798 | 23,572 | 133,281 |
| Investment securities..... | 916,922 | 700,399 | 747,406 | 879,192 | 689,373 |
| Assets held for sale..... | 14,489 | 9,779 | 14,748 | 2,259 | — |
| Other real estate owned, net..... | 5,314 | 10,626 | 16,570 | 26,715 | 56,181 |
| Goodwill and other intangibles..... | 161,596 | 71,318 | 71,801 | 48,014 | 50,891 |
| Servicing assets..... | 19,693 | 21,400 | 21,091 | — | — |
| Total assets..... | 4,942,574 | 3,366,130 | 3,295,830 | 2,479,870 | 2,376,449 |
| Total deposits..... | 3,749,916 | 2,443,329 | 2,490,394 | 2,180,624 | 2,100,057 |
| Total liabilities..... | 4,291,902 | 2,907,552 | 2,913,172 | 2,291,596 | 2,167,378 |
| Total stockholders' equity..... | 650,672 | 458,578 | 382,658 | 188,274 | 209,071 |
| Deposits per branch..... | 63,558 | 43,631 | 43,691 | 26,273 | 24,139 |
| Book value per common share..... | 17.62 | 15.29 | 14.51 | 10.00 | 11.20 |
| Tangible book value per common share ⁽²⁾ | 13.17 | 12.85 | 11.59 | 7.23 | 8.26 |
| Performance Ratios | | | | | |
| Net interest margin..... | 4.60% | 4.11% | 3.59% | 3.44% | 3.88% |
| Cost of deposits..... | 0.60 | 0.31 | 0.20 | 0.20 | 0.14 |
| Efficiency ratio ⁽⁷⁾ | 65.31 | 67.32 | 83.83 | 104.84 | 92.78 |
| Adjusted efficiency ratio ⁽²⁾⁽³⁾⁽⁷⁾ | 59.87 | 66.04 | 81.73 | 103.72 | 92.78 |
| Non-interest expense to average assets..... | 3.68 | 3.62 | 3.66 | 4.22 | 4.03 |
| Adjusted non-interest expense to average assets ⁽²⁾⁽³⁾ | 3.39 | 3.55 | 3.57 | 4.18 | 4.03 |
| Return on average stockholders' equity..... | 7.34 | 5.08 | 27.93 | (7.21) | (0.62) |
| Adjusted return on average stockholders' equity ⁽²⁾⁽³⁾⁽⁴⁾ | 8.85 | 5.97 | 3.25 | (6.69) | (0.62) |
| Return on average assets..... | 0.97 | 0.66 | 2.42 | (0.60) | (0.05) |
| Adjusted return on average assets ⁽²⁾⁽³⁾⁽⁴⁾ | 1.17 | 0.77 | 0.28 | (0.56) | (0.05) |
| Non-interest income to total revenues ⁽²⁾ | 22.43 | 28.94 | 22.23 | 21.38 | 17.84 |
| Pre-tax pre-provision return on average assets ⁽²⁾ | 1.75 | 1.62 | 0.57 | (0.31) | 0.18 |
| Adjusted pre-tax pre-provision return on average assets ⁽²⁾⁽³⁾ | 2.05 | 1.69 | 0.66 | (0.27) | 0.18 |
| Return on average tangible common stockholders' equity ⁽²⁾ | 10.44 | 3.61 | 40.62 | (8.39) | 1.17 |
| Adjusted return on average tangible common stockholders' equity ⁽²⁾⁽³⁾⁽⁴⁾ | 12.44 | 4.73 | 6.24 | (7.62) | 1.17 |
| Non-interest-bearing deposits to total deposits..... | 31.81 | 31.14 | 29.09 | 28.73 | 28.71 |
| Loans and leases held for sale and loans and leases held for investment to total deposits..... | 93.91 | 93.43 | 87.21 | 61.71 | 61.20 |
| Deposits to total liabilities..... | 87.37 | 84.03 | 85.49 | 95.16 | 96.89 |

| (Dollars in thousands except share and per share data) | As of or for the years ended December 31, | | | | |
|--|---|--------|--------|-------|-------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Asset Quality Ratios | | | | | |
| Non-performing loans and leases / total loans and leases held for investment, net before ALLL | 0.79% | 0.74% | 0.34% | 0.69% | 0.62% |
| ALLL / total loans and leases held for investment, net before ALLL | 0.72 | 0.73 | 0.51 | 0.57 | 0.37 |
| Net charge-offs (recoveries) / average total loans and leases held for investment, net before ALLL | 0.35 | 0.31 | 0.42 | 0.33 | 0.14 |
| Capital Ratios | | | | | |
| Common equity to assets | 12.95% | 13.31% | 10.84% | 6.99% | 8.17% |
| Tangible common equity to tangible assets ⁽²⁾ | 10.01 | 11.44 | 8.85 | 5.15 | 6.16 |
| Leverage ratio | 11.05 | 12.18 | 10.07 | 7.85 | 8.08 |
| Tier 1 common ratio ⁽⁸⁾ | 11.85 | 13.68 | 11.20 | 8.92 | 11.30 |
| Tier 1 ratio | 13.30 | 15.18 | 12.78 | 12.00 | 13.37 |
| Total capital ratio | 13.99 | 15.89 | 13.28 | 12.51 | 13.73 |

- (1) Due to losses for the years ended December 31, 2015 and 2014, zero incremental shares are included because the effect would be anti-dilutive.
- (2) Represents a non-GAAP financial measure. See “GAAP Reconciliation and Management Explanation of non-GAAP Financial Measures” for a reconciliation of Byline’s Non-GAAP measures to the most directly comparable GAAP financial measure.
- (3) Calculation excludes impairment charges, merger-related expenses, and core system conversion expenses.
- (4) Calculation excludes incremental income tax expense or benefit related to changes in corporate income tax rates and reversal of valuation allowance on net deferred tax assets.
- (5) Represents loans and leases, net of acquisition accounting adjustments, unearned deferred fees and costs and initial indirect costs.
- (6) Represents the remaining unamortized premium or unaccreted discount as a result of applying the fair value acquisition accounting adjustment at the time of the business combination on acquired loans.
- (7) Represents non-interest expense less amortization of intangible assets divided by net interest income and non-interest income.
- (8) Ratio not effective until January 1, 2015 but presented for comparison purposes only.

GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

Some of the financial measures included in Item 6. “Selected Financial Data” are not measures of financial performance in accordance with GAAP. Our management uses the non-GAAP financial measures set forth below in its analysis of our performance.

- “Adjusted net income (loss)” and “adjusted diluted earnings (loss) per share” exclude certain significant items, which include incremental income tax benefit related to the reversal of the valuation allowance on our net deferred tax assets, incremental income tax benefit related to Illinois corporate income tax rate increases, incremental income tax expense or benefit related to federal corporate income tax reductions, impairment charges on assets held for sale, merger-related expenses, and core system conversion expenses adjusted for applicable income tax. Management believes the significant items are not indicative of or useful to measure the Company’s operating performance on an ongoing basis.
- “Adjusted non-interest expense” is non-interest expense excluding certain significant items, which include impairment charges on assets held for sale, merger-related expenses, and core system conversion expenses.
- “Adjusted efficiency ratio” is adjusted non-interest expense less amortization of intangible assets divided by net interest income and non-interest income. Management believes the metric is an important measure of the Company’s operating performance on an ongoing basis.
- “Adjusted non-interest expense to average assets” is adjusted non-interest expense divided by average assets. Management believes the metric is an important measure of the Company’s operating performance on an ongoing basis.
- “Adjusted return on average stockholders’ equity” is adjusted net income divided by average stockholders’ equity. Management believes the metric is an important measure of the Company’s operating performance on an ongoing basis.
- “Adjusted return on average assets” is adjusted net income divided by average assets. Management believes the metric is an important measure of the Company’s operating performance on an ongoing basis.
- “Non-interest income to total revenues” is non-interest income divided by net interest income plus non-interest income. Management believes that it is standard practice in the industry to present non-interest income as a percentage of total revenue. Accordingly, management believes providing these measures may be useful for peer comparison.
- “Pre-tax pre-provision net income (loss)” is pre-tax income (loss) plus the provision for loan and lease losses. Management believes this metric is important due to the tax benefit resulting from the reversal of the net deferred tax asset valuation allowance, the decrease in the federal corporate income tax rate, and the increase in the Illinois state corporate income tax rate. The metric demonstrates income excluding the tax provision or benefit and excludes the provision for loan and lease losses.

- “Adjusted pre-tax pre-provision net income (loss)” is pre-tax pre-provision net income (loss) excluding certain significant items, which include impairment charges on assets held for sale, merger-related expenses, and core system conversion expenses. Management believes the metric is an important measure of the Company’s operating performance on an ongoing basis.
- “Pre-tax pre-provision return on average assets” is pre-tax income plus the provision for loan and lease losses, divided by average assets. Management believes this metric is important due to the change in tax expense or benefit resulting from the recent decrease in the federal corporate income tax rate and the recent increase in the Illinois state income tax rate. The ratio demonstrates profitability excluding the tax provision or benefit and excludes the provision for loan and lease losses. “Adjusted pre-tax pre-provision return on average assets” excludes certain significant items, which include impairment charges on assets held for sale, merger-related expenses, and core system conversion expenses.
- “Tangible common equity” is defined as total stockholders’ equity reduced by preferred stock and goodwill and other intangible assets. Management does not consider servicing assets as an intangible asset for purposes of this calculation.
- “Tangible assets” is defined as total assets reduced by goodwill and other intangible assets. Management does not consider servicing assets as an intangible asset for purposes of this calculation.
- “Tangible book value per common share” is calculated as tangible common equity, which is stockholders’ equity reduced by preferred stock and goodwill and other intangible assets, divided by total shares of common stock outstanding. Management believes this metric is important due to the relative changes in the book value per share exclusive of changes in intangible assets.
- “Tangible common equity to tangible assets” is calculated as tangible common equity divided by tangible assets, which is total assets reduced by goodwill and other intangible assets. Management believes this metric is important to investors and analysts interested in relative changes in the ratio of total stockholders’ equity to total assets, each exclusive of changes in intangible assets.
- “Tangible net income available (loss attributable) to common stockholders” is net income available to common stockholders excluding after-tax intangible asset amortization.
- “Adjusted tangible net income available (loss attributable) to common stockholders” is tangible net income available to common stockholders excluding certain significant items. Management believes the metric is an important measure of the Company’s operating performance on an ongoing basis.
- “Return on average tangible common stockholders’ equity” is tangible net income available to common stockholders divided by average tangible common stockholders’ equity. Management believes the metric is an important measure of the Company’s operating performance on an ongoing basis.
- “Adjusted return on average tangible common stockholders’ equity” is adjusted tangible net income available to common stockholders divided by average tangible common stockholders’ equity. Management believes the metric is an important measure of the Company’s operating performance on an ongoing basis.
- “Net interest margin excluding loan accretion” is calculated as reported net interest margin less the effect of accretion income net of contractual interest collected on acquired loans. Management believes that this metric is important as it illustrates the impact of net accretion income from acquired loans on the net interest margin.

We believe that these non-GAAP financial measures provide useful information to its management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that our non-GAAP financial measures have a number of limitations. As such, you should not view these disclosures as a substitute for results determined in accordance with GAAP financial measures that we and other companies use. Management also uses these measures for peer comparison.

The following reconciliation tables provide a more detailed analysis of the non-GAAP financial measures discussed herein:

| (dollars in thousands, except per share data) | As of or for the years ended December 31, | | | |
|--|---|------------------|-----------------|--------------------|
| | 2018 | 2017 | 2016 | 2015 |
| Net income (loss) and earnings (loss) per share excluding significant items | | | | |
| Reported Net Income (Loss) | \$ 41,193 | \$ 21,695 | \$ 66,729 | \$ (14,974) |
| Significant items: | | | | |
| Net deferred tax asset valuation allowance reversal..... | — | — | (61,377) | — |
| Incremental income tax benefit of state tax rate change | — | (4,790) | — | — |
| Incremental income tax expense attributed to federal income tax reform..... | (724) | 7,154 | — | — |
| Impairment charges on assets held for sale | 628 | 951 | 905 | 1,092 |
| Merger-related expense | 2,056 | 1,272 | 1,550 | — |
| Core system conversion expense..... | 9,847 | — | — | — |
| Tax benefit on impairment charges and merger-related expenses..... | (3,275) | (781) | (31) | — |
| Adjusted Net Income (Loss) | <u>\$ 49,725</u> | <u>\$ 25,501</u> | <u>\$ 7,776</u> | <u>\$ (13,882)</u> |
| Reported Diluted Earnings (Loss) per Share | \$ 1.18 | \$ 0.38 | \$ 3.27 | \$ (0.86) |
| Significant items: | | | | |
| Net deferred tax asset valuation allowance reversal..... | — | — | (3.01) | — |
| Incremental income tax benefit of state tax rate change | — | (0.17) | — | — |
| Incremental income tax expense attributed to federal income tax reform..... | (0.02) | 0.26 | — | — |
| Impairment charges on assets held for sale | 0.02 | 0.03 | 0.04 | 0.06 |
| Merger-related expense | 0.06 | 0.05 | 0.08 | — |
| Core system conversion expense..... | 0.29 | — | — | — |
| Tax benefit on impairment charges and merger-related expenses..... | (0.10) | (0.03) | — | — |
| Adjusted Diluted Earnings (Loss) per Share | <u>\$ 1.43</u> | <u>\$ 0.52</u> | <u>\$ 0.38</u> | <u>\$ (0.80)</u> |

| (dollars in thousands, except per share data) | As of or for the years ended December 31, | | | |
|---|---|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2016 | 2015 |
| Adjusted non-interest expense: | | | | |
| Non-interest expense | \$ 156,009 | \$ 119,523 | \$ 100,686 | \$ 105,172 |
| Less: significant items | | | | |
| Impairment charges on assets held for sale | 628 | 951 | 905 | 1,092 |
| Merger-related expense | 2,056 | 1,272 | 1,550 | — |
| Core system conversion expense | 9,847 | — | — | — |
| Adjusted non-interest expense | <u>\$ 143,478</u> | <u>\$ 117,300</u> | <u>\$ 98,231</u> | <u>\$ 104,080</u> |
| Adjusted non-interest expense excluding amortization of intangible assets: | | | | |
| Adjusted non-interest expense | \$ 143,478 | \$ 117,300 | \$ 98,231 | \$ 104,080 |
| Less: Amortization of intangible assets | 5,629 | 3,074 | 3,003 | 2,980 |
| Adjusted non-interest expense excluding amortization of intangible assets | <u>\$ 137,849</u> | <u>\$ 114,226</u> | <u>\$ 95,228</u> | <u>\$ 101,100</u> |
| Pre-tax pre-provision net income (loss): | | | | |
| Pre-tax income (loss) | \$ 55,440 | \$ 40,794 | \$ 5,484 | \$ (14,667) |
| Add: Provision for loan and lease losses | 18,795 | 12,653 | 10,352 | 6,966 |
| Pre-tax pre-provision net income (loss) | <u>\$ 74,235</u> | <u>\$ 53,447</u> | <u>\$ 15,836</u> | <u>\$ (7,701)</u> |
| Adjusted pre-tax pre-provision net income (loss): | | | | |
| Pre-tax pre-provision net income (loss) | \$ 74,235 | \$ 53,447 | \$ 15,836 | \$ (7,701) |
| Impairment charges on assets held for sale | 628 | 951 | 905 | 1,092 |
| Merger-related expense | 2,056 | 1,272 | 1,550 | — |
| Core system conversion expense | 9,847 | — | — | — |
| Adjusted pre-tax pre-provision net income (loss) | <u>\$ 86,766</u> | <u>\$ 55,670</u> | <u>\$ 18,291</u> | <u>\$ (6,609)</u> |
| Total revenues: | | | | |
| Net interest income | \$ 178,605 | \$ 122,912 | \$ 90,618 | \$ 76,632 |
| Add: non-interest income | 51,639 | 50,058 | 25,904 | 20,839 |
| Total revenues | <u>\$ 230,244</u> | <u>\$ 172,970</u> | <u>\$ 116,522</u> | <u>\$ 97,471</u> |
| Tangible common stockholders' equity: | | | | |
| Total stockholders' equity | \$ 650,672 | \$ 458,578 | \$ 382,658 | \$ 188,274 |
| Less: Preferred stock | 10,438 | 10,438 | 25,441 | 15,003 |
| Less: Goodwill | 128,177 | 54,562 | 51,975 | 25,688 |
| Less: Core deposit intangibles and other intangibles | 33,419 | 16,756 | 19,826 | 22,326 |
| Tangible common stockholders' equity | <u>\$ 478,638</u> | <u>\$ 376,822</u> | <u>\$ 285,416</u> | <u>\$ 125,257</u> |
| Tangible assets: | | | | |
| Total assets | \$ 4,942,574 | \$ 3,366,130 | \$ 3,295,830 | \$ 2,479,870 |
| Less: Goodwill | 128,177 | 54,562 | 51,975 | 25,688 |
| Less: Core deposit intangibles and other intangibles | 33,419 | 16,756 | 19,826 | 22,326 |
| Tangible assets | <u>\$ 4,780,978</u> | <u>\$ 3,294,812</u> | <u>\$ 3,224,029</u> | <u>\$ 2,431,856</u> |
| Average tangible common stockholders' equity: | | | | |
| Average total stockholders' equity | \$ 561,568 | \$ 427,339 | \$ 238,950 | \$ 207,596 |
| Less: Average preferred stock | 10,438 | 17,837 | 15,060 | 15,003 |
| Less: Average goodwill | 97,349 | 51,975 | 31,362 | 25,676 |
| Less: Average core deposit intangibles and other intangibles | 27,679 | 18,360 | 21,021 | 23,909 |
| Average tangible common stockholders' equity | <u>\$ 426,102</u> | <u>\$ 339,167</u> | <u>\$ 171,507</u> | <u>\$ 143,008</u> |
| Average tangible assets: | | | | |
| Average total assets | \$ 4,238,602 | \$ 3,302,231 | \$ 2,754,738 | \$ 2,490,184 |
| Less: Average goodwill | 97,349 | 51,975 | 31,362 | 25,676 |
| Less: Average core deposit intangibles and other intangibles | 27,679 | 18,360 | 21,021 | 23,909 |
| Average tangible assets | <u>\$ 4,113,574</u> | <u>\$ 3,231,896</u> | <u>\$ 2,702,355</u> | <u>\$ 2,440,599</u> |
| Tangible net income available (loss attributable) to common stockholders: | | | | |
| Net income available (loss attributable) to common stockholders | \$ 40,410 | \$ 10,418 | \$ 66,729 | \$ (14,974) |
| Add: After-tax intangible asset amortization | 4,061 | 1,825 | 2,931 | 2,980 |
| Tangible net income available (loss attributable) to common stockholders | <u>\$ 44,471</u> | <u>\$ 12,243</u> | <u>\$ 69,660</u> | <u>\$ (11,994)</u> |
| Adjusted Tangible net income available (loss attributable) to common stockholders: | | | | |
| Tangible net income available (loss attributable) to common stockholders | \$ 44,471 | \$ 12,243 | \$ 69,660 | \$ (11,994) |
| Net deferred tax asset valuation allowance reversal | — | — | (61,377) | — |
| Incremental income tax benefit of state tax rate change | — | (4,790) | — | — |
| Incremental income tax benefit (expense) attributed to federal income tax reform | (724) | 7,154 | — | — |
| Impairment charges on assets held for sale | 628 | 951 | 905 | 1,092 |
| Merger-related expense | 2,056 | 1,272 | 1,550 | — |
| Core system conversion expense | 9,847 | — | — | — |
| Tax benefit on significant items | (3,275) | (781) | (31) | — |
| Adjusted tangible net income available (loss attributable) to common stockholders | <u>\$ 53,003</u> | <u>\$ 16,049</u> | <u>\$ 10,707</u> | <u>\$ (10,902)</u> |

| (dollars in thousands, except share and per share data) | As of or for the years ended December 31, | | | |
|--|---|------------|------------|-------------|
| | 2018 | 2017 | 2016 | 2015 |
| Net interest margin: | | | | |
| Reported net interest margin | 4.60% | 4.11% | 3.59% | 3.44% |
| Effect of accretion income on acquired loans | (0.53)% | (0.29)% | (0.11)% | (0.36)% |
| Net interest margin excluding accretion | 4.07% | 3.82% | 3.48% | 3.08% |
| Pre-tax pre-provision return on average assets: | | | | |
| Pre-tax pre-provision net income (loss) | \$ 74,235 | \$ 53,447 | \$ 15,836 | \$ (7,701) |
| Total average assets | 4,238,602 | 3,302,231 | 2,754,738 | 2,490,184 |
| Pre-tax pre-provision return on average assets | 1.75% | 1.62% | 0.57% | (0.31)% |
| Adjusted Pre-tax pre-provision return on average assets: | | | | |
| Adjusted pre-tax pre-provision net income (loss) | \$ 86,766 | \$ 55,670 | \$ 18,291 | \$ (6,609) |
| Total average assets | 4,238,602 | 3,302,231 | 2,754,738 | 2,490,184 |
| Adjusted pre-tax pre-provision return on average assets: | 2.05% | 1.69% | 0.66% | (0.27)% |
| Non-interest income to total revenues: | | | | |
| Non-interest income | \$ 51,639 | \$ 50,058 | \$ 25,904 | \$ 20,839 |
| Total revenues | 230,244 | 172,970 | 116,522 | 97,471 |
| Non-interest income to total revenues | 22.43% | 28.94% | 22.23% | 21.38% |
| Adjusted non-interest expense to average assets: | | | | |
| Adjusted non-interest expense | \$ 143,478 | \$ 117,300 | \$ 98,231 | \$ 104,080 |
| Total average assets | 4,238,602 | 3,302,231 | 2,754,738 | 2,490,184 |
| Adjusted non-interest expense to average assets | 3.39% | 3.55% | 3.57% | 4.18% |
| Adjusted efficiency ratio: | | | | |
| Adjusted non-interest expense excluding amortization of intangible assets | \$ 137,849 | \$ 114,226 | \$ 95,228 | \$ 101,100 |
| Total revenues | 230,244 | 172,970 | 116,522 | 97,471 |
| Adjusted efficiency ratio | 59.87% | 66.04% | 81.73% | 103.72% |
| Adjusted return on average assets: | | | | |
| Adjusted net income (loss) | \$ 49,725 | \$ 25,501 | \$ 7,776 | \$ (13,882) |
| Total average assets | 4,238,602 | 3,302,231 | 2,754,738 | 2,490,184 |
| Adjusted return on average assets | 1.17% | 0.77% | 0.28% | (0.56)% |
| Adjusted return on average stockholders' equity: | | | | |
| Adjusted net income (loss) | \$ 49,725 | \$ 25,501 | \$ 7,776 | \$ (13,882) |
| Average stockholders' equity | 561,568 | 427,339 | 238,950 | 207,596 |
| Adjusted return on average stockholders' equity | 8.85% | 5.97% | 3.25% | (6.69)% |
| Tangible common equity to tangible assets: | | | | |
| Tangible common equity | \$ 478,638 | \$ 376,822 | \$ 285,416 | \$ 125,257 |
| Tangible assets | 4,780,977 | 3,294,812 | 3,224,029 | 2,431,856 |
| Tangible common equity to tangible assets | 10.01% | 11.44% | 8.85% | 5.15% |
| Return on average tangible common stockholders' equity: | | | | |
| Tangible net income available (loss attributable) to common stockholders | \$ 44,471 | \$ 12,243 | \$ 69,660 | \$ (11,994) |
| Average tangible common stockholders' equity | 426,102 | 339,167 | 171,507 | 143,008 |
| Return on average tangible common stockholders' equity: | 10.44% | 3.61% | 40.62% | (8.39)% |
| Adjusted return on average tangible common stockholders' equity: | | | | |
| Adjusted tangible net income available (loss attributable) to common stockholders | \$ 53,003 | \$ 16,049 | \$ 10,707 | \$ (10,902) |
| Average tangible common stockholders' equity | 426,102 | 339,167 | 171,507 | 143,008 |
| Adjusted return on average tangible common stockholders' equity | 12.44% | 4.73% | 6.24% | (7.62)% |
| Tangible book value per share: | | | | |
| Tangible common equity | \$ 478,638 | \$ 376,822 | \$ 285,416 | \$ 125,257 |
| Common shares outstanding | 36,343,239 | 29,317,298 | 24,616,706 | 17,332,775 |
| Tangible book value per share | \$ 13.17 | \$ 12.85 | \$ 11.59 | \$ 7.23 |

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following is a discussion and analysis of our financial condition and results of operations and should be read in conjunction with our financial statements and notes thereto included in Item 8 of this report. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management’s expectations. Factors that could cause such differences are discussed in the sections entitled “Special Note Regarding Forward-Looking Statements” and “Risk Factors”. Byline assumes no obligation to update any of these forward-looking statements.

Critical accounting policies and estimates

Our accounting and reporting policies conform to GAAP and to general practices within the Banking industry. To prepare financial statements and interim financial statements in conformity with GAAP, management makes estimates, assumptions and judgments based on available information. These estimates, assumptions and judgments affect the amounts reported in the financial statements and accompanying notes; and are based on information available as of the date of the financial statements. As this information changes, actual results could differ from the estimates, assumptions and judgments reflected in the financial statements. In particular, management has identified several accounting policies that, due to the estimates, assumptions and judgements inherent in those policies, are critical in understanding our financial statements.

These critical accounting policies and estimates include (i) acquisition-related fair value computations, (ii) the carrying value of loans and leases, (iii) determining the provision and allowance for loan and lease losses, (iv) the valuation of intangible assets such as goodwill, servicing assets and core deposit intangibles, (v) the determination of fair value for financial instruments, including other-than-temporary-impairment losses, (vi) the valuation of real estate held for sale and (vii) the valuation of or recognition of deferred tax assets and liabilities.

The JOBS Act permits us an extended transition period for complying with new or revised accounting standards affecting public companies. We have elected to take advantage of this extended transition period, which means that the financial statements included in this annual report on Form 10-K, as well as any financial statements that we file in the future, will not be subject to all new or revised accounting standards generally applicable to public companies for the transition period for so long as we remain an emerging growth company or until we affirmatively and irrevocably opt out of the extended transition period provided for under the JOBS Act.

The following is a discussion of the critical accounting policies and significant estimates that require us to make complex and subjective judgments. Additional information about these policies can be found in Note 1 of our audited consolidated financial statements contained in Item 8 of this report.

Business combinations

We account for business combinations under the acquisition method of accounting in accordance with ASC 805. We recognize the fair value of the assets acquired and liabilities assumed as of the date of acquisition, with any excess of the fair value of consideration provided over the fair value of the identifiable net tangible and intangible assets acquired recorded as goodwill. Transaction costs are expensed as incurred. Application of the acquisition method requires extensive use of accounting estimates and judgements to determine the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date.

In accordance with ASC 805, the acquiring company retains the right to make appropriate adjustments to the assets and liabilities of the acquired entity for information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. The measurement period ends as of the earlier of (i) one year from the acquisition date or (ii) the date when the acquirer receives the information necessary to complete the business combination accounting.

Carrying value of loans and leases

Our accounting methods for loans and leases differ depending on whether they are new or acquired loans and leases; and for acquired loans, whether the loans were acquired at a discount as a result of credit deterioration since the date of origination.

Originated loans and leases

We account for originated loans and leases and purchased loans and leases not acquired through business combinations as originated loans and leases. The new loans that management has the intent and ability to hold for the foreseeable future are reported at their outstanding principal balances net of any allowance for loan and lease losses, unamortized deferred fees and costs and unamortized premiums or discounts. The net amount of nonrefundable loan origination fees and certain direct costs associated with the lending process are deferred and amortized to interest income over the contractual lives of the new loans using methods which approximate the level yield method. Discounts and premiums are amortized or accreted to interest income over the estimated term of the new loans using methods that approximate the effective yield method. Interest income on new loans is accrued based on the unpaid principal balance outstanding. Additionally, once an acquired non-impaired loan reaches its contractual maturity date, it is re-underwritten, and if renewed, it is classified as an originated loan.

Acquired loans and leases

Acquired loans and leases are recorded at fair value as of the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan and lease losses is not recorded at the acquisition date. Acquired loans are evaluated upon acquisition and classified as either acquired impaired or acquired non-impaired. Acquired impaired loans reflect evidence of credit deterioration since origination for which it is probable that all contractually required principal and interest will not be collected by us. Subsequent to acquisition, we periodically update for changes in cash flow expectations, which is reflected in interest income over the life of the loan as accretable yield. Any subsequent decreases in expected cash flow attributable to credit deterioration are recognized by recording a provision for loan losses.

For acquired non-impaired loans and leases, the excess or deficit of the loan and lease principal balance over the fair value is recorded as a discount or premium at acquisition and is accreted through interest income over the life of the loan or lease. Subsequent to acquisition, these loans and leases are evaluated for credit deterioration and a provision for loan and lease losses would be recorded when probable loss is incurred. These loans and leases are evaluated for impairment consistent with originated loans and leases.

Provision and allowance for loan and lease losses

The provision for loan and lease losses reflects the amount required to maintain the allowance for loan and lease losses (“ALLL”) at an appropriate level based upon management’s evaluation of the adequacy of general and specific loss reserves.

The ALLL is maintained at a level that management believes is appropriate to provide for known and inherent incurred loan and lease losses as of the dates of the Consolidated Statements of Financial Condition, and we have established methodologies for the determination of its adequacy. The methodologies are set forth in a formal policy and take into consideration the need for an overall general valuation allowance as well as specific allowances that are determined on an individual loan basis. We increase our ALLL by charging provisions for probable losses against our income and decreased by charge-offs, net of recoveries.

The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. While management uses available information to recognize losses on loans and leases, changes in economic or other conditions may necessitate revision of the estimate in future periods.

The ALLL is maintained at a level management believes is sufficient to provide for probable losses based upon an ongoing review of the originated and acquired non-impaired loan and lease portfolios by portfolio category, which include consideration of actual loss experience, peer loss experience, changes in the size and risk profile of the portfolio, identification of individual problem loan and lease situations which may affect a borrower’s ability to repay, and evaluation of prevailing economic conditions.

For acquired impaired loans, a specific valuation allowance is established when it is probable that we will be unable to collect all of the cash flows expected at acquisition, plus the additional cash flows expected to be collected arising from changes in estimates after acquisition.

The originated and non-impaired acquired loans have limited delinquency and credit loss history and have not yet exhibited an observable loss trend. The credit quality of loans in these loan portfolios are impacted by delinquency status and debt service coverage generated by the borrowers’ businesses and fluctuations in the value of real estate collateral.

Acquired non-impaired loans and originated loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreements. All acquired non-impaired loans and originated loans of \$100,000 or greater with an internal risk rating of substandard or below and on nonaccrual, as well as loans classified as troubled debt restructurings (“TDR”), are reviewed individually for impairment on a quarterly basis.

Goodwill and intangible assets

Goodwill. Goodwill represents the excess of the purchase consideration over the fair value of net assets acquired in connection with our recapitalization and acquisitions using the acquisition method of accounting. Goodwill is not amortized but is periodically evaluated for impairment under the provisions of ASC Topic 350, Intangibles—Goodwill and Other (“ASC 350”).

Impairment testing is performed using either a qualitative or quantitative approach at the reporting unit level. Our goodwill is allocated to Byline Bank, which is our only applicable reporting unit for the purposes of testing goodwill for impairment. We have selected November 30 as the date to perform the annual goodwill impairment test. Additionally, we perform a goodwill impairment evaluation on an interim basis when events or circumstances indicate impairment potentially exists.

Servicing assets. Servicing assets are recognized separately when they are acquired through sales of loans or when the rights to service loans are purchased. When loans are sold with servicing rights retained, servicing assets are recorded at fair value in accordance with ASC Topic 860, Transfers and Servicing (“ASC 860”). Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The fair value of servicing rights is highly sensitive to changes in underlying assumptions. Changes in the prepayment speed and discount rate assumptions have the most significant impact on the fair value of servicing rights. See Note 7 and Note 18 of the notes to our audited consolidated financial statements contained in Item 8 of this report for additional information.

Core deposit intangible assets. Other intangible assets primarily consist of core deposit intangible assets. In valuing core deposit intangibles, we consider variables such as deposit servicing costs, attrition rates and market discount rates. Core deposit intangibles are reviewed annually, or more frequently when events or changes in circumstances occur that indicate that their carrying values may not be recoverable. If the recoverable amount of the core deposit intangibles is determined to be less than its carrying value, we would then measure the amount of impairment based on an estimate of the fair value at that time. We also evaluate whether the events or circumstances have occurred that warrant a revision to the remaining useful lives of intangible assets. In cases where a revision is deemed appropriate, the remaining carrying amounts of the intangible assets are amortized over the revised remaining useful life. Core deposit intangibles are currently amortized over an approximate ten year period.

Customer relationship intangible. Other intangible assets also include our customer relationship intangible asset. In valuing our customer relationship intangibles, we consider variables such as assets under management, attrition rates, and fee structure. Customer relationship intangibles are currently amortized over a 12 year period.

Fair value of financial instruments

ASC Topic 820, Fair Value Measurement defines fair value as the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date.

The degree of management judgment involved in determining the fair value of assets and liabilities is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not available, management judgment is necessary to estimate fair value. In addition, changes in market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, we would use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement.

See Note 18 of the notes to our audited consolidated financial statements contained in Item 8 of this report for a complete discussion of our use of fair value of financial assets and liabilities and their related measurement practices.

Valuation of real estate held for sale

Other real estate owned (OREO). OREO includes real estate assets that have been acquired through, or in lieu of, loan foreclosure or repossession and are to be sold. OREO assets are initially recorded at fair value, less estimated costs to sell, of the collateral of the loan, on the date of foreclosure or repossession, establishing a new cost basis. Adjustments that reduce loan balances to fair value at the time of foreclosure or repossession are recognized as charge-offs in the allowance for loan and lease losses. Positive adjustments, if any, at the time of foreclosure or repossession are recognized in non-interest expense. After foreclosure or repossession, management periodically obtains new valuations and real estate or other assets may be adjusted to a lower carrying amount, determined by the fair value of the asset, less estimated costs to sell. Any subsequent write-downs are recorded as a decrease in the asset and charged against other real estate owned valuation adjustments, included within non-interest expense. Operating expenses of such properties, net of related income, are included in non-interest expense, and gains and losses on their disposition are included in non-interest expense. Gains on internally financed other real estate owned sales are accounted for in accordance with the methods stated in ASC Topic 360-20, Real Estate Sales (“ASC 360-20”). Any losses on the sales of other real estate owned properties are recognized immediately.

Assets held for sale. Assets held for sale consist of former branch locations and real estate purchased for expansion. Assets are considered held for sale when management has approved a plan to sell the assets following a branch closure or other events. The properties are being actively marketed and transferred to assets held for sale based at the lower of its carrying value or its fair value, less estimated costs to sell. Adjustments to reduce the asset balances to fair value are recorded at the time of transfer and are recognized through a charge against income. An assessment of the recoverability of other long-lived assets associated with all branches is periodically performed, resulting in impairment losses which are reflected in other non-interest expense.

Income taxes

We use the asset and liability method to account for income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the income tax basis of our assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. Our annual tax rate is based on our income, statutory tax rates and available tax planning opportunities. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties.

Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss carryforwards. We review our deferred tax positions quarterly for changes which may impact realizability. We evaluate the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. We use short and long-range business forecasts to provide additional information for its evaluation of the recoverability of deferred tax assets. It is our policy to recognize interest and penalties associated with uncertain tax positions, if applicable, as components of non-interest expense.

A deferred tax valuation allowance is established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not that all or some of the deferred tax asset will not be realized. See Note 11 of the notes to our audited consolidated financial statements contained in Item 8 of this report for further information on income taxes.

Recently Issued Accounting Pronouncements

For a discussion of recent accounting pronouncements, including the effective dates of adoption and anticipated effects on our results of operations and finance as condition, see Note 2 of the notes to our audited consolidated financial statements contained in Item 8 of this report.

Primary Factors Used to Evaluate Our Business

As a financial institution, we manage and evaluate various aspects of both our results of operations and our financial condition. We evaluate the levels and trends of the line items included in our consolidated balance sheet and income statement as well as various financial ratios that are commonly used in our industry. We analyze these ratios and financial trends against our own historical performance, our budgeted performance and the final condition and performance of comparable financial institutions in our region. Comparison of our financial performance against other financial institutions is impacted by the accounting for acquired non-impaired and acquired impaired loans.

These factors and metrics described in this annual report on Form 10-K may not provide an appropriate basis to compare our results or financial condition to the results or financial condition of other financial services companies, given our limited operating history and strategic acquisitions since our recapitalization.

Results of Operations

Overview

Our results of operations depend substantially on net interest income, which is the difference between interest income on interest-earning assets, consisting primarily of interest income on loans and lease receivables, including accretion income on loans, investment securities and other short-term investments and interest expense on interest-bearing liabilities, consisting primarily of deposits and borrowings. Our results of operations are also dependent upon our generation of non-interest income, consisting primarily of income from fees and service charges on deposits, loan servicing revenue, wealth management and trust income, ATM and interchange fees, and net gains on sales of investment securities and loans. Other factors contributing to our results of operations include our provisions for loan and lease losses, provision for income taxes, and non-interest expenses, such as salaries and employee benefits, occupancy and equipment expenses and other miscellaneous operating costs.

We reported consolidated net income of \$41.2 million for the year ended December 31, 2018, compared to net income of \$21.7 million for the year ended December 31, 2017, an increase of \$19.5 million. The increase in net income was attributable to a \$55.7 million increase in net interest income, a \$4.9 million decrease in provision for income taxes, and a \$1.6 million increase in non-interest income, offset by a \$36.5 million increase in non-interest expense and a \$6.1 million increase in provision for loan and lease losses. The increase in net interest income during the year ended December 31, 2018 was a result of the First Evanston acquisition, organic loan growth, and recent market interest rate increases, slightly offset by increases in interest-bearing deposit costs during the current period. The decrease in provision for income taxes was primarily driven by the revaluation of our net deferred tax assets resulting from federal tax reform during the year ended December 31, 2017. The increase in non-interest income was primarily driven by increased fees and service charges as well as wealth management and trust income as a result of the First Evanston acquisition. The increase in non-interest expense was primarily due to an increase in salaries and employee benefits of \$13.1 million due to organizational growth as a result of the First Evanston acquisition, an increase in data processing of \$8.7 million due to expenses incurred in 2018 related to the core banking system conversion we completed in the first quarter of 2019, and an increase in legal, audit and other professional fees of \$4.3 million partially due to merger-related expenses. The increase in provision for loan and lease losses was primarily driven by new loan and lease originations.

We reported consolidated net income of \$21.7 million for the year ended December 31, 2017, compared to net income of \$66.7 million for the year ended December 31, 2016. The decrease in net income was primarily attributable to a \$61.4 million income tax benefit that was recognized for the year ended December 31, 2017 due to the reversal of the valuation allowance on our net deferred tax asset. Adjusted net income, including this reversal as well as tax reform and tax rate change adjustments, impairment charges on assets held for sale, and merger-related expenses, was \$25.5 million and \$7.8 million for the years ended December 31, 2017 and December 31, 2016, respectively. See “GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures” included in item 6 of this report, for more information on how adjusted net income is calculated. Additional factors contributing to the increase in net income and adjusted net income were strategies implemented by management during 2016 to develop organic loan growth with a high quality deposit base, implementation of a strategic branch consolidation, decreases in workout expenses, and the Ridgestone acquisition.

Dividend declared and paid on our Series B Preferred Stock were \$783,000 and \$776,000 for the years ended December 31, 2018 and 2017, respectively. During the second quarter of 2017, and in connection with our initial public offering, we agreed to repurchase all \$15.0 million of our outstanding shares of Series A Preferred Stock for \$25.5 million. The \$10.5 million excess of consideration paid over the \$15.0 million carrying amount of the Series A Preferred Stock was treated as a one-time dividend declaration on the Series A Preferred Stock. Both the dividend declared on the Series A Preferred Stock and the regular quarterly dividends paid on our Series B Preferred Stock are reflected in the reported net income available to common stockholders. For the year ended December 31, 2017, dividends on the Series A and Series B Preferred Stock were \$11.3 million, or \$0.42 per basic and \$0.41 per diluted common share. There were no preferred dividends declared or paid for the year ended December 31, 2016.

For the years ended December 31, 2018, 2017 and 2016, net income available to common stockholders was \$40.4 million, or \$1.21 per basic and \$1.18 per diluted common share, \$10.4 million, or \$0.39 per basic and \$0.38 per diluted common share, and \$66.7 million, or \$3.31 per basic and \$3.27 per diluted common share, respectively.

Our results of operations for the years ended December 31, 2018, 2017 and 2016 produced an annual return on average assets of 0.97%, 0.66% and 2.42%, and a return on average stockholders’ equity of 7.34%, 5.08% and 27.93%, respectively.

Net interest income

Net interest income, representing interest income less interest expense, is a significant contributor to our revenues and earnings. We generate interest income from interest and dividends on interest-earning assets, which include loans, leases and investment securities we own. We incur interest expense from interest paid on interest-bearing liabilities, which include interest-bearing deposits, FHLB advances, junior subordinated debentures and other borrowings. To evaluate net interest income, we measure and monitor (i) yields on our loans and other interest-earning assets, (ii) the costs of our deposits and other funding sources, (iii) our net interest spread and (iv) our net interest margin. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is calculated as the net interest income divided by average interest-earning assets. Because non-interest-bearing sources of funds, such as non-interest-bearing deposits and stockholders’ equity, also fund interest-earning assets, net interest margin includes the benefit of these non-interest-bearing sources.

We also recognize income from the accretable discounts associated with the purchase of interest-earning assets. Because of our recapitalization and the acquisitions of Ridgestone and First Evanston, we derive a portion of our interest income from the accretable discounts on acquired loans. The accretion is generally recognized over the life of the loan and is impacted by changes in expected cash flows on the loan. This accretion will continue to have an impact on our net interest income as long as loans acquired with a discount at acquisition represent a meaningful portion of our interest-earning assets. As of December 31, 2018, acquired loans with evidence of credit deterioration accounted for under ASC Topic 310-30, Accounting for Purchased Loans with Deteriorated Credit Quality, represented 8.0% of our total loan portfolio, compared to 14.4 % at December 31, 2017 and 18.8% at December 31, 2016.

Changes in the market interest rates and interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and non-interest-bearing liabilities, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. In addition, our interest income includes the accretion of the discounts on our acquired loans, which will also affect our net interest spread, net interest margin and net interest income.

The following tables present, for the periods indicated, information about (i) average balances, the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin. Yields have been calculated on a pre-tax basis (dollars in thousands):

| | Year Ended December 31, | | | | | | | | |
|--|-----------------------------------|--------------------------|----------------------------|-----------------------------------|--------------------------|----------------------------|-----------------------------------|--------------------------|----------------------------|
| | 2018 | | | 2017 | | | 2016 | | |
| | Average Balance ⁽⁵⁾ | Interest Inc / Exp | Average Yield / Rate | Average Balance ⁽⁵⁾ | Interest Inc / Exp | Average Yield / Rate | Average Balance ⁽⁵⁾ | Interest Inc / Exp | Average Yield / Rate |
| ASSETS | | | | | | | | | |
| Cash and cash equivalents..... | \$ 76,710 | \$ 964 | 1.26% | \$ 50,865 | \$ 401 | 0.79% | \$ 32,927 | \$ 109 | 0.33% |
| Loans and leases ⁽¹⁾ | 2,947,458 | 184,972 | 6.28% | 2,193,956 | 120,406 | 5.48% | 1,671,751 | 83,150 | 4.97% |
| Securities available-for-sale..... | 722,841 | 17,568 | 2.43% | 604,762 | 12,691 | 2.10% | 667,502 | 11,720 | 1.76% |
| Securities held-to-maturity..... | 94,519 | 2,352 | 2.49% | 114,143 | 2,671 | 2.34% | 134,477 | 2,733 | 2.03% |
| Tax-exempt securities ⁽²⁾ | 44,245 | 1,095 | 2.47% | 23,413 | 634 | 2.71% | 20,504 | 653 | 3.18% |
| Total interest-earning assets..... | \$3,885,773 | \$206,951 | 5.33% | \$2,987,139 | \$136,803 | 4.58% | \$2,527,161 | \$98,365 | 3.89% |
| Allowance for loan and lease losses..... | (20,378) | | | (13,755) | | | (7,385) | | |
| All other assets..... | 373,207 | | | 328,847 | | | 234,962 | | |
| TOTAL ASSETS..... | \$4,238,602 | | | \$3,302,231 | | | \$2,754,738 | | |
| LIABILITIES AND STOCKHOLDERS' | | | | | | | | | |
| EQUITY | | | | | | | | | |
| Deposits | | | | | | | | | |
| Interest checking..... | \$ 260,405 | \$ 953 | 0.37% | \$ 186,177 | \$ 118 | 0.06% | \$ 187,042 | \$ 131 | 0.07% |
| Money market accounts..... | 522,599 | 3,857 | 0.74% | 378,796 | 1,056 | 0.28% | 401,628 | 992 | 0.25% |
| Savings..... | 465,322 | 465 | 0.10% | 443,024 | 316 | 0.07% | 442,458 | 307 | 0.07% |
| Time deposits..... | 954,686 | 14,054 | 1.47% | 764,114 | 6,246 | 0.82% | 583,022 | 3,150 | 0.54% |
| Total interest-bearing deposits..... | 2,203,012 | 19,329 | 0.88% | 1,772,111 | 7,736 | 0.44% | 1,614,150 | 4,580 | 0.28% |
| Federal Home Loan Bank advances..... | 365,533 | 6,160 | 1.69% | 252,720 | 3,291 | 1.30% | 151,508 | 706 | 0.47% |
| Other borrowed funds..... | 60,259 | 2,857 | 4.74% | 66,280 | 2,864 | 4.32% | 45,172 | 2,461 | 5.45% |
| Total borrowings..... | 425,792 | 9,017 | 2.12% | 319,000 | 6,155 | 1.93% | 196,680 | 3,167 | 1.61% |
| Total interest-bearing liabilities..... | \$2,628,804 | \$28,346 | 1.08% | \$2,091,111 | \$13,891 | 0.66% | \$1,810,830 | \$7,747 | 0.43% |
| Non-interest bearing demand deposits..... | 1,002,955 | | | 744,797 | | | 666,221 | | |
| Other liabilities..... | 45,275 | | | 38,984 | | | 38,737 | | |
| Total stockholders' equity..... | 561,568 | | | 427,339 | | | 238,950 | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' | | | | | | | | | |
| EQUITY..... | \$4,238,602 | | | \$3,302,231 | | | \$2,754,738 | | |
| Net interest spread ⁽³⁾ | | | 4.25% | | | 3.92% | | | 3.46% |
| Net interest income..... | | \$178,605 | | | \$122,912 | | | \$90,618 | |
| Net interest margin ⁽⁴⁾ | | | 4.60% | | | 4.11% | | | 3.59% |
| Net loan accretion impact on margin..... | | \$20,550 | 0.53% | | \$8,647 | 0.29% | | \$2,795 | 0.11% |
| Net interest margin excluding accretion ⁽⁶⁾ | | | 4.07% | | | 3.82% | | | 3.48% |

- (1) Loan and lease balances are net of deferred origination fees and costs and initial direct costs. Non-accrual loans and leases are included in total loan and lease balances.
- (2) Interest income and rates exclude the effects of a tax equivalent adjustment to adjust tax-exempt investment income on tax-exempt investment securities to a fully taxable basis due to immateriality.
- (3) Represents the average rate earned on interest-earning assets minus the average rate paid on interest-bearing liabilities.
- (4) Represents net interest income divided by total average interest-earning assets.
- (5) Average balances are average daily balances.
- (6) Represents a non-GAAP financial measure. See "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" included in item 6 of this report, for a reconciliation of our non-GAAP measures to the most directly comparable GAAP financial measure.

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following tables set forth the effects of changing rates and volumes on our net interest income during the periods shown. Information is provided with respect to (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate) and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). Changes applicable to both volume and rate have been allocated to volume. Yields have been calculated on a pre-tax basis. The tables below summarize the increases and decreases in interest income and interest expense resulting from changes in average balances (volume) and changes in average interest rates (dollars in thousands):

| | Year Ended December 31, | | | | | |
|---------------------------------------|----------------------------|--------------------------|-----------------|----------------------------|--------------------------|-----------------|
| | 2018 Compared to 2017 | | | 2017 Compared to 2016 | | |
| | Change Due to Volume | Change Due to Rate | Total Change | Change Due to Volume | Change Due to Rate | Total Change |
| Interest income | | | | | | |
| Cash and cash equivalents..... | \$ 325 | \$ 238 | \$ 563 | \$ 141 | \$ 151 | \$ 292 |
| Loans and leases ⁽¹⁾ | 52,851 | 11,715 | 64,566 | 28,518 | 8,738 | 37,256 |
| Securities available-for-sale..... | 2,867 | 2,010 | 4,877 | (1,316) | 2,287 | 971 |
| Securities held-to-maturity..... | (488) | 169 | (319) | (476) | 414 | (62) |
| Tax-exempt securities | 516 | (55) | 461 | 79 | (98) | (19) |
| Total interest income | \$ 56,071 | \$ 14,077 | \$ 70,148 | \$ 26,946 | \$ 11,492 | \$ 38,438 |
| Interest expense | | | | | | |
| Deposits | | | | | | |
| Interest checking..... | \$ 272 | \$ 563 | \$ 835 | \$ (1) | \$ (12) | \$ (13) |
| Money market accounts..... | 1,062 | 1,739 | 2,801 | (64) | 128 | 64 |
| Savings | 22 | 127 | 149 | 1 | 8 | 9 |
| Time deposits..... | 2,806 | 5,002 | 7,808 | 1,480 | 1,616 | 3,096 |
| Total interest-bearing deposits..... | 4,162 | 7,431 | 11,593 | 1,416 | 1,740 | 3,156 |
| Federal Home Loan Bank advances..... | 1,901 | 968 | 2,869 | 1,318 | 1,267 | 2,585 |
| Other borrowed funds | 361 | (368) | (7) | 912 | (509) | 403 |
| Total borrowings | 2,262 | 600 | 2,862 | 2,230 | 758 | 2,988 |
| Total interest expense | \$ 6,424 | \$ 8,031 | \$ 14,455 | \$ 3,646 | \$ 2,498 | \$ 6,144 |
| Net interest income..... | \$ 49,647 | \$ 6,046 | \$ 55,693 | \$ 23,300 | \$ 8,994 | \$ 32,294 |

(1) Includes loans and leases on non-accrual status.

Net interest income for the year ended December 31, 2018 was \$178.6 million, an increase of \$55.7 million, or 45.3% compared to the same period in 2017. The increase in interest income of \$70.1 million was primarily a result of an increase in loans as a result of the First Evanston acquisition, organic loan and lease growth, an increase in average yield on loans and leases, and an increase in average yield on securities available-for-sale. The average balance of interest-earning assets was \$3.9 billion for the year ended December 31, 2018, an increase of \$898.6 million, or 30.1%, compared to 2017. Interest expense increased by \$14.5 million for the year ended December 31, 2018 compared to the same period in 2017, primarily due to increased interest expense on interest-bearing deposits resulting from increased yields as a result of an increase in market interest rates, promotional time deposit campaigns, deposits assumed as part of the First Evanston merger, and FHLB advances resulting from an increase in borrowings to fund growth. Average total interest-bearing deposits increased \$430.9 million, or 24.3%, and average total FHLB advances increased \$112.8 million, or 44.6%, during 2018 compared to the same period in 2017.

Net interest income for the year ended December 31, 2017 was \$122.9 million, an increase of \$32.3 million, or 35.6% compared to the same period in 2016. The increase in interest income of \$38.4 million was primarily a result of organic growth of the loan and lease portfolio and the Ridgestone acquisition. The average balance of interest-earning assets was \$3.0 billion for the year ended December 31, 2017, an increase of \$460.0 million, or 18.1%, compared to the same period in 2016. Interest expense increased by \$6.1 million for the year ended December 31, 2017 compared to the same period in 2016, primarily due to increased interest expense on interest-bearing deposits and FHLB advances. Average total interest-bearing deposits increased \$158.0 million, or 9.8%, and average total FHLB advances increased \$101.2 million, or 66.8%, in 2017 compared to the same period in 2016.

Interest expense on borrowings for the year ended December 31, 2018 was \$9.0 million compared to \$6.2 million for the year ended December 31, 2017, an increase of \$2.9 million, or 46.5%. This increase was primarily driven by the increase in outstanding FHLB advances in the year ended December 31, 2018, which was a result of growth in the loan and lease portfolio. Interest expense on FHLB advances for the year ended December 31, 2018 was \$6.2 million compared to \$3.3 million for the year ended December 31, 2017, an increase of \$2.9 million. Interest expense on junior subordinated debentures issued to unconsolidated trusts and other borrowings for the years ended December 31, 2018 and 2017 was \$2.9 million. There was \$2,000 of interest expense on the line of credit for the year ended December 31, 2018 compared to \$568,000 for the year ended December 31, 2017.

Interest expense on borrowings for the year ended December 31, 2017 was \$6.2 million compared to \$3.2 million for the year ended December 31, 2016, an increase of \$3.0 million, or 94.4%. This increase was primarily driven by the increase in outstanding FHLB advances during the year ended December 31, 2017, which was a result from growth in the loan and lease portfolios. Interest expense on FHLB advances for the year ended December 31, 2017 was \$3.3 million compared to \$706,000 for the year ended December 31, 2016, an increase of \$2.6 million. Interest expense on junior subordinated debentures issued to unconsolidated trusts for the year ended December 31, 2017 was \$2.2 million compared to \$2.1 million for the year ended December 31, 2016, an increase of \$83,000 or 3.9%. Interest expense on the line of credit was \$568,000 compared to \$328,000 for the year ended December 31, 2016, an increase of \$240,000 or 72.8%. The increase of interest expense resulted primarily from volume changes.

The net interest margin for the year ended December 31, 2018 was 4.60%, an increase of 49 basis points compared to 4.11% for the year ended December 31, 2017. The average yield on interest-earning assets increased 75 basis points for the year ended December 31, 2018 compared to the year ended December 31, 2017, while the average rate paid on interest-bearing liabilities increased by 42 basis points, for an increase in the interest rate spread of 33 basis points. The primary driver of the increase was an increase in average loan and lease yields and an increase in loan accretion income, partially offset by an increase in average interest-bearing deposit yields resulting from rising interest rates and our time deposit promotion strategy.

The net interest margin for the year ended December 31, 2017 was 4.11%, an increase of 52 basis points compared to 3.59% for the year ended December 31, 2016. The average yield on interest-earning assets increased 69 basis points for the year ended December 31, 2017 compared to the year ended December 31, 2016, while the average rate paid on interest-bearing liabilities increased 23 basis points, resulting in an increase in the interest rate spread of 46 basis points. The increase in the average yield on interest-earning assets was due primarily to an increase in loan interest income resulting from increased loan originations along with loans associated with the Ridgestone acquisition. The higher yielding loans obtained from the Ridgestone acquisition and acquisition accounting adjustments resulted in an increase in the average rate for the combined loan portfolio.

Provision for loan and lease losses

The provision for loan and lease losses represents a charge to earnings necessary to establish an allowance for loan and lease losses that, in management's evaluation, is appropriate to provide coverage for probable losses incurred in the loan and lease portfolio. The allowance for loan and lease losses is increased by the provision for loan and lease losses and is decreased by charge-offs, net of recoveries on prior charge-offs.

Provisions for loan and lease losses for the year ended December 31, 2018 were \$18.8 million compared to \$12.7 million for the year ended December 31, 2017, an increase of \$6.1 million or 48.5%, primarily due to an increase in loans as a result of organic growth. The increase is partially due to an increase in a specific reserve on a commercial loan relationship during the first quarter of 2018, additional specific impairment in the unguaranteed portion of the U.S. government guaranteed portfolio, and an increase to the general reserve driven by growth in the originated loan and lease portfolio. The ALLL as a percentage of loans and leases decreased slightly from 0.73% at December 31, 2017 to 0.72% at December 31, 2018.

The provision for loan and lease losses for the year ended December 31, 2017 was \$12.7 million compared to \$10.4 million for the year ended December 31, 2016, an increase of \$2.3 million or 22.2%, primarily due to an increase in loans as a result of organic growth. The ALLL as a percentage of loans and leases increased from 0.51% at December 31, 2016 to 0.73% at December 31, 2017.

Non-interest income

Non-interest income was \$51.6 million for the year ended December 31, 2018, compared to \$50.1 million for the year ended December 31, 2017, an increase of \$1.6 million or 3.2%. The increase in non-interest income was primarily driven by increased fees and service charges and wealth management and trust income as a result of the First Evanston acquisition, increased derivative products fee income, and increased gains on sale of former branch properties, partially offset by an increased downward loan servicing asset revaluation and decreased gains on sales of government guaranteed loans.

Non-interest income was \$50.1 million for the year ended December 31, 2017, compared to \$25.9 million for the year ended December 31, 2016, an increase of \$24.2 million or 93.3%. The increase in non-interest income was primarily driven by an increase in gains on sales of loans and servicing fees.

The following table presents the major components of our non-interest income for the periods indicated (dollars in thousands):

| | Year ended December 31, | | |
|---|-------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| Fees and service charges on deposits | \$ 6,445 | \$ 5,289 | \$ 5,665 |
| Loan servicing revenue | 10,272 | 9,599 | 1,649 |
| Loan servicing asset revaluation | (9,269) | (5,941) | 257 |
| ATM and interchange fees | 5,426 | 5,840 | 5,856 |
| Net gains on sales of securities available-for-sale | 164 | 8 | 3,227 |
| Net gains on sales of loans | 31,551 | 33,062 | 4,323 |
| Wealth management and trust income | 1,545 | — | — |
| Other non-interest income | 5,505 | 2,201 | 4,927 |
| Total non-interest income | <u>\$ 51,639</u> | <u>\$ 50,058</u> | <u>\$ 25,904</u> |

Fees and service charges on deposits represent amounts charged to customers for banking services, such as fees on deposit accounts, and include, but are not limited to, maintenance fees, insufficient fund fees, overdraft protection fees, wire transfer fees and other charges. Fees and service charges on deposits were \$6.4 million for the year ended December 31, 2018 compared to \$5.3 million for the year ended December 31, 2017, an increase of \$1.2 million or 21.9%. The increase was primarily driven by additional business deposit accounts from the First Evanston acquisition.

Fees and service charges on deposits were \$5.3 million for the year ended December 31, 2017 compared to \$5.7 million for the year ended December 31, 2016, a decrease of \$376,000 or 6.5%. The decrease was primarily driven by a decline in interchange income due to lower transaction volume during the year.

While portions of the loans that we originate are sold and generate gains on sale revenue, servicing rights for the majority of loans that we sell are retained by us. In exchange for continuing to service loans that have been sold, we receive servicing revenue from a portion of the interest cash flow of the loan. We generated \$10.3 million in loan servicing revenue on the sold portion of U.S. government guaranteed loans for the year ended December 31, 2018, compared to \$9.6 million for the year ended December 31, 2017, an increase of \$673,000 or 7.0%. The increase was primarily driven by a larger volume of U.S. government guaranteed loans sold with retained servicing rights. At December 31, 2018 and 2017, the outstanding balances of guaranteed loans serviced, were \$1.3 billion and \$1.1 billion, respectively.

We generated \$9.6 million in loan servicing revenue on the sold portion of U.S. government guaranteed loans for the year ended December 31, 2017, compared to \$1.6 million for the year ended December 31, 2016, an increase of \$8.0 million. The increase was primarily driven by the Ridgestone acquisition in October 2016, in which we acquired the U.S. government guaranteed servicing rights. We did not receive servicing revenue prior to the Ridgestone acquisition. At December 31, 2017 and 2016, the outstanding balances of guaranteed loans serviced, were \$1.1 billion and \$1.0 billion, respectively.

Loan servicing asset revaluation represents net changes in the fair value of our servicing assets. Loan servicing asset revaluation had a downward adjustment of \$9.3 million for the year ended December 31, 2018, compared to \$5.9 million for the year ended December 31, 2017, an increase of \$3.3 million or 56.0%. Loan servicing asset revaluation had a downward adjustment of \$5.9 million for the year ended December 31, 2017, compared to an upward adjustment of \$257,000 for the year ended December 31, 2016, a change of \$6.2 million. The variances were primarily driven by the change in fair value of the servicing asset as a result of changes to valuation assumptions, including prepayment speeds, discount rates, and expected average loan life, on U.S. government guaranteed loans based on the current interest rate environment.

ATM and interchange fees were \$5.4 million for the year ended December 31, 2018 compared to \$5.8 million for the year ended December 31, 2017, a decrease of \$414,000 or 7.1%. The decrease was primarily driven by a revision to our fee assessment schedule offset by increased interchange fees resulting from a credit card vendor agreement signing bonus. ATM and interchange fees were \$5.8 million for the year ended December 31, 2017 compared to \$5.9 million for the year ended December 31, 2016, a decrease of \$16,000 or 0.3%. The decrease was primarily driven by lower interchange income.

Gains on sales of securities were \$164,000 for the year ended December 31, 2018 compared to \$8,000 for the year ended December 31, 2017, an increase of \$156,000. Gains on sales of securities were \$8,000 for the year ended December 31, 2017 compared to \$3.2 million for the year ended December 31, 2016, a decrease of \$3.2 million. The variances were due to minimal sales during 2018 and 2017.

Net gains on sales of loans were \$31.6 million for the year ended December 31, 2018 compared to \$33.1 million for the year ended December 31, 2017, a decrease of \$1.5 million or 4.6%. We sold \$320.5 million of U.S. government guaranteed loans during the year ended December 31, 2018 compared to \$311.3 million during the year ended December 31, 2017. The decrease in net gains on sales was primarily driven by a decrease in average premiums.

Net gains on sales of loans were \$33.1 million for the year ended December 31, 2017 compared to \$4.3 million for the year ended December 31, 2016, an increase of \$28.7 million. We sold \$311.3 million of U.S. government guaranteed loans during the year ended December 31, 2017. The increase in net gains was primarily due to a full year of sales subsequent to our acquisition of Ridgestone.

Wealth management and trust income represents fees charged to customers for investment, trust, or wealth management services and are primarily determined by total assets under management. Wealth management and trust income was \$1.5 million for the year ended December 31, 2018. Prior to the First Evanston acquisition during the second quarter of 2018, we did not offer these services. Assets under management were \$571.5 million as of December 31, 2018.

Other non-interest income was \$5.5 million for the year ended December 31, 2018 compared to \$2.2 million for the year ended December 31, 2017, an increase of \$3.3 million. Customer derivative products fee income was \$1.7 million for the year ended December 31, 2018 compared to \$393,000 for the year ended December 31, 2017, and increase of \$1.3 million. Gains on sales of assets held for sale were \$951,000 for the year ended December 31, 2018 compared to a loss of \$327,000 for the year ended December 31, 2017, an increase of \$1.3 million.

Other non-interest income was \$2.2 million for the year ended December 31, 2017 compared to \$4.9 million for the year ended December 31, 2016, a decrease of \$2.7 million or 55.3%. Customer derivative products fee income was \$393,000 the year ended December 31, 2017 compared to \$679,000 for the year ended December 31, 2016, a decrease of \$286,000, or 42.1%. Losses on sales of assets held for sale were \$327,000 for the year ended December 31, 2017 compared to gains on sales of assets held for sale of \$947,000 during the year ended December 31, 2016, a decrease of \$1.3 million.

Non-interest expense

We reported non-interest expense for the year ended December 31, 2018 of \$156.0 million compared to \$119.5 million for the year ended December 31, 2017, an increase of \$36.5 million or 30.5%. The increase was primarily due to the additional expenses as a result of our acquisition related activity, including salary and employee benefits, and core system conversion completed in the first quarter of 2019.

Non-interest expense for the year ended December 31, 2017 was \$119.5 million compared to \$100.7 million for the year ended December 31, 2016, an increase of \$18.8 million or 18.7%. The increase was primarily due to the additional expenses as a result of the acquisition of Ridgestone.

The following table presents the major components of our non-interest expense for the periods indicated (dollars in thousands):

| | Year ended December 31, | | |
|--|-------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Salaries and employee benefits | \$ 80,382 | \$ 67,269 | \$ 50,585 |
| Occupancy expense, net | 15,829 | 14,078 | 14,330 |
| Equipment expense | 2,419 | 2,472 | 2,032 |
| Loan and lease related expenses | 6,109 | 3,685 | 2,004 |
| Legal, audit and other professional fees..... | 11,373 | 7,027 | 5,862 |
| Data processing | 18,242 | 9,539 | 8,157 |
| Net loss (gain) recognized on other real estate owned and other related expenses | 235 | (294) | 1,719 |
| Regulatory assessments..... | 1,744 | 1,193 | 2,553 |
| Other intangible assets amortization expense | 5,629 | 3,074 | 3,003 |
| Advertising and promotions..... | 1,723 | 1,035 | 623 |
| Telecommunications | 1,710 | 1,593 | 1,698 |
| Other non-interest expense..... | 10,614 | 8,852 | 8,120 |
| Total non-interest expense..... | <u>\$ 156,009</u> | <u>\$ 119,523</u> | <u>\$ 100,686</u> |

Salaries and employee benefits expense, the single largest component of our non-interest expense, for the year ended December 31, 2018 was \$80.4 million compared to \$67.3 million for the year ended December 31, 2017, an increase of \$13.1 million

or 19.5%, primarily due to increased staffing as a result of the acquisition of First Evanston. Our staffing increased from 844 full-time equivalent employees as of December 31, 2017 to 943 as of December 31, 2018.

Salaries and employee benefits expense for the year ended December 31, 2017 was \$67.3 million compared to \$50.6 million for the year ended December 31, 2016, an increase of \$16.7 million or 33.0%, primarily due to the acquisition of Ridgestone and partially offset by the headcount reductions from our ongoing strategic branch optimization. Our staffing increased from 795 full-time equivalent employees as of December 31, 2016 to 844 as of December 31, 2017.

Occupancy expense for the year ended December 31, 2018 was \$15.8 million compared to \$14.1 million for the year ended December 31, 2017, an increase of \$1.8 million or 12.4%. The increase was primarily a result of branch additions as a result of the First Evanston acquisition and costs associated with our consolidation of eight branches during 2018. Occupancy expense for the year ended December 31, 2017 was \$14.1 million compared to \$14.3 million for the year ended December 31, 2016, a decrease of \$252,000 or 1.8%. The decrease was primarily a result of our ongoing branch optimization strategy in which we consolidated 26 branches during 2016, partially offset by increased expenses as a result of the Ridgestone acquisition.

Equipment expense for the year ended December 31, 2018 was \$2.4 million compared to \$2.5 million for the year ended December 31, 2017, a decrease of \$53,000 or 2.1%. Equipment expense for the year ended December 31, 2017 was \$2.5 million compared to \$2.0 million for the year ended December 31, 2016, an increase of \$440,000 or 21.7%. The increase was primarily due to increased depreciation expense related to increased investment in equipment and technology assets.

Loan and lease related expenses for the year ended December 31, 2018 were \$6.1 million compared to \$3.7 million for the year ended December 31, 2017, an increase of \$2.4 million or 65.8%. The increase was primarily driven by increased expenses associated with U.S. government guaranteed loan sales. Loan and lease related expenses for the year ended December 31, 2017 were \$3.7 million compared to \$2.0 million for the year ended December 31, 2016, an increase of \$1.7 million or 83.9%. The increase was primarily due to the increased expenses associated with U.S. government guaranteed loan sales, partially offset by lower loan real estate tax expense for problem loans.

Legal, audit and other professional fees for the year ended December 31, 2018 were \$11.4 million compared to \$7.0 million for the year ended December 31, 2017, an increase of \$4.3 million or 61.8%. The increase was primarily driven by increased legal and professional services incurred related to our core system conversion and our recent acquisitions. Legal, audit and other professional fees for the year ended December 31, 2017 were \$7.0 million compared to \$5.9 million for the year ended December 31, 2016, an increase of \$1.1 million or 19.9%. The increase was primarily driven by increased legal and advisory fees associated with our initial public offering and acquisition related activity.

Data processing expense for the year ended December 31, 2018 was \$18.2 million compared to \$9.5 million for the year ended December 31, 2017, an increase of \$8.7 million or 91.2%. The increase was primarily due to \$8.1 million of contract termination expenses in connection with the core system conversion and increased data processing expenses related to the First Evanston acquisition. Data processing expense for the year ended December 31, 2017 was \$9.5 million compared to \$8.2 million for the year ended December 31, 2016, an increase of \$1.4 million or 16.9%. The increase was primarily due to increased data processing expenses related to the Ridgestone acquisition.

Net loss recognized on other real estate owned and other related expenses was \$235,000 for the year ended December 31, 2018 compared to a net gain of \$294,000 for the year ended December 31, 2017, an increase in expense of \$529,000. This variance was primarily attributed to decreased gains on sales of other real estate owned assets during the year offset by decreased other real estate owned related expenses due to decreased inventory of properties. Net gain recognized on other real estate owned and other related expenses was \$294,000 for the year ended December 31, 2017 compared to a net loss of \$1.7 million for the year ended December 31, 2016, a decrease in expense of \$2.0 million. This variance was primarily attributed to increased gains on sales of other real estate owned assets during the year and lower other real estate owned related expenses.

Regulatory assessments for the year ended December 31, 2018 were \$1.7 million compared to \$1.2 million for the year ended December 31, 2017, an increase of \$551,000 or 46.2%. The increase was primarily due to our increased asset size, offset by our improved risk profile as a result of improved financial ratios and performance. Regulatory assessments for the year ended December 31, 2017 were \$1.2 million compared to \$2.6 million for the year ended December 31, 2016, a decrease of \$1.4 million or 53.3%. The decrease was primarily due our improved risk profile as a result of improved capital ratios, performance and asset quality.

Other intangible assets amortization expense for the year ended December 31, 2018 was \$5.6 million, compared to \$3.1 million for the year ended December 31, 2017, an increase of \$2.6 million or 83.1%. Other intangible assets amortization expense for the year ended December 31, 2017 was \$3.1 million compared to \$3.0 million for the year ended December 31, 2016, an increase of \$71,000 or 2.3%. The increases are attributed to continued amortization of our core deposit intangible assets and a customer relationship intangible as a result of the First Evanston acquisition.

Advertising and promotions for the year ended December 31, 2018 were \$1.7 million compared to \$1.0 million for the year ended December 31, 2017, an increase of \$688,000 or 66.5%, primarily due to an increase in advertising attributable to our core deposit advertising campaigns. Advertising and promotions for the year ended December 31, 2017 were \$1.0 million compared to \$623,000 for the year ended December 31, 2016, an increase of \$412,000, primarily attributable to our Small Business Capital operations.

Telecommunications expense for the year ended December 31, 2018 was \$1.7 million compared to \$1.6 million for the year ended December 31, 2017, an increase of \$117,000 or 7.3%. Telecommunications expense for the year ended December 31, 2017 were \$1.6 million compared to \$1.7 million for the year ended December 31, 2016, a decrease of \$105,000 or 6.2%. The decrease was a result of our cost savings initiatives.

Other non-interest expense for the year ended December 31, 2018 was \$10.6 million compared to \$8.9 million for the year ended December 31, 2017, an increase of \$1.8 million or 19.9%. This includes increases of \$473,000 in ATM and debit card losses, \$198,000 in operational insurance expenses, and \$154,000 in provision for unfunded commitments, offset by a decrease of \$323,000 in impairment charges on assets held for sale. The increases can also be attributed to the First Evanston acquisition.

Other non-interest expense for the year ended December 31, 2017 was \$8.9 million compared to \$8.1 million for the year ended December 31, 2016, an increase of \$732,000 or 9.0%. This includes increases of \$543,000 in impairment charges on assets held for sale and \$162,000 in provision for unfunded commitments.

For the years ended December 31, 2018, 2017 and 2016, our efficiency ratio was 65.31%, 67.32%, and 83.83%, respectively. The improvements in our efficiency ratio were primarily attributable to the increases in our net interest income resulting from our acquisitions of Ridgestone and First Evanston, offset by increased non-interest expense primarily driven by increased salary and benefit expenses, merger-related expenses, and core system conversion expenses. For the years ended December 31, 2018, 2017 and 2016, our adjusted efficiency ratio was 59.87%, 66.04%, and 81.73%, respectively. Please refer to the “GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures” included in item 6 of this report, for more information on how our adjusted efficiency ratio is calculated.

Income Taxes

Income tax expense was \$14.2 million for the year ended December 31, 2018, compared to \$19.1 million for the year ended December 31, 2017. We recorded an income tax benefit of \$61.2 million for the year ended December 31, 2016, which was primarily attributable to the reversal of the Company’s previously established valuation allowance of \$61.4 million. Management concluded that no valuation allowance was necessary on the Company’s net deferred tax assets as a result of the Ridgestone acquisition in 2016.

As part of a budget package passed by the Legislature of the State of Illinois, the corporate income tax rate increased from 5.25% to 7.00% effective July 1, 2017. As a result of the increase in the corporate income tax rate, we recorded a state income tax benefit of \$4.8 million during 2017, primarily due to increased value of our deferred tax asset related to our Illinois net loss deduction.

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017, and ASC Topic 740, Income Taxes (“ASC 740”), required us to reflect the changes associated with the Tax Act’s provisions in the fourth quarter of 2017. The Tax Act is complex and has extensive implications for the Company’s federal and state taxes. Among other things, the Tax Act reduced the corporate federal income tax rate from 35% to 21%, effective January 1, 2018. Also on December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118, which provides guidance on accounting for the Tax Act’s impact. SAB 118 provides a measurement period, not to extend beyond one year from the date of enactment. As a result of the rate change, the Company’s net deferred tax assets were required to be revalued during the period in which the new legislation was enacted, and the Company recorded net income tax expense of \$7.2 million during the fourth quarter of 2017 as a result of this change, and recorded an additional discrete income tax benefit of \$760,000 during 2018.

Our effective tax rate was 25.7% for the year ended December 31, 2018 and 46.8% for the year ended December 31, 2017. We expect our effective tax rate for 2019 to be approximately 27% to 29%.

Financial Condition

Balance sheet analysis

Our total assets increased by \$1.6 billion, or 46.8%, to \$4.9 billion at December 31, 2018, compared to \$3.4 billion at December 31, 2017. The increase in total assets includes an increase of \$1.2 billion, or 53.7%, in loans and leases from \$2.3 billion at December 31, 2017 to \$3.5 billion at December 31, 2018. Our originated loan and lease portfolio increased by \$664.4 million and our acquired loan and lease portfolio increased by \$559.7 million. These increases are primarily attributed to the First Evanston acquisition, organic loan and lease growth, and renewals of acquired non-impaired loans.

Total liabilities increased by \$1.4 billion, or 47.6%, to \$4.3 billion at December 31, 2018. The increase is a result of an increase in total deposits of \$1.3 billion, or 53.5%, and an increase in Federal Home Loan Bank advances of \$63.5 million, or 17.6%.

Investment portfolio

Our investment securities portfolio consists of securities classified as available-for-sale and held-to-maturity. There were no securities classified as trading in our investment portfolio as of or for the years ended December 31, 2018 and 2017. All available-for-sale securities are carried at fair value and may be used for liquidity purposes should management consider it to be in our best interest. Securities available-for-sale consist primarily of residential mortgage-backed securities, commercial mortgage-backed securities and U.S. government agencies securities.

Securities available-for-sale increased \$234.4 million, or 40.2%, from \$583.2 million at December 31, 2017 to \$817.7 million at December 31, 2018. The increase was primarily due to additional purchases of agency, mortgage-backed, and U.S. Treasury securities during the year, as well as the acquisition of the First Evanston securities portfolio.

Our held-to-maturity securities portfolio consists of mortgage-backed securities and obligations of states, municipalities and political subdivisions. We carry these securities at amortized cost. Securities held-to-maturity decreased \$17.9 million, or 15.3%, from \$117.2 million at December 31, 2017 to \$99.3 million at December 31, 2018. This decrease was due to principal paydowns received during the year.

We had no securities that were classified as having other-than-temporary-impairment (“OTTI”) as of December 31, 2018 and 2017.

The following tables summarize the fair value of the available-for-sale and held-to-maturity securities portfolio as of the dates presented (dollars in thousands):

| | December 31, 2018 | | December 31, 2017 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Available-for-sale | | | | |
| U.S. Treasury Notes..... | \$ 52,775 | \$ 52,667 | \$ 14,999 | \$ 14,863 |
| U.S. Government agencies..... | 187,427 | 186,498 | 54,248 | 52,958 |
| Obligations of states, municipalities, and political subdivisions | 60,686 | 60,233 | 33,405 | 33,170 |
| Residential mortgage-backed securities | | | | |
| Agency..... | 284,038 | 272,963 | 315,103 | 307,457 |
| Non-agency | 84,998 | 83,621 | 39,485 | 39,514 |
| Commercial mortgage-backed securities | | | | |
| Agency..... | 93,543 | 90,434 | 70,964 | 69,043 |
| Non-agency | 31,458 | 30,458 | 31,763 | 30,971 |
| Corporate securities | 34,716 | 34,173 | 29,573 | 29,976 |
| Other securities | 4,613 | 6,609 | 3,627 | 5,284 |
| Total | <u>\$ 834,254</u> | <u>\$ 817,656</u> | <u>\$ 593,167</u> | <u>\$ 583,236</u> |

| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
|--|-------------------|------------------|-------------------|-------------------|
| Held-to-maturity | | | | |
| Obligations of states, municipalities, and political subdivisions..... | \$ 23,835 | \$ 23,665 | \$ 24,030 | \$ 24,145 |
| Residential mortgage-backed securities | | | | |
| Agency | 40,082 | 39,644 | 53,731 | 53,607 |
| Non-agency | 35,349 | 34,430 | 39,402 | 39,525 |
| Total..... | <u>\$ 99,266</u> | <u>\$ 97,739</u> | <u>\$ 117,163</u> | <u>\$ 117,277</u> |

Certain securities have fair values less than amortized cost and, therefore, contain unrealized losses. At December 31, 2018, we evaluated the securities which had an unrealized loss for OTTI and determined all declines in value to be temporary. There were 225 investment securities with unrealized losses at December 31, 2018. We anticipate full recovery of amortized cost with respect to these securities by maturity, or sooner in the event of a more favorable market interest rate environment. We do not intend to sell these securities and it is not more likely than not that we will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

The following tables (dollars in thousands) set forth certain information regarding contractual maturities and the weighted average yields of our investment securities as of the dates presented. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

| | Maturity as of December 31, 2018 | | | | | | | |
|--|----------------------------------|---|----------------------------|---|----------------------------|---|---------------------|---|
| | Due in One Year or Less | | Due from One to Five Years | | Due from Five to Ten Years | | Due after Ten Years | |
| | Amortized Cost | Weighted Average Yield ⁽¹⁾ | Amortized Cost | Weighted Average Yield ⁽¹⁾ | Amortized Cost | Weighted Average Yield ⁽¹⁾ | Amortized Cost | Weighted Average Yield ⁽¹⁾ |
| Available-for-sale | | | | | | | | |
| U.S. Treasury Notes | \$ 13,431 | 2.14% | \$ 39,344 | 2.30% | \$ — | 0.00% | \$ — | 0.00% |
| U.S. government agencies..... | 47,773 | 2.05% | 90,978 | 2.39% | 43,701 | 2.91% | 4,975 | 2.78% |
| Obligations of states, municipalities, and political subdivisions..... | 5,925 | 2.09% | 24,655 | 2.40% | 17,344 | 2.58% | 12,762 | 3.16% |
| Residential mortgage-backed securities | | | | | | | | |
| Agency | — | 0.00% | 2,449 | 1.36% | 34,565 | 1.94% | 247,024 | 2.18% |
| Non-agency | — | 0.00% | — | 0.00% | — | 0.00% | 84,998 | 3.48% |
| Commercial mortgage-backed securities | | | | | | | | |
| Agency | — | 0.00% | 7,320 | 3.35% | 16,382 | 3.02% | 69,841 | 2.41% |
| Non-agency | — | 0.00% | — | 0.00% | — | 0.00% | 31,458 | 2.61% |
| Corporate securities..... | 3,701 | 3.56% | 17,044 | 3.21% | 13,971 | 4.22% | — | 0.00% |
| Other securities..... | — | 0.00% | — | 0.00% | — | 0.00% | 4,613 | 3.23% |
| Total..... | <u>\$ 70,830</u> | 2.15% | <u>\$ 181,790</u> | 2.47% | <u>\$ 125,963</u> | 2.76% | <u>\$ 455,671</u> | 2.53% |

| | Maturity as of December 31, 2018 | | | | | | | |
|--|----------------------------------|---|----------------------------|---|----------------------------|---|---------------------|---|
| | Due in One Year or Less | | Due from One to Five Years | | Due from Five to Ten Years | | Due after Ten Years | |
| | Amortized Cost | Weighted Average Yield ⁽¹⁾ | Amortized Cost | Weighted Average Yield ⁽¹⁾ | Amortized Cost | Weighted Average Yield ⁽¹⁾ | Amortized Cost | Weighted Average Yield ⁽¹⁾ |
| Held-to-maturity | | | | | | | | |
| Obligations of states, municipalities, and political subdivisions..... | \$ — | 0.00% | \$ 5,966 | 2.34% | \$ 10,075 | 2.64% | \$ 7,794 | 2.79% |
| Residential mortgage-backed securities | | | | | | | | |
| Agency | — | 0.00% | — | 0.00% | — | 0.00% | 40,082 | 2.29% |
| Non-agency | — | 0.00% | — | 0.00% | — | 0.00% | 35,349 | 3.35% |
| Total..... | <u>\$ —</u> | 0.00% | <u>\$ 5,966</u> | 2.34% | <u>\$ 10,075</u> | 2.64% | <u>\$ 83,225</u> | 2.79% |

(1) The weighted average yields are based on amortized cost.

| | Maturity as of December 31, 2017 | | | | | | | |
|---|----------------------------------|---------------------------------------|----------------------------|---------------------------------------|----------------------------|---------------------------------------|---------------------|---------------------------------------|
| | Due in One Year or Less | | Due from One to Five Years | | Due from Five to Ten Years | | Due after Ten Years | |
| | Amortized Cost | Weighted Average Yield ⁽¹⁾ | Amortized Cost | Weighted Average Yield ⁽¹⁾ | Amortized Cost | Weighted Average Yield ⁽¹⁾ | Amortized Cost | Weighted Average Yield ⁽¹⁾ |
| Available-for-sale | | | | | | | | |
| U.S. Treasury Notes | \$ 4,999 | 1.04% | \$ 10,000 | 1.21% | \$ — | 0.00% | \$ — | 0.00% |
| U.S. government agencies | 3,001 | 1.06% | 41,247 | 1.50% | 10,000 | 1.74% | — | 0.00% |
| Obligations of states, municipalities, and political subdivisions | 285 | 3.30% | 4,902 | 2.92% | 17,149 | 2.48% | 11,069 | 3.18% |
| Residential mortgage-backed securities | | | | | | | | |
| Agency | — | 0.00% | — | 0.00% | 15,855 | 1.62% | 299,248 | 2.01% |
| Non-agency | — | 0.00% | — | 0.00% | — | 0.00% | 39,485 | 3.12% |
| Commercial mortgage-backed securities | | | | | | | | |
| Agency | — | 0.00% | — | 0.00% | 11,557 | 1.98% | 59,407 | 2.19% |
| Non-agency | — | 0.00% | — | 0.00% | — | 0.00% | 31,763 | 2.61% |
| Corporate securities | — | 0.00% | 16,283 | 4.44% | 13,290 | 3.67% | — | 0.00% |
| Other securities | — | 0.00% | — | 0.00% | — | 0.00% | 3,627 | 3.63% |
| Total | <u>\$ 8,285</u> | <u>1.13%</u> | <u>\$ 72,432</u> | <u>2.22%</u> | <u>\$ 67,851</u> | <u>2.32%</u> | <u>\$ 444,599</u> | <u>2.22%</u> |

| | Maturity as of December 31, 2017 | | | | | | | |
|---|----------------------------------|---------------------------------------|----------------------------|---------------------------------------|----------------------------|---------------------------------------|---------------------|---------------------------------------|
| | Due in One Year or Less | | Due from One to Five Years | | Due from Five to Ten Years | | Due after Ten Years | |
| | Amortized Cost | Weighted Average Yield ⁽¹⁾ | Amortized Cost | Weighted Average Yield ⁽¹⁾ | Amortized Cost | Weighted Average Yield ⁽¹⁾ | Amortized Cost | Weighted Average Yield ⁽¹⁾ |
| Held-to-maturity | | | | | | | | |
| Obligations of states, municipalities, and political subdivisions | \$ — | 0.00% | \$ 1,719 | 2.20% | \$ 13,532 | 2.53% | \$ 8,779 | 2.82% |
| Residential mortgage-backed securities | | | | | | | | |
| Agency | — | 0.00% | — | 0.00% | — | 0.00% | 53,731 | 2.20% |
| Non-agency | — | 0.00% | — | 0.00% | — | 0.00% | 39,402 | 3.29% |
| Total | <u>\$ —</u> | <u>0.00%</u> | <u>\$ 1,719</u> | <u>2.20%</u> | <u>\$ 13,532</u> | <u>2.53%</u> | <u>\$ 101,912</u> | <u>2.67%</u> |

(1) The weighted average yields are based on amortized cost.

Total non-taxable securities classified as obligations of states, municipalities and political subdivisions were \$55.3 million at December 31, 2018, an increase of \$27.5 million from December 31, 2017.

There were no holdings of securities of any one issuer, other than U.S. government-sponsored entities and agencies, with total outstanding balances greater than 10% of our stockholders' equity as of December 31, 2018 and 2017.

Restricted stock

As a member of the Federal Home Loan Bank system, our bank is required to maintain an investment in the capital stock of the FHLB. No market exists for this stock, and it has no quoted market value. The stock is redeemable at par by the FHLB and is, therefore, carried at cost. In addition, our bank owns stock of Bankers' Bank that was acquired as part of the Ridgestone acquisition. The stock is redeemable at par and carried at cost. As of December 31, 2018 and 2017, we held \$19.2 million and \$16.3 million, respectively, in FHLB and Bankers' Bank stock. We evaluate impairment of our investment in FHLB and Bankers' Bank based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. We did not identify any indicators of impairment of FHLB and Bankers' Bank stock as of December 31, 2018 and 2017.

Loan and lease portfolio

Lending-related income is the most important component of our net interest income and is the main driver of the results of our operations. Total loans and leases at December 31, 2018 and 2017 were \$3.5 billion and \$2.3 billion, respectively, an increase of \$1.2 billion or 53.7%. The growth in the originated loan and lease portfolio was primarily driven by increases in commercial and industrial loans and leases. The growth in the acquired loan and lease portfolio was driven by the First Evanston acquisition.

We strive to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentration in certain types of collateral. The following table shows our allocation of originated, acquired impaired and acquired non-impaired loans and leases as of the dates presented (dollars in thousands):

| | December 31, | | | |
|--|---------------------|---------------|---------------------|---------------|
| | 2018 | | 2017 | |
| | Amount | % of Total | Amount | % of Total |
| Originated loans and leases | | | | |
| Commercial real estate | \$ 652,234 | 18.6% | \$ 513,622 | 22.5% |
| Residential real estate | 466,309 | 13.3% | 400,571 | 17.6% |
| Construction, land development, and other land | 144,128 | 4.1% | 97,638 | 4.3% |
| Commercial and industrial | 803,508 | 22.9% | 416,499 | 18.3% |
| Installment and other | 11,718 | 0.3% | 3,724 | 0.2% |
| Leasing financing receivables | 159,901 | 4.6% | 141,329 | 6.2% |
| Total originated loans and leases | <u>\$ 2,237,798</u> | <u>63.8%</u> | <u>\$ 1,573,383</u> | <u>69.1%</u> |
| Acquired impaired loans | | | | |
| Commercial real estate | \$ 146,808 | 4.2% | \$ 166,712 | 7.3% |
| Residential real estate | 113,934 | 3.3% | 144,562 | 6.4% |
| Construction, land development, and other land | 3,779 | 0.1% | 5,946 | 0.3% |
| Commercial and industrial | 12,617 | 0.4% | 10,008 | 0.4% |
| Installment and other | 404 | 0.0% | 462 | 0.0% |
| Total acquired impaired loans | <u>\$ 277,542</u> | <u>8.0%</u> | <u>\$ 327,690</u> | <u>14.4%</u> |
| Acquired non-impaired loans and leases | | | | |
| Commercial real estate | \$ 462,565 | 13.2% | \$ 211,359 | 9.3% |
| Residential real estate | 124,659 | 3.6% | 32,085 | 1.4% |
| Construction, land development, and other land | 37,442 | 1.1% | 1,845 | 0.1% |
| Commercial and industrial | 328,672 | 9.4% | 94,731 | 4.1% |
| Installment and other | 1,596 | 0.0% | 42 | 0.0% |
| Leasing financing receivables | 31,352 | 0.9% | 36,357 | 1.6% |
| Total acquired non-impaired loans and leases | <u>\$ 986,286</u> | <u>28.2%</u> | <u>\$ 376,419</u> | <u>16.5%</u> |
| Total loans and leases | <u>\$ 3,501,626</u> | <u>100.0%</u> | <u>\$ 2,277,492</u> | <u>100.0%</u> |
| Allowance for loan and lease losses | (25,201) | | (16,706) | |
| Total loans and leases, net of allowance for loan and lease losses | <u>\$ 3,476,425</u> | | <u>\$ 2,260,786</u> | |

Loans collateralized by real estate comprised 61.5% and 69.2% of the loan and lease portfolio at December 31, 2018 and 2017, respectively. Commercial real estate loans comprised the largest portion of the real estate loan portfolio as of December 31, 2018 and 2017, and totaled \$1.3 billion, or 58.6%, of real estate loans and 36.0% of the total loan and lease portfolio at December 31, 2018. At December 31, 2017, commercial real estate loans totaled \$891.7 million and comprised 56.6% of real estate loans and 39.1% of the total loan and lease portfolio. Acquired impaired commercial real estate loans decreased from \$166.7 million as of December 31, 2017 to \$146.8 million as of December 31, 2018, or 11.9%. At December 31, 2018 and 2017, commercial real estate loans, including both owner-occupied and non-owner occupied, as a percentage of total capital were 331.2% and 349.3%, respectively. Non-owner occupied commercial real estate loans were \$502.1 million and \$438.8 million, or 95.0% and 120.1% of total capital, at December 31, 2018 and 2017, respectively.

Residential real estate loans totaled \$704.9 million at December 31, 2018 compared to \$577.2 million at December 31, 2017, an increase of \$127.7 million or 22.1%. The residential real estate loan portfolio comprised 32.8% and 36.7% of real estate loans as of December 31, 2018 and 2017, respectively, and 20.2% and 25.4% of total loans and leases at December 31, 2018 and 2017, respectively. Acquired impaired residential real estate loans continue to decrease from \$144.6 million as of December 31, 2017 to \$113.9 million as of December 31, 2018, or 21.2%.

Construction, land development and other land loans totaled \$185.3 million at December 31, 2018 compared to \$105.4 million at December 31, 2017, an increase of \$79.9 million or 75.8%. The construction, land development and other land loan portfolio comprised 8.6% and 6.7% of real estate loans as of December 31, 2018 and 2017, respectively, and 5.3% and 4.7% of the total loan and lease portfolio as of December 31, 2018 and 2017, respectively.

Commercial and industrial loans totaled \$1.1 billion and \$521.2 million at December 31, 2018 and 2017, respectively, an increase of \$623.6 million or 119.6% primarily due to organic growth and the First Evanston acquisition. The commercial and industrial loan portfolio comprised 32.7% and 22.8% of the total loan and lease portfolio as of December 31, 2018 and 2017, respectively.

Lease financing receivables comprised 5.5% and 7.8% of the loan and lease portfolio as of December 31, 2018 and 2017, respectively. Total lease financing receivables were \$191.3 million and \$177.7 million at December 31, 2018 and 2017, respectively, an increase of \$13.6 million, or 7.6%, due to continued growth in our small-ticket vendor sales channels and our increased origination activities.

Loan and lease portfolio maturities and interest rate sensitivity

The following table shows our loan and lease portfolio by scheduled maturity at December 31, 2018 (dollars in thousands):

| | Due in One Year or Less | | Due after One Year Through Five Years | | Due after Five Years | | Total |
|---|--------------------------|--------------------------|---------------------------------------|--------------------------|--------------------------|--------------------------|----------------------------|
| | Fixed Rate | Floating Rate | Fixed Rate | Floating Rate | Fixed Rate | Floating Rate | |
| Originated loans and leases | | | | | | | |
| Commercial real estate | \$ 49,751 | \$ 87,355 | \$ 161,594 | \$ 150,673 | \$ 38,069 | \$ 164,792 | \$ 652,234 |
| Residential real estate | 12,054 | 13,277 | 88,952 | 75,655 | 228,789 | 47,582 | 466,309 |
| Construction, land development, and other land..... | 2,544 | 38,028 | 22,750 | 66,281 | 423 | 14,102 | 144,128 |
| Commercial and industrial..... | 5,806 | 149,689 | 62,291 | 309,361 | 33,897 | 242,464 | 803,508 |
| Installment and other | 817 | 9,381 | 1,069 | 22 | 429 | — | 11,718 |
| Leasing financing receivables..... | 3,363 | — | 139,833 | — | 16,705 | — | 159,901 |
| Total originated loans and leases..... | <u>\$ 74,335</u> | <u>\$ 297,730</u> | <u>\$ 476,489</u> | <u>\$ 601,992</u> | <u>\$ 318,312</u> | <u>\$ 468,940</u> | <u>\$ 2,237,798</u> |
| Acquired impaired loans | | | | | | | |
| Commercial real estate | \$ 43,808 | \$ 1,413 | \$ 82,604 | \$ 2,352 | \$ 8,984 | \$ 7,647 | \$ 146,808 |
| Residential real estate | 22,932 | 2,209 | 67,013 | 3,304 | 17,921 | 555 | 113,934 |
| Construction, land development, and other land..... | 1,964 | 163 | 1,539 | — | 113 | — | 3,779 |
| Commercial and industrial..... | 196 | 5,178 | 2,862 | 413 | 2,678 | 1,290 | 12,617 |
| Installment and other | 50 | — | 133 | — | 221 | — | 404 |
| Total acquired impaired loans..... | <u>\$ 68,950</u> | <u>\$ 8,963</u> | <u>\$ 154,151</u> | <u>\$ 6,069</u> | <u>\$ 29,917</u> | <u>\$ 9,492</u> | <u>\$ 277,542</u> |
| Acquired non-impaired loans and leases | | | | | | | |
| Commercial real estate | \$ 40,910 | \$ 18,782 | \$ 231,349 | \$ 28,782 | \$ 24,167 | \$ 118,575 | \$ 462,565 |
| Residential real estate | 9,032 | 6,640 | 47,431 | 53,318 | 2,579 | 5,659 | 124,659 |
| Construction, land development, and other land..... | 578 | 8,331 | 5,675 | 16,216 | 6,642 | — | 37,442 |
| Commercial and industrial..... | 8,298 | 117,775 | 92,336 | 45,608 | 10,029 | 54,626 | 328,672 |
| Installment and other | 319 | 300 | 977 | — | — | — | 1,596 |
| Leasing financing receivables..... | 4,087 | — | 26,183 | — | 1,082 | — | 31,352 |
| Total acquired non-impaired loans and leases..... | <u>\$ 63,224</u> | <u>\$ 151,828</u> | <u>\$ 403,951</u> | <u>\$ 143,924</u> | <u>\$ 44,499</u> | <u>\$ 178,860</u> | <u>\$ 986,286</u> |
| Total loans and leases | <u><u>\$ 206,509</u></u> | <u><u>\$ 458,521</u></u> | <u><u>\$ 1,034,591</u></u> | <u><u>\$ 751,985</u></u> | <u><u>\$ 392,728</u></u> | <u><u>\$ 657,292</u></u> | <u><u>\$ 3,501,626</u></u> |

As of December 31, 2018, 46.7% of the loan and lease portfolio bears interest at fixed rates and 53.3% at floating rates. The expected life of our loan portfolio will differ from contractual maturities because borrowers may have the right to curtail or prepay their loans with or without penalties. Because a portion of the portfolio is accounted for under ASC 310-30, the carrying value is significantly affected by estimates and it is impracticable to allocate scheduled payments for those loans based on those estimates. Consequently, the tables presented include information limited to contractual maturities of the underlying loans.

Allowance for loan and lease losses

The ALLL is determined by us on a quarterly basis, although we are engaged in monitoring the appropriate level of the allowance on a more frequent basis. The ALLL reflects management's estimate of probable incurred credit losses inherent in the loan and lease portfolios. The computation includes elements of judgement and high levels of subjectivity.

Factors considered by us include, but are not limited to, actual loss experience, peer loss experience, changes in size and risk profile of the portfolio, identification of individual problem loan and lease situations which may affect a borrower's ability to repay, and evaluation of the prevailing economic conditions. Changes in conditions may necessitate revision of the estimate in future periods.

We assess the ALLL based on three categories: (i) originated loans and leases, (ii) acquired non-impaired loans and leases and (iii) acquired impaired loans with further credit deterioration after the acquisition or our recapitalization.

Total ALLL was \$25.2 million at December 31, 2018 compared to \$16.7 million at December 31, 2017, an increase of \$8.5 million, or 50.8%. The increase was primarily due to an increase in specific reserve on a commercial loan relationship, additional specific impairment in the unguaranteed portion of the U.S. government guaranteed portfolio, and an increase to the general reserve driven by new loan and lease originations.

Total ALLL to total loans and leases held for investment, net before ALLL was 0.72% and 0.73% of total loans and leases at December 31, 2018 and 2017, respectively. The slight decrease was primarily driven by the acquisition of the First Evanston loan portfolio. This ratio is generally below the median of our peer banks, as we valued significant amounts of acquired loans at fair value at acquisition date as a result of our recapitalization, the Ridgestone acquisition, and the First Evanston acquisition. As a result of marking these acquired loans to fair value, management believes that this reduces the need to reserve for these loans for a period after acquisition, in accordance with applicable accounting guidance. Acquisition accounting adjustments remaining on loans from our recapitalization, the Ridgestone acquisition, and the First Evanston acquisition totaled \$34.0 million and \$31.7 million as of December 31, 2018 and 2017, respectively.

The following table presents an analysis of the allowance of the loan and lease losses for the periods presented (dollars in thousands):

| | Commercial Real Estate | Residential Real Estate | Construction, Land Development, and Other Land | Commercial and Industrial | Installment and Other | Lease Financing Receivables | Total |
|--|---------------------------|-------------------------------|--|---------------------------------|--------------------------|-----------------------------------|--------------|
| Balance at December 31, 2017 | \$ 4,794 | \$ 1,638 | \$ 222 | \$ 7,418 | \$ 41 | \$ 2,593 | \$ 16,706 |
| Provision (release) for acquired impaired loans | (151) | (66) | 341 | (25) | 16 | — | 115 |
| Provision (release) for acquired non-impaired loans and leases | 2,086 | (82) | 15 | 4,608 | 12 | (164) | 6,475 |
| Provision for originated loans | 2,608 | 261 | 306 | 7,506 | 40 | 1,484 | 12,205 |
| Total provision | \$ 4,543 | \$ 113 | \$ 662 | \$ 12,089 | \$ 68 | \$ 1,320 | \$ 18,795 |
| Charge-offs for acquired impaired loans | (601) | — | (418) | (270) | (32) | — | (1,321) |
| Charge-offs for acquired non-impaired loans and leases | (1,014) | — | — | (3,424) | (12) | (152) | (4,602) |
| Charge-offs for originated loans and leases | (250) | — | — | (3,250) | (16) | (2,365) | (5,881) |
| Total charge-offs | \$ (1,865) | \$ — | \$ (418) | \$ (6,944) | \$ (60) | \$ (2,517) | \$ (11,804) |
| Recoveries for acquired impaired loans | 68 | — | — | — | — | — | 68 |
| Recoveries for acquired non-impaired loans and leases | — | — | — | 122 | — | 204 | 326 |
| Recoveries for originated loans and leases | — | — | — | 247 | — | 863 | 1,110 |
| Total recoveries | \$ 68 | \$ — | \$ — | \$ 369 | \$ — | \$ 1,067 | \$ 1,504 |
| Less: Net charge-offs | 1,797 | 0 | 418 | 6,575 | 60 | 1,450 | 10,300 |
| Acquired impaired loans | 1,244 | 367 | — | 1,123 | 2 | — | 2,736 |
| Acquired non-impaired loans and leases | 2,415 | 109 | 17 | 3,295 | — | 404 | 6,240 |
| Originated loans and leases | 3,881 | 1,275 | 449 | 8,514 | 47 | 2,059 | 16,225 |
| Balance at December 31, 2018 | \$ 7,540 | \$ 1,751 | \$ 466 | \$ 12,932 | \$ 49 | \$ 2,463 | \$ 25,201 |
| Ending ALLL balance | | | | | | | |
| Acquired impaired loans | \$ 1,244 | \$ 367 | \$ — | \$ 1,122 | \$ 2 | \$ — | \$ 2,735 |
| Acquired non-impaired loans and leases and originated loans individually evaluated for impairment | 2,191 | 61 | — | 4,397 | — | — | 6,649 |
| Acquired non-impaired loans and leases and originated loans and leases collectively evaluated for impairment | 4,105 | 1,323 | 466 | 7,413 | 47 | 2,463 | 15,817 |
| Balance at December 31, 2018 | \$ 7,540 | \$ 1,751 | \$ 466 | \$ 12,932 | \$ 49 | \$ 2,463 | \$ 25,201 |
| Loans and leases ending balance | | | | | | | |
| Acquired impaired loans | \$ 146,808 | \$ 113,934 | \$ 3,779 | \$ 12,617 | \$ 404 | \$ — | \$ 277,542 |
| Acquired non-impaired loans and leases and originated loans individually evaluated for impairment | 11,983 | 2,137 | — | 21,794 | — | — | 35,914 |
| Acquired non-impaired loans and leases and originated loans and leases collectively evaluated for impairment | 1,102,816 | 588,831 | 181,570 | 1,110,386 | 13,314 | 191,253 | 3,188,170 |
| Total loans and leases at December 31, 2018, gross | \$ 1,261,607 | \$ 704,902 | \$ 185,349 | \$ 1,144,797 | \$ 13,718 | \$ 191,253 | \$ 3,501,626 |
| Ratio of net charge-offs to average loans and leases outstanding during the period | | | | | | | |
| Acquired impaired loans | 0.02% | 0.00% | 0.01% | 0.01% | 0.00% | 0.00% | 0.04% |
| Acquired non-impaired loans and leases | 0.03% | 0.00% | 0.00% | 0.11% | 0.00% | 0.00% | 0.15% |
| Originated loans and leases | 0.01% | 0.00% | 0.00% | 0.10% | 0.00% | 0.05% | 0.16% |
| Loans and leases ending balance as a percentage of total loans and leases, gross | | | | | | | |
| Acquired impaired loans | 4.19% | 3.26% | 0.11% | 0.36% | 0.01% | 0.00% | 7.93% |
| Acquired non-impaired loans and leases and originated loans individually evaluated for impairment | 0.35% | 0.06% | 0.00% | 0.62% | 0.00% | 0.00% | 1.03% |
| Acquired non-impaired loans and leases and originated loans and leases collectively evaluated for impairment | 31.49% | 16.82% | 5.18% | 31.71% | 0.38% | 5.46% | 91.04% |

| | Commercial Real Estate | Residential Real Estate | Construction, Land Development, and Other Land | Commercial and Industrial | Installment and Other | Lease Financing Receivables | Total |
|--|---------------------------|-------------------------------|--|---------------------------------|--------------------------|-----------------------------------|--------------|
| Balance at December 31, 2016 | \$ 1,945 | \$ 2,483 | \$ 742 | \$ 4,196 | \$ 334 | \$ 1,223 | \$ 10,923 |
| Provision for acquired impaired loans | 2,353 | 298 | 77 | 1,109 | 17 | — | 3,854 |
| Provision (release) for acquired non-impaired loans and leases | 1,323 | (25) | (8) | 3,904 | (1) | 248 | 5,441 |
| Provision (release) for originated loans | 667 | (678) | (589) | 1,045 | 18 | 2,895 | 3,358 |
| Total provision | \$ 4,343 | \$ (405) | \$ (520) | \$ 6,058 | \$ 34 | \$ 3,143 | \$ 12,653 |
| Charge-offs for acquired impaired loans | (914) | (312) | — | (365) | — | — | (1,591) |
| Charge-offs for acquired non-impaired loans and leases | (95) | (128) | — | (1,989) | (327) | (705) | (3,244) |
| Charge-offs for originated loans and leases | (485) | — | — | (482) | — | (2,394) | (3,361) |
| Total charge-offs | \$ (1,494) | \$ (440) | \$ — | \$ (2,836) | \$ (327) | \$ (3,099) | \$ (8,196) |
| Recoveries for acquired impaired loans | — | — | — | — | — | — | — |
| Recoveries for acquired non-impaired loans and leases | — | — | — | — | — | 695 | 695 |
| Recoveries for originated loans and leases | — | — | — | — | — | 631 | 631 |
| Total recoveries | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 1,326 | \$ 1,326 |
| Less: Net charge-offs | 1,494 | 440 | — | 2,836 | 327 | 1,773 | 6,870 |
| Acquired impaired loans | 1,928 | 433 | 77 | 1,418 | 18 | — | 3,874 |
| Acquired non-impaired loans and leases | 1,343 | 191 | 2 | 1,989 | — | 516 | 4,041 |
| Originated loans and leases | 1,523 | 1,014 | 143 | 4,011 | 23 | 2,077 | 8,791 |
| Balance at December 31, 2017 | \$ 4,794 | \$ 1,638 | \$ 222 | \$ 7,418 | \$ 41 | \$ 2,593 | \$ 16,706 |
| Ending ALLL balance | | | | | | | |
| Acquired impaired loans | \$ 1,928 | \$ 433 | \$ 77 | \$ 1,418 | \$ 18 | \$ — | \$ 3,874 |
| Acquired non-impaired loans and leases and originated loans individually evaluated for impairment | 1,101 | 158 | — | 2,692 | 14 | — | 3,965 |
| Acquired non-impaired loans and leases and originated loans and leases collectively evaluated for impairment | 1,765 | 1,047 | 145 | 3,308 | 9 | 2,593 | 8,867 |
| Balance at December 31, 2017 | \$ 4,794 | \$ 1,638 | \$ 222 | \$ 7,418 | \$ 41 | \$ 2,593 | \$ 16,706 |
| Loans and leases ending balance | | | | | | | |
| Acquired impaired loans | \$ 166,712 | \$ 144,562 | \$ 5,946 | \$ 10,008 | \$ 462 | \$ — | \$ 327,690 |
| Acquired non-impaired loans and leases and originated loans individually evaluated for impairment | 13,884 | 2,429 | — | 14,784 | 14 | — | 31,111 |
| Acquired non-impaired loans and leases and originated loans and leases collectively evaluated for impairment | 711,097 | 430,227 | 99,483 | 496,446 | 3,752 | 177,686 | 1,918,691 |
| Total loans and leases at December 31, 2017, gross | \$ 891,693 | \$ 577,218 | \$ 105,429 | \$ 521,238 | \$ 4,228 | \$ 177,686 | \$ 2,277,492 |
| Ratio of net charge-offs to average loans and leases outstanding during the period | | | | | | | |
| Acquired impaired loans | 0.04% | 0.01% | 0.00% | 0.02% | 0.00% | 0.00% | 0.07% |
| Acquired non-impaired loans and leases | 0.00% | 0.01% | 0.00% | 0.09% | 0.01% | 0.00% | 0.12% |
| Originated loans and leases | 0.02% | 0.00% | 0.00% | 0.02% | 0.00% | 0.08% | 0.13% |
| Loans and leases ending balance as a percentage of total loans and leases, gross | | | | | | | |
| Acquired impaired loans | 7.32% | 6.35% | 0.26% | 0.44% | 0.02% | 0.00% | 14.39% |
| Acquired non-impaired loans and leases and originated loans individually evaluated for impairment | 0.61% | 0.11% | 0.00% | 0.65% | 0.00% | 0.00% | 1.37% |
| Acquired non-impaired loans and leases and originated loans and leases collectively evaluated for impairment | 31.22% | 18.89% | 4.37% | 21.80% | 0.16% | 7.80% | 84.24% |

Non-performing assets

Non-performing loans and leases include loans and leases 90 days past due and still accruing, loans and leases accounted for on a non-accrual basis and accruing restructured loans. Non-performing assets consist of non-performing loans and leases plus other real estate owned. Non-accrual loans and leases as December 31, 2018 and 2017 totaled \$25.8 million and \$15.8 million, respectively. The increase was primarily driven by one downgraded commercial loan relationship and downgraded U.S. government guaranteed loans. Non-performing assets consisted of \$4.6 million and \$4.5 million of U.S. government guaranteed balances at December 31, 2018 and 2017, respectively.

Total OREO decreased from \$10.6 million as of December 31, 2017 to \$5.3 million at December 31, 2018. The \$5.3 million decrease in OREO resulted primarily from dispositions of \$7.1 million, offset by net additions to OREO through loan foreclosures and deeds in lieu of loan foreclosures totaling \$2.4 million.

The following table sets forth the amounts of non-performing loans and leases, non-performing assets, and OREO at the dates indicated (dollars in thousands):

| | <u>December 31,</u> <u>2018</u> | <u>December 31,</u> <u>2017</u> |
|--|------------------------------------|------------------------------------|
| Non-performing assets: | | |
| Non-accrual loans and leases ⁽¹⁾⁽²⁾⁽³⁾ | \$ 25,834 | \$ 15,764 |
| Past due loans and leases 90 days or more and still accruing interest..... | — | — |
| Accruing troubled debt restructured loans..... | 1,813 | 1,061 |
| Total non-performing loans and leases..... | 27,647 | 16,825 |
| Other real estate owned | 5,314 | 10,626 |
| Total non-performing assets | <u>\$ 32,961</u> | <u>\$ 27,451</u> |
| Total non-performing loans as a percentage of total loans and leases..... | 0.79% | 0.74% |
| Total non-performing assets as a percentage of total assets | 0.67% | 0.82% |
| Allowance for loan and lease losses as a percentage of non-performing loans and leases | 91.15% | 99.30% |
| Non-performing assets guaranteed by U.S. government: | | |
| Non-accrual loans guaranteed..... | \$ 4,245 | \$ 4,543 |
| Past due loans 90 days or more and still accruing interest guaranteed..... | — | — |
| Accruing troubled debt restructured loans guaranteed..... | 381 | — |
| Total non-performing loans guaranteed..... | 4,626 | 4,543 |
| Other real estate owned guaranteed..... | — | — |
| Total non-performing assets guaranteed..... | <u>\$ 4,626</u> | <u>\$ 4,543</u> |
| Total non-performing loans and leases not guaranteed as a percentage of total loans and leases..... | 0.66% | 0.54% |
| Total non-performing assets not guaranteed as a percentage of total assets | 0.57% | 0.68% |

(1) Includes \$7.3 million and \$1.6 million of non-accrual restructured loans at December 31, 2018 and 2017.

(2) For the year ended December 31, 2018, \$1.6 million in interest income would have been recorded had non-accrual loans been current.

(3) For the year ended December 31, 2018, \$457,000 in interest income would have been recorded had troubled debt restructurings included within non-accrual loans been current.

Acquired impaired loans (accounted for under ASC 310-30) that are delinquent and/or on non-accrual status continue to accrue income provided the respective pool in which those assets reside maintains a discount and recognizes accretion income. The aforementioned loans are characterized as performing loans based on contractual delinquency. If the pool no longer has a discount and accretion income can no longer be recognized, any loan within that pool on non-accrual status will be classified as non-accrual for presentation purposes.

Total non-accrual loans increased by \$10.1 million between December 31, 2018 and 2017 due to additional non-accrual loans primarily from the downgrades of one commercial relationship and one U.S. government guaranteed loan relationship. The U.S. government guaranteed portion of non-performing loans totaled \$4.6 million at December 31, 2018.

Total accruing loans past due increased from \$15.2 million at December 31, 2017 to \$24.5 million at December 31, 2018. This represents an increase of \$9.3 million, or 61.1%, and can be attributed to increases in commercial real estate and residential real estate, primarily in the 30-59 days past due category, partially offset by decreases in commercial and industrial and lease financing receivables. See Note 6 of the notes to our audited consolidated financial statements contained in Item 8 of this report for further information.

The following tables summarize the recorded investment, unpaid principal balance, related allowance, average recorded investment, and interest income recognized for loans and leases considered impaired as of the periods indicated (dollars in thousands):

| | December 31, 2018 | | | | | | |
|--|--|--|---|---|--|---|--|
| | Unpaid Principal Balance of Impaired Loans | Impaired ASC 310-30 Pools with Specific Allowance Recorded | Impaired Non-ASC 310-30 Loans with a Specific Allowance | Impaired Non-ASC 310-30 Loans with no Specific Allowance Recorded | Specific Allowance Allocated to Impaired Loans | Average Recorded Investment in Impaired Loans | Interest Income Recognized on Impaired Loans |
| Commercial real estate..... | \$ 14,006 | \$ 16,030 | \$ 5,873 | \$ 6,110 | \$ 2,191 | \$ 14,296 | \$ 860 |
| Residential real estate | 2,111 | 3,781 | 251 | 1,886 | 61 | 2,228 | 47 |
| Commercial and industrial..... | 25,114 | 4,484 | 10,601 | 11,193 | 4,397 | 18,152 | 1,232 |
| Installment and other..... | — | 2 | — | — | — | 11 | — |
| Total impaired loans held in portfolio, net..... | <u>\$ 41,231</u> | <u>\$ 24,297</u> | <u>\$ 16,725</u> | <u>\$ 19,189</u> | <u>\$ 6,649</u> | <u>\$ 34,687</u> | <u>\$ 2,139</u> |

| | December 31, 2017 | | | | | | |
|--|--|--|---|---|--|---|--|
| | Unpaid Principal Balance of Impaired Loans | Impaired ASC 310-30 Pools with Specific Allowance Recorded | Impaired Non-ASC 310-30 Loans with a Specific Allowance | Impaired Non-ASC 310-30 Loans with no Specific Allowance Recorded | Specific Allowance Allocated to Impaired Loans | Average Recorded Investment in Impaired Loans | Interest Income Recognized on Impaired Loans |
| Commercial real estate..... | \$ 15,570 | \$ 14,786 | \$ 2,459 | \$ 11,425 | \$ 1,101 | \$ 12,470 | \$ 712 |
| Residential real estate | 2,397 | 2,386 | 354 | 2,075 | 158 | 2,203 | 78 |
| Construction, land development, and other land | — | 404 | — | — | — | 309 | 2 |
| Commercial and industrial..... | 16,498 | 8,776 | 9,314 | 5,470 | 2,692 | 6,335 | 751 |
| Installment and other..... | 14 | 41 | 14 | — | 14 | 162 | 12 |
| Total impaired loans held in portfolio, net..... | <u>\$ 34,479</u> | <u>\$ 26,393</u> | <u>\$ 12,141</u> | <u>\$ 18,970</u> | <u>\$ 3,965</u> | <u>\$ 21,479</u> | <u>\$ 1,555</u> |

| | December 31, 2016 | | | | | | |
|--|--|--|---|---|--|---|--|
| | Unpaid Principal Balance of Impaired Loans | Impaired ASC 310-30 Pools with Specific Allowance Recorded | Impaired Non-ASC 310-30 Loans with a Specific Allowance | Impaired Non-ASC 310-30 Loans with no Specific Allowance Recorded | Specific Allowance Allocated to Impaired Loans | Average Recorded Investment in Impaired Loans | Interest Income Recognized on Impaired Loans |
| Commercial real estate..... | \$ 9,502 | \$ 5,226 | \$ — | \$ 8,916 | \$ — | \$ 8,975 | \$ 305 |
| Residential real estate | 2,527 | 2,252 | 496 | 804 | 293 | 1,346 | 46 |
| Commercial and industrial..... | 1,393 | 8,189 | 861 | 521 | 396 | 1,430 | (2) |
| Installment and other..... | 361 | 7 | 328 | — | 328 | 328 | 16 |
| Total impaired loans held in portfolio, net..... | <u>\$ 13,783</u> | <u>\$ 15,674</u> | <u>\$ 1,685</u> | <u>\$ 10,241</u> | <u>\$ 1,017</u> | <u>\$ 12,079</u> | <u>\$ 365</u> |

Deposits

We gather deposits primarily through each of our 57 branch locations in the Chicago metropolitan area and one branch in Brookfield, Wisconsin. Through our branch network, online, mobile and direct banking channels, we offer a variety of deposit products including demand deposit accounts, interest-bearing products, savings accounts, and certificates of deposit. We offer competitive online, mobile and direct banking channels. Small businesses are a significant source of low cost deposits as they value convenience, flexibility and access to local decision makers that are responsive to their needs. Deposits assumed from the First Evanston acquisition were recorded at fair value using the acquisition method of accounting in accordance with ASC Topic 805.

Total deposits at December 31, 2018 were \$3.7 billion, representing an increase of \$1.3 billion, or 53.5%, compared to \$2.4 billion at December 31, 2017. Non-interest-bearing deposits were \$1.2 billion, or 31.8% of total deposits, at December 31, 2018, an increase of \$432.0 million compared to \$760.9 million at December 31, 2017, or 31.1% of total deposits. Core deposits were 81.7% and 86.1% of total deposits at December 31, 2018 and 2017, respectively.

The following tables show the average balance amounts and the average contractual rates paid on our deposits for the periods indicated (dollars in thousands):

| | For the Year Ended December 31, 2018 | | For the Year Ended December 31, 2017 | |
|--|---|-----------------|---|-----------------|
| | Average Balance | Average Rate | Average Balance | Average Rate |
| Non-interest-bearing demand deposits | \$ 1,002,955 | 0.00% | \$ 744,797 | 0.00% |
| Interest checking..... | 260,405 | 0.37% | 186,177 | 0.06% |
| Money market accounts..... | 522,599 | 0.74% | 378,796 | 0.28% |
| Savings | 465,322 | 0.10% | 443,024 | 0.07% |
| Time deposits (below \$100,000) | 418,888 | 1.26% | 393,434 | 0.74% |
| Time deposits (\$100,000 and above)..... | 535,798 | 1.64% | 370,680 | 0.90% |
| Total..... | <u>\$ 3,205,967</u> | 0.60% | <u>\$ 2,516,908</u> | 0.31% |

The increase in time deposits was driven by the implementation of promotional campaigns during the year ended December 31, 2018, along with time deposits assumed as a result of the First Evanston acquisition. Our average cost of deposits was 60 basis points during the year ended December 31, 2018 compared to 31 basis points during the year ended December 31, 2017. This increase was primarily attributed to higher rates on interest-bearing deposits as a result of the rising interest rate environment and growth in deposits from the First Evanston acquisition, slightly offset by an increase in non-interest-bearing demand deposits. We had \$50.0 million of brokered time deposits as of December 31, 2018 and no brokered deposits as of December 31, 2017.

The following table shows time deposits and other time deposits of \$100,000 or more by time remaining until maturity (dollars in thousands):

| Time Deposits | At December 31, 2018 |
|---|-------------------------|
| Three months or less | \$ 162,528 |
| Over three months through six months..... | 102,945 |
| Over six months through 12 months..... | 249,008 |
| Over 12 months..... | 173,083 |
| Total | <u>\$ 687,564</u> |

Borrowed funds

In addition to deposits, we also utilize FHLB advances as a supplementary funding source to finance our operations. The bank's advances from the FHLB are collateralized by residential and multi-family real estate loans and securities. At December 31, 2018 and 2017, we had maximum borrowing capacity from the FHLB of \$1.7 billion and \$1.2 billion, respectively, subject to the availability of collateral. During the year ended December 31, 2018, outstanding FHLB advances increased to \$425.0 million from \$361.5 million at December 31, 2017, resulting from loan and lease growth and the timing of seasonal deposits outflows.

The following table sets forth certain information regarding our short-term borrowings at the dates and for the periods indicated (dollars in thousands):

| | Year Ended December 31, | | |
|--|-------------------------|------------|------------|
| | 2018 | 2017 | 2016 |
| Federal Home Loan Bank advances: | | | |
| Average balance outstanding..... | \$ 365,533 | \$ 252,720 | \$ 151,508 |
| Maximum outstanding at any month-end period during the year | 460,000 | 361,506 | 313,715 |
| Balance outstanding at end of period | 425,000 | 361,506 | 313,715 |
| Weighted average interest rate during period..... | 1.69% | 1.30% | 0.47% |
| Weighted average interest rate at end of period | 2.56% | 1.49% | 0.73% |
| Line of credit: | | | |
| Average balance outstanding..... | \$ — | \$ 9,190 | \$ 6,424 |
| Maximum outstanding at any month-end period during the year | — | 20,650 | 30,000 |
| Balance outstanding at end of period | — | — | 20,650 |
| Weighted average interest rate during period..... | — | 3.92% | 3.55% |
| Weighted average interest rate at end of period ⁽¹⁾ | — | — | 3.75% |

(1) We amended the credit agreement, which extended the maturity date to October, 2018. The amended revolving line of credit bears interest at either the LIBOR Rate plus 250 basis points or the Prime Rate minus 25 basis points, based on our election, which is required to be communicate to CIBC at least three business days prior to the commencement of an interest period. If we fail to provide timely notification, the interest rate will be Prime Rate minus 25 basis points.

At December 31, 2018, FHLB advances have maturities ranging from January 2019 to March 2019.

Customer repurchase agreements (sweeps)

Securities sold under agreements to repurchase represent a demand deposit product offered to customers that sweep balances in excess of the FDIC insurance limit into overnight repurchase agreements. We pledge securities as collateral for the repurchase agreements. Securities sold under agreements to repurchase increased by \$3.0 million from \$31.2 million at December 31, 2017 to \$34.2 million at December 31, 2018.

Liquidity

We manage liquidity based upon factors that include the amount of core deposits as a percentage of total deposits, the level of diversification of our funding sources, the amount of non-deposit funding used to fund assets, the availability of unused funding sources, off-balance sheet obligations, the availability of assets to be readily converted into cash without undue loss, the amount of cash and liquid securities we hold and the re-pricing characteristics and maturities of our assets when compared to the re-pricing characteristics of our liabilities, the ability to securitize and sell certain pools of assets and other factors.

Our liquidity needs are primarily met by cash and investment securities positions, growth in deposits, cash flow from amortizing loan portfolios, and borrowings from the FHLB. For additional information regarding our operating, investing, and financing cash flows, see “Consolidated Statements of Cash Flows” in our audited consolidated financial statements contained in Item 8 of this report.

As of December 31, 2018, Byline Bank had maximum borrowing capacity from the FHLB of \$1.7 billion and \$293.6 million from the Federal Reserve Bank (“FRB”). As of December 31, 2018, Byline Bank had open advances of \$425.0 million and open letters of credit of \$32.6 million, leaving us with available aggregate borrowing capacity of \$1.3 billion. In addition, Byline Bank had an uncommitted federal funds line available of \$55.0 million.

On October 13, 2016, we entered into a \$30.0 million revolving credit agreement with a correspondent bank. In April 2017, the revolving line of credit was amended to a non-revolving line of credit as long as the outstanding balance exceeds \$5.0 million. When the outstanding balance was reduced to \$5.0 million, the line of credit was converted to a revolving line of credit with credit availability up to \$5.0 million until maturity. In July 2017, we repaid the outstanding balance, in full, under this line of credit of \$16.2 million with proceeds from our initial public offering. On October 11, 2018, the Company entered into a third amendment to the revolving credit agreement, which increased the revolving loan commitment to \$10.0 million, extended the maturity of the credit facility to October 10, 2019, and makes certain other changes, including a release of the previously executed Stock Pledge Agreement dated October 13, 2016, and execution of a Negative Pledge Agreement dated October 11, 2018. As of December 31, 2018, no balance was outstanding on the line of credit.

There are regulatory limitations that affect the ability of Byline Bank to pay dividends to the Company. See Note 21 of the notes to our audited consolidated financial statements contained in Item 8 of this report for additional information. Management believes that such limitations will not impact our ability to meet our ongoing short-term cash obligations.

We expect that our cash and liquidity resources will be generated by the operations of Byline Bank, which we expect to be sufficient to satisfy our liquidity and capital requirements for at least the next twelve months.

Capital resources

Stockholders' equity at December 31, 2018 was \$650.7 million compared to \$458.6 million at December 31, 2017, an increase of \$192.1 million, or 41.9%. The increase was primarily driven by common stock considerations net of issuance costs in connection with the acquisition of First Evanston, the issuance of common stock upon the exercise of stock options as well as retained earnings, offset by an increase to other comprehensive loss.

The Company and Byline Bank are subject to various regulatory capital requirements administered by federal banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by federal banking regulators that, if undertaken, could have a direct material effect on our financial statements.

Under applicable bank regulatory capital requirements, each of the Company and Byline Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Byline Bank must also meet certain specific capital guidelines under the prompt corrective action framework. The capital amounts and classification are subject to qualitative judgments by the federal banking regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and Byline Bank to maintain minimum amounts and ratios of CET1 capital, Tier 1 capital and total capital to risk-weighted assets and of Tier 1 capital to average consolidated assets, (referred to as the "leverage ratio"), as defined under these capital requirements. For further information, see Item 1. "Business—Supervision and Regulation—Regulatory Capital Requirements" and "Business—Supervision and Regulation—Prompt Corrective Action Framework."

As of December 31, 2018, Byline Bank exceeded all applicable regulatory capital requirements and was considered "well-capitalized." There have been no conditions or events since December 31, 2018 that management believes have changed Byline Bank's classifications.

The regulatory capital ratios for the Company and Byline Bank to meet the minimum capital adequacy standards and for Byline Bank to be considered well capitalized under the prompt corrective action framework and the Company's and Byline Bank's actual capital amounts and ratios are set forth in the following tables as of the periods indicated (dollars in thousands):

| 2018 | Actual | | Minimum Capital Required | | Required to be Considered Well Capitalized | |
|--|------------|--------|--------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total capital to risk weighted assets: | | | | | | |
| Company | \$ 551,079 | 13.99% | \$ 315,093 | 8.00% | N/A | N/A |
| Bank | 528,329 | 13.40% | 315,455 | 8.00% | 394,318 | 10.00% |
| Tier 1 capital to risk weighted assets: | | | | | | |
| Company | \$ 523,808 | 13.30% | \$ 236,320 | 6.00% | N/A | N/A |
| Bank | 501,058 | 12.71% | 236,591 | 6.00% | 315,455 | 8.00% |
| Common Equity Tier 1 (CET1) to risk weighted assets: | | | | | | |
| Company | \$ 466,870 | 11.85% | \$ 177,240 | 4.50% | N/A | N/A |
| Bank | 501,058 | 12.71% | 177,443 | 4.50% | 256,307 | 6.50% |
| Tier 1 capital to average assets: | | | | | | |
| Company | \$ 523,808 | 11.05% | \$ 189,587 | 4.00% | N/A | N/A |
| Bank | 501,058 | 10.56% | 189,797 | 4.00% | 237,246 | 5.00% |

| 2017 | Actual | | Minimum Capital Required | | Required to be Considered Well Capitalized | |
|--|------------|--------|--------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total capital to risk weighted assets: | | | | | | |
| Company | \$ 408,245 | 15.89% | \$ 205,559 | 8.00% | N/A | N/A |
| Bank | 365,386 | 14.19% | 205,981 | 8.00% | 257,476 | 10.00% |
| Tier 1 capital to risk weighted assets: | | | | | | |
| Company | \$ 389,934 | 15.18% | \$ 154,169 | 6.00% | N/A | N/A |
| Bank | 347,075 | 13.48% | 154,486 | 6.00% | 205,981 | 8.00% |
| Common Equity Tier 1 (CET1) to risk weighted assets: | | | | | | |
| Company | \$ 351,408 | 13.68% | \$ 115,627 | 4.50% | N/A | N/A |
| Bank | 347,075 | 13.48% | 115,864 | 4.50% | 167,359 | 6.50% |
| Tier 1 capital to average assets: | | | | | | |
| Company | \$ 389,934 | 12.18% | \$ 128,075 | 4.00% | N/A | N/A |
| Bank | 347,075 | 10.82% | 128,305 | 4.00% | 160,382 | 5.00% |

The Company and Byline Bank must maintain a capital conservation buffer consisting of CET1 capital greater than 2.5% of risk-weighted assets above the required minimum risk-based capital levels in order to avoid limitations on paying dividends, repurchasing shares, and paying discretionary bonuses. The capital conservation buffer requirement began to be phased in on January 1, 2016 when a buffer greater than 0.625% of risk-weighted assets was required, which amount increases each year until the buffer requirement was fully implemented on January 1, 2019. The conservation buffers for the Company and Byline Bank exceed the fully phased in minimum capital requirement as of December 31, 2018.

Provisions of state and federal banking regulations may limit, by statute, the amount of dividends that may be paid to the Company by Byline Bank without prior approval of Byline Bank's regulatory agencies. The Company is economically dependent on the cash dividends received from Byline Bank. These dividends represent the primary cash flow from operating activities used to service obligations. For the year ended December 31, 2018, the Company received \$2.9 million in cash dividends from Byline Bank in order to pay the required interest on its outstanding junior subordinated debentures in connection with its trust preferred securities interest, dividends on the Series B preferred stock outstanding, and to fund other Company-related activities. For the year ended December 31, 2017, the Company received \$2.8 million in cash dividends from Byline Bank to pay interest on the line of credit, interest payments on its trust preferred securities, and dividends on its preferred stock.

Contractual obligations

The following table presents our significant contractual obligations and commitments as of December 31, 2018. Further information regarding the details of each obligation is included in the notes to our audited consolidated financial statements contained in Item 8 of this report. See specific note references in the table below (dollars in thousands):

| | One Year or Less | Greater Than One to Three Years | Greater Than Three to Five Years | Greater Than Five Years | Total |
|---|--------------------|---------------------------------|----------------------------------|-------------------------|--------------------|
| Deposits with no stated maturity (Note 14)..... | \$ 2,606,031 | \$ — | \$ — | \$ — | \$2,606,031 |
| Time deposits (Note 14) | 852,780 | 274,446 | 16,659 | — | 1,143,885 |
| Federal Home Loan Bank advances (Note 12)..... | 425,000 | — | — | — | 425,000 |
| Other borrowings (Note 13)..... | 34,166 | — | — | — | 34,166 |
| Junior subordinated debentures (Note 15)..... | — | — | — | 36,768 | 36,768 |
| Operating leases (Note 17) | 3,285 | 5,175 | 2,050 | 2,605 | 13,115 |
| Total | <u>\$3,921,262</u> | <u>\$ 279,621</u> | <u>\$ 18,709</u> | <u>\$ 39,373</u> | <u>\$4,258,965</u> |
| Commitments to extend credit and letters of credit (Note 17)..... | \$1,039,143 | | | | |

Off-balance sheet items and other financing arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit, commercial letters of credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Statements of Financial Condition. The contractual or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Byline Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral is primarily obtained in the form of commercial and residential real estate (including income producing commercial properties).

Letters of credit are conditional commitments issued by Byline Bank to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Commitments to make loans are generally made for periods of 90 days or less. The fixed rate loan commitments have interest rates ranging from 2.00% to 15.00% and maturities up to 2032. Variable rate loan commitments have interest rates ranging from 3.00% to 15.00% and maturities up to 2048.

Our exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as for funded instruments. We do not anticipate any material losses as a result of the commitments and standby letters of credit.

During the years ended December 31, 2018 and 2017, we entered into interest rate swaps that are used to manage differences in the amount, timing, and duration of our known or expected cash receipts and its known or expected cash payments principally related to certain variable rate borrowings. We also entered into interest rate swaps with certain qualified borrowers to facilitate the borrowers' risk management strategies and concurrently entered into mirror-image derivatives with a third party counterparty.

We recognize derivative financial instruments at fair value regardless of the purpose or intent for holding the instrument. We record derivative assets and derivative liabilities on the Consolidated Statements of Financial Condition within other assets and other liabilities, respectively. See Note 22 of the notes to our audited consolidated financial statements contained in Item 8 of this report for additional information. Because the derivative assets and liabilities recorded on the balance sheet at December 31, 2018 do not represent the amounts that may ultimately be paid under these contracts, these assets and liabilities are listed in the table below (dollars in thousands):

| | December 31, 2018 | | |
|---|--------------------------|-------------------|------------------|
| | Notional | Fair Value | |
| | | Asset | Liability |
| Interest rate contracts—pay fixed, receive floating..... | \$ 250,000 | \$ 6,699 | \$ — |
| Other interest rate swaps—pay fixed, receive floating | 294,545 | 4,041 | 4,237 |
| Other credit derivatives | 4,424 | — | 6 |

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our primary market risk is interest rate risk, which is defined as the risk of loss of net interest income or net interest margin because of changes in interest rates.

We seek to measure and manage the potential impact of interest rate risk. Interest rate risk occurs when interest-earning assets and interest-bearing liabilities mature or re-price at different times, on a different basis or in unequal amounts. Interest rate risk also arises when our assets, liabilities and off-balance sheet contracts each respond differently to changes in interest rates, including as a result of explicit and implicit provisions in agreements related to such assets and liabilities and in off-balance sheet contracts that alter the applicable interest rate and cash flow characteristics as interest rates change. The two primary examples of such provisions that we are exposed to are the duration and rate sensitivity associated with indeterminate-maturity deposits (e.g., non-interest-bearing checking accounts, negotiable order of withdrawal accounts, savings accounts and money market deposits accounts and the rate of prepayment associated with fixed-rate lending and mortgage-backed securities. Interest rates may also affect loan demand, credit losses, mortgage origination volume and other items affecting earnings.

We are also exposed to interest rate risk through the retained portion of the U.S. government guaranteed loans we make and the related servicing rights. Our U.S. government guaranteed loan portfolio is comprised primarily of SBA 7(a) loans, virtually all of which are quarterly or monthly adjustable with the prime rate. The SBA portfolio reacts differently in a rising rate environment than our other non-guaranteed portfolios. Generally, when interest rates rise, the prepayments in the SBA portfolio tend to increase.

Our management of interest rate risk is overseen by our bank's asset liability committee, and is chaired by Byline Bank's Treasurer, based on a risk management infrastructure approved by our board of directors that outlines reporting and measurement requirements. In particular, this infrastructure sets limits and management targets, calculated monthly, for various metrics, including our economic value sensitivity, our economic value of equity and net interest income simulations involving parallel shifts in interest rate curves, steepening and flattening yield curves, and various prepayment and deposit duration assumptions. Our risk management infrastructure also requires a periodic review of all key assumptions used, such as identifying appropriate interest rate scenarios, setting loan prepayment rates based on historical analysis, non-interest-bearing and interest-bearing demand deposit durations based on historical analysis and the targeted investment term of capital.

We manage the interest rate risk associated with our interest-bearing liabilities by managing the interest rates and tenors associated with our borrowings from the FHLB and deposits from our customers that we rely on for funding. In particular, from time to time we use special offers on deposits to alter the interest rates and tenors associated with our interest-bearing liabilities. We manage the interest rate risk associated with our interest-earning assets by managing the interest rates and tenors associated with our investment and loan portfolios, from time to time purchasing and selling investment securities and selling residential mortgage loans in the secondary market.

We utilize interest rate swaps to hedge our interest rate exposure on commercial loans when it meets our clients' and Byline Bank's needs. Typically, customer interest rate swaps are for terms of more than five years. As of December 31, 2018, we had a notional amount of \$544.5 million of interest rate swaps outstanding which includes customer swaps and those on Byline Bank's balance sheet. The overall effectiveness of our hedging strategies is subject to market conditions, the quality of our execution, the accuracy of our valuation assumptions, the associated counterparty credit risk and changes in interest rates.

We do not engage in speculative trading activities relating to interest rates, foreign exchange rates, commodity prices, equities or credit.

We are also subject to credit risk. Credit risk is the risk that borrowers or counterparties will be unable or unwilling to repay their obligations in accordance with the underlying contractual terms. We manage and control credit risk in the loan and lease portfolio by adhering to well-defined underwriting criteria and account administration standards established by management. Written credit policies document underwriting standards, approval levels, exposure limits and other limits or standards deemed necessary and prudent. Portfolio diversification at the obligor, industry, product and/or geographic location levels is actively managed to mitigate concentration risk. In addition, credit risk management also includes an independent credit review process that assesses compliance with commercial, real estate and other credit policies, risk ratings and other critical credit information. In addition to implementing risk management practices that are based upon established and sound lending practices, we adhere to sound credit principles. We understand and evaluate our customers' borrowing needs and capacity to repay, in conjunction with their character and history.

Evaluation of Interest Rate Risk

We use a net interest income simulation model to measure and evaluate potential changes in our net interest income. We run various hypothetical interest rate scenarios at least monthly and compare these results against a scenario with no changes in interest rates. Our net interest income simulation model incorporates various assumptions, which we believe are reasonable but which may have a significant impact on results such as: (1) the timing of changes in interest rates, (2) shifts or rotations in the yield curve, (3) re-pricing characteristics for market-rate-sensitive instruments on and off balance sheet, (4) differing sensitivities of financial instruments due to differing underlying rate indices, (5) the effect of interest rate limitations in our assets, such as floors and caps, (6) the effect of our interest rate swaps and (7) overall growth and repayment rates and product mix of assets and liabilities. Because of limitations inherent in any approach used to measure interest rate risk, simulation results are not intended as a forecast of the actual effect of a change in market interest rates on our results but rather as a means to better plan and execute appropriate asset-liability management strategies and manage our interest rate risk.

Potential changes to our net interest income in hypothetical rising and declining rate scenarios calculated as of December 31, 2018 is presented in the following table. The projections assume (1) immediate, parallel shifts downward of the yield curve of 100 basis points and immediate, parallel shifts upward of the yield curve of 100, 200, 300 and 400 basis points and (2) gradual shifts downward of 100 basis points over 12 months and gradual shifts upward of 100 and 200 basis points over 12 months. In the current interest rate environment, a downward shift of the yield curve of 200, 300 and 400 basis points does not provide us with meaningful results. In a downward parallel shift of the yield curve, interest rates at the short-end of the yield curve are not modeled to decline any further than 0%. For the dynamic balance sheet and rate shift scenarios, we assume interest rates follow a forward yield curve and then ramp it up by 1/12th of the total change in rates each month for twelve months.

| Change in Market Interest Rates as of December 31, 2018 | Estimated Increase (Decrease) in Net Interest Income | |
|---|--|---|
| | Twelve Months Ending December 31, 2019 | Twelve Months Ending December 31, 2020 |
| <u>Immediate Shifts</u> | | |
| +400 basis points..... | 14.9% | 16.5% |
| +300 basis points..... | 11.5% | 12.8% |
| +200 basis points..... | 8.0% | 9.1% |
| +100 basis points..... | 4.4% | 5.2% |
| -100 basis points..... | (6.4)% | (8.0)% |
| <u>Dynamic Balance Sheet and Rate Shifts</u> | | |
| +200 basis points..... | 5.9% | |
| +100 basis points..... | 2.9% | |
| -100 basis points..... | (3.5)% | |

The results of this simulation analysis are hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. For example, if the timing and magnitude of interest rate changes differ from those projected, our net interest income might vary significantly. Non-parallel yield curve shifts such as a flattening or steepening of the yield curve or changes in interest rate spreads would also cause our net interest income to be different from that depicted. An increasing interest rate environment could reduce projected net interest income if deposits and other short-term liabilities re-price faster than expected or faster than our assets re-price. Actual results could differ from those projected if we grow assets and liabilities faster or slower than estimated, if we experience a net outflow of deposit liabilities or if our mix of assets and liabilities otherwise changes. Actual results could also differ from those projected if we experience substantially different repayment speeds in our loan portfolio than those assumed in the simulation model. Finally, these simulation results do not contemplate all the actions that we may undertake in response to potential or actual changes in interest rates, such as changes to our loan, investment, deposit, funding or hedging strategies.

Item 8. Financial Statements and Supplementary Data.

BYLINE BANCORP, INC.
CONSOLIDATED FINANCIAL STATEMENTS
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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Byline Bancorp, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Byline Bancorp, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moss Adams LLP

Portland, Oregon
March 15, 2019

We have served as the Company’s auditor since 2013.

BYLINE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2018 AND 2017

(dollars in thousands, except per share data)

| | 2018 | 2017 |
|---|--------------|--------------|
| ASSETS | | |
| Cash and due from banks | \$ 30,190 | \$ 19,404 |
| Interest bearing deposits with other banks | 91,670 | 38,945 |
| Cash and cash equivalents | 121,860 | 58,349 |
| Securities available-for-sale, at fair value | 817,656 | 583,236 |
| Securities held-to-maturity, at amortized cost (\$97,739 and \$117,277 fair value at December 31, 2018 and 2017, respectively) | 99,266 | 117,163 |
| Restricted stock, at cost | 19,202 | 16,343 |
| Loans held for sale | 19,827 | 5,212 |
| Loans and leases: | | |
| Loans and leases | 3,501,626 | 2,277,492 |
| Allowance for loan and lease losses | (25,201) | (16,706) |
| Net loans and leases | 3,476,425 | 2,260,786 |
| Servicing assets, at fair value | 19,693 | 21,400 |
| Accrued interest receivable | 10,863 | 7,670 |
| Premises and equipment, net | 97,680 | 95,224 |
| Assets held for sale | 14,489 | 9,779 |
| Other real estate owned, net | 5,314 | 10,626 |
| Goodwill | 128,177 | 54,562 |
| Other intangible assets, net | 33,419 | 16,756 |
| Bank-owned life insurance | 5,961 | 5,718 |
| Deferred tax assets, net | 35,643 | 47,376 |
| Due from counterparty | 5,338 | 39,824 |
| Other assets | 31,761 | 16,106 |
| Total assets | \$ 4,942,574 | \$ 3,366,130 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Non-interest-bearing demand deposits | \$ 1,192,873 | \$ 760,887 |
| Interest-bearing deposits: | | |
| NOW, savings accounts, and money market accounts | 1,413,158 | 973,685 |
| Time deposits | 1,143,885 | 708,757 |
| Total deposits | 3,749,916 | 2,443,329 |
| Accrued interest payable | 3,484 | 1,306 |
| Line of credit | — | — |
| Federal Home Loan Bank advances | 425,000 | 361,506 |
| Securities sold under agreements to repurchase | 34,166 | 31,187 |
| Junior subordinated debentures issued to capital trusts, net | 36,768 | 27,647 |
| Accrued expenses and other liabilities | 42,568 | 42,577 |
| Total liabilities | 4,291,902 | 2,907,552 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Note 17) | | |
| STOCKHOLDERS' EQUITY (Note 25) | | |
| Preferred stock | 10,438 | 10,438 |
| Common stock, voting \$0.01 par value at December 31, 2018 and 2017; 150,000,000 shares authorized at December 31, 2018 and 2017; 36,343,239 shares issued and outstanding at December 31, 2018 and 29,317,298 issued and outstanding at December 31, 2017 | 361 | 292 |
| Additional paid-in capital | 546,849 | 391,586 |
| Retained earnings | 102,522 | 61,349 |
| Accumulated other comprehensive loss, net of tax | (9,498) | (5,087) |
| Total stockholders' equity | 650,672 | 458,578 |
| Total liabilities and stockholders' equity | \$ 4,942,574 | \$ 3,366,130 |

See accompanying Notes to Consolidated Financial Statements

BYLINE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

| (dollars in thousands, except share and per share data) | 2018 | 2017 | 2016 |
|--|------------------|------------------|------------------|
| INTEREST AND DIVIDEND INCOME | | | |
| Interest and fees on loans and leases | \$ 184,972 | \$ 120,406 | \$ 83,150 |
| Interest on taxable securities | 19,037 | 14,892 | 14,169 |
| Interest on tax-exempt securities | 1,095 | 634 | 653 |
| Other interest and dividend income | 1,847 | 871 | 393 |
| Total interest and dividend income | <u>206,951</u> | <u>136,803</u> | <u>98,365</u> |
| INTEREST EXPENSE | | | |
| Deposits | 19,329 | 7,736 | 4,580 |
| Federal Home Loan Bank advances | 6,160 | 3,291 | 706 |
| Subordinated debentures and other borrowings | 2,857 | 2,864 | 2,461 |
| Total interest expense | <u>28,346</u> | <u>13,891</u> | <u>7,747</u> |
| Net interest income | 178,605 | 122,912 | 90,618 |
| PROVISION FOR LOAN AND LEASE LOSSES | <u>18,795</u> | <u>12,653</u> | <u>10,352</u> |
| Net interest income after provision for loan and lease losses | 159,810 | 110,259 | 80,266 |
| NON-INTEREST INCOME | | | |
| Fees and service charges on deposits | 6,445 | 5,289 | 5,665 |
| Loan servicing revenue | 10,272 | 9,599 | 1,649 |
| Loan servicing asset revaluation | (9,269) | (5,941) | 257 |
| ATM and interchange fees | 5,426 | 5,840 | 5,856 |
| Net gains on sales of securities available-for-sale | 164 | 8 | 3,227 |
| Net gains on sales of loans | 31,551 | 33,062 | 4,323 |
| Wealth management and trust income | 1,545 | — | — |
| Other non-interest income | 5,505 | 2,201 | 4,927 |
| Total non-interest income | <u>51,639</u> | <u>50,058</u> | <u>25,904</u> |
| NON-INTEREST EXPENSE | | | |
| Salaries and employee benefits | 80,382 | 67,269 | 50,585 |
| Occupancy expense, net | 15,829 | 14,078 | 14,330 |
| Equipment expense | 2,419 | 2,472 | 2,032 |
| Loan and lease related expenses | 6,109 | 3,685 | 2,004 |
| Legal, audit and other professional fees | 11,373 | 7,027 | 5,862 |
| Data processing | 18,242 | 9,539 | 8,157 |
| Net loss (gain) recognized on other real estate owned and other related expenses | 235 | (294) | 1,719 |
| Regulatory assessments | 1,744 | 1,193 | 2,553 |
| Other intangible assets amortization expense | 5,629 | 3,074 | 3,003 |
| Advertising and promotions | 1,723 | 1,035 | 623 |
| Telecommunications | 1,710 | 1,593 | 1,698 |
| Other non-interest expense | 10,614 | 8,852 | 8,120 |
| Total non-interest expense | <u>156,009</u> | <u>119,523</u> | <u>100,686</u> |
| INCOME BEFORE PROVISION FOR INCOME TAXES | <u>55,440</u> | <u>40,794</u> | <u>5,484</u> |
| PROVISION (BENEFIT) FOR INCOME TAXES | <u>14,247</u> | <u>19,099</u> | <u>(61,245)</u> |
| NET INCOME | <u>41,193</u> | <u>21,695</u> | <u>66,729</u> |
| Dividends on preferred shares | 783 | 11,277 | — |
| INCOME AVAILABLE TO COMMON STOCKHOLDERS | <u>\$ 40,410</u> | <u>\$ 10,418</u> | <u>\$ 66,729</u> |
| EARNINGS PER COMMON SHARE | | | |
| Basic | \$ 1.21 | \$ 0.39 | \$ 3.31 |
| Diluted | \$ 1.18 | \$ 0.38 | \$ 3.27 |

See accompanying Notes to Consolidated Financial Statements

BYLINE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

| (dollars in thousands) | 2018 | 2017 | 2016 |
|---|-----------|-----------|-----------|
| Net income..... | \$ 41,193 | \$ 21,695 | \$ 66,729 |
| Securities available-for-sale | | | |
| Unrealized holding gains (losses) arising during the period..... | (6,503) | 2,111 | (3,100) |
| Reclassification adjustments for net gains included in net income . | (164) | (8) | (3,227) |
| Tax effect | 1,856 | (602) | 2,533 |
| Net of tax | (4,811) | 1,501 | (3,794) |
| Cash flow hedges | | | |
| Unrealized holding gains arising during the period..... | 2,960 | 688 | 3,684 |
| Reclassification adjustments for net (gains) losses included in net income | (1,348) | 579 | 40 |
| Tax effect | (449) | (587) | (1,491) |
| Net of tax | 1,163 | 680 | 2,233 |
| Total other comprehensive income (loss) | (3,648) | 2,181 | (1,561) |
| Comprehensive income | \$ 37,545 | \$ 23,876 | \$ 65,168 |

See accompanying Notes to Consolidated Financial Statements

BYLINE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

| (dollars in thousands, except share data) | Preferred Stock | | Common Stock | | Additional Paid-In Capital | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|-----------------|------------------|-------------------|---------------|----------------------------------|---|---|----------------------------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance, January 1, 2016 | 15,003 | \$ 15,003 | 17,332,775 | \$ — | \$ 194,774 | \$ (15,796) | \$ (5,707) | \$ 188,274 |
| Net income | — | — | — | — | — | 66,729 | — | 66,729 |
| Other comprehensive loss, net of tax | — | — | — | — | — | — | (1,561) | (1,561) |
| Issuance of common stock, net of issuance cost | — | — | 3,078,075 | — | 49,592 | — | — | 49,592 |
| Issuance of common stock due to business combination | — | — | 4,199,791 | — | 68,247 | — | — | 68,247 |
| Issuance of preferred stock | 9,388 | 9,388 | — | — | — | — | — | 9,388 |
| Subscription of preferred stock | 1,050 | 1,050 | — | — | — | — | — | 1,050 |
| Share-based compensation expense | — | — | — | — | 899 | — | — | 899 |
| Exercise of stock options, net of tax | — | — | 6,065 | — | 40 | — | — | 40 |
| Balance, December 31, 2016 | 25,441 | 25,441 | 24,616,706 | — | 313,552 | 50,933 | (7,268) | 382,658 |
| Net income | — | — | — | — | — | 21,695 | — | 21,695 |
| Other comprehensive income, net of tax | — | — | — | — | — | — | 2,181 | 2,181 |
| Issuance of common stock in connection with reincorporation merger | — | — | — | 246 | (246) | — | — | — |
| Repurchase of preferred stock | (15,003) | (15,003) | — | — | — | — | — | (15,003) |
| Issuance of common stock, net of issuance cost | — | — | 4,630,194 | 46 | 76,783 | — | — | 76,829 |
| Issuance of common stock in connection with restricted stock awards | — | — | 70,798 | — | — | — | — | — |
| Forfeiture of restricted stock awards | — | — | (400) | — | — | — | — | — |
| Cash dividends declared on preferred stock | — | — | — | — | — | (11,277) | — | (11,277) |
| Cash paid in lieu of fractional shares | — | — | — | — | — | (2) | — | (2) |
| Share-based compensation expense | — | — | — | — | 1,497 | — | — | 1,497 |
| Balance, December 31, 2017 | 10,438 | 10,438 | 29,317,298 | 292 | 391,586 | 61,349 | (5,087) | 458,578 |
| Net income | — | — | — | — | — | 41,193 | — | 41,193 |
| Other comprehensive loss, net of tax | — | — | — | — | — | — | (3,648) | (3,648) |
| Issuance of common stock upon exercise of stock options | — | — | 205,152 | 2 | 2,338 | — | — | 2,340 |
| Issuance of common stock and stock options due to business combination, net of issuance costs | — | — | 6,682,850 | 67 | 151,208 | — | — | 151,275 |
| Issuance of common stock in connection with restricted stock awards | — | — | 131,157 | — | — | — | — | — |
| Forfeiture of restricted stock awards | — | — | (2,100) | — | — | — | — | — |
| Issuance of common stock in connection with employee stock purchase plan | — | — | 8,882 | — | 203 | — | — | 203 |
| Reclassification of certain income tax effects from accumulated other comprehensive income (loss) | — | — | — | — | — | 763 | (763) | — |
| Cash dividends declared on preferred stock | — | — | — | — | — | (783) | — | (783) |
| Share-based compensation expense | — | — | — | — | 1,514 | — | — | 1,514 |
| Balance, December 31, 2018 | <u>10,438</u> | <u>\$ 10,438</u> | <u>36,343,239</u> | <u>\$ 361</u> | <u>\$ 546,849</u> | <u>\$ 102,522</u> | <u>\$ (9,498)</u> | <u>\$ 650,672</u> |

See accompanying Notes to Consolidated Financial Statements

BYLINE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

| (dollars in thousands) | 2018 | 2017 | 2016 |
|--|-------------|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income..... | \$ 41,193 | \$ 21,695 | \$ 66,729 |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Provision for loan and lease losses | 18,795 | 12,653 | 10,352 |
| Impairment loss on premises and equipment..... | — | — | 327 |
| Impairment loss on assets held for sale | 627 | 951 | 408 |
| Depreciation and amortization of premises and equipment | 5,579 | 5,193 | 5,060 |
| Net amortization of securities..... | 3,192 | 4,670 | 7,090 |
| Net gains on sales of securities available-for-sale..... | (164) | (8) | (3,227) |
| Losses on disposal of premises and equipment | 151 | 110 | 20 |
| Net losses (gains) on sales of assets held for sale..... | (1,103) | 217 | (967) |
| Net gains on sales of loans..... | (31,551) | (33,062) | (4,323) |
| Originations of mortgage loans held for sale..... | — | (4) | (5,687) |
| Net proceeds from mortgage loans sold | — | 155 | 6,003 |
| Originations of U.S. government guaranteed loans..... | (336,212) | (293,615) | (35,949) |
| Proceeds from U.S. government guaranteed loans sold | 384,681 | 309,164 | 30,624 |
| Accretion of premiums and discounts on acquired loans, net | (20,599) | (8,677) | (2,827) |
| Net change in servicing assets | 1,707 | (309) | (796) |
| Net valuation adjustments on other real estate owned..... | 636 | 883 | 1,058 |
| Net gains on sales of other real estate owned..... | (383) | (2,147) | (1,366) |
| Amortization of intangible assets | 5,629 | 3,074 | 3,003 |
| Amortization of time deposit premium..... | (404) | (778) | (590) |
| Amortization of Federal Home Loan Bank advances premium | (19) | (209) | (44) |
| Accretion of junior subordinated debentures discount | 624 | 721 | 876 |
| Share-based compensation expense..... | 1,514 | 1,497 | 899 |
| Exercise of share-based awards..... | — | — | 40 |
| Deferred tax provision (benefit), net of valuation | 15,442 | 16,604 | (61,503) |
| Increase in cash surrender value of bank owned life insurance..... | (243) | (247) | (223) |
| Net gain on death benefit of bank owned life insurance | — | (313) | — |
| Changes in assets and liabilities: | | | |
| Accrued interest receivable..... | (160) | (799) | (503) |
| Other assets | (5,344) | (350) | (3,948) |
| Accrued interest payable..... | 1,608 | (1,121) | 1,355 |
| Accrued expenses and other liabilities..... | (5,261) | (9,095) | (7,655) |
| Net cash provided by operating activities | 79,935 | 26,853 | 4,236 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of securities available-for-sale..... | (206,046) | (53,480) | (557,527) |
| Proceeds from maturities and calls of securities available-for-sale | 29,593 | 7,917 | 95,412 |
| Proceeds from paydowns of securities available-for-sale | 60,557 | 69,320 | 105,837 |
| Proceeds from sales and calls of securities available-for-sale..... | 544 | 8 | 534,418 |
| Purchases of securities held-to-maturity..... | — | — | (59,436) |
| Proceeds from maturities and calls of securities held-to-maturity | — | 655 | 30,469 |
| Proceeds from paydowns of securities held-to-maturity | 16,892 | 19,747 | — |
| Purchases of Federal Home Loan Bank stock..... | (36,633) | (19,485) | (6,454) |
| Federal Home Loan Bank stock repurchases | 35,134 | 18,135 | — |
| Proceeds from other loans sold..... | — | 9,984 | 2,213 |
| Net change in loans and leases | (300,142) | (132,568) | (450,522) |
| Purchases of premises and equipment..... | (2,578) | (2,538) | (5,948) |
| Proceeds from sales of premises and equipment..... | 1,440 | — | 1,156 |
| Proceeds from sales of assets held for sale..... | 4,415 | 5,373 | 2,566 |
| Proceeds from sales of other real estate owned..... | 7,051 | 13,898 | 17,306 |
| Proceeds from bank owned life insurance death benefit..... | — | 1,399 | — |
| Net cash received (paid) in acquisition of business..... | 20,374 | — | (11,273) |
| Net cash used in investing activities | (369,399) | (61,635) | (301,783) |

See accompanying Notes to Consolidated Financial Statements

BYLINE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

| (dollars in thousands) | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|--------------------------|-------------------------|-------------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net increase (decrease) increase in deposits | \$ 284,723 | \$ (46,287) | \$ (51,010) |
| Proceeds from Federal Home Loan Bank advances | 5,932,000 | 3,037,000 | 6,512,100 |
| Repayments of Federal Home Loan Bank advances | (5,868,487) | (2,989,000) | (6,246,114) |
| Proceeds from line of credit | — | — | 30,000 |
| Repayments of line of credit | — | (20,650) | (9,350) |
| Net increase in securities sold under agreements to repurchase | 2,979 | 13,938 | 4,590 |
| Dividends paid on preferred stock | (783) | (11,277) | — |
| Cash paid in lieu of fractional shares | — | (2) | — |
| Proceeds from issuance of common stock, upon exercise of stock options | 2,340 | — | — |
| Proceeds from issuance of common stock | 203 | 76,829 | 49,592 |
| Proceeds from issuance of preferred stock | — | 1,050 | 9,388 |
| Repurchase of preferred stock | — | (15,003) | — |
| Net cash provided by financing activities | <u>352,975</u> | <u>46,598</u> | <u>299,196</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 63,511 | 11,816 | 1,649 |
| CASH AND CASH EQUIVALENTS, beginning of period | 58,349 | 46,533 | 44,884 |
| CASH AND CASH EQUIVALENTS, end of period | <u>\$ 121,860</u> | <u>\$ 58,349</u> | <u>\$ 46,533</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Cash paid during the period for interest | <u>\$ 25,967</u> | <u>\$ 15,279</u> | <u>\$ 6,150</u> |
| Cash payments (refunds) during the period for taxes | <u>\$ 3,513</u> | <u>\$ 2,849</u> | <u>\$ (250)</u> |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Change in fair value of available-for-sale securities, net of tax | <u>\$ (4,811)</u> | <u>\$ 1,501</u> | <u>\$ (3,794)</u> |
| Change in fair value of cash flow hedges, net of tax | <u>\$ 1,163</u> | <u>\$ 680</u> | <u>\$ 2,233</u> |
| Delayed payments of mortgage-backed securities | <u>\$ 398</u> | <u>\$ 311</u> | <u>\$ 121</u> |
| Transfers of loans to loans held for sale | <u>\$ —</u> | <u>\$ 10,061</u> | <u>\$ 1,477</u> |
| Transfers of loans to other real estate owned | <u>\$ 2,436</u> | <u>\$ 6,690</u> | <u>\$ 6,659</u> |
| Internally financed sale of other real estate owned | <u>\$ 444</u> | <u>\$ —</u> | <u>\$ 1,447</u> |
| Internally financed sale of assets held for sale | <u>\$ —</u> | <u>\$ 1,800</u> | <u>\$ —</u> |
| Transfers of land and premises to assets held for sale | <u>\$ 9,058</u> | <u>\$ 3,372</u> | <u>\$ 14,496</u> |
| Transfers of assets held for sale to premises and equipment | <u>\$ 425</u> | <u>\$ —</u> | <u>\$ —</u> |
| Transfers of premises and equipment to other assets | <u>\$ 35</u> | <u>\$ 713</u> | <u>\$ —</u> |
| Transfer of other assets to assets held for sale | <u>\$ 16</u> | <u>\$ —</u> | <u>\$ —</u> |
| Subscription receivable of preferred stock | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 1,050</u> |
| Due to broker | <u>\$ —</u> | <u>\$ 9,838</u> | <u>\$ 9,978</u> |
| Due from counterparties | <u>\$ 5,338</u> | <u>\$ 39,824</u> | <u>\$ —</u> |
| Total assets acquired from acquisition | <u>\$ 1,142,125</u> | <u>\$ —</u> | <u>\$ 456,153</u> |
| Total liabilities assumed from acquisition | <u>\$ 1,036,609</u> | <u>\$ —</u> | <u>\$ 377,440</u> |
| Common stock and stock options issued due to acquisition of business | <u>\$ 152,127</u> | <u>\$ —</u> | <u>\$ 68,247</u> |

See accompanying Notes to Consolidated Financial Statements

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 1—Business and Summary of Significant Accounting Policies

Nature of business—Byline Bancorp, Inc. (the “Company,” “we,” “us,” “our”) is a bank holding company whose principal activity is the ownership and management of its subsidiary bank, Byline Bank (the “Bank”). The Bank originates commercial, mortgage and consumer loans and leases, U.S. government guaranteed loans, and receives deposits from customers located primarily in the Chicago, Illinois metropolitan area. The Bank operates 57 Chicago metropolitan area and one Brookfield, Wisconsin, banking offices. The Bank operates under an Illinois state bank charter, provides a full range of banking services, and has full trust powers. As an Illinois state-chartered financial institution that is not a member of the Federal Reserve System, the Bank is subject to regulation by the Illinois Department of Financial and Professional Regulation and the Federal Deposit Insurance Corporation. The Company is regulated by the Board of Governors of the Federal Reserve System.

As a result of its acquisition of Ridgestone Financial Services, Inc. (“Ridgestone”) on October 14, 2016, the Bank is a participant in the Small Business Administration (“SBA”) and the United States Department of Agriculture (“USDA”) (collectively referred to as “U.S. government guaranteed loans”) lending programs and originates U.S. government guaranteed loans.

As a result of its acquisition of First Evanston Bancorp, Inc. (“First Evanston”) on May 31, 2018, the Bank also provides wealth management services to our customers. See Note 3—Acquisition of a Business for additional information regarding the transaction.

The Bank engages in short-term direct financing lease contracts through BFG Corporation, doing business as Byline Financial Group (“BFG”), a wholly-owned subsidiary of the Bank. BFG is located in Bannockburn, Illinois with sales offices in Illinois and New York, and sales representatives in Illinois, Michigan, New Jersey and New York.

On June 14, 2017, stockholders of record as of May 22, 2017 voted to approve an Agreement and Plan of Merger between Byline Bancorp, Inc., an Illinois corporation (“Byline Illinois”), and Byline Bancorp, Inc., a wholly owned Delaware subsidiary of the Company, including the amended and restated certificate of incorporation and by-laws of the Company. Each share of Byline Illinois common stock issued and outstanding immediately prior to the effective time of the Merger was converted automatically into the right to receive one fifth (0.20) of a share of common stock of the Company. Stockholders were paid a total of \$2,000 in cash for remaining fractional shares based on the offering price of \$19.00 per share.

On October 17, 2018, the Company entered a definitive merger agreement with Oak Park River Forest Bankshares, Inc. (which we refer to as “Oak Park River Forest”), the parent company of Community Bank of Oak Park River Forest, to which the Company will acquire Oak Park River Forest through the merger of Oak Park River Forest with and into the Company, followed immediately by the merger of Community Bank of Oak Park River Forest with and into Byline Bank. At such time, Community Bank of Oak Park River Forest’s banking offices will become banking offices of the Bank. The above described merger agreements are anticipated to be completed during the first half of 2019, subject to the satisfaction or waiver of the conditions included in the merger agreement. No other subsequent events were identified that would have required a change to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

Basis of financial statement presentation and consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries. Significant intercompany items and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”) as contained within the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) and rules and regulations of the Securities and Exchange Commission (“SEC”), including the instructions to Regulation S-X. In accordance with applicable accounting standards, the Company does not consolidate statutory trusts established for the sole purposes of issuing trust preferred securities and related trust common securities. See Note 15, Junior Subordinated Debentures, for additional discussion. Dollars within footnote tables disclosed within the consolidated financial statements are presented in thousands, except share and per share data. Operating results include the years ended December 31, 2018, 2017 and 2016.

Use of estimates—In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the Consolidated Statements of Financial Condition and certain revenues and expenses for the periods included in the Consolidated Statements of Operations and the accompanying notes. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant changes in the near term relate to the determination of expected cash flows of acquired impaired loans, the allowance for loan and lease losses, valuation of servicing assets, fair value measurements for assets and liabilities, goodwill, other intangible assets, the valuation or recognition of deferred tax assets and liabilities, and the valuation of assets and liabilities acquired in business combinations.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 1—Business and Summary of Significant Accounting Policies (continued)

Business combinations—The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations (“ASC 805”). The Company recognizes the fair value of the assets acquired and liabilities assumed as of the date of acquisition, with any excess of the fair value of consideration provided over the fair value of the identifiable net tangible and intangible assets acquired recorded as goodwill. Transaction costs are immediately expensed as applicable. The results of operations of the acquired business are included in the Consolidated Statements of Operations from the effective date of the acquisition, which is the date control is obtained.

In accordance with ASC 805, the acquiring company retains the right to make appropriate adjustments to the assets and liabilities of the acquired entity for information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. The measurement period ends as of the earlier of (a) one year from the acquisition date or (b) the date when the acquirer receives the information necessary to complete the business combination accounting.

Cash and cash equivalents—Cash and cash equivalents have original maturities of three months or less. The Company holds cash and cash equivalents on deposit with other banks and financial institutions in amounts that periodically exceed the federal deposit insurance limit. The Company evaluates the credit quality of these banks and financial institutions to mitigate its credit risk and has not experienced any losses in such accounts.

Cash on hand or on deposit with the Federal Reserve Bank of Chicago was required to meet regulatory reserve and clearing requirements. The reserve requirement was \$44.8 million and \$15.8 million as of December 31, 2018 and 2017, respectively, and the Bank met the requirement at each balance sheet date.

Securities—Securities that are held principally for resale in the near term are classified as trading and recorded at fair value with changes in fair value included in earnings. The Company did not invest in securities classified as trading during 2018, 2017 and 2016. Securities are classified as available-for-sale if the instrument may be sold in response to such factors including changes in market interest rates and related changes in prepayment risk, needs for liquidity, changes in the availability of and the yield on alternative instruments, and changes in funding sources and terms. Gains or losses on the sales of available-for-sale securities are recorded on the trade date and determined using the specific-identification method. Unrealized holding gains or losses, net of tax, on available-for-sale securities are carried as accumulated other comprehensive income (loss) within stockholders’ equity until realized. Securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity.

Fair values of securities are generally based on quoted market prices for the same or similar instruments. See Note 18—Fair Value Measurement for additional discussion on the determination of fair values. Interest income includes the amortization of purchase premiums and discounts, which are recognized using the effective interest method over the terms of the securities.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. The evaluation is based upon factors such as the creditworthiness of the issuers or guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an OTTI condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost, and near-term prospects of the issuer. The Company’s assessment of OTTI considers whether it intends to sell a security or if it is likely that it would be required to sell the security before recovery of the amortized cost basis of the investment, which may be at maturity. For debt securities, if the Company intends to sell the security or it is more likely than not that it will be required to sell the security before recovering its cost basis, the entire impairment loss is recognized in earnings as an OTTI. If the Company does not intend to sell the security and it is more likely than not that it will not be required to sell the security, and the Company does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (loss).

Restricted stock—The Company owns stock of the Federal Home Loan Bank of Chicago (“FHLB”). No ready market exists for this stock, and it has no quoted market value. As a member of the FHLB system, the Bank is required to maintain an investment in FHLB stock. The stock is redeemable at par by the FHLB and is, therefore, carried at cost. In addition, the Company owns stock of Bankers Bank that was acquired as part of the Ridgestone transaction. The stock is redeemable at par and carried at cost.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 1—Business and Summary of Significant Accounting Policies (continued)

Restricted stock is generally viewed as a long-term investment. Accordingly, when evaluating for impairment, its value is determined based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Company did not recognize impairment of its restricted stock as a result of its impairment analyses for the years ended December 31, 2018, 2017 and 2016.

Loans held for sale—Loans that management has the intent and ability to sell are designated as held for sale. U.S. government guaranteed loans and mortgage loans originated are carried at either amortized cost or estimated fair value. The Company determines whether to account for loans at fair value or amortized cost at origination. The loans accounted for at fair value remain at fair value after the determination. The loans accounted for at amortized cost are carried at the lower of cost or fair value, valued on a loan by loan basis. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Gains or losses on sales of U.S. government guaranteed loans are recognized based on the difference between the net sales proceeds, carrying value of the sold loan, fair value of the servicing asset recognized, and fair value of the retained loan (if any), and are reflected as operating activities in the Consolidated Statements of Cash Flows. The difference between the initial carrying balance of the retained loan and the relative fair value of the sold portion is recorded as a discount to the retained loan, establishing a new carrying balance. The recorded discount is accreted to earnings on a level yield basis. U.S. government guaranteed loans are generally sold with servicing retained.

Loans transferred to loans held for sale are carried at the lower of cost or fair value, less estimated costs to sell. At the time of transfer, write-downs are recorded as charge-offs, establishing a new cost basis. Any subsequent adjustments are determined on an individual loan basis and are recognized as a charge to non-interest income. Sales proceeds received that are in excess of the new cost basis within 90 days are recorded to the allowance for loan and lease losses, up to the amount previously charged off. Any remaining proceeds are recorded as a gain on sale and included in non-interest income. Sales proceeds that are less than the new cost basis upon transfer and are received within 90 days of classifying the loans as held for sale are recorded as a charge-off to the allowance for loan and lease losses. Any proceeds received after 90 days of classifying the loans as held for sale are recorded as a gain or loss on sale and included in other non-interest income. Loans held for sale that have not yet settled as of year-end are classified as due-from counterparty on the Consolidated Statements of Financial Condition.

Originated loans—Originated loans are stated at the amount of unpaid principal outstanding, net of purchase premiums and discounts, and any deferred fees or costs. Net deferred fees, costs, discounts and premiums are recognized as yield adjustments over the contractual life of the loan. Interest on loans is calculated daily based on the principal amount outstanding.

Originated loans are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement. The carrying value of impaired loans is based on the present value of expected future cash flows (discounted at each loan's effective interest rate) or, for collateral dependent loans, at the fair value of the collateral less estimated selling costs. If the measurement of each impaired loan's value is less than the recorded investment in the loan, impairment is recognized and the carrying value of the loan is adjusted in the allowance for loan and lease losses as a specific component provided or through a charge-off of the impaired portion of the loan.

Accrual of interest on impaired loans is discontinued when the loan is 90 days past due or when, in management's opinion, the borrower may be unable to make payments as they become due. When the accrual of interest is discontinued, all unpaid accrued interest is reversed through interest income. Payments received during the time a loan is on non-accrual status are applied to principal. Interest income is not recognized until the loan is returned to accrual status or after the principal balance is paid in full. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured as evidenced by agreed upon performance for a period of not less than six months.

Troubled debt restructuring—A troubled debt restructuring ("TDR") is a formal restructuring of a loan in which the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including providing a below-market interest rate, reduction in the loan balance or accrued interest, extension of the maturity date, or a combination of these. Troubled debt restructurings are considered to be impaired loans and are subject to the Company's impaired loan accounting policy. Acquired impaired loans are not subject to TDR accounting.

The Company does not accrue interest on a TDR unless it believes collection of all principal and interest under the modified terms is reasonably assured. For a TDR to begin accruing interest, the borrower must demonstrate some level of past performance and the future capacity to perform under the modified terms. Generally, six months of consecutive payment performance under the restructured terms is required before a TDR is returned to accrual status.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 1—Business and Summary of Significant Accounting Policies (continued)

Direct finance leases—The Company engages in leasing for small-ticket equipment, software, machinery and ancillary supplies and services to customers under leases that qualify as direct financing leases for financial reporting. Certain leases qualify as operating leases for income tax purposes. Under the direct financing method of accounting, the minimum lease payments to be received under the lease contract, together with the estimated unguaranteed residual values of the related equipment, are recorded as lease receivables when the lease is signed and funded and the lease property is delivered to the customer. The excess of the minimum lease payments and residual values over the amount financed is recorded as unearned lease income. Unearned lease income is recognized over the term of the lease based on the effective yield interest method. Residual value is the estimated fair market value of the equipment on lease at lease termination. In estimating the equipment's fair value at lease termination, the Company relies on historical experience by equipment type and manufacturer and, where available, valuations by independent appraisers, adjusted for known trends. The Company's residual values are estimates for reasonableness; however, the amounts the Company will ultimately realize could differ from the estimated amounts. If the review of the residual value results in other-than-temporary impairment, the impairment is recognized in current period earnings. An upward adjustment of the estimated residual value is not recorded.

The policies for delinquency and non-accrual for direct finance leases are materially consistent with those described for all classes of loan receivables.

The Company defers and amortizes certain initial direct costs over the contractual term of the lease as an adjustment to the yield. The unamortized direct costs are recorded as a reduction of unearned lease income.

Acquired impaired loans—Loans initially acquired with evidence of credit quality deterioration are accounted for under ASC Topic 310-30, Accounting for Purchased Loans with Deteriorated Credit Quality ("ASC 310-30"). These loans are recorded either on a pool or a loan-by-loan basis at their estimated fair value where applicable. The Company may aggregate loans into pools based on similar credit risks and predominant risk characteristics such as delinquency status and loan type.

Management estimated the fair values of acquired impaired loans at the acquisition date based on estimated future cash flows. The excess of cash flows expected to be collected over a loan's carrying value is considered to be the accretable yield and is recognized as interest income over the estimated life of the loan or pool using the effective yield method. The acquisition date estimates of accretable yield may subsequently change due to changes in management's estimates of timing and amounts of expected cash flows. The excess of the contractual amounts due over the cash flows expected to be collected is considered to be the non-accretable difference. The non-accretable difference represents the Company's estimate of the credit losses expected to occur and is considered in determining the fair value of the loans. Reclassifications between accretable yield and non-accretable difference represent changes in expected cash flows over the remaining estimated life of the loan or pool. Subsequent increases in expected cash flows over those expected at inception are adjusted through an increase to the accretable yield on a prospective basis. Any subsequent decreases in expected cash flows attributable to credit deterioration are recognized by recording an additional provision for loan losses. Once a pool of loans is assembled, the integrity of the pool is maintained. A loan can only be removed from a pool if either of the following conditions is met: (1) the Company sells, forecloses, or otherwise receives assets in satisfaction of the loan, or (2) the loan is written off. A refinancing or restructuring of a loan does not result in a removal of a loan from a pool. Loan sales are accounted for under ASC Topic 860, Transfers and Servicing ("ASC 860"), when control over the assets have been relinquished. See transfers of financial assets accounting policy.

Acquired non-impaired loans and leases—Acquired non-impaired loans and leases are accounted for under ASC Subtopic 310-20, Receivables Nonrefundable Fees and Other Costs ("ASC 310-20"). These loans and leases were individually recorded at fair value at the time of acquisition. Any previously recognized allowance for loan and lease losses and unearned fees or discounts are not carried over and recognized at the date of acquisition. The component of fair value representing an adjustment to an asset's outstanding principal balance is accreted or amortized over the life of the related asset as a yield adjustment. The balance of the asset is then evaluated periodically pursuant to the Company's allowance for loan and lease loss accounting policy and any adjustment required for credit risk is recorded within the allowance for loan and lease losses.

Upon reaching the maturity date, all acquired non-impaired loan premium or discount is fully amortized or accreted. If the loan is re-underwritten and renewed, it is internally reclassified as an originated loan. The loan is then evaluated periodically pursuant to the Company's allowance for loan and lease loss accounting without any consideration of the acquisition premium or discount.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 1—Business and Summary of Significant Accounting Policies (continued)

Allowance for loan and lease losses—The allowance for loan and lease losses is maintained at a level management believes is appropriate to provide for probable loan and lease losses as of the dates of the Consolidated Statements of Financial Condition. The allowance for loan and lease losses is increased by a provision for loans and lease losses and decreased by charge-offs, net of recoveries. Loan and lease losses are charged against the allowance for loan and lease losses when management believes the uncollectibility of a loan or lease balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan and lease losses. The allowance for loan and lease losses is based on management's evaluation of the loan and lease portfolio giving consideration to the nature and volume of the portfolio, the value of the underlying collateral, overall portfolio quality, review of specific problem loans or leases, and prevailing economic conditions that may affect the borrower's ability to pay. While management uses the best information available to make its evaluation, future adjustments to the allowance for loan and lease losses may be necessary if there are significant changes in economic condition. The allowance for loan and lease losses consists of general and specific components. Allocations of the allowance for loan and lease losses not attributable to acquired impaired loans may be made for specific loans and leases, but the entire allowance is available for any loan and lease that, in management's judgement, should be charged off.

The general component covers loans and leases that are collectively evaluated for impairment. Larger groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, and leases are collectively evaluated for impairment, and accordingly, they are not included in the separately identified impairment disclosures. The general component is based on a trailing 12-quarter weighted average loss rate for each loan category based on the Company's historical losses and its peer group and adjusted for qualitative and other economic factors. These factors include (1) changes in lending policies and procedures, including changes in underwriting standards and collections, charge-off and recovery practices; (2) changes in international, national, regional and local conditions; (3) changes in the nature and volume of the portfolio and terms of the loans and leases; (4) changes in experience, depth and ability of lending management and other relevant staff; (5) changes in the volume and severity of past due loans and leases; (6) changes in the quality of the Company's loan review system; (7) changes in the value of the underlying collateral for collateral dependent loans and leases; (8) existence and effect of any concentrations of credit and changes in the levels of such concentrations; and (9) the effect of other external factors (i.e., competition, legal and regulatory requirements) on the level of estimated credit losses. Based upon management's judgement of other factors that fall outside of the predefined qualitative or historical loss rates, the allowance for loan and lease losses may include an unallocated component not included in these predefined factors.

The specific component relates to loans that are risk-rated substandard or worse, and based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining the impairment include payment status, collateral value, strength of guarantor, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired and are reviewed on a case-by-case basis. TDRs are individually evaluated for impairment and are measured at the present value of estimated future cash flows using the loan's effective rate at origination. If a TDR is considered to be a collateral dependent loan, the loan is reported at the fair value of the collateral, less estimated costs to sell.

The allowance for loan losses also includes amounts representing decreases in expected cash flows attributable to credit deterioration of acquired impaired loans. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The factors supporting the allowance for loan and lease losses do not diminish the fact that the entire allowance for loan and lease losses not attributable to acquired impaired loans is available to absorb losses in the loan and lease portfolios and related commitment portfolio, respectively.

The allowance for loan and lease losses is subject to review by regulatory agencies during examinations and may require us to recognize adjustments to the allowance for loan and lease losses.

Servicing assets—Servicing assets are recognized separately when they are acquired through sales of loans. When loans are sold with servicing rights retained, servicing assets are recorded at fair value in accordance with ASC 860. Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

Sales of U.S. government guaranteed loans are executed on a servicing retained basis. The standard SBA loan sale agreement is structured to provide the Company with a servicing spread paid from a portion of the interest cash flow of the loan. SBA regulations require the Company to retain a portion of the cash flow from the interest payments received for a sold loan. The USDA loan sale agreements are not standardized with respect to servicing.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 1—Business and Summary of Significant Accounting Policies (continued)

Servicing fee income, which is reported on the Consolidated Statements of Operations as loan servicing revenue, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal. Late fees and ancillary fees related to loan servicing are not material.

The Company has elected the fair value measurement method and measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are recorded as loan servicing asset revaluation on the Consolidated Statements of Operations. The fair value of servicing rights is highly sensitive to changes in underlying assumptions. Changes in the prepayment speed and discount rate assumptions have the most significant impact on the fair value of servicing rights.

Concentrations of credit risk—Most of the Company’s business activity is concentrated with customers located within its principal market areas, with the exception of government guaranteed loans and leasing activities. The Company originates commercial real estate, construction, land development and other land, commercial and industrial, residential real estate, installment and other loans, and leases. Generally, loans are secured by accounts receivable, inventory, deposit accounts, personal property or real estate.

Rights to collateral vary and are legally documented to the extent practicable. The Company has a concentration in commercial real estate loans and the ability of borrowers to honor these and other contracts is dependent upon the real estate and general economic conditions within their geographic market.

Transfers of financial assets—Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. The Company has assessed that partial sales of financial assets meet the definition of participating interest. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company and the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets. Gains or losses are recognized in the period of sale upon derecognition of the asset.

Premises and equipment—Premises and equipment acquired through a business combination are initially stated at the acquisition date fair value less accumulated depreciation. All other premises and equipment are stated at cost less accumulated depreciation. Depreciation on premises and equipment is recognized on a straight-line basis over their estimated useful lives ranging from three to 39 years. Land is also carried at its fair value following a business combination and is not subject to depreciation. Leasehold improvements are amortized over the shorter of the life of the related asset or expected term of the underlying lease. Gains and losses on the dispositions of premises and equipment are included in non-interest income. Expenditures for new premises, equipment and major betterments are capitalized. Normal costs of maintenance and repairs are expensed as incurred.

Long-lived depreciable assets are evaluated periodically for impairment when events or changes in circumstances indicate the carrying amounts may be not recoverable. Impairment exists when the undiscounted expected future cash flows of a long-lived asset are less than its carrying value. In that event, the Company recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset based on a quoted market price, if applicable, or a discounted cash flow analysis. Impairment losses are recorded in non-interest expense.

Assets held for sale—Assets held for sale consist of former branch locations and real estate previously purchased for expansion. Assets are considered held for sale when management has approved to sell the assets following a branch closure or other events. The properties are being actively marketed and transferred to assets held for sale based at the lower of its carrying value or its fair value, less estimated costs to sell. Assets held for sale are evaluated periodically for impairment, with any impairment losses recorded in non-interest expense.

Other real estate owned—Other real estate owned (“OREO”) includes real estate assets that have been acquired through, or in lieu of, loan foreclosure or repossession and are to be sold. OREO assets are initially recorded at fair value, less estimated costs to sell, of the collateral of the loan, on the date of foreclosure or repossession, establishing a new cost basis. Adjustments that reduce loan balances to fair value at the time of foreclosure or repossession are recognized as charge-offs in the allowance for loan and lease losses. Positive adjustments, if any, at the time of foreclosure or repossession are recognized in non-interest expense. After foreclosure or repossession, management periodically obtains new valuations, and real estate or other assets may be adjusted to a lower carrying amount, determined by the fair value of the asset, less estimated costs to sell. Any subsequent write-downs are recorded as a decrease in the asset and charged against other real estate owned valuation adjustments. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in non-interest expense. Gains on internally financed other real estate owned sales are accounted for in accordance with the methods stated in ASC Topic 360-20, Real Estate Sales (“ASC 360-20”). Any losses on the sales of other real estate owned properties are recognized immediately.

Goodwill—The excess of the cost of our recapitalization and acquisitions over the fair value of the net assets acquired, including core deposit intangible, consists of goodwill. Goodwill is not amortized but is periodically evaluated for impairment under the provisions of ASC Topic 350, Intangibles—Goodwill and Other (“ASC 350”).

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 1—Business and Summary of Significant Accounting Policies (continued)

The Company revised the previously issued 2017 consolidated financial statements to properly record goodwill and a deferred tax liability associated with the bad debt recapture assumed from the acquisition of Ridgestone Financial Services, Inc. and its subsidiaries on October 14, 2016. The fair value adjustments associated with this transaction were finalized during the fourth quarter of 2017.

Management evaluated the effect of the error to the previously issued consolidated financial statements in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 99 and No. 108, and, based upon quantitative and qualitative factors, determined that the error was not material to our previously issued consolidated financial statements. Accordingly, the Company has reflected the change in 2017 and revised our Consolidated Statements of Financial Condition disclosed herein. Consolidated financial statements for periods not presented herein will be revised, as applicable, as they are included in future filings.

All financial information presented in the accompanying notes to these consolidated financial statements was revised to reflect the change. The change did not affect net income or stockholders' equity for the periods impacted.

Impairment testing is performed using either a qualitative or quantitative approach at the reporting unit level. All of the Company's goodwill is allocated to the Bank, which is the Company's only applicable reporting unit for the purposes of testing goodwill for impairment. The Company has selected November 30 as the date it performs the annual goodwill impairment test. Additionally, the Company performs a goodwill impairment evaluation on an interim basis when events or circumstances indicate impairment potentially exists. The Company performs impairment testing using a qualitative approach to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others, a material change in the estimated value of the Company based on current market multiples common for community banks of similar size and operations; a significant change in our stock price or market capitalization; a significant adverse change in legal factors or in the business climate; adverse action or assessment by a regulator; and unanticipated competition. If the assessment of qualitative factors indicates that it is not more likely than not that impairment exists, an impairment loss is recognized if the carrying amount of the reporting unit goodwill exceeds its fair value.

Based on an annual analysis completed as of November 30, 2018, 2017 and 2016, the Company did not recognize impairment losses during the year ended December 31, 2018, 2017 and 2016.

Other intangible assets—Other intangible assets primarily consist of core deposit intangible assets. Other intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and are also reviewed periodically for impairment. Amortization of other intangible assets is included in other non-interest expense. Core deposit intangibles were recognized apart from goodwill based on market valuations. Core deposit intangibles are amortized over nine-ten years. In valuing core deposit intangibles, the Company considered variables such as deposit servicing costs, attrition rates and market discount rates. If the estimated fair value is less than the carrying value, the core deposit intangible would be reduced to such value and the impairment recognized as non-interest expense. The Company did not recognize impairment on its core deposit intangibles for the years ended December 31, 2018, 2017 and 2016.

Customer relationship intangibles—Customer relationship intangibles relate to the value of existing trust and wealth management relationships and are amortized over 12 years. In valuing the relationship intangibles, the Company considered variables such as attrition, investment appreciation, and discount rates. The Company did not recognize impairment on its customer relationship intangibles for the years ended December 31, 2018.

Bank-owned life insurance—The Company holds life insurance policies that provide protection against the adverse financial effects that could result from the death of current and former employees, and provide tax deferred income. Although the lives of individual current or former management-level employees are insured, the Company is the owner and is split beneficiary on certain policies. The Company is exposed to credit risk to the extent an insurance company is unable to fulfill its financial obligations under a policy. Split-dollar life insurance is recorded as an asset at cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in other non-interest income and are not subject to income tax.

Income taxes—The Company uses the asset and liability method to account for income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the income tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The Company's annual tax rate is based on its income, statutory tax rates and available tax planning opportunities. Deferred tax assets and liabilities are adjusted through the tax provision for the effects of changes in tax laws and rates on the date of enactment. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 1—Business and Summary of Significant Accounting Policies (continued)

Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss carryforwards. The Company reviews its deferred tax positions periodically and adjusts the balances as new information becomes available. The Company evaluates the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. The Company uses short and long-range business forecasts to provide additional information for its evaluation of the recoverability of deferred tax assets. As of December 31, 2018 and 2017, the Company had no material uncertain tax positions. The Company elects to treat interest and penalties recognized for the underpayment of income taxes as income tax expense. However, interest and penalties imposed by taxing authorities on issues specifically addressed in ASC Topic 740 will be taken out of the tax reserves up to the amount allocated to interest and penalties. The amount of interest and penalties exceeding the amount allocated in the tax reserves will be treated as income tax expense.

A deferred tax valuation allowance is established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not that all or some of the deferred tax asset will not be realized. At December 31, 2018 and 2017, the Company did not record a deferred tax valuation allowance. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Derivative financial instruments and hedging activities—The Company enters into derivative transactions principally to protect against the risk of adverse price or interest rate movements on the future cash flows of certain assets. ASC Topic 815, Derivatives and Hedging (“ASC 815”), establishes accounting and reporting standards requiring that every derivative instrument be recorded in the Consolidated Statements of Financial Condition as either an asset or liability measured at its fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and on the type of hedging relationship. On the date the derivative contract is entered into, the Company designates the derivative as a fair value hedge, a cash flow hedge, or a non-designated derivative.

Fair value hedges are accounted for by recording the changes in the fair value of the derivative instrument and the changes in the fair value related to the risk being hedged of the hedged asset or liability on the Consolidated Statements of Financial Condition with corresponding offsets recorded in the Consolidated Statements of Operations. The adjustment to the hedged asset or liability is included in the basis of the hedged item, while the fair value of the derivative is recorded as an asset or liability.

Cash flow hedges are accounted for by recording the changes in the fair value of the effective portion of the derivative instrument in other comprehensive income (loss) and are recognized in the Consolidated Statements of Operations when the hedged item affects earnings.

Derivative instruments that are not designated as hedges according to accounting guidance are reported in the Consolidated Statements of Financial Condition at fair value and the changes in fair value are recognized as non-interest income during the period of the change.

The Company formally documents the relationship between a derivative instrument and a hedged asset or liability, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also formally assesses, both at the hedge’s inception and on an ongoing basis, whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Comprehensive income—Recognized revenue, expenses, gains and losses are included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and adjustments related to cash flow hedges, are reported on a cumulative basis, net of tax effects, as a separate component of equity on the Consolidated Statements of Financial Condition. Changes in such items, along with net income, are components of comprehensive income.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 1—Business and Summary of Significant Accounting Policies (continued)

Advertising expense—Advertising costs are expensed as incurred.

Off-balance sheet instruments—In the ordinary course of business, the Company has entered into off-balance sheet arrangements consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded in the consolidated financial statements when they are funded or when the related fees are incurred or received.

Reserve for unfunded commitments—A reserve for unfunded commitments is maintained at a level that, in the opinion of management, is sufficient to absorb probable losses associated with the Company's commitment to lend funds under existing agreements, such as letters or lines of credit. Management determines the appropriate reserve for unfunded commitments based upon reviews of individual credit facilities, current economic conditions, the risk characteristics of the various categories of commitments, and other relevant factors. The reserve for unfunded commitments is based on estimates, and ultimate losses may vary from the current estimates. These estimates are evaluated on a quarterly basis and, as adjustments become necessary, they are recognized in earnings in the provision for unfunded commitments in the periods in which they become known.

Segment reporting—The Company has one reportable segment. The Company's chief operating decision maker evaluates the operations of the Company using consolidated information for purposes of allocating resources and assessing performance. Therefore, segments disclosures are not required.

Loss contingencies—Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the Consolidated Financial Statements for the years ended December 31, 2018 and 2017.

Share-based compensation—The Company accounts for share-based compensation in accordance with ASC Topic 718, Compensation—Stock Compensation (“ASC 718”), which requires compensation cost relating to share-based compensation transactions be recognized in the Consolidated Statements of Operations, based generally upon the grant-date fair value of the share-based compensation granted by the Company. Share-based awards may have service, market or performance conditions. Refer to Note 19—Share-Based Compensation for additional information.

Earnings per share—Earnings per common share (“EPS”) is computed under the two-class method. Pursuant to the two-class method, non-vested stock-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and are included in the computation of EPS. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Application of the two-class method resulted in the equivalent earnings per share to the treasury method. Basic earnings per common share is computed by dividing net earnings allocated to common shareholders by the weighted-average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation and warrants for common stock using the treasury stock method.

Fair value of assets and liabilities—Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, including respective accrued interest balances, in an orderly transaction between market participants at the measurement date. The Company determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

Reclassifications—Some items in prior years consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior years' net income or stockholders' equity.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 2—Recently Issued Accounting Pronouncements

The following reflect recent accounting pronouncements that have been adopted or are pending adoption by the Company. As the Company qualifies as an emerging growth company and has elected the extended transition period for complying with new or revised accounting pronouncements, it is not subject to new or revised accounting standards applicable to public companies during the extended transition period. The accounting pronouncements pending adoption below reflect effective dates for the Company as an emerging growth company with the extended transition period.

Revenue from Contracts with Customers—In May 2014, FASB issued Accounting Standards Update (“ASU”) No. 2014-09, deferred by ASU No. 2015-14 and clarifying standards, *Revenue from Contracts with Customers*, which creates Topics 606 and 610 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In April 2016, FASB issued ASU No. 2016-10, *Identifying Performance Obligations and Licensing*. The amendments in this ASU clarify the following two aspects of Topic 606: (1) identifying performance obligations and (2) licensing implementation guidance, while retaining the related principles for those areas. In May 2016, FASB issued ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients*, amending ASC Topic 606, *Revenue from Contracts with Customers*. The amendments in this ASU affect only several narrow aspects of Topic 606. In November 2017, FASB issued ASU No. 2017-14, amending ASC Topic 606, *Revenue from Contracts with Customers*. The ASU amends the codification to incorporate additional previously issued guidance from the SEC. The SEC issued SAB 116 to bring existing SEC staff guidance into conformity with the FASB’s adoption of and amendments to ASC Topic 606.

In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. As a financial institution, the Company’s largest component of revenue is interest income, which is excluded from the scope of this ASU, and non-interest income. The new authoritative guidance was initially effective for reporting periods after January 1, 2017 but was deferred to January 1, 2018. Given our emerging growth status, the Company adopted this new guidance on January 1, 2019 and does not expect it to have a significant impact on the Company’s Consolidated Statements of Operations or Financial condition other than potential reclassification of certain non-interest expenses to non-interest income and additional footnote disclosures.

Recognition and Measurement of Financial Assets and Financial Liabilities—In January 2016, FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this ASU require equity securities to be measured at fair value with changes in the fair value recognized through net income. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value under certain circumstances and require enhanced disclosures about those investments. The amendments simplify the impairment assessment of equity investments without readily determinable fair values. The amendments also eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The amendments require entities to adjust fair value disclosures for financial instruments to be reflected at an exit price. The amendments in this ASU require separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This amendment excludes from net income gains or losses that the entity may not realize because those financial liabilities are not usually transferred or settled at their fair values before maturity. The amendments in this ASU require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted the provisions of ASU No. 2016-01 as of January 1, 2019. At December 31, 2018, the Company held \$6.6 million of available-for-sale equity investment securities. The provisions of ASU No. 2016-01 require changes in the value of equity securities to be recognized in the Consolidated Statements of Operations which could result in additional volatility in non-interest income.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 2—Recently Issued Accounting Pronouncements (continued)

Leases (Topic 842)—In February 2016, FASB issued ASU No. 2016-02, *Leases*. The amendments in this ASU require lessees to recognize the following for all leases (with the exception of short-term) at the commencement date; a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. The amendments in this ASU leave lessor accounting largely unchanged, although certain targeted improvements were made to align lessor accounting with the lessee accounting model. This ASU simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is evaluating the new guidance and its impact on the Company’s

Consolidated Statements of Operations and Consolidated Statements of Financial Condition. Assuming the Company remains an emerging growth company, the new authoritative guidance will be effective for reporting periods after January 1, 2020. The Company expects an increase in assets and liabilities as a result of recognizing additional right-to-use assets and lease liabilities under lease contracts in which the Company is lessee.

Derivatives and Hedging (Topic 815)—In August 2017, FASB issued ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*. The amendments in this ASU better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The new authoritative guidance will be effective for reporting periods after January 1, 2019. Adoption of this ASU is not expected to have a material impact on the Company’s Consolidated Financial Statements.

Compensation—Stock Compensation (Topic 718)—In May 2017, the FASB issued ASU 2017-09, *Scope of Modification Accounting*. The amendments in the ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all of the following are met: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) or the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification, (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified, (3) the classification of the modified award is an equity instrument or liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The amendments should be applied prospectively to an award modified on or after the adoption date. The Company adopted the provisions of ASU No. 2017-09 on January 1, 2019, which did not have a material impact on the Company’s Consolidated Financial Statements.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 2—Recently Issued Accounting Pronouncements (continued)

Financial Instruments—Credit Losses (Topic 326)—In June 2016, FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. Current GAAP requires an “incurred loss” methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this ASU require a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses will be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more decision useful to users of the financial statements. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Assuming the Company remains an emerging growth company, the new authoritative guidance will be effective for reporting periods after January 1, 2021. The Company is still evaluating the effects this ASU will have on the Company’s Consolidated Financial Statements. While the Company has not quantified the impact of this ASU, it does expect changing from the current incurred loss model to an expected loss model will result in an earlier recognition of losses.

Statement of Cash Flows (Topic 230)—In August 2016, FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. There is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230 and other Topics. This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. Those eight issues are (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows and application of the predominance principle. Current GAAP either is unclear or does not include specific guidance on these eight cash flow classification issues. These amendments provide guidance for each of the eight issues, thereby reducing current and potential future diversity in practice. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Assuming the Company remains an emerging growth company, the new authoritative guidance will be effective for reporting periods after January 1, 2019. The Company adopted the provisions of ASU No. 2016-15 on January 1, 2019, which did not have a material impact on the Company’s Consolidated Financial Statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. The ASU will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendment is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption of the update is permitted. The Company adopted these amendments on January 1, 2019 in conjunction with ASU No. 2016-15, which did not have a material impact on the Company’s Consolidated Financial Statements.

Business Combinations (Topic 805)—In January 2017, the FASB issued ASU No. 2017-01, *Clarifying the Definition of a Business*. The guidance clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. This guidance is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The Company adopted the provisions of ASU No. 2017-01 on January 1, 2019, which did not have a material impact on the Company’s Consolidated Financial Statements.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 2—Recently Issued Accounting Pronouncements (continued)

Intangibles—Goodwill and Other (Topic 350)—In January 2017, FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*. The amendments in this ASU are intended to reduce the cost and complexity of the goodwill impairment test by eliminating step two from the impairment test. The amendments modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Under the amendments in this ASU, an entity will perform its annual, or interim, goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount. An impairment charge should be recognized for the amount which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments in this ASU are effective for the Company's annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted these amendments in 2017 which did not have a material impact on the Company's Consolidated Financial Statements.

Other Income (Subtopic 610-20)—In February 2017, the FASB issued ASU No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*. This ASU will clarify the scope of Subtopic 610-20 and add guidance for partial sales of nonfinancial assets. The amendments should be applied either on retrospectively to each period presented or with a modified retrospective approach. The amendment is effective for annual periods beginning after December 15, 2018. The Company does not expect a material impact of this ASU on the Company's Consolidated Financial Statements.

Nonrefundable Fees and Other Costs (Subtopic 310-20)—In March 2017, FASB issued ASU No. 2017-08, *Receivables—Nonrefundable Fees and Other Costs*. The amendments in the ASU shorten the amortization period for certain callable debt securities held at a premium at the earliest call date. Under current GAAP, the Company amortizes the premium as an adjustment of yield over the contractual life of the instrument. As a result, upon exercise of a call on a callable debt security held at a premium, the unamortized premium is charged to earnings. The ASU shortens the amortization period for certain callable debt securities held at a premium and requires the premium to be amortized to the earliest call date. However, the amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments are effective for annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted. The Company is required to apply the amendments on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Assuming the Company remains an emerging growth company, the new authoritative guidance will be effective for reporting periods after January 1, 2020. The Company is currently evaluating the provisions of ASU No. 2017-08 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

Income Statement—Reporting Comprehensive Income (Topic 220)—In February 2018, FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The ASU helps organizations address certain stranded income tax effects in accumulated other comprehensive income (AOCI) resulting from the Tax Cuts and Jobs Act. The ASU provides reporting entities with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The ASU requires reporting entities to disclose: a description of the accounting policy for releasing income tax effects from AOCI; whether they elect to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act; and information about the other income tax effects that are reclassified. The amendments affect any organization that is required to apply the provisions of Topic 220, *Income Statement—Reporting Comprehensive Income*, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP. The amendments are effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. The Company early adopted the new guidance on January 1, 2018.

The adoption did not impact the Company's Statements of Operations, and resulted in a reclassification of \$763,000 from accumulated other comprehensive income (loss) to retained earnings.

BYLINE BANCORP, INC. AND SUBSIDIARIES
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(Table dollars in thousands, except share and per share data)

Note 2—Recently Issued Accounting Pronouncements (continued)

Fair Value Measurement (Topic 820)—In August 2018, FASB issued ASU No. 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this ASU modify the disclosure requirements on fair value measurements in Topic 820. The amendments remove the disclosure requirements for the amount and reasons for transfers between Level 1 and Level 2 securities of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurement. The amendments modify the disclosure requirements as follows: in lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee’s assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The amendments add the following disclosure requirements: the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. This guidance is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. Assuming the Company remains an emerging growth company, the new authoritative guidance will be effective for reporting periods after January 1, 2020. The Company early adopted these amendments in 2018, which did not have a material impact on the Company’s Consolidated Financial Statements.

Note 3—Acquisition of a Business

On May 31, 2018, the Company acquired all common stock of First Evanston Bancorp, Inc. (“First Evanston”) and its subsidiaries pursuant to an Agreement and Plan of Merger, dated as of November 27, 2017 (the “Merger Agreement”). First Evanston operated two wholly owned subsidiaries, First Bank & Trust and First Evanston Bancorp Trust I. First Evanston was merged with and into Byline. As a result of the merger, First Evanston’s subsidiary bank, First Bank & Trust, was merged with and into Byline Bank, with Byline Bank as the surviving bank. The acquisition improves the Company’s footprint in the Chicagoland market, diversifies its commercial banking business, and strengthens the core deposit base.

At the effective time of the merger (the “Effective Time”), each share of First Evanston’s common stock was converted into the right to receive: (1) 3.994 shares of Byline’s common stock, and (2) an amount in cash equal to \$27.0 million divided by the number of outstanding shares of First Evanston common stock as of the closing date, with cash paid in lieu of any fractional shares. The per share cash consideration was based on the total \$27.0 million divided by the outstanding shares of First Evanston common stock, or \$16.136 per outstanding share. Based on the closing price of shares of the Company’s common stock of \$21.62, as reported by the New York Stock Exchange, and 6,682,850 shares of common stock issued with respect to the outstanding shares of First Evanston common stock, the stock consideration was valued at \$144.5 million. Options to acquire 144,090 shares of First Evanston common stock that were outstanding at the Effective Time were converted into options to acquire 680,787 shares of Byline common stock, resulting in a consideration value of \$7.6 million. The value of the total merger consideration at closing was \$179.1 million before the issuance costs of \$852,000.

The transaction resulted in goodwill of \$73.6 million, which is nondeductible for tax purposes, as this acquisition was a nontaxable transaction. Goodwill represents the premium paid over the fair value of the net tangible and intangible assets acquired and reflects related synergies expected from the combined operations. The Company incurred First Evanston merger-related expenses, including acquisition advisory expenses, of \$1.7 million and \$1.3 million for the years ended December 31, 2018 and 2017, respectively. Core system conversion expenses were \$9.8 million related to the First Evanston acquisition for the year ended December 31, 2018. These expenses are reflected in non-interest expense on the Consolidated Statements of Operations.

The acquisition of First Evanston was accounted for using the acquisition method of accounting in accordance with ASC Topic 805. Assets acquired, liabilities assumed and consideration exchanged were recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities involves significant judgment regarding methods and assumptions used to calculate estimated fair values. The fair value adjustments associated with this transaction were finalized during the fourth quarter of 2018.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 3—Acquisition of a Business (continued)

The following table presents a summary of the estimated fair values of assets acquired and liabilities assumed as of the acquisition date:

| | |
|---|---------------------|
| Assets | |
| Cash and cash equivalents | \$ 47,378 |
| Securities available-for-sale | 128,063 |
| Restricted stock | 1,360 |
| Loans | 916,011 |
| Premises and equipment | 15,890 |
| Other intangible assets | 22,276 |
| Deferred tax assets, net | 2,302 |
| Other assets | 8,845 |
| Total assets acquired | <u>\$ 1,142,125</u> |
| Liabilities | |
| Deposits | \$ 1,022,268 |
| Junior subordinated debentures | 8,497 |
| Accrued expenses and other liabilities | 5,844 |
| Total liabilities assumed | <u>1,036,609</u> |
| Net assets acquired | \$ 105,516 |
| Consideration paid | |
| Common stock (6,682,850 shares issued at \$21.62 per share) | \$ 144,483 |
| Outstanding stock options converted to Byline stock options | 7,644 |
| Cash paid | 27,004 |
| Total consideration paid | <u>179,131</u> |
| Goodwill | <u>\$ 73,615</u> |

The following table presents the acquired non-impaired loans as of the acquisition date:

| | |
|--|------------|
| Fair value | \$ 890,986 |
| Gross contractual amounts receivable | 1,057,374 |
| Estimate of contractual cash flows not expected to be collected ⁽¹⁾ | 36,544 |
| Estimate of contractual cash flows expected to be collected | 1,020,830 |

(1) Includes interest payments not expected to be collected due to loan prepayments as well as principal and interest payments not expected to be collected due to customer default.

The discount on the acquired non-impaired loans is being accreted into income over the life of the loans on an effective yield basis.

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 3—Acquisition of a Business (continued)

The following table provides the pro forma information for the results of operations for the years ended December 31, 2018 and 2017, as if the acquisition had occurred on January 1, 2017. The pro forma results combine the historical results of First Evanston into the Company's Consolidated Statements of Operations, including the impact of certain acquisition accounting adjustments, which includes loan discount accretion, intangible assets amortization, deposit premium accretion and borrowing net discount amortization. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2017. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, provision for credit losses, expense efficiencies or asset dispositions. The acquisition-related expenses that have been recognized are included in net income in the following table.

| | Years ended December 31, | |
|---|--------------------------|------------|
| | 2018 | 2017 |
| Total revenues (net interest income and non-interest income)..... | \$ 251,393 | \$ 225,446 |
| Net income..... | \$ 55,329 | \$ 34,317 |
| Earnings per share—basic..... | \$ 1.51 | \$ 0.68 |
| Earnings per share—diluted..... | \$ 1.48 | \$ 0.67 |

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities of First Evanston for period beginning June 1, 2018 through December 31, 2018. Revenues and earnings of the acquired company since the acquisition date have not been disclosed as it is not practicable as First Evanston was merged into the Company and separate financial information is not readily available.

Note 4—Securities

The following tables summarize the amortized cost and fair values of securities available-for-sale and securities held-to-maturity at December 31, 2018 and 2017 and the corresponding amounts of gross unrealized gains and losses:

| 2018 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|-------------------|
| Available-for-sale | | | | |
| U.S. Treasury Notes..... | \$ 52,775 | \$ 81 | \$ (189) | \$ 52,667 |
| U.S. Government agencies..... | 187,427 | 367 | (1,296) | 186,498 |
| Obligations of states, municipalities, and political subdivisions..... | 60,686 | 133 | (586) | 60,233 |
| Residential mortgage-backed securities | | | | |
| Agency..... | 284,038 | 101 | (11,176) | 272,963 |
| Non-agency..... | 84,998 | 199 | (1,576) | 83,621 |
| Commercial mortgage-backed securities | | | | |
| Agency..... | 93,543 | 55 | (3,164) | 90,434 |
| Non-agency..... | 31,458 | — | (1,000) | 30,458 |
| Corporate securities..... | 34,716 | 67 | (610) | 34,173 |
| Other securities..... | 4,613 | 2,127 | (131) | 6,609 |
| Total..... | <u>\$ 834,254</u> | <u>\$ 3,130</u> | <u>\$ (19,728)</u> | <u>\$ 817,656</u> |

| 2018 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|------------------|
| Held-to-maturity | | | | |
| Obligations of states, municipalities, and political subdivisions..... | \$ 23,835 | \$ 40 | \$ (210) | \$ 23,665 |
| Residential mortgage-backed securities | | | | |
| Agency..... | 40,082 | 93 | (531) | 39,644 |
| Non-agency..... | 35,349 | — | (919) | 34,430 |
| Total..... | <u>\$ 99,266</u> | <u>\$ 133</u> | <u>\$ (1,660)</u> | <u>\$ 97,739</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 4—Securities (continued)

| 2017 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|-------------------|
| Available-for-sale | | | | |
| U.S. Treasury Notes | \$ 14,999 | \$ — | \$ (136) | \$ 14,863 |
| U.S. Government agencies..... | 54,248 | — | (1,290) | 52,958 |
| Obligations of states, municipalities, and political subdivisions..... | 33,405 | 100 | (335) | 33,170 |
| Residential mortgage-backed securities | | | | |
| Agency..... | 315,103 | — | (7,646) | 307,457 |
| Non-agency..... | 39,485 | 104 | (75) | 39,514 |
| Commercial mortgage-backed securities | | | | |
| Agency..... | 70,964 | 45 | (1,966) | 69,043 |
| Non-agency..... | 31,763 | — | (792) | 30,971 |
| Corporate securities..... | 29,573 | 507 | (104) | 29,976 |
| Other securities | 3,627 | 1,730 | (73) | 5,284 |
| Total | <u>\$ 593,167</u> | <u>\$ 2,486</u> | <u>\$ (12,417)</u> | <u>\$ 583,236</u> |

| 2017 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|-------------------|
| Held-to-maturity | | | | |
| Obligations of states, municipalities, and political subdivisions..... | \$ 24,030 | \$ 197 | \$ (82) | \$ 24,145 |
| Residential mortgage-backed securities | | | | |
| Agency..... | 53,731 | 79 | (203) | 53,607 |
| Non-agency..... | 39,402 | 174 | (51) | 39,525 |
| Total | <u>\$ 117,163</u> | <u>\$ 450</u> | <u>\$ (336)</u> | <u>\$ 117,277</u> |

The Company did not classify securities as trading during 2018 and 2017.

Gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2018 and 2017 are summarized as follows:

| 2018 | # of Securities | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|--------------------|---------------------|----------------------|---------------------|----------------------|-------------------|----------------------|
| | | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Available-for-sale | | | | | | | |
| U.S. Treasury Notes..... | 18 | \$ 23,835 | \$ (52) | \$ 9,865 | \$ (137) | \$ 33,700 | \$ (189) |
| U.S. Government agencies..... | 25 | 43,487 | (80) | 50,101 | (1,216) | 93,588 | (1,296) |
| Obligations of states, municipalities and political subdivisions | 56 | 13,926 | (97) | 18,563 | (489) | 32,489 | (586) |
| Residential mortgage-backed securities | | | | | | | |
| Agency..... | 42 | 4,288 | (45) | 254,121 | (11,131) | 258,409 | (11,176) |
| Non-agency | 8 | 59,107 | (1,378) | 4,009 | (198) | 63,116 | (1,576) |
| Commercial mortgage-backed securities | | | | | | | |
| Agency..... | 9 | 21,356 | (447) | 52,640 | (2,717) | 73,996 | (3,164) |
| Non-agency | 5 | — | — | 30,458 | (1,000) | 30,458 | (1,000) |
| Corporate securities | 15 | 25,762 | (342) | 4,642 | (268) | 30,404 | (610) |
| Other securities | 1 | — | — | 2,844 | (131) | 2,844 | (131) |
| Total | <u>179</u> | <u>\$ 191,761</u> | <u>\$ (2,441)</u> | <u>\$ 427,243</u> | <u>\$ (17,287)</u> | <u>\$ 619,004</u> | <u>\$ (19,728)</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
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(Table dollars in thousands, except share and per share data)

Note 4—Securities (continued)

| | # of Securities | Less than 12 Months | | 12 Months or Longer | | Total | |
|--|-----------------|---------------------|-------------------|---------------------|--------------------|-------------------|--------------------|
| | | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| 2018 | | | | | | | |
| Held-to-maturity | | | | | | | |
| Obligations of states, municipalities, and political subdivisions..... | 23 | \$ 8,127 | \$ (58) | \$ 8,792 | \$ (152) | \$ 16,919 | \$ (210) |
| Residential mortgage-backed securities | | | | | | | |
| Agency..... | 16 | 6,625 | (150) | 21,139 | (381) | 27,764 | (531) |
| Non-agency..... | 7 | 21,499 | (503) | 12,931 | (416) | 34,430 | (919) |
| Total..... | <u>46</u> | <u>\$ 36,251</u> | <u>\$ (711)</u> | <u>\$ 42,862</u> | <u>\$ (949)</u> | <u>\$ 79,113</u> | <u>\$ (1,660)</u> |
| 2017 | | | | | | | |
| Available-for-sale | | | | | | | |
| U.S. Treasury Notes..... | 5 | \$ 4,998 | \$ (2) | \$ 9,865 | \$ (134) | \$ 14,863 | \$ (136) |
| U.S. Government agencies..... | 9 | 992 | (7) | 51,966 | (1,283) | 52,958 | (1,290) |
| Obligations of states, municipalities and political subdivisions..... | 29 | 16,059 | (137) | 4,453 | (198) | 20,512 | (335) |
| Residential mortgage-backed securities | | | | | | | |
| Agency..... | 41 | 15,441 | (181) | 292,016 | (7,465) | 307,457 | (7,646) |
| Non-agency..... | 1 | — | — | 4,565 | (75) | 4,565 | (75) |
| Commercial mortgage-backed securities | | | | | | | |
| Agency..... | 7 | — | — | 57,442 | (1,966) | 57,442 | (1,966) |
| Non-agency..... | 5 | — | — | 30,971 | (792) | 30,971 | (792) |
| Corporate securities..... | 3 | 2,406 | (80) | 2,489 | (24) | 4,895 | (104) |
| Other securities..... | 1 | — | — | 1,921 | (73) | 1,921 | (73) |
| Total..... | <u>101</u> | <u>\$ 39,896</u> | <u>\$ (407)</u> | <u>\$ 455,688</u> | <u>\$ (12,010)</u> | <u>\$ 495,584</u> | <u>\$ (12,417)</u> |
| 2017 | | | | | | | |
| Held-to-maturity | | | | | | | |
| Obligations of states, municipalities, and political subdivisions..... | 12 | \$ 7,409 | \$ (38) | \$ 1,548 | \$ (44) | \$ 8,957 | \$ (82) |
| Residential mortgage-backed securities | | | | | | | |
| Agency..... | 13 | 24,344 | (107) | 7,935 | (96) | 32,279 | (203) |
| Non-agency..... | 3 | 10,458 | (10) | 4,382 | (41) | 14,840 | (51) |
| Total..... | <u>28</u> | <u>\$ 42,211</u> | <u>\$ (155)</u> | <u>\$ 13,865</u> | <u>\$ (181)</u> | <u>\$ 56,076</u> | <u>\$ (336)</u> |

Certain securities have fair values less than amortized cost and, therefore, contain unrealized losses. The Company evaluated the securities which had an unrealized loss for other than temporary impairment and determined all declines in value to be temporary. There were 179 securities available-for-sale with unrealized losses at December 31, 2018, compared to 101 at December 31, 2017. There were 46 securities held-to-maturity with unrealized losses at December 31, 2018, compared to 28 at December 31, 2017. The Company anticipates full recovery of amortized cost with respect to these securities by maturity, or sooner, in the event of a more favorable market interest rate environment. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell them before recovery of their amortized cost basis, which may be at maturity.

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 4—Securities (continued)

The proceeds from all sales and calls of securities were available-for-sale, and the associated gains and losses for the years ended December 31, 2018, 2017, and 2016 are listed below:

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--------------------|-------------|-------------|-------------|
| Proceeds | \$ 5,134 | \$ 8 | \$ 534,418 |
| Gross gains | 164 | 8 | 3,358 |
| Gross losses | — | — | 131 |

Securities pledged at December 31, 2018 and 2017 had carrying amounts of \$244.7 million and \$262.5 million, respectively. At December 31, 2018 and 2017, of those pledged, the carrying amounts of securities pledged as collateral for public fund deposits were \$197.8 million and \$99.3 million, respectively, and for customer repurchase agreements of \$46.9 million and \$34.8 million, respectively. At December 31, 2018, there were no securities pledged for advances from the Federal Home Loan Bank, compared to \$128.4 million pledged at December 31, 2017. Other securities were pledged for derivative positions, letters of credit and for purposes required or permitted by law. At December 31, 2018 and 2017, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

At December 31, 2018, the amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

| | <u>Amortized Cost</u> | <u>Fair Value</u> |
|---|---------------------------|-----------------------|
| Available-for-sale | | |
| Due in one year or less | \$ 70,830 | \$ 70,621 |
| Due from one to five years | 172,020 | 170,632 |
| Due from five to ten years | 75,017 | 74,725 |
| Due after ten years | 18,277 | 18,284 |
| Mortgage-backed securities | 494,037 | 477,476 |
| Other securities with no defined maturity | 4,073 | 5,918 |
| Total | <u>\$ 834,254</u> | <u>\$ 817,656</u> |
| Held-to-maturity | | |
| Due from one to five years | \$ 5,966 | \$ 5,903 |
| Due from five to ten years | 10,075 | 10,019 |
| Due after ten years | 7,794 | 7,743 |
| Mortgage-backed securities | 75,431 | 74,074 |
| Total | <u>\$ 99,266</u> | <u>\$ 97,739</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 5—Loans and Lease Receivables

Outstanding loan and lease receivables as of December 31, 2018 and 2017 were categorized as follows:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Commercial real estate..... | \$ 1,261,594 | \$ 891,971 |
| Residential real estate | 704,899 | 577,123 |
| Construction, land development, and other land | 186,258 | 105,996 |
| Commercial and industrial..... | 1,145,240 | 522,254 |
| Installment and other..... | 13,675 | 4,182 |
| Lease financing receivables | <u>187,797</u> | <u>174,165</u> |
| Total loans and leases..... | 3,499,463 | 2,275,691 |
| Net unamortized deferred fees and costs | (1,293) | (1,720) |
| Initial direct costs..... | 3,456 | 3,521 |
| Allowance for loan and lease losses | <u>(25,201)</u> | <u>(16,706)</u> |
| Net loans and leases | <u>\$ 3,476,425</u> | <u>\$ 2,260,786</u> |
| | <u>2018</u> | <u>2017</u> |
| Lease financing receivables | | |
| Net minimum lease payments | \$ 204,646 | \$ 188,986 |
| Unguaranteed residual values..... | 1,535 | 1,644 |
| Unearned income..... | <u>(18,384)</u> | <u>(16,465)</u> |
| Total lease financing receivables..... | 187,797 | 174,165 |
| Initial direct costs | <u>3,456</u> | <u>3,521</u> |
| Lease financial receivables before allowance for lease losses | <u>\$ 191,253</u> | <u>\$ 177,686</u> |

Total loans and leases consist of originated loans and leases, acquired impaired loans and acquired non-impaired loans and leases. At December 31, 2018 and 2017, total loans and leases included the guaranteed amount of U.S. government guaranteed loans of \$108.7 million and \$77.0 million, respectively. At December 31, 2018 and 2017, installment and other loans included overdraft deposits of \$1.7 million and \$617,000, respectively, which were reclassified as loans. At December 31, 2018 and 2017, loans and loans held for sale pledged as security for borrowings were \$1.4 billion and \$516.9 million, respectively.

The minimum annual lease payments for lease financing receivables as of December 31, 2018 are summarized as follows:

| | <u>Minimum Lease Payments</u> |
|-----------------|-----------------------------------|
| 2019..... | \$ 71,802 |
| 2020..... | 58,646 |
| 2021..... | 39,385 |
| 2022..... | 23,990 |
| 2023..... | 9,752 |
| Thereafter..... | <u>1,071</u> |
| Total | <u>\$ 204,646</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
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(Table dollars in thousands, except share and per share data)

Note 5—Loans and Lease Receivables (continued)

Originated loans and leases represent originations excluding loans initially acquired in a business combination. However, once an acquired non-impaired loan reaches its maturity date, and is re-underwritten and renewed, it is internally classified as an originated loan. Acquired impaired loans are loans acquired from a business combination with evidence of credit quality deterioration and are accounted for under ASC Topic 310-30. Acquired non-impaired loans and leases represent loans and leases acquired from a business combination without evidence of credit quality deterioration and are accounted for under ASC Topic 310-20. Leases and revolving loans do not qualify to be accounted for as acquired impaired loans and are accounted for under ASC Topic 310-20. The following tables summarize the balances for each respective loan and lease category as of December 31, 2018 and 2017:

| 2018 | Originated | Acquired Impaired | Acquired Non- Impaired | Total |
|--|---------------------|------------------------------|---------------------------------------|---------------------|
| Commercial real estate | \$ 652,234 | \$ 146,808 | \$ 462,565 | \$ 1,261,607 |
| Residential real estate | 466,309 | 113,934 | 124,659 | 704,902 |
| Construction, land development, and other land | 144,128 | 3,779 | 37,442 | 185,349 |
| Commercial and industrial | 803,508 | 12,617 | 328,672 | 1,144,797 |
| Installment and other | 11,718 | 404 | 1,596 | 13,718 |
| Lease financing receivables..... | 159,901 | — | 31,352 | 191,253 |
| Total loans and leases | <u>\$ 2,237,798</u> | <u>\$ 277,542</u> | <u>\$ 986,286</u> | <u>\$ 3,501,626</u> |

| 2017 | Originated | Acquired Impaired | Acquired Non- Impaired | Total |
|--|---------------------|------------------------------|---------------------------------------|---------------------|
| Commercial real estate | \$ 513,622 | \$ 166,712 | \$ 211,359 | \$ 891,693 |
| Residential real estate | 400,571 | 144,562 | 32,085 | 577,218 |
| Construction, land development, and other land | 97,638 | 5,946 | 1,845 | 105,429 |
| Commercial and industrial | 416,499 | 10,008 | 94,731 | 521,238 |
| Installment and other | 3,724 | 462 | 42 | 4,228 |
| Lease financing receivables..... | 141,329 | — | 36,357 | 177,686 |
| Total loans and leases | <u>\$ 1,573,383</u> | <u>\$ 327,690</u> | <u>\$ 376,419</u> | <u>\$ 2,277,492</u> |

Acquired impaired loans—As part of the First Evanston acquisition, the Bank acquired impaired loans that are accounted for under ASC 310-30 in the amount of \$25.0 million. Refer to Note 3—Acquisition of a Business for additional information regarding the transaction. There were no other acquired impaired loans purchased during 2018 or 2017. The following table presents a reconciliation of the undiscounted contractual cash flows, non-accretable difference, accretable yield, and fair value of acquired impaired loans as of the acquisition date of May 31, 2018:

| | |
|--|------------------|
| Undiscounted contractual cash flows..... | \$ 33,594 |
| Undiscounted cash flows not expected to be collected (non-accretable difference) | (5,003) |
| Undiscounted cash flows expected to be collected..... | 28,591 |
| Accretable yield at acquisition..... | (3,566) |
| Estimated fair value of impaired loans acquired at acquisition..... | <u>\$ 25,025</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 5—Loans and Lease Receivables (continued)

The outstanding balance and carrying amount of all acquired impaired loans are summarized below. The balances do not include an allowance for loan and lease losses of \$2.7 million and \$3.9 million, at December 31, 2018 and 2017, respectively.

| | 2018 | | 2017 | |
|--|------------------------|-------------------|------------------------|-------------------|
| | Outstanding Balance | Carrying Value | Outstanding Balance | Carrying Value |
| Commercial real estate | \$ 216,137 | \$ 146,808 | \$ 235,898 | \$ 166,712 |
| Residential real estate | 173,962 | 113,934 | 207,660 | 144,562 |
| Construction, land development, and other land | 11,962 | 3,779 | 13,270 | 5,946 |
| Commercial and industrial | 24,972 | 12,617 | 18,333 | 10,008 |
| Installment and other | 1,735 | 404 | 1,819 | 462 |
| Total acquired impaired loans | <u>\$ 428,768</u> | <u>\$ 277,542</u> | <u>\$ 476,980</u> | <u>\$ 327,690</u> |

The following table summarizes the changes in accretable yield for acquired impaired loans for the years ended December 31, 2018, 2017 and 2016:

| | 2018 | 2017 | 2016 |
|--|------------------|------------------|------------------|
| Beginning balance | \$ 36,446 | \$ 36,868 | \$ 43,915 |
| Additions | 3,566 | — | 6,916 |
| Accretion to interest income | (23,982) | (24,597) | (26,208) |
| Reclassification from nonaccretable difference | 21,085 | 24,175 | 12,245 |
| Ending balance | <u>\$ 37,115</u> | <u>\$ 36,446</u> | <u>\$ 36,868</u> |

Acquired non-impaired loans and leases—The Company acquired non-impaired loans as part of the First Evanston acquisition in the amount of \$891.0 million. Refer to Note 3—Acquisition of a Business for additional information regarding the transaction.

The unpaid principal balance and carrying value for acquired non-impaired loans and leases at December 31, 2018 and 2017 were as follows:

| | 2018 | | 2017 | |
|--|--------------------------------|-------------------|--------------------------------|-------------------|
| | Unpaid Principal Balance | Carrying Value | Unpaid Principal Balance | Carrying Value |
| Commercial real estate | \$ 473,262 | \$ 462,565 | \$ 221,710 | \$ 211,359 |
| Residential real estate | 127,478 | 124,659 | 32,605 | 32,085 |
| Construction, land development, and other land | 38,494 | 37,442 | 1,926 | 1,845 |
| Commercial and industrial | 344,879 | 328,672 | 105,529 | 94,731 |
| Installment and other | 1,831 | 1,596 | 355 | 42 |
| Lease financing receivables | 32,977 | 31,352 | 37,476 | 36,357 |
| Total acquired non-impaired loans and leases | <u>\$ 1,018,921</u> | <u>\$ 986,286</u> | <u>\$ 399,601</u> | <u>\$ 376,419</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 6—Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

Loans and leases considered for inclusion in the allowance for loan and lease losses include acquired non-impaired loans and leases, those acquired impaired loans with credit deterioration after acquisition, and originated loans and leases. Although all acquired loans and leases are included in the following table, only those with credit deterioration subsequent to acquisition date are actually included in the allowance for loan and lease losses.

The following tables summarize the balance and activity within the allowance for loan and lease losses, the components of the allowance for loan and lease losses in terms of loans and leases individually and collectively evaluated for impairment, and corresponding loan and lease balances by type for the years ended December 31, 2018, 2017 and 2016 are as follows:

| 2018 | Commercial Real Estate | Residential Real Estate | Construction, Land Development, and Other Land | Commercial and Industrial | Installment and Other | Lease Financing Receivables | Total |
|---|-----------------------------------|------------------------------------|---|--|----------------------------------|--|------------------|
| Allowance for loan and lease losses | | | | | | | |
| Beginning balance..... | \$ 4,794 | \$ 1,638 | \$ 222 | \$ 7,418 | \$ 41 | \$ 2,593 | \$ 16,706 |
| Provisions..... | 4,543 | 113 | 662 | 12,089 | 68 | 1,320 | 18,795 |
| Charge-offs..... | (1,865) | — | (418) | (6,944) | (60) | (2,517) | (11,804) |
| Recoveries..... | 68 | — | — | 369 | — | 1,067 | 1,504 |
| Ending balance | <u>\$ 7,540</u> | <u>\$ 1,751</u> | <u>\$ 466</u> | <u>\$ 12,932</u> | <u>\$ 49</u> | <u>\$ 2,463</u> | <u>\$ 25,201</u> |
| Ending balance: | | | | | | | |
| Individually evaluated for impairment..... | \$ 2,191 | \$ 61 | \$ — | \$ 4,397 | \$ — | \$ — | \$ 6,649 |
| Collectively evaluated for impairment..... | 4,105 | 1,323 | 466 | 7,413 | 47 | 2,463 | 15,817 |
| Loans acquired with deteriorated credit quality..... | 1,244 | 367 | — | 1,122 | 2 | — | 2,735 |
| Total allowance for loan and lease losses | <u>\$ 7,540</u> | <u>\$ 1,751</u> | <u>\$ 466</u> | <u>\$ 12,932</u> | <u>\$ 49</u> | <u>\$ 2,463</u> | <u>\$ 25,201</u> |

| 2018 | Commercial Real Estate | Residential Real Estate | Construction, Land Development, and Other Land | Commercial and Industrial | Installment and Other | Lease Financing Receivables | Total |
|---|-----------------------------------|------------------------------------|---|--|----------------------------------|--|--------------------|
| Loans and leases ending balance: | | | | | | | |
| Individually evaluated for impairment..... | \$ 11,983 | \$ 2,137 | \$ — | \$ 21,794 | \$ — | \$ — | \$ 35,914 |
| Collectively evaluated for impairment..... | 1,102,816 | 588,831 | 181,570 | 1,110,386 | 13,314 | 191,253 | 3,188,170 |
| Loans acquired with deteriorated credit quality..... | 146,808 | 113,934 | 3,779 | 12,617 | 404 | — | 277,542 |
| Total loans and leases | <u>\$1,261,607</u> | <u>\$ 704,902</u> | <u>\$ 185,349</u> | <u>\$1,144,797</u> | <u>\$ 13,718</u> | <u>\$ 191,253</u> | <u>\$3,501,626</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 6—Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments (continued)

| <u>2017</u> | <u>Commercial Real Estate</u> | <u>Residential Real Estate</u> | <u>Construction, Land Development, and Other Land</u> | <u>Commercial and Industrial</u> | <u>Installment and Other</u> | <u>Lease Financing Receivables</u> | <u>Total</u> |
|--|-----------------------------------|------------------------------------|---|--|----------------------------------|--|------------------|
| Allowance for loan and lease losses | | | | | | | |
| Beginning balance..... | \$ 1,945 | \$ 2,483 | \$ 742 | \$ 4,196 | \$ 334 | \$ 1,223 | \$ 10,923 |
| Provisions..... | 4,343 | (405) | (520) | 6,058 | 34 | 3,143 | 12,653 |
| Charge-offs..... | (1,494) | (440) | — | (2,836) | (327) | (3,099) | (8,196) |
| Recoveries..... | — | — | — | — | — | 1,326 | 1,326 |
| Ending balance | <u>\$ 4,794</u> | <u>\$ 1,638</u> | <u>\$ 222</u> | <u>\$ 7,418</u> | <u>\$ 41</u> | <u>\$ 2,593</u> | <u>\$ 16,706</u> |
| Ending balance: | | | | | | | |
| Individually evaluated for impairment ... | \$ 1,101 | \$ 158 | \$ — | \$ 2,692 | \$ 14 | \$ — | \$ 3,965 |
| Collectively evaluated for impairment ... | 1,765 | 1,047 | 145 | 3,308 | 9 | 2,593 | 8,867 |
| Loans acquired with deteriorated credit quality | 1,928 | 433 | 77 | 1,418 | 18 | — | 3,874 |
| Total allowance for loan and lease losses | <u>\$ 4,794</u> | <u>\$ 1,638</u> | <u>\$ 222</u> | <u>\$ 7,418</u> | <u>\$ 41</u> | <u>\$ 2,593</u> | <u>\$ 16,706</u> |

| <u>2017</u> | <u>Commercial Real Estate</u> | <u>Residential Real Estate</u> | <u>Construction, Land Development, and Other Land</u> | <u>Commercial and Industrial</u> | <u>Installment and Other</u> | <u>Lease Financing Receivables</u> | <u>Total</u> |
|--|-----------------------------------|------------------------------------|---|--|----------------------------------|--|---------------------|
| Loans and leases ending balance: | | | | | | | |
| Individually evaluated for impairment..... | \$ 13,884 | \$ 2,429 | \$ — | \$ 14,784 | \$ 14 | \$ — | \$ 31,111 |
| Collectively evaluated for impairment..... | 711,097 | 430,227 | 99,483 | 496,446 | 3,752 | 177,686 | 1,918,691 |
| Loans acquired with deteriorated credit quality | 166,712 | 144,562 | 5,946 | 10,008 | 462 | — | 327,690 |
| Total loans and leases | <u>\$ 891,693</u> | <u>\$ 577,218</u> | <u>\$ 105,429</u> | <u>\$ 521,238</u> | <u>\$ 4,228</u> | <u>\$ 177,686</u> | <u>\$ 2,277,492</u> |

| <u>2016</u> | <u>Commercial Real Estate</u> | <u>Residential Real Estate</u> | <u>Construction, Land Development, and Other Land</u> | <u>Commercial and Industrial</u> | <u>Installment and Other</u> | <u>Lease Financing Receivables</u> | <u>Total</u> |
|--|-----------------------------------|------------------------------------|---|--|----------------------------------|--|------------------|
| Allowance for loan and lease losses | | | | | | | |
| Beginning balance..... | \$ 2,280 | \$ 2,981 | \$ 232 | \$ 1,403 | \$ 357 | \$ 379 | \$ 7,632 |
| Provisions..... | 4,032 | 135 | 605 | 2,869 | (11) | 2,722 | 10,352 |
| Charge-offs..... | (4,367) | (633) | (95) | (76) | (12) | (2,634) | (7,817) |
| Recoveries..... | — | — | — | — | — | 756 | 756 |
| Ending balance | <u>\$ 1,945</u> | <u>\$ 2,483</u> | <u>\$ 742</u> | <u>\$ 4,196</u> | <u>\$ 334</u> | <u>\$ 1,223</u> | <u>\$ 10,923</u> |
| Ending balance: | | | | | | | |
| Individually evaluated for impairment ... | \$ — | \$ 293 | \$ — | \$ 396 | \$ 328 | \$ — | \$ 1,017 |
| Collectively evaluated for impairment ... | 1,456 | 1,743 | 742 | 3,126 | 5 | 1,223 | 8,295 |
| Loans acquired with deteriorated credit quality | 489 | 447 | — | 674 | 1 | — | 1,611 |
| Total allowance for loan and lease losses | <u>\$ 1,945</u> | <u>\$ 2,483</u> | <u>\$ 742</u> | <u>\$ 4,196</u> | <u>\$ 334</u> | <u>\$ 1,223</u> | <u>\$ 10,923</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 6—Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments (continued)

| 2016 | Commercial Real Estate | Residential Real Estate | Construction, Land Development, and Other Land | Commercial and Industrial | Installment and Other | Lease Financing Receivables | Total |
|--|---------------------------|----------------------------|--|---------------------------------|--------------------------|-----------------------------------|---------------------|
| Loans and leases ending balance: | | | | | | | |
| Individually evaluated for impairment..... | \$ 8,916 | \$ 1,300 | \$ — | \$ 1,382 | \$ 328 | \$ — | \$ 11,926 |
| Collectively evaluated for impairment..... | 580,125 | 433,721 | 133,787 | 423,392 | 2,057 | 158,966 | 1,732,048 |
| Loans acquired with deteriorated credit quality | <u>207,303</u> | <u>175,717</u> | <u>6,979</u> | <u>13,464</u> | <u>574</u> | <u>—</u> | <u>404,037</u> |
| Total loans and leases | <u>\$ 796,344</u> | <u>\$ 610,738</u> | <u>\$ 140,766</u> | <u>\$ 438,238</u> | <u>\$ 2,959</u> | <u>\$ 158,966</u> | <u>\$ 2,148,011</u> |

The Company increased the allowance for loan and lease losses by \$8.5 million, \$5.8 million, and \$3.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. For acquired impaired loans, the Company decreased the allowance for loan and lease losses by \$1.1 million for the year ended December 31, 2018, increased the allowance for loan and lease losses by \$2.3 million for the year ended December 31, 2017, and decreased the allowance for loan and lease losses by \$1.7 million for the year ended December 31, 2016.

The following tables summarize the recorded investment, unpaid principal balance, related allowance, average recorded investment, and interest income recognized for loans and leases considered impaired as of December 31, 2018, 2017, and 2016, which excludes acquired impaired loans:

| 2018 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With no related allowance recorded | | | | | |
| Commercial real estate..... | \$ 6,110 | \$ 7,693 | \$ — | \$ 8,968 | \$ 590 |
| Residential real estate..... | 1,886 | 1,858 | — | 1,917 | 43 |
| Commercial and industrial | 11,193 | 13,961 | — | 8,680 | 483 |
| With an allowance recorded | | | | | |
| Commercial real estate..... | 5,873 | 6,313 | 2,191 | 5,328 | 270 |
| Residential real estate..... | 251 | 253 | 61 | 311 | 4 |
| Commercial and industrial | 10,601 | 11,153 | 4,397 | 9,472 | 749 |
| Installment and other..... | — | — | — | 11 | — |
| Total impaired loans | <u>\$ 35,914</u> | <u>\$ 41,231</u> | <u>\$ 6,649</u> | <u>\$ 34,687</u> | <u>\$ 2,139</u> |

| 2017 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|--|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With no related allowance recorded | | | | | |
| Commercial real estate..... | \$ 11,425 | \$ 12,936 | \$ — | \$ 10,482 | \$ 525 |
| Residential real estate..... | 2,075 | 2,046 | — | 1,781 | 72 |
| Construction, land development and other land..... | — | — | — | 295 | 2 |
| Commercial and industrial | 5,470 | 6,774 | — | 2,875 | 265 |
| With an allowance recorded | | | | | |
| Commercial real estate..... | 2,459 | 2,634 | 1,101 | 1,988 | 187 |
| Residential real estate..... | 354 | 351 | 158 | 422 | 6 |
| Construction, land development and other land..... | — | — | — | 14 | — |
| Commercial and industrial | 9,314 | 9,724 | 2,692 | 3,460 | 486 |
| Installment and other..... | 14 | 14 | 14 | 162 | 12 |
| Total impaired loans | <u>\$ 31,111</u> | <u>\$ 34,479</u> | <u>\$ 3,965</u> | <u>\$ 21,479</u> | <u>\$ 1,555</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 6—Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments (continued)

| <u>2016</u> | <u>Recorded Investment</u> | <u>Unpaid Principal Balance</u> | <u>Related Allowance</u> | <u>Average Recorded Investment</u> | <u>Interest Income Recognized</u> |
|------------------------------------|--------------------------------|---|------------------------------|--|---|
| With no related allowance recorded | | | | | |
| Commercial real estate | \$ 8,916 | \$ 9,502 | \$ — | \$ 8,975 | \$ 305 |
| Residential real estate | 804 | 1,999 | — | 827 | 45 |
| Commercial and Industrial | 521 | 524 | — | 516 | (2) |
| With an allowance recorded | | | | | |
| Residential real estate | 496 | 528 | 293 | 519 | 1 |
| Commercial and industrial | 861 | 869 | 396 | 914 | — |
| Installment and other | 328 | 361 | 328 | 328 | 16 |
| Total impaired loans | <u>\$ 11,926</u> | <u>\$ 13,783</u> | <u>\$ 1,017</u> | <u>\$ 12,079</u> | <u>\$ 365</u> |

For purposes of these tables, the unpaid principal balance represents the outstanding contractual balance. Impaired loans include loans that are individually evaluated for impairment as well as troubled debt restructurings for all loan categories. The sum of non-accrual loans and loans past due 90 days still on accrual will differ from the total impaired loan amount.

The Bank's credit risk rating methodology assigns risk ratings from 1 to 10, where a higher rating represents higher risk. The risk rating categories are described by the following groupings:

Pass—Ratings 1-4 define the risk levels of borrowers and guarantors that offer a minimal to an acceptable level of risk.

Watch—A watch asset (rating of 5) has credit exposure that presents higher than average risk and warrants greater than routine attention by Bank personnel due to conditions affecting the borrower, the borrower's industry or the economic environment.

Special Mention—A special mention asset (rating of 6) has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date.

Substandard Accrual—A substandard accrual asset (rating of 7) has well-defined weakness or weaknesses in cash flow and collateral coverage resulting in a distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. This classification may be used in limited cases, where despite credit severity, the borrower is current on payments and there is an agreed plan for credit remediation.

Substandard Non-Accrual—A substandard asset (rating of 8) has well-defined weakness or weaknesses in cash flow and collateral coverage resulting in the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful—A doubtful asset (rating of 9) has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loss—A loss asset (rating of 10) is considered uncollectible and of such little value that its continuance as a realizable asset is not warranted.

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 6—Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments (continued)

The following tables summarize the risk rating categories of the loans and leases considered for inclusion in the allowance for loan and lease losses calculation, excluding acquired impaired loans, as of December 31, 2018 and 2017:

| | Commercial Real Estate | Residential Real Estate | Construction, Land Development, and Other Land | Commercial and Industrial | Installment and Other | Lease Financing Receivables | Total |
|----------------------|---------------------------|----------------------------|--|---------------------------------|--------------------------|-----------------------------------|---------------------|
| 2018 | | | | | | | |
| Pass..... | \$ 1,009,041 | \$ 553,665 | \$ 147,123 | \$ 962,291 | \$ 9,997 | \$ 188,314 | \$ 2,870,431 |
| Watch..... | 76,276 | 29,522 | 31,376 | 112,996 | 3,302 | 80 | 253,552 |
| Special Mention..... | 17,602 | 5,656 | 3,071 | 34,314 | — | 1,794 | 62,437 |
| Substandard..... | 11,880 | 2,125 | — | 22,579 | 15 | 818 | 37,417 |
| Doubtful..... | — | — | — | — | — | 247 | 247 |
| Loss..... | — | — | — | — | — | — | — |
| Total..... | <u>\$ 1,114,799</u> | <u>\$ 590,968</u> | <u>\$ 181,570</u> | <u>\$ 1,132,180</u> | <u>\$ 13,314</u> | <u>\$ 191,253</u> | <u>\$ 3,224,084</u> |

| | Commercial Real Estate | Residential Real Estate | Construction, Land Development, and Other Land | Commercial and Industrial | Installment and Other | Lease Financing Receivables | Total |
|----------------------|---------------------------|----------------------------|--|---------------------------------|--------------------------|-----------------------------------|---------------------|
| 2017 | | | | | | | |
| Pass..... | \$ 638,066 | \$ 398,743 | \$ 73,935 | \$ 415,163 | \$ 3,732 | \$ 174,672 | \$ 1,704,311 |
| Watch..... | 58,217 | 29,165 | 22,380 | 67,024 | 20 | 190 | 176,996 |
| Special Mention..... | 14,645 | 2,251 | 3,168 | 13,535 | — | 1,293 | 34,892 |
| Substandard..... | 14,053 | 2,497 | — | 15,508 | 14 | 1,259 | 33,331 |
| Doubtful..... | — | — | — | — | — | 272 | 272 |
| Loss..... | — | — | — | — | — | — | — |
| Total..... | <u>\$ 724,981</u> | <u>\$ 432,656</u> | <u>\$ 99,483</u> | <u>\$ 511,230</u> | <u>\$ 3,766</u> | <u>\$ 177,686</u> | <u>\$ 1,949,802</u> |

The following tables summarize contractual delinquency information for acquired non-impaired and originated loans and leases by category as of December 31, 2018 and 2017:

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days and Accruing | Non- accrual | Total Past Due | Current | Total |
|--|---------------------------|---------------------------|---|------------------|-------------------|---------------------|---------------------|
| 2018 | | | | | | | |
| Commercial real estate..... | \$ 6,659 | \$ 2,145 | \$ — | \$ 9,484 | \$ 18,288 | \$ 1,096,511 | \$ 1,114,799 |
| Residential real estate..... | 4,488 | 711 | — | 1,815 | 7,014 | 583,954 | 590,968 |
| Construction, land development, and other land..... | — | — | — | — | — | 181,570 | 181,570 |
| Commercial and industrial..... | 5,829 | 1,376 | — | 13,932 | 21,137 | 1,111,043 | 1,132,180 |
| Installment and other..... | 1,932 | 4 | — | 12 | 1,948 | 11,366 | 13,314 |
| Lease financing receivables..... | 789 | 530 | — | 591 | 1,910 | 189,343 | 191,253 |
| Total..... | <u>\$ 19,697</u> | <u>\$ 4,766</u> | <u>\$ —</u> | <u>\$ 25,834</u> | <u>\$ 50,297</u> | <u>\$ 3,173,787</u> | <u>\$ 3,224,084</u> |

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days and Accruing | Non- accrual | Total Past Due | Current | Total |
|--|---------------------------|---------------------------|---|------------------|-------------------|---------------------|---------------------|
| 2017 | | | | | | | |
| Commercial real estate..... | \$ 4,783 | \$ 968 | \$ — | \$ 8,459 | \$ 14,210 | \$ 710,771 | \$ 724,981 |
| Residential real estate..... | 148 | — | — | 2,092 | 2,240 | 430,416 | 432,656 |
| Construction, land development, and other land..... | — | — | — | — | — | 99,483 | 99,483 |
| Commercial and industrial..... | 6,667 | 967 | — | 4,348 | 11,982 | 499,248 | 511,230 |
| Installment and other..... | 18 | — | — | 14 | 32 | 3,734 | 3,766 |
| Lease financing receivables..... | 997 | 638 | — | 851 | 2,486 | 175,200 | 177,686 |
| Total..... | <u>\$ 12,613</u> | <u>\$ 2,573</u> | <u>\$ —</u> | <u>\$ 15,764</u> | <u>\$ 30,950</u> | <u>\$ 1,918,852</u> | <u>\$ 1,949,802</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 6—Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments (continued)

Trouble debt restructurings are granted due to borrower financial difficulty and provide for a modification of loan repayment terms. TDRs are treated in the same manner as impaired loans for purposes of calculating the allowance for loan and lease losses. The tables below present TDRs by loan category as of December 31, 2018, 2017, and 2016. Refer to Note 1—Summary of Significant Accounting Policies for the accounting policy for TDRs.

| | Number of Loans | Pre- Modification Outstanding Recorded Investment | Post- Modification Outstanding Recorded Investment | Charge-offs | Specific Reserves |
|--|-----------------------|---|--|-------------|----------------------|
| December 31, 2018 | | | | | |
| Accruing: | | | | | |
| Commercial real estate | 4 | \$ 1,508 | \$ 1,508 | \$ — | \$ 113 |
| Commercial and industrial | 2 | 191 | 191 | — | 100 |
| Residential real estate | 1 | 114 | 114 | — | — |
| Total accruing | 7 | 1,813 | 1,813 | — | 213 |
| Non-accruing: | | | | | |
| Commercial real estate | 9 | 2,512 | 2,471 | 41 | 743 |
| Commercial and industrial | 6 | 6,714 | 4,843 | 1,871 | 1,290 |
| Total non-accruing | 15 | 9,226 | 7,314 | 1,912 | 2,033 |
| Total troubled debt restructurings | 22 | \$ 11,039 | \$ 9,127 | \$ 1,912 | \$ 2,246 |
| December 31, 2017 | | | | | |
| Accruing: | | | | | |
| Commercial real estate | 3 | \$ 912 | \$ 912 | \$ — | \$ — |
| Residential real estate | 1 | 149 | 149 | — | — |
| Total accruing | 4 | 1,061 | 1,061 | — | — |
| Non-accruing: | | | | | |
| Commercial real estate | 2 | 743 | 743 | — | 111 |
| Commercial and industrial | 3 | 1,246 | 759 | 487 | 246 |
| Residential real estate | 1 | 67 | 67 | — | — |
| Total non-accruing | 6 | 2,056 | 1,569 | 487 | 357 |
| Total troubled debt restructurings | 10 | \$ 3,117 | \$ 2,630 | \$ 487 | \$ 357 |
| December 31, 2016 | | | | | |
| Accruing: | | | | | |
| Commercial real estate | 1 | \$ 421 | \$ 421 | \$ — | \$ — |
| Residential real estate | 2 | 181 | 181 | — | — |
| Total accruing | 3 | 602 | 602 | — | — |
| Non-accruing: | | | | | |
| Commercial real estate | 1 | 477 | 477 | — | — |
| Residential real estate | 1 | 75 | 75 | — | — |
| Total non-accruing | 2 | 552 | 552 | — | — |
| Total troubled debt restructurings | 5 | \$ 1,154 | \$ 1,154 | \$ — | \$ — |

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 6—Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments (continued)

In addition, there was a \$500,000 commitment outstanding on troubled debt restructurings at December 31, 2018 and no commitments outstanding on troubled debt restructurings at December 31, 2017 or 2016.

Loans modified as troubled debt restructurings that occurred during the years ended December 31, 2018, 2017, and 2016:

| | For the Year Ended | | |
|---|--------------------|-----------------|-----------------|
| | December 31, | | |
| | 2018 | 2017 | 2016 |
| Accruing: | | | |
| Beginning balance | \$ 1,061 | \$ 602 | \$ 1,908 |
| Additions | 37 | 1,017 | 181 |
| Net payments | (86) | (144) | (1,010) |
| Net transfers from (to) non-accrual | 801 | (414) | (477) |
| Ending balance | <u>1,813</u> | <u>1,061</u> | <u>602</u> |
| Non-accruing: | | | |
| Beginning balance | 1,569 | 552 | 833 |
| Additions | 8,408 | 681 | — |
| Net payments | (1,718) | (78) | (758) |
| Charge-offs | (144) | — | — |
| Net transfers from (to) accrual | (801) | 414 | 477 |
| Ending balance | <u>7,314</u> | <u>1,569</u> | <u>552</u> |
| Total troubled debt restructurings | <u>\$ 9,127</u> | <u>\$ 2,630</u> | <u>\$ 1,154</u> |

Troubled debt restructurings that subsequently defaulted within twelve months of the restructure date during the years ended December 31, 2018, 2017, and 2016 had a recorded investment of \$340,000, \$144,000, and \$477,000, respectively.

At December 31, 2018 and 2017, the reserve for unfunded commitments was \$1.2 million and \$923,000, respectively. During the years ended December 31, 2018, 2017, and 2016, the provisions for unfunded commitments were \$317,000, \$162,000, and \$493,000, respectively. There were no charge-offs or recoveries related to the reserve for unfunded commitments during the periods.

Note 7—Servicing Assets

Activity for servicing assets and the related changes in fair value for the years ended December 31, 2018 and 2017 is as follows:

| | 2018 | 2017 | 2016 |
|---|------------------|------------------|------------------|
| Beginning balance | \$ 21,400 | \$ 21,091 | \$ — |
| Acquired servicing assets at fair value | — | — | 20,295 |
| Additions, net | 7,562 | 6,250 | 539 |
| Changes in fair value | (9,269) | (5,941) | 257 |
| Ending balance | <u>\$ 19,693</u> | <u>\$ 21,400</u> | <u>\$ 21,091</u> |

Loans serviced for others are not included in the Consolidated Statements of Financial Condition. The unpaid principal balances of these loans serviced for others were as follows as December 31, 2018 and 2017:

| | 2018 | 2017 |
|-------------------------------|---------------------|---------------------|
| Loan portfolios serviced for: | | |
| SBA guaranteed loans | \$ 1,151,915 | \$ 1,021,143 |
| USDA guaranteed loans | 106,184 | 91,758 |
| Total | <u>\$ 1,258,099</u> | <u>\$ 1,112,901</u> |

Loan servicing revenue totaled \$10.3 million, \$9.6 million, and \$1.6 million for the years ended December 31, 2018, 2017, and 2016, respectively.

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Note 7—Servicing Assets (continued)

Loan servicing asset revaluation, which represents the changes in fair value of servicing assets, totaled downward valuations of \$9.3 million and \$5.9 million for the years ended December 31, 2018 and 2017, respectively. There was an upward valuation of \$257,000 for the year ended December 31, 2016.

The fair value of servicing rights is highly sensitive to changes in underlying assumptions. Changes in prepayment speed assumptions have the most significant impact on the fair value of servicing rights.

Generally, as interest rates rise on variable rate loans, loan prepayments increase due to an increase in refinance activity, which may result in a decrease in the fair value of servicing assets. Measurement of fair value is limited to the condition existing and the assumptions used as of a particular point in time, and those assumptions may change over time. Refer to Note 18—Fair Value Measurement for further details.

Note 8—Other Real Estate Owned

The following table presents the change in other real estate owned (“OREO”) for the years ended December 31, 2018, 2017 and 2016:

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|-----------------|------------------|------------------|
| Beginning balance | \$ 10,626 | \$ 16,570 | \$ 26,715 |
| Acquisition of OREO through business combination | — | — | 1,525 |
| Net additions to OREO..... | 2,436 | 6,690 | 6,659 |
| Proceeds from sales of OREO | (7,495) | (13,898) | (18,637) |
| Gains on sales of OREO..... | 383 | 2,147 | 1,366 |
| Valuation adjustments | (636) | (883) | (1,058) |
| Ending balance | <u>\$ 5,314</u> | <u>\$ 10,626</u> | <u>\$ 16,570</u> |

At December 31, 2018 and 2017, the balance of real estate owned included \$838,000 and \$3.6 million, respectively, of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property.

At December 31, 2018 and 2017, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process is \$2.3 million and \$1.9 million, respectively.

Proceeds from sales of OREO include proceeds from internally financed sales of OREO of \$444,000 for the year ended December 31, 2018 and \$1.4 million for the year ended December 31, 2016. There were no internally financed sales of OREO for the year ended December 31, 2017.

Note 9—Premises and Equipment and Assets Held for Sale

Classifications of premises and equipment as of December 31, 2018 and 2017 and were as follows:

| | <u>2018</u> | <u>2017</u> |
|--|------------------|------------------|
| Premises | \$ 62,675 | \$ 61,714 |
| Furniture, fixtures and equipment..... | 15,779 | 13,591 |
| Leasehold improvements | 6,544 | 4,245 |
| Total cost..... | 84,998 | 79,550 |
| Less accumulated depreciation and amortization | (33,679) | (29,880) |
| Net book value of premises, furniture, fixtures, equipment, leasehold improvements | 51,319 | 49,670 |
| Construction in progress | 830 | 899 |
| Land | 45,531 | 44,655 |
| Premises and equipment, net..... | <u>\$ 97,680</u> | <u>\$ 95,224</u> |

Depreciation and amortization expense related to premises and equipment for the years ended December 31, 2018, 2017 and 2016 was \$5.6 million, \$5.2 million and \$5.1 million, respectively. Refer to Note 17—Commitments and Contingent Liabilities for additional discussion related to operating lease commitments.

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Note 9—Premises and Equipment and Assets Held for Sale (continued)

During 2016, the Company closed and consolidated 12 retail branches within our branch network based on a detailed assessment of the branch network and analysis of branch and market data. During 2017, two additional branches were closed and consolidated, and during 2018, an additional six branches and two other facilities were closed and consolidated. Branches owned by the Company and actively marketed for sale are transferred to assets held for sale based on the lower of carrying value or fair value, less estimated costs to sell. Assets are considered held for sale when management has approved the sale of the assets following a branch closure or other events. The following table presents the change in assets held for sale for the years ended December 31, 2018, 2017, and 2016:

| | 2018 | 2017 | 2016 |
|-----------------------------------|------------------|-----------------|------------------|
| Beginning balance..... | \$ 9,779 | \$ 14,748 | \$ 2,259 |
| Transfers in | 9,074 | 3,372 | 14,496 |
| Transfers out | (425) | — | — |
| Proceeds from sales..... | (4,415) | (5,373) | (2,566) |
| Internally financed sales | — | (1,800) | — |
| Net gains (losses) on sales | 1,103 | (217) | 967 |
| Impairment loss..... | (627) | (951) | (408) |
| Ending balance | <u>\$ 14,489</u> | <u>\$ 9,779</u> | <u>\$ 14,748</u> |

Note 10—Goodwill, Core Deposit Intangible and Other Intangible Assets

The Company's annual goodwill test was performed as of November 30, 2018. The Company determined that no impairment existed as of that date. Refer to Note 1—Business and Summary of Significant Accounting Policies for discussion of goodwill.

The following table summarizes the changes in the Company's goodwill and core deposit intangible assets for the years ended December 31, 2018, 2017 and 2016:

| | 2018 | | | 2017 | | | 2016 | | |
|--|-------------------|-------------------------|----------------------------------|------------------|-------------------------|----------------------------------|------------------|-------------------------|----------------------------------|
| | Goodwill | Core Deposit Intangible | Customer Relationship Intangible | Goodwill | Core Deposit Intangible | Customer Relationship Intangible | Goodwill | Core Deposit Intangible | Customer Relationship Intangible |
| Beginning balance | \$ 54,562 | \$ 16,720 | \$ — | \$ 51,975 | \$ 19,776 | \$ — | \$ 25,688 | \$ 22,275 | \$ — |
| Additions | 73,615 | 19,060 | 3,216 | 2,587 | — | — | 26,287 | 486 | — |
| Amortization or accretion..... | — | (5,420) | (157) | — | (3,056) | — | — | (2,985) | — |
| Ending balance | <u>\$ 128,177</u> | <u>\$ 30,360</u> | <u>\$ 3,059</u> | <u>\$ 54,562</u> | <u>\$ 16,720</u> | <u>\$ —</u> | <u>\$ 51,975</u> | <u>\$ 19,776</u> | <u>\$ —</u> |
| Accumulated amortization or accretion | N/A | \$ 18,886 | 157 | N/A | \$ 13,466 | N/A | N/A | \$ 10,410 | N/A |
| Weighted average remaining amortization or accretion period..... | N/A | 6.8 Years | 11.4 Years | N/A | 5.6 Years | N/A | N/A | 6.6 Years | N/A |

During 2018, the Company added additional goodwill, core deposit intangible assets, and customer relationship intangible assets in conjunction with the First Evanston acquisition. Please refer to Note 3—Acquisition of a Business for further details. The increases in goodwill and core deposit intangible for the years ended December 31, 2017 and 2016 resulted from the Ridgestone acquisition.

Additionally, the Company had other intangible assets of \$36,000, and \$50,000 as of December 31, 2017 and 2016, respectively, associated with trademark-related transactions. The other intangible assets were fully amortized in 2018 resulting in no remaining balance as of December 31, 2018.

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Note 10—Goodwill, Core Deposit Intangible and Other Intangible Assets (continued)

The following table presents the estimated amortization expense for core deposit intangible and other intangible assets recognized at December 31, 2018:

| | <u>Estimated Amortization</u> |
|-----------------|-----------------------------------|
| 2019..... | \$ 6,925 |
| 2020..... | 6,476 |
| 2021..... | 6,026 |
| 2022..... | 5,578 |
| 2023..... | 3,645 |
| Thereafter..... | 4,769 |
| Total..... | <u>\$ 33,419</u> |

Note 11—Income Taxes

The following were the components of provision for income taxes for the years ended December 31, 2018, 2017, and 2016

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|--------------------|
| Current tax expense: | | | |
| Federal | \$ — | \$ 1,010 | \$ — |
| State and local..... | 1,078 | 1,485 | — |
| Total current tax expense | 1,078 | 2,495 | — |
| Deferred tax expense: | | | |
| Federal | 11,469 | 13,554 | 478 |
| State and local..... | 2,460 | 686 | 136 |
| Remeasurement of net deferred tax assets..... | (760) | 2,364 | — |
| Total deferred tax expense before reversal of valuation allowance..... | 13,169 | 16,604 | 614 |
| Deferred tax valuation allowance | — | — | (61,859) |
| Provision (benefit) for income taxes | <u>\$ 14,247</u> | <u>\$ 19,099</u> | <u>\$ (61,245)</u> |

The following is a reconciliation between the statutory U.S. federal income tax rate of 21% for 2018 and 35% for 2017 and 2016 and the effective tax rate:

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|---------------|---------------|--------------------|
| Calculated tax benefit at statutory rate | 21.0 % | 35.0 % | 35.0 % |
| Increase (decrease) in income taxes resulting from: | | | |
| Reversal of valuation allowance, net of change in estimated Section 382 impact | — | — | (1,167.6) |
| State taxes, net of federal income tax | 7.0 | 6.5 | 6.1 |
| Tax exempt income | (0.5) | (0.7) | (5.3) |
| Share-based compensation..... | (0.9) | — | — |
| Non-deductible expenses | 0.5 | 0.2 | 14.8 |
| Remeasurement of net deferred tax assets | (1.4) | 5.8 | — |
| Total income tax expense (benefit)..... | <u>25.7 %</u> | <u>46.8 %</u> | <u>(1,117.0) %</u> |

As part of a budget package passed by the Legislature of the State of Illinois, the corporate income tax rate increased from 5.25% to 7.00% effective July 1, 2017. As a result of the increase in the corporate income tax rate, we recorded a state income tax benefit of \$4.8 million during 2017, primarily due to increased value of our deferred tax asset related to our Illinois net loss deduction.

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Note 11—Income Taxes (continued)

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017, and ASC 740 required us to reflect the changes associated with the Tax Act’s provisions in the fourth quarter of 2017. The Tax Act is complex and has extensive implications for the Company’s federal and state taxes. Among other things, the Tax Act reduced the corporate federal income tax rate from 35% to 21%, effective January 1, 2018. Also on December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance on accounting for the Tax Act’s impact. SAB 118 provides a measurement period, not to extend beyond one year from the date of enactment during which a company, acting in good faith, may complete the accounting for the impacts of the Tax Act. At December 31, 2018, the Company’s accounting for the impact of the Tax Act on its net deferred tax assets is based upon reasonable estimates of the tax effects of the Tax Act; however, these estimates may change as additional information and interpretive guidance regarding the provisions of the Tax Act become available. As a result of the rate change, the Company’s net deferred tax assets were required to be revalued during the period in which the new legislation was enacted, and the Company recorded net income tax expense of \$7.2 million during the fourth quarter of 2017 as a result of this change, and recorded an additional discrete income tax benefit of \$760,000 during 2018.

Included in the provisional tax expense recorded for the re-measurement of the Company’s net deferred tax assets recorded in 2017 were deferred items for which the tax effects were originally established through OCI. This resulted in a disproportionate tax effect for those items still recorded in AOCI. Under GAAP as of December 31, 2017, those items would continue to be reported in AOCI until such time as the underlying transactions were settled and would then be reclassified as a component of the provision for income taxes. However, in February 2018, the FASB issued an ASU that permits entities to reclassify the tax effects stranded in AOCI as a result of the Tax Act to retained earnings. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption in any period permitted. The Company early adopted this new guidance effective January 1, 2018. The adoption did not impact the Company’s Consolidated Statements of Operations, and resulted in a reclassification of \$763,000 from accumulated other comprehensive income (loss) to retained earnings.

The income tax benefit for the year ended December 31, 2016 was primarily attributable to the reversal of the Company’s previously established valuation allowance of \$61.4 million. Management concluded that no valuation allowance was necessary on the Company’s net deferred tax assets as a result of the Ridgestone acquisition. This determination was based on Ridgestone’s actual pre-tax income over the prior three years, and pro-forma combined earnings for the Company and Ridgestone over the prior three years, as well as management’s expectations for sustainable profitability in the future. Management monitors deferred tax assets on a quarterly basis for changes affecting realizability. The valuation allowance could be subject to change in future periods.

The following were the significant components of the deferred tax assets and liabilities as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|--|-----------|-----------|
| Deferred tax assets: | | |
| Net operating losses and tax credits..... | \$ 25,851 | \$ 42,062 |
| Interest on non-accrual loans | 3,039 | 2,755 |
| Allowance for loan losses and loan basis | 15,641 | 11,252 |
| Deposits | 90 | 5 |
| Alternative minimum tax ("AMT") credit carryforward | — | 2,140 |
| Other real estate owned..... | 393 | — |
| Net unrealized holding losses on securities available-for-sale | 4,622 | 2,766 |
| Accrued expenses | 3,747 | 1,576 |
| Other | 2,075 | 837 |
| Total deferred tax assets | 55,458 | 63,393 |
| Deferred tax liabilities: | | |
| Other real estate owned..... | — | (24) |
| Premises and equipment | (3,752) | (3,385) |
| Core deposit intangibles..... | (9,306) | (4,656) |
| Servicing assets..... | (337) | (3,505) |
| Trust preferred securities | (2,710) | (2,465) |
| Unrealized holding gain on cash flow hedges | (1,839) | (1,390) |
| Other | (1,871) | (592) |
| Total deferred tax liabilities | (19,815) | (16,017) |
| Net deferred tax assets after valuation allowance | \$ 35,643 | \$ 47,376 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 11—Income Taxes (continued)

| | 2018 | | 2017 |
|--|----------|----|---------|
| NOL carryforwards available to offset future taxable income: | | | |
| Federal gross NOL carryforwards - begin to expire in 2030 | \$ 1,233 | \$ | 63,964 |
| Illinois gross NLD carryforwards - begin to expire in 2021 | 340,999 | | 381,471 |
| AMT credit carryforward - no expiration date | — | | 2,140 |

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of net operating loss and credit carryforwards may be limited in the event a cumulative change in ownership of more than 50 percent occurs within a three-year period. The Company has determined that such an ownership change occurred as of June 28, 2013 as a result of our recapitalization. This ownership change resulted in estimated limitations on the utilization of tax attributes, including net operating loss carryforwards and tax credits. Pursuant to Sections 382 and 383, a portion of the limited net operating loss carryforwards and credits become available to use each year. The Company estimates that approximately \$756,000 of the restricted Federal net operating losses will become available each year.

The Company and the Bank file consolidated income tax returns. The Company and the Bank are no longer subject to United States federal income tax examinations for years before 2015 and state income tax examinations for years before 2014.

Note 12—Federal Home Loan Bank Advances

The following table summarizes the FHLB advances as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|---------------------------------------|------------|------------|
| Federal Home Loan Bank advances | \$ 425,000 | \$ 361,506 |
| Weighted average cost | 2.56% | 1.49% |

At December 31, 2018, fixed-rate advances totaled \$360.0 million, with interest rates ranging from 2.52% to 2.61% and maturities ranging from January 2019 to March 2019. Total variable rate advances were \$65.0 million at December 31, 2018, with an interest rate of 2.41% that may reset daily, and matures in January 2019. The Company's advances from the FHLB are collateralized by residential real estate loans, commercial real estate loans, and securities. The Company's required investment in FHLB stock is \$4.50 for every \$100 in advances. Refer to Note 4—Securities for additional discussion. At December 31, 2018 and 2017, the Bank has additional borrowing capacity from the FHLB of \$1.3 billion and \$795.0 million, respectively, subject to the availability of proper collateral. The Bank's maximum borrowing capacity is limited to 35% of total assets.

The Company hedges interest rates on borrowed funds using interest rate swaps through which the Company receives variable amounts and pays fixed amounts. Refer to Note 22—Derivative Instruments and Hedging Activities for additional information.

Note 13—Other Borrowings

The following is a summary of the Company's other borrowings as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|--|-----------|-----------|
| Securities sold under agreements to repurchase | \$ 34,166 | \$ 31,187 |
| Line of credit | — | — |
| Total | \$ 34,166 | \$ 31,187 |

Securities sold under agreements to repurchase represent a demand deposit product offered to customers that sweep balances in excess of the FDIC insurance limit into overnight repurchase agreements. The Company pledges securities as collateral for the repurchase agreements. Refer to Note 4—Securities for additional discussion.

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Note 13—Other Borrowings (continued)

On October 13, 2016, the Company entered into a \$30.0 million credit agreement with a correspondent bank. In April 2017, the revolving line of credit was amended to a non-revolving line of credit as long as the outstanding balance exceeds \$5.0 million. When the outstanding balance is reduced to \$5.0 million, the line of credit will be converted to a revolving line of credit with credit availability up to \$5.0 million until maturity. In July 2017, the Company repaid the outstanding balance, in full, under this line of credit of \$16.2 million with proceeds from its initial public offering (“IPO”). The line of credit matured on October 11, 2018 and carried an interest rate at either the London Interbank Offered Rate (“LIBOR”) plus 250 basis points or the Prime Rate minus 25 basis points, based on the Company’s election. On October 11, 2018, the Company entered into a third amendment to the revolving credit agreement, which increased the revolving loan commitment to \$10.0 million, extended the maturity of the credit facility to October 10, 2019, and makes certain other changes, including a release of the previously executed Stock Pledge Agreement dated October 13, 2016 and execution of a Negative Pledge Agreement dated October 11, 2018. The amended revolving line of credit bears interest at either the LIBOR plus 225 basis points or the Prime Rate minus 50 basis points, based on the Company’s election, which is required to be communicated at least three business days prior to the commencement of an interest period. If the Company fails to provide timely notification, the interest rate will be Prime Rate minus 50 basis points. As of December 31, 2018 and 2017, the line of credit has not been drawn upon, so an interest rate option has not been selected.

The following table presents short-term credit lines available for use, for which the Company did not have an outstanding balance as of December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|
| Federal Reserve Bank of Chicago discount window line | \$ 293,613 | \$ 144,248 |
| Available federal funds lines | 55,000 | 55,000 |

Note 14—Deposits

The following is a summary of the Company’s deposits as of December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Non-interest-bearing demand deposits | \$ 1,192,873 | \$ 760,887 |
| Interest-bearing checking accounts | 296,339 | 186,611 |
| Money market demand accounts | 640,401 | 349,862 |
| Other savings | 476,418 | 437,212 |
| Time deposits (below \$250,000) | 911,603 | 627,255 |
| Time deposits (\$250,000 and above) | 232,282 | 81,502 |
| Total deposits | <u>\$ 3,749,916</u> | <u>\$ 2,443,329</u> |

Time deposits of \$250,000 or more included \$50.0 million of brokered deposits at December 31, 2018 and none at December 31, 2017.

At December 31, 2018, the scheduled maturities of time deposits were as follows:

| | <u>Scheduled</u> <u>Maturities</u> |
|-------------|---------------------------------------|
| 2019 | \$ 852,780 |
| 2020 | 240,863 |
| 2021 | 33,583 |
| 2022 | 10,584 |
| 2023 | 6,075 |
| Total | <u>\$ 1,143,885</u> |

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Note 15— Junior Subordinated Debentures

At December 31, 2018 and 2017, the Company’s junior subordinated debentures by issuance were as follows:

| <u>Name of Trust</u> | <u>Aggregate Principal Amount 2018</u> | <u>Aggregate Principal Amount 2017</u> | <u>Stated Maturity</u> | <u>Contractual Rate at December 31, 2018</u> | <u>Interest Rate Spread</u> |
|---|--|--|----------------------------|--|-----------------------------|
| Metropolitan Statutory Trust 1 | \$ 35,000 | \$ 35,000 | March 17, 2034 | 5.58% | Three-month LIBOR + 2.79% |
| RidgeStone Capital Trust I | 1,500 | 1,500 | June 30, 2033 | 6.38% | Five-year LIBOR + 3.50% |
| First Evanston Bancorp Trust I | 10,000 | — | March 15, 2035 | 4.57% | Three-month LIBOR + 1.78% |
| Total liability, at par | 46,500 | 36,500 | | | |
| Discount | (9,732) | (8,853) | | | |
| Total liability, at carrying value | <u>\$ 36,768</u> | <u>\$ 27,647</u> | | | |

In 2004, the Company’s predecessor, Metropolitan Bank Group, Inc., issued \$35.0 million floating rate junior subordinated debentures to Metropolitan Statutory Trust 1, which was formed for the issuance of trust preferred securities. The debentures bear interest at three-month LIBOR plus 2.79% (5.58% and 4.39% at December 31, 2018 and 2017, respectively). Interest is payable quarterly. The Company has the right to redeem the debentures, in whole or in part, on any interest payment date on or after March 2009. Accrued interest payable was \$84,000 and \$62,000 as of December 31, 2018 and 2017, respectively.

As part of the Ridgestone acquisition, the Company assumed the obligations to RidgeStone Capital Trust I of \$1.5 million in principal amount, which was formed for the issuance of trust preferred securities. Beginning on June 30, 2008, the interest rate reset to the five-year LIBOR plus 3.50% (6.38% and 5.09% at December 31, 2018 and 2017, respectively), which is in effect until June 30, 2023 and updated every five years. Interest is paid on a quarterly basis. The Company has the right to redeem the debentures, in whole or in part, on any interest payment date on or after June 30, 2008. There was no accrued interest payable as of December 31, 2018 or 2017.

As part of the First Evanston acquisition, the Company assumed the obligations to First Evanston Bancorp Trust I of \$10.0 million in principal amount, which was formed for the issuance of trust preferred securities. Refer to Note 3—Acquisition of a Business for additional information. Beginning on March 15, 2010, the interest rate reset to the three-month LIBOR plus 1.78% (4.57% at December 31, 2018), which is in effect until the debentures mature in 2035. Interest is paid on a quarterly basis. The Company has the right to redeem the debentures, in whole or in part, on any interest payment date on or after March 2010. The Company has the option to defer interest payments on the debentures from time to time for a period not to exceed five consecutive years. Accrued interest payable was \$21,000 as of December 31, 2018.

The Trusts are not consolidated with the Company. Accordingly, the Company reports the subordinated debentures held by the Trusts as liabilities. The Company owns all of the common securities of each trust. The junior subordinated debentures qualify, and are treated as, Tier 1 regulatory capital of the Company subject to regulatory limitations. The trust preferred securities issued by each trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the notes has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment.

Note 16— Employee Benefit Plans

The Company’s defined contribution 401(k) savings plan (the “Plan”) covers substantially all employees that have completed certain service requirements. The Board of Directors determines the amount of any discretionary profit sharing contribution made to the plan. There were no profit sharing contributions to the Plan for the years ended December 31, 2018, 2017, and 2016. The net assets of the plan are not included in the Consolidated Statements of Financial Condition.

As of February 1, 2016, a 401(k) employer match contribution was adopted by the Company, pursuant to which the Company will make a contribution equal to 50% of the first 4% contributed by employees. Effective January 1, 2017, the employer match was increased to equal 100% of the first 3% and 50% for the next 2% contributed by employees. Total expense for the employer contributions made to the Plan was \$2.1 million, \$1.5 million, and \$655,000 during the years ended December 31, 2018, 2017, and 2016, respectively.

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 16— Employee Benefit Plans (continued)

On June 14, 2017, the Company’s board of directors adopted the Byline Bancorp, Inc. Employee Stock Purchase Plan (the “ESPP”) within the meaning of Section 423 of the Internal Revenue Code, as amended. The ESPP allows employees to purchase shares of common stock at a discount from the market price through automatic payroll deductions. A total of 200,000 shares of common stock were reserved for sale under the ESPP, subject to adjustment in accordance with the terms of the ESPP. The Company has issued 8,882 shares in connection with the ESPP leaving 191,118 available at December 31, 2018. The first plan offering was in the first quarter of 2018, and there was \$66,000 of compensation expense for the year ended December 31, 2018, and no compensation expense for the years ended December 31, 2017 or 2016.

Note 17— Commitments and Contingent Liabilities

Legal contingencies—In the ordinary course of business, the Company and Bank have various outstanding commitments and contingent liabilities that are not recognized in the accompanying consolidated financial statements. In addition, the Company may be a defendant in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is currently not expected to have a material adverse effect on the Company’s Consolidated Financial Statements.

Operating lease commitments—The Company has entered into various operating lease agreements primarily for facilities and land on which banking facilities are located. Certain lease agreements have renewal options at the end of the original lease term and certain lease agreements have escalation clauses in the rent payments.

The minimum annual rental commitments for operating leases subsequent to December 31, 2018, exclusive of taxes and other charges, are summarized as follows:

| | Minimum Rental Commitments |
|------------------|---------------------------------------|
| 2019 | \$ 3,285 |
| 2020 | 2,725 |
| 2021 | 2,450 |
| 2022 | 1,488 |
| 2023 | 562 |
| Thereafter | 2,605 |
| Total | \$ 13,115 |

The Company’s rental expenses for the years ended December 31, 2018, 2017, and 2016 were \$5.5 million, \$4.6 million, and \$3.8 million, respectively. During the years ended December 31, 2018, 2017, and 2016 the Company received \$723,000, \$702,000, and \$737,000, respectively, in sublease income which is included in the Consolidated Statements of Operations as a reduction of occupancy expense. The total amount of minimum rentals to be received in the future on these subleases is approximately \$1.7 million, and the leases have contractual lives extending through 2025. In addition to the above required lease payments, the Company has contractual obligations related primarily to information technology contracts and other maintenance contracts. In June 2018, the Company accrued \$8.1 million in data processing expense primarily related to contract termination with its core service provider in anticipation of a future system conversion. As of December 31, 2018, the remaining contract termination balance was \$3.7 million.

Commitments to extend credit—The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Statements of Financial Condition. The contractual or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company’s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for funded instruments. The Company does not anticipate any material losses as a result of the commitments and letters of credit.

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Note 17— Commitments and Contingent Liabilities (continued)

The following table summarizes the contract or notional amount of outstanding loan and lease commitments at December 31, 2018 and 2017:

| | 2018 | | 2017 | |
|-----------------------------------|------------------|-------------------|------------------|-------------------|
| | Fixed Rate | Variable Rate | Fixed Rate | Variable Rate |
| Commitments to extend credit..... | \$ 74,099 | \$ 928,991 | \$ 55,924 | \$ 467,429 |
| Letters of credit..... | 1,982 | 34,071 | 1,226 | 3,337 |
| Total | <u>\$ 76,081</u> | <u>\$ 963,062</u> | <u>\$ 57,150</u> | <u>\$ 470,766</u> |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral is primarily obtained in the form of commercial and residential real estate (including income producing commercial properties).

Letters of credit are conditional commitments issued by the Company to guarantee to a third-party the performance of a customer. Those guarantees are primarily issued to support public and private borrowing arrangements, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Commitments to make loans are generally made for periods of 90 days or less. The fixed rate loan commitments have interest rates ranging from 2.00% to 15.00% and maturities up to 2032. Variable rate loan commitments have interest rates ranging from 3.00% to 15.00% and maturities up to 2048.

Note 18— Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In addition, the Company has the ability to obtain fair values for markets that are not accessible. These types of inputs create the following fair value hierarchy:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. The Company's own data used to develop unobservable inputs may be adjusted for market considerations when reasonably available.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to assets and liabilities.

The Company used the following methods and significant assumptions to estimate fair value for certain assets measured and carried at fair value on a recurring basis:

Securities available-for-sale—The Company obtains fair value measurements from an independent pricing service. Management reviews the procedures used by the third party, including significant inputs used in the fair value calculations. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing.

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Note 18— Fair Value Measurement (continued)

The Company's methodology for pricing non-rated bonds focuses on three distinct inputs: equivalent rating, yield and other pricing terms. To determine the rating for a given non-rated municipal bond, the Company references a publicly issued bond by the same issuer if available as well as other additional key metrics to support the credit worthiness. Typically, pricing for these types of bonds would require a higher yield than a similar rated bond from the same issuer. A reduction in price is applied to the rating obtained from the comparable bond, as the Company believes if liquidated, a non-rated bond would be valued less than a similar bond with a verifiable rating. The reduction applied by the Company is one notch lower (i.e. a "AA" rating for a comparable bond would be reduced to "AA-" for the Company's valuation). In 2018 and 2017, all of the ratings derived by the Company were "BBB" or better with and without comparable bond proxies. The fair value measurement of municipal bonds is sensitive to the rating input, as a higher rating typically results in an increased valuation. The remaining pricing inputs used in the bond valuation are observable. Based on the rating determined, the Company obtains a corresponding current market yield curve available to market participants. Other terms including coupon, maturity date, redemption price, number of coupon payments per year, and accrual method are obtained from the individual bond term sheets.

Servicing assets—Fair value is based on a loan-by-loan basis taking into consideration the original term to maturity, the current age of the loan and the remaining term to maturity. The valuation methodology utilized for the servicing assets begins with generating future cash flows for each servicing asset, based on their unique characteristics and market-based assumptions for prepayment speeds. The present value of the future cash flows are then calculated utilizing market-based discount rate assumptions.

Derivative instruments—Interest rate swaps are valued by a third party, using models that primarily use market observable inputs, such as yield curves, and are validated by comparison with valuations provided by the respective counterparties. Derivative financial instruments are included in other assets and other liabilities in the Consolidated Statements of Financial Condition.

The following tables summarize the Company's financial assets and liabilities that were measured at fair value on a recurring basis at December 31, 2018 and 2017:

| 2018 | Fair Value | Fair Value Measurements Using | | |
|---|------------|-------------------------------|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | |
| Securities available-for-sale | | | | |
| U.S. Treasury Notes..... | \$ 52,667 | \$ 52,667 | \$ — | \$ — |
| U.S. Government agencies | 186,498 | — | 186,498 | — |
| Obligations of states, municipalities, and political subdivisions | 60,233 | — | 60,038 | 195 |
| Mortgage-backed securities; residential | | | | |
| Agency | 272,963 | — | 272,963 | — |
| Non-Agency | 83,621 | — | 83,621 | — |
| Mortgage-backed securities; commercial | | | | |
| Agency | 90,434 | — | 90,434 | — |
| Non-Agency | 30,458 | — | 30,458 | — |
| Corporate securities | 34,173 | — | 34,173 | — |
| Other securities | 6,609 | 2,844 | 3,074 | 691 |
| Servicing assets | 19,693 | — | — | 19,693 |
| Derivative assets | 10,740 | — | 10,740 | — |
| Financial liabilities | | | | |
| Derivative liabilities | 4,243 | — | 4,243 | — |

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 18— Fair Value Measurement (continued)

| 2017 | Fair Value | Fair Value Measurements Using | | |
|---|------------|-------------------------------|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | |
| Securities available-for-sale | | | | |
| U.S. Treasury Notes..... | \$ 14,863 | \$ 14,863 | \$ — | \$ — |
| U.S. Government agencies | 52,958 | — | 52,958 | — |
| Obligations of states, municipalities, and political subdivisions | 33,170 | — | 32,795 | 375 |
| Mortgage-backed securities; residential | | | | |
| Agency | 307,457 | — | 307,457 | — |
| Non-Agency | 39,514 | — | 39,514 | — |
| Mortgage-backed securities; commercial | | | | |
| Agency | 69,043 | — | 69,043 | — |
| Non-Agency | 30,971 | — | 30,971 | — |
| Corporate securities | 29,976 | — | 29,976 | — |
| Other securities | 5,284 | 1,921 | 2,686 | 677 |
| Servicing assets | 21,400 | — | — | 21,400 |
| Derivative assets | 5,981 | — | 5,981 | — |
| Financial liabilities | | | | |
| Derivative liabilities | 994 | — | 994 | — |

The Company has originated, and acquired through a business combination, servicing assets classified as Level 3 of the fair value hierarchy. The Company acquired single-issuer trust preferred securities included in other securities categorized as Level 3 of the fair value hierarchy.

The Company has purchased, and acquired through a business combination, privately-issued municipal securities that are categorized as Level 3. These municipal securities are bonds issued for municipal government entities located in the Chicago metropolitan area and are privately placed, non-rated bonds without Committee on Uniform Security Identification Procedures numbers.

The Company did not have any transfers to or from Level 1 and Level 2 of the fair value hierarchy during the years ended December 31, 2018 and 2017.

The following table presents additional information about financial assets measured at fair value on recurring basis for which the Company used significant unobservable inputs (Level 3):

| | Years Ended | | | |
|------------------------------------|------------------------------|-----------------|-------------------------|------------------|
| | December 31, | | | |
| | 2018 | 2017 | 2018 | 2017 |
| | Investment Securities | | Servicing Assets | |
| Balance, beginning of period..... | \$ 1,052 | \$ 1,080 | \$ 21,400 | \$ 21,091 |
| Acquired assets at fair value..... | 314 | — | — | — |
| Additions, net | — | — | 7,562 | 6,250 |
| Maturities..... | (494) | (175) | — | — |
| Amortization..... | 5 | 5 | — | — |
| Change in unrealized gain | 9 | 142 | — | — |
| Change in fair value..... | — | — | (9,269) | (5,941) |
| Balance, end of period..... | <u>\$ 886</u> | <u>\$ 1,052</u> | <u>\$ 19,693</u> | <u>\$ 21,400</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 18— Fair Value Measurement (continued)

The following table presents additional information about the unobservable inputs used in the fair value measurements on recurring basis that were categorized within Level 3 of the fair value hierarchy as of December 31, 2018:

| <u>Financial Instruments</u> | <u>Valuation Technique</u> | <u>Unobservable Inputs</u> | <u>Range of Inputs</u> | <u>Weighted Average Input</u> | <u>Impact to Valuation from an Increased or Higher Input Value</u> |
|--|----------------------------|--|----------------------------|---------------------------------------|--|
| Obligations of states, municipalities, and political obligations | Discounted cash flow | Probability of default | 2.4% | 2.4% | Decrease |
| Single issuer trust preferred..... | Discounted cash flow | Probability of default | 4.9%—5.4% | 5.2% | Decrease |
| Servicing assets | Discounted cash flow | Prepayment speeds | 2.0%—17.4% | 11.5% | Decrease |
| | | Discount rate | 8.5%—23.1% | 15.2% | Decrease |
| | | Expected weighted average loan life | 0.1—10.4 years | 5.1 years | Increase |

The Company used the following methods and significant assumptions to estimate fair value for certain assets measured and carried at fair value on a non-recurring basis:

Loans held for sale— Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value based on contract price. Loans transferred to loans held for sale are carried at the lower of cost or fair value, less estimated costs to sell.

Impaired loans (excluding acquired impaired loans)—Impaired loans, other than those existing on the date of a business acquisition, are primarily carried at the fair value of the underlying collateral, less estimated costs to sell, if the loan is collateral dependent. Valuations of impaired loans that are collateral dependent are supported by third party appraisals in accordance with the Bank's credit policy. Other valuation methods include analysis of discounted cash flows, which measures the present value of expected future cash flows discounted at the loan's effective interest rate. Impaired loans that are not collateral dependent are not material.

Assets held for sale—Assets held for sale consist of former branch locations and real estate previously purchased for expansion. Assets are considered held for sale when management has approved to sell the assets following a branch closure or other events. The properties are being actively marketed and transferred to assets held for sale based on the lower of carrying value or its fair value, less estimated costs to sell.

Other real estate owned—Certain assets held within other real estate owned represent real estate or other collateral that has been adjusted to its estimated fair value, less cost to sell, as a result of transferring from the loan portfolio at the time of foreclosure or repossession and based on management's periodic impairment evaluation. From time to time, non-recurring fair value adjustments to other real estate owned are recorded to reflect partial write-downs based on an observable market price or current appraised value of property.

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 18— Fair Value Measurement (continued)

Adjustments to fair value based on such non-recurring transactions generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment. The following tables summarize the Company's assets that were measured at fair value on a non-recurring basis, excluding acquired impaired loans, as of December 31, 2018 and 2017:

| 2018 | Fair Value | Fair Value Measurements Using | | |
|--|------------|-------------------------------|---------|----------|
| | | Level 1 | Level 2 | Level 3 |
| Non-recurring | | | | |
| Impaired loans | | | | |
| (excluding acquired impaired loans) | | | | |
| Commercial real estate | \$ 9,792 | \$ — | \$ — | \$ 9,792 |
| Residential real estate | 2,076 | — | — | 2,076 |
| Construction, land development, and other land | — | — | — | — |
| Commercial and industrial..... | 17,397 | — | — | 17,397 |
| Installment and other | — | — | — | — |
| Assets held for sale | 14,489 | — | — | 14,489 |
| Other real estate owned..... | 5,314 | — | — | 5,314 |

| 2017 | Fair Value | Fair Value Measurements Using | | |
|--|------------|-------------------------------|---------|-----------|
| | | Level 1 | Level 2 | Level 3 |
| Non-recurring | | | | |
| Impaired loans | | | | |
| (excluding acquired impaired loans) | | | | |
| Commercial real estate | \$ 12,783 | \$ — | \$ — | \$ 12,783 |
| Residential real estate | 2,271 | — | — | 2,271 |
| Construction, land development, and other land | — | — | — | — |
| Commercial and industrial..... | 12,092 | — | — | 12,092 |
| Installment and other | — | — | — | — |
| Assets held for sale | 9,779 | — | — | 9,779 |
| Other real estate owned..... | 10,626 | — | — | 10,626 |

The following methods and assumptions were used by the Company in estimating fair values of other assets and liabilities for disclosure purposes:

Cash and cash equivalents—For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities held-to-maturity—The Company obtains fair value measurements from an independent pricing service. Management reviews the procedures used by the third party, including significant inputs used in the fair value calculations. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing.

Restricted stock—The fair value has been determined to approximate cost.

Loans held for sale—The fair value of loans held for sale are based on quoted market prices, where available, and determined by discounted estimated cash flows using interest rates approximating the Company's current origination rates for similar loans adjusted to reflect the inherent credit risk.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 18— Fair Value Measurement (continued)

Loan and lease receivables, net—For certain variable rate loans that reprice frequently and with no significant changes in credit risk, fair value is estimated at carrying value. The fair value of other types of loans is estimated by discounting future cash flows, using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits—The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated by discounting future cash flows, using rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances—The fair value of FHLB advances is estimated by discounting the agreements based on maturities using rates currently offered for FHLB advances of similar remaining maturities adjusted for prepayment penalties that would be incurred if the borrowings were paid off on the measurement date.

Securities sold under agreements to repurchase—The carrying amount approximates fair value due to maturities of less than ninety days.

Junior subordinated debentures—The fair value of junior subordinated debentures, in the form of trust preferred securities, is determined using rates currently available to the Company for debt with similar terms and remaining maturities.

Accrued interest receivable and payable—The carrying amount approximates fair value.

Commitments to extend credit and letters of credit—The fair values of these off-balance sheet commitments to extend credit and commercial and letters of credit are not considered practicable to estimate because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

The estimated fair values of financial instruments and levels within the fair value hierarchy are as follows:

| | Fair Value Hierarchy Level | 2018 | | 2017 | |
|---|----------------------------------|--------------------|-------------------------|--------------------|-------------------------|
| | | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial assets | | | | | |
| Cash and due from banks | 1 | \$ 30,190 | \$ 30,190 | \$ 19,404 | \$ 19,404 |
| Interest bearing deposits with other banks | 2 | 91,670 | 91,670 | 38,945 | 38,945 |
| Securities held-to-maturity | 2 | 99,266 | 97,739 | 117,163 | 117,277 |
| Other restricted stock | 2 | 19,202 | 19,202 | 16,343 | 16,343 |
| Loans held for sale | 3 | 19,827 | 21,654 | 5,212 | 5,851 |
| Loans and lease receivables, net (less impaired loans at fair value) | 3 | 3,447,160 | 3,407,652 | 2,260,786 | 2,240,235 |
| Accrued interest receivable | 3 | 10,863 | 10,863 | 7,670 | 7,670 |
| Financial liabilities | | | | | |
| Non-interest-bearing deposits | 2 | 1,192,873 | 1,192,873 | 760,887 | 760,887 |
| Interest-bearing deposits | 2 | 2,557,043 | 2,554,329 | 1,682,442 | 1,678,535 |
| Accrued interest payable | 2 | 3,484 | 3,484 | 1,306 | 1,306 |
| Line of credit | 2 | — | — | — | — |
| Federal Home Loan Bank advances | 2 | 425,000 | 425,000 | 361,506 | 361,500 |
| Securities sold under repurchase agreement | 2 | 34,166 | 34,166 | 31,187 | 31,187 |
| Junior subordinated debentures | 3 | 36,768 | 42,351 | 27,647 | 33,907 |

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 19— Share-Based Compensation

In June 2017, the Company adopted the 2017 Omnibus Incentive Compensation Plan (the “Omnibus Plan”) in connection with our IPO. The Omnibus Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights and other equity-based, equity-related or cash-based awards. A total of 1,550,000 shares of our common stock have been reserved for issuance under the Omnibus Plan. As of December 31, 2018, there were 1,350,545 shares available for future grants under the Omnibus Plan.

On July 6, 2017, in conjunction with the completion of the IPO, the Company granted 58,900 restricted shares of the Company’s common stock to certain key employees, pursuant to the Omnibus Plan. The restricted shares will cliff vest on the third anniversary of the grant date, subject to continued employment. A total of 11,898 restricted shares were also granted during the year ended December 31, 2017 in connection with the recruitment of employees. These restricted shares vest ratably over a four year period.

During 2018, the Company granted 131,157 shares of restricted common stock, par value \$0.01 per share. Of this total, 102,559 restricted shares will vest ratably over four years on each anniversary of the grant date, 15,165 restricted shares will vest ratably over three years on each anniversary of the grant date, and 2,268 restricted shares will vest on the first anniversary of the grant date, all subject to continued employment.

In addition, 11,165 performance-based restricted shares were included in the 2018 grant. The number of shares which may be earned under the award is dependent upon the Company’s return on average assets over a three-year period ending December 31, 2020, measured in 2018 against the Company’s internal targets and for 2019 and 2020 against a peer group consisting of publicly-traded bank holding companies ranging in asset size from 50% to 200% of the Company’s total assets. Under the award, 25% of the shares will be earned at threshold performance, 100% will be earned at target and 50th percentile performance, and up to 125% of the shares with above target and 75th percentile performance. Any earned shares will vest on the third anniversary of the grant date.

The following table discloses the changes in restricted shares for the year ended December 31, 2018:

| | Omnibus Plan | |
|---|-------------------------|---|
| | Number of Shares | Weighted Average Grant Date Fair Value |
| Beginning balance, January 1, 2018 | 70,398 | \$ 20.31 |
| Granted | 131,157 | 22.36 |
| Vested | (2,975) | 20.96 |
| Forfeited | (2,100) | 20.84 |
| Ending balance outstanding at December 31, 2018 | <u>196,480</u> | <u>\$ 21.66</u> |

A total of 2,975 restricted shares vested during the year ended December 31, 2018. The fair value of restricted shares that vested during the year ended December 31, 2018 was \$62,000. No restricted shares vested during the year ended December 31, 2017.

The Company recognizes share-based compensation based on the estimated fair value of the restricted stock at the grant date. Share-based compensation expense is included in non-interest expense in the Consolidated Statements of Operations.

The following table summarizes restricted stock compensation expense for the years ended:

| | Years Ended December 31, | |
|--|---------------------------------|-------------|
| | 2018 | 2017 |
| Total share-based compensation - restricted stock | \$ 958 | \$ 203 |
| Income tax benefit | 267 | 83 |
| Unrecognized compensation expense - restricted stock | 3,167 | 1,227 |
| Weighted-average amortization period remaining | 2.9 years | 2.8 years |

The fair value of the unvested restricted stock awards at December 31, 2018 was \$3.3 million.

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 19— Share-Based Compensation (continued)

The Company maintained a nonqualified, share-based, stock option plan adopted prior to recapitalization (“MBG Plan”). There were no options granted or exercised under this plan during the year ended December 31, 2017. At the time of the Company’s reincorporation in Delaware, in June 2017, the Board of Directors cancelled the MBG Plan and all the respective outstanding options were cancelled.

In October 2014, the Company adopted the Byline Bancorp, Inc. Equity Incentive Plan (“BYB Plan”). The maximum number of shares available for grants under this plan was 2,476,122 shares. During 2016 and 2015, the Company granted options to purchase 212,400 and 1,634,568 shares, respectively, under this plan. The Company did not grant any stock options during the year ended December 31, 2017. In June 2017, the Board of Directors terminated the BYB Plan and no future grants can be made under this plan. Options to purchase a total of 1,598,872 shares remain outstanding under the BYB Plan as of December 31, 2018.

The types of stock options granted under the BYB Plan were Time Options and Performance Options. The exercise price of each option is equal to the fair value of the stock as of the date of grant. These option awards have vesting periods ranging from one to five years and have 10-year contractual terms. Stock volatility was computed as the average of the volatilities of peer group companies.

The vesting of Time Options is conditional based on completion of service. Performance Options have conditional vesting based on either performance targets or market performance. Certain Performance Options’ performance goals will be satisfied (in whole or in part) if the Bank achieves various performance targets such as profitability, asset quality, and conditional based on market performance, as outlined in the BYB Plan. Each of the performance goals identified are measured for achievement (or failure to achieve) independent of each other. In October 2017, the Board of Directors determined that the Performance Option goals were satisfied, in whole, and these Performance Options converted to Time Options. As a result of the previous completion of service, 414,894 performance options vested on October 3, 2017.

The fair values of the stock options were determined using the Black-Scholes-Merton model for Time Options and a Monte Carlo simulation model for Performance Options. The fair values of options under the BYB Plan were determined using the following assumptions as of the grant dates:

| | <u>Time Options Grants</u> |
|--|----------------------------|
| | <u>2016</u> |
| Risk-free interest rate | 1.34% - 1.40% |
| Expected term (years)..... | 5.2 - 5.6 |
| Expected stock price volatility | 20.39% |
| Expected dividend yield | 0.00% |
| Weighted average grant date fair value | \$ 3.55 |

| | <u>Performance Options</u> |
|--|----------------------------|
| | <u>Grants</u> |
| | <u>2016</u> |
| Risk-free interest rate | Implied forward rates |
| Expected term (years)..... | Variable |
| Expected stock price volatility | 20.34% - 20.39% |
| Expected dividend yield | 0.00% |
| Weighted average grant date fair value | \$ 3.75 |

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 19— Share-Based Compensation (continued)

The following table discloses the activity in shares subject to options and the weighted average exercise prices, in actual dollars, for the year ended December 31, 2018:

| | BYB Plan | | | Weighted Average Remaining Contractual Term (in Years) |
|--|------------------|------------------------------------|-----------------|---|
| | Number of Shares | Weighted Average Exercise Price | Intrinsic Value | |
| Beginning balance, January 1, 2018 | 1,783,020 | \$ 11.91 | \$ 19,718 | 7.6 |
| Granted | — | | | |
| Expired | — | | | |
| Exercised | (148,748) | 11.69 | \$ 1,614 | |
| Forfeited | (35,400) | 16.25 | | |
| Ending balance outstanding at December 31, 2018 | <u>1,598,872</u> | \$ 11.84 | \$ 7,713 | 6.6 |
| Exercisable at December 31, 2018 | <u>1,500,572</u> | \$ 11.55 | \$ 7,673 | 6.5 |

A total of 148,748 stock options were exercised during the year ended December 31, 2018. During the year ended December 31, 2018, proceeds from the exercise of stock options were \$1.7 million and related tax benefit was \$449,000. There were no stock options exercised during the year ended December 31, 2017. A total of 345,063 stock options vested during the year ended December 31, 2018.

The Company recognizes share-based compensation based on the estimated fair value of the option at the grant date. Forfeitures are estimated based upon industry standards. Share-based compensation expense is included in non-interest expense in the Consolidated Statements of Operations. The following table summarizes stock option compensation expense for the years ended December 31, 2018, 2017 and 2016:

| | Years Ended December 31, | | |
|---|--------------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Total share-based compensation - stock options | \$ 458 | \$ 1,294 | \$ 899 |
| Income tax benefit..... | 127 | 521 | 360 |
| Unrecognized compensation expense - stock options | 146 | 729 | 1,752 |
| Weighted-average amortization period remaining..... | 1.1 years | 1.2 years | 1.8 years |

Pursuant to the terms of the Merger Agreement, upon the Effective Time, each outstanding First Evanston Option held by a participant in the First Evanston Bancorp, Inc. Stock Incentive Plan (the “FEB Plan”) ceased to represent a right to acquire shares of First Evanston common stock and was assumed and converted automatically into a fully vested and exercisable adjusted option to purchase shares of Byline common stock (each an “Adjusted Option”). In accordance with the Merger Agreement, the number of shares of Byline common stock to which each such Adjusted Option relates is equal to the product (rounded down to the nearest whole share of Byline common stock) of: (a) the number of shares of First Evanston common stock subject to the First Evanston Option immediately prior to May 31, 2018, multiplied by (ii) 4.725. Each Adjusted Option has an exercise price per share of Byline common stock equal to the quotient (rounded up to the nearest whole cent) of (x) the per share exercise price of such First Evanston Option immediately prior to May 31, 2018, divided by (y) 4.725. The description of the conversion process is based on, and qualified by, the Merger Agreement.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 19— Share-Based Compensation (continued)

The following table discloses the activity in shares subject to options under the FEB Plan and the weighted average exercise prices, in actual dollars, for the year ended December 31, 2018:

| | FEB Plan | | | Weighted Average Remaining Contractual Term (in Years) |
|---|------------------|------------------------------------|-----------------|---|
| | Number of Shares | Weighted Average Exercise Price | Intrinsic Value | |
| Beginning balance, May 31, 2018 | — | \$ — | \$ — | — |
| Granted | 680,787 | 11.26 | \$ 7,544 | |
| Expired | — | | | |
| Exercised | (56,404) | 10.66 | \$ 602 | |
| Forfeited | — | | | |
| Ending balance outstanding at December 31, 2018.... | <u>624,383</u> | \$ 11.31 | \$ 3,339 | 5.2 |
| Exercisable at December 31, 2018 | <u>624,383</u> | \$ 11.31 | \$ 3,339 | 5.2 |

A total of 56,404 stock options were exercised during the year ended December 31, 2018. During the year ended December 31, 2018, proceeds from the exercise of stock options were \$601,000 and related tax benefit was \$168,000.

All shares of restricted performance shares of First Evanston common stock (“restricted stock”) that were previously issued under and held by Participants in the FEB Plan prior to the Merger were converted into the right to receive the per share merger consideration in connection with the Merger and pursuant to the Merger Agreement. Accordingly, no shares of First Evanston restricted stock remain outstanding under the FEB Plan.

Note 20— Related Party Transactions

Loans to related parties—Loans that may be made to the Bank’s executive officers, as defined in 12 CFR 215 (Regulation O), directors, principal stockholders and their affiliates would be on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and would not involve more than normal risk of collectability. As of December 31, 2018 and 2017, there were no material loans made to the related parties described above.

Deposits from related parties—Deposits from related parties were not material as of December 31, 2018 and 2017.

Other—As of December 31, 2018 and 2017, there were no receivables outstanding from related parties.

Note 21—Regulatory Capital Requirements

The Company and the Bank are subject to various regulatory capital requirements administered by their respective banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Common Equity Tier 1 capital (“CET1”), Tier 1 capital and total capital to risk-weighted assets and of Tier 1 capital to average consolidated assets, as defined in the regulations.

BYLINE BANCORP, INC. AND SUBSIDIARIES
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Note 21—Regulatory Capital Requirements (continued)

As of December 31, 2018, the most recent notification from the FDIC categorized the Bank as well-capitalized under the framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The required regulatory capital ratios are set forth in the following tables along with the minimum capital amounts required for the Company and the Bank and well capitalized with respect to the Bank. The Company's and the Bank's actual capital amounts and ratios as of December 31, 2018 and 2017 are also presented.

| 2018 | Actual | | Minimum Capital Required | | Required to be Considered Well Capitalized | |
|--|------------|--------|--------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total capital to risk weighted assets: | | | | | | |
| Company | \$ 551,079 | 13.99% | \$ 315,093 | 8.00% | N/A | N/A |
| Bank | 528,329 | 13.40% | 315,455 | 8.00% | 394,318 | 10.00% |
| Tier 1 capital to risk weighted assets: | | | | | | |
| Company | \$ 523,808 | 13.30% | \$ 236,320 | 6.00% | N/A | N/A |
| Bank | 501,058 | 12.71% | 236,591 | 6.00% | 315,455 | 8.00% |
| Common Equity Tier 1 (CET1) to risk weighted assets: | | | | | | |
| Company | \$ 466,870 | 11.85% | \$ 177,240 | 4.50% | N/A | N/A |
| Bank | 501,058 | 12.71% | 177,443 | 4.50% | 256,307 | 6.50% |
| Tier 1 capital to average assets: | | | | | | |
| Company | \$ 523,808 | 11.05% | \$ 189,587 | 4.00% | N/A | N/A |
| Bank | 501,058 | 10.56% | 189,797 | 4.00% | 237,246 | 5.00% |

| 2017 | Actual | | Minimum Capital Required | | Required to be Considered Well Capitalized | |
|--|------------|--------|--------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total capital to risk weighted assets: | | | | | | |
| Company | \$ 408,245 | 15.89% | \$ 205,559 | 8.00% | N/A | N/A |
| Bank | 365,386 | 14.19% | 205,981 | 8.00% | 257,476 | 10.00% |
| Tier 1 capital to risk weighted assets: | | | | | | |
| Company | \$ 389,934 | 15.18% | \$ 154,169 | 6.00% | N/A | N/A |
| Bank | 347,075 | 13.48% | 154,486 | 6.00% | 205,981 | 8.00% |
| Common Equity Tier 1 (CET1) to risk weighted assets: | | | | | | |
| Company | \$ 351,408 | 13.68% | \$ 115,627 | 4.50% | N/A | N/A |
| Bank | 347,075 | 13.48% | 115,864 | 4.50% | 167,359 | 6.50% |
| Tier 1 capital to average assets: | | | | | | |
| Company | \$ 389,934 | 12.18% | \$ 128,075 | 4.00% | N/A | N/A |
| Bank | 347,075 | 10.82% | 128,305 | 4.00% | 160,382 | 5.00% |

The Company and Byline Bank must maintain a capital conservation buffer consisting of CET1 capital greater than 2.5% of risk-weighted assets above the required minimum risk-based capital levels in order to avoid limitations on paying dividends, repurchasing shares, and paying discretionary bonuses. The capital conservation buffer requirement began to be phased in on January 1, 2016 when a buffer greater than 0.625% of risk-weighted assets was required, which amount increases each year until the buffer requirement is fully implemented on January 1, 2019. As of January 1, 2018 the capital conservation buffer requirement was 1.875%. The conservation buffers for the Company and Byline Bank exceed the fully phased in minimum capital requirement as of December 31, 2018.

Provisions of state and federal banking regulations may limit, by statute, the amount of dividends that may be paid to the Company by Byline Bank without prior approval of Byline Bank's regulatory agencies. The Company is economically dependent on the cash dividends received from Byline Bank. These dividends represent the primary cash flow from operating activities used to service obligations. For the years ended December 31, 2018 and 2017, the Company received \$2.9 million and \$2.8 million, respectively, in cash dividends from Byline Bank to pay the trust preferred securities interest and preferred dividends.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 22—Derivative Instruments and Hedge Activities

The Company recognizes derivative financial instruments at fair value regardless of the purpose or intent for holding the instrument. The Company records derivative assets and derivative liabilities on the Consolidated Statements of Financial Condition within accrued interest receivable and other assets and accrued interest payable and other liabilities, respectively. The following tables present the fair value of the Company's derivative financial instruments and classification on the Consolidated Statements of Financial Condition as of December 31, 2018 and 2017:

| | 2018 | | | 2017 | | |
|---|--------------------|------------------|----------------------|--------------------|-----------------|----------------------|
| | Notional Amount | Fair Value | | Notional Amount | Fair Value | |
| | | Other Assets | Other Liabilities | | Other Assets | Other Liabilities |
| Derivatives designated as hedging instruments | | | | | | |
| Interest rate swaps designated as cash flow hedges | \$ 250,000 | \$ 6,699 | \$ — | \$ 250,000 | \$ 5,030 | \$ 38 |
| Derivatives not designated as hedging instruments | | | | | | |
| Other interest rate swaps | 294,545 | 4,041 | 4,237 | 94,726 | 951 | 956 |
| Other credit derivatives | 4,424 | — | 6 | — | — | — |
| Total derivatives | <u>\$ 548,969</u> | <u>\$ 10,740</u> | <u>\$ 4,243</u> | <u>\$ 344,726</u> | <u>\$ 5,981</u> | <u>\$ 994</u> |

Interest rate swaps designated as cash flow hedges—Cash flow hedges of interest payments associated with certain FHLB advances had notional amounts totaling \$250.0 million as of December 31, 2018, and 2017. The aggregate fair value of the swaps is recorded in other assets or other liabilities with changes in fair value recorded in other comprehensive income (loss), net of taxes, to the extent effective. The amount included in accumulated other comprehensive income (loss) would be reclassified to current interest incurred from the hedged FHLB advances when it affects earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in fair value of the derivative hedging instrument with the changes in fair value of the designated hedged transactions. The Company expects the hedges to remain highly effective during the remaining terms of the swaps and did not recognize any hedge ineffectiveness in current earnings during the years ended December 31, 2018 and 2017

Interest recorded on these swap transactions reduced FHLB interest expense by \$1.3 million during the year ended December 31, 2018, and increased FHLB interest expense by \$579,000 and \$40,000 during the years ended December 31, 2017 and 2016, respectively, and is reported as a component of interest expense on FHLB advances. At December 31, 2018, the Company estimates \$2.6 million of the unrealized gain to be reclassified as a decrease to interest expense during the next twelve months.

The following table reflects the cash flow hedges as of December 31, 2018:

| | |
|---|------------|
| Notional amounts | \$ 250,000 |
| Derivative assets fair value | 6,699 |
| Derivative liabilities fair value | — |
| Weighted average pay rates | 1.67% |
| Weighted average receive rates | 2.37% |
| Weighted average maturity | 3.2 years |

The following table reflects the net gains (losses) recorded in accumulated other comprehensive income (loss) and the Consolidated Statements of Operations relating to the cash flow derivative instruments for the year ended December 31, 2018:

| | Amount of Gain Recognized in OCI (Effective Portion) | Amount of Gain Reclassified from OCI to Income as a Decrease to Interest Expense | Amount of Gain (Loss) Recognized in Other Non-Interest Income (Ineffective Portion) |
|---------------------------|---|---|--|
| Interest rate swaps | \$ 2,960 | \$ 1,348 | \$ — |

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 22—Derivative Instruments and Hedge Activities (continued)

Other interest rate swaps—The total combined notional amount was \$294.5 million as of December 31, 2018, with maturities ranging from April 2020 to December 2028. The fair values of the interest rate swap agreements are reflected in other assets and other liabilities with corresponding gains or losses reflected in non-interest income. During the years ended December 31, 2018, 2017, and 2016, there were \$1.7 million, \$393,000, and \$679,000 of transaction fees, respectively, included in other non-interest income, related to these derivative instruments.

The following table reflects other interest rate swaps as of December 31, 2018:

| | |
|---|------------|
| Notional amounts | \$ 294,545 |
| Derivative assets fair value | 4,041 |
| Derivative liabilities fair value | 4,237 |
| Weighted average pay rates | 4.84% |
| Weighted average receive rates | 4.38% |
| Weighted average maturity | 5.8 years |

Other credit derivatives—The total notional amount was \$4.4 million as of December 31, 2018. There were no credit derivatives as of or for the year ended December 31, 2017. The fair value of the other credit derivatives are reflected in other liabilities with corresponding gains or losses reflected in non-interest income. The credit valuation adjustment (“CVA”) related to the other credit derivatives resulted in a decrease to other non-interest income during the year ended December 31, 2018 of \$6,000. There was \$60,000 of transaction fees included in non-interest income related to these derivative instruments during the year ended December 31, 2018.

The Company has entered into risk participation agreements with counterparty banks to assume a portion of the credit risk related to borrower transactions. The credit risk related to these other credit derivatives is managed through the Company’s loan underwriting process.

Credit risk—Derivative instruments are inherently subject to market risk and credit risk. Market risk is associated with changes in interest rates and credit risk relates to the Company’s risk of loss when the counterparty to a derivative contract fails to perform according to the terms of the agreement. Market and credit risks are managed and monitored as part of the Company’s overall asset-liability management process. The credit risk related to derivatives entered into with certain qualified borrowers is managed through the Company’s loan underwriting process. The Company’s loan underwriting process also approves the Bank’s swap counterparty used to mirror the borrowers’ swap. The Company has a bilateral agreement with each swap counterparty that provides that fluctuations in derivative values are to be fully collateralized with either cash or securities. The CVA is a fair value adjustment to the derivative to account for this risk. During the years ended December 31, 2018 and 2017, the CVA resulted in decreases to non-interest income of \$192,000 and \$44,000, respectively. For the year ended December 31, 2016, the CVA resulted in an increase to non-interest income of \$39,000.

The Company has agreements with its derivative counterparties that contain a cross-default provision under which if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. The Company also has agreements with certain derivative counterparties that contain a provision where if the Company fails to maintain its status as a well or adequately capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations resulted in a net asset position.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 22—Derivative Instruments and Hedge Activities (continued)

The Company records interest rate derivatives subject to master netting agreements at their gross value and does not offset derivative asset and liabilities on the Consolidated Statements of Financial Condition. The table below summarizes the Company's interest rate derivatives and offsetting positions as of December 31, 2018 and 2017:

| | 2018 | | 2017 | |
|--|------------------------------------|---|------------------------------------|---|
| | Derivative Assets Fair Value | Derivative Liabilities Fair Value | Derivative Assets Fair Value | Derivative Liabilities Fair Value |
| Gross amounts recognized | \$ 10,740 | \$ 4,243 | \$ 5,981 | \$ 994 |
| Less: Amounts offset in the Consolidated Statements of Financial Condition | — | — | — | — |
| Net amount presented in the Consolidated Statements of Financial Condition | \$ 10,740 | \$ 4,243 | \$ 5,981 | \$ 994 |
| Gross amounts not offset in the Consolidated Statements of Financial Condition | | | | |
| Offsetting derivative positions | (2,823) | (2,823) | (232) | (232) |
| Collateral posted | (7,917) | (1,317) | (5,371) | (745) |
| Net credit exposure | — | \$ 103 | \$ 378 | \$ 17 |

As of December 31, 2018, the counterparties posted collateral of \$8.8 million, which resulted in no excess collateral with the Company. For purposes of this disclosure, the amount of posted collateral by the counterparties is limited to the amount offsetting the derivatives asset.

Note 23—Parent Company Only Condensed Financial Statements

The following represents the condensed financial statements of Byline Bancorp, Inc., the Parent Company:

Statements of Financial Condition
Parent Company Only

| | As of December 31, | |
|--|--------------------|-------------------|
| | 2018 | 2017 |
| ASSETS | | |
| Cash | 18,242 | 39,626 |
| Investment in banking subsidiary | 667,236 | 445,786 |
| Other assets | 3,067 | 1,236 |
| Total assets | <u>\$ 688,545</u> | <u>\$ 486,648</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Line of credit | — | — |
| Junior subordinated debentures issued to capital trusts, net | 36,768 | 27,647 |
| Accrued expenses and other liabilities | 1,105 | 423 |
| Stockholders' equity | 650,672 | 458,578 |
| Total liabilities and stockholders' equity | <u>\$ 688,545</u> | <u>\$ 486,648</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 23—Parent Company Only Condensed Financial Statements (continued)

Statements of Operations
Parent Company Only

| | Years ended December 31, | | |
|---|--------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| INCOME | | | |
| Dividends from subsidiary | \$ 2,900 | \$ 2,800 | \$ — |
| Other noninterest income | — | 9 | 57 |
| Total income | 2,900 | 2,809 | 57 |
| EXPENSES | | | |
| Interest expense | 2,716 | 2,782 | 2,460 |
| Other noninterest expense | 3,214 | 1,804 | 381 |
| Total expenses | 5,930 | 4,586 | 2,841 |
| Loss before provision for income taxes and equity in undistributed income of subsidiary | (3,030) | (1,777) | (2,784) |
| Provision (benefit) for income taxes | (1,549) | (1,166) | 204 |
| Loss before equity in undistributed income of subsidiary | (1,481) | (611) | (2,988) |
| Equity in undistributed income of subsidiary | 42,674 | 22,306 | 69,717 |
| Net income | <u>\$ 41,193</u> | <u>\$ 21,695</u> | <u>\$ 66,729</u> |

Statements of Cash Flows
Parent Company Only

| | Years ended December 31, | | |
|--|--------------------------|------------------|-----------------|
| | 2018 | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | \$ 41,193 | \$ 21,695 | \$ 66,729 |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Equity in undistributed income of subsidiary | (42,674) | (22,306) | (69,717) |
| Stock-based compensation expense | 1,514 | 1,497 | 899 |
| Exercise of share-based awards | — | — | 40 |
| Accretion of junior subordinated debentures discount | 624 | 721 | 876 |
| Changes in other assets and other liabilities | (3,291) | (2,893) | 16 |
| Net cash used in operating activities | (2,634) | (1,286) | (1,157) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Investments in and advances from subsidiary | — | — | (32,019) |
| Net cash paid in acquisition of business | (20,510) | — | (36,586) |
| Net cash used in investing activities | (20,510) | — | (68,605) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from revolving line of credit | — | — | 30,000 |
| Repayments of revolving line of credit | — | (20,650) | (9,350) |
| Dividends paid on preferred stock | (783) | (11,277) | — |
| Cash paid in lieu of fractional shares | — | (2) | — |
| Proceeds from issuance of common stock, net | 2,543 | 76,829 | 49,592 |
| Proceeds from issuance of preferred stock | — | 1,050 | 9,388 |
| Repurchase of preferred stock | — | (15,003) | — |
| Net cash provided by financing activities | 1,760 | 30,947 | 79,630 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (21,384) | 29,661 | 9,868 |
| CASH AND CASH EQUIVALENTS, beginning of period | 39,626 | 9,965 | 97 |
| CASH AND CASH EQUIVALENTS, end of period | <u>\$ 18,242</u> | <u>\$ 39,626</u> | <u>\$ 9,965</u> |

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 24—Earnings per Share

A reconciliation of the numerators and denominators for earnings per common share computations is presented below. Incremental shares represent outstanding stock options for which the exercise price is less than the average market price of the Company's common stock during the periods presented. Options to purchase 2,223,255 shares of common stock were outstanding as of December 31, 2018. Options to purchase 1,783,020 shares of common stock were outstanding as of December 31, 2017 and 2016. There were 196,480 and 70,798 restricted stock awards outstanding at December 31, 2018 and 2017, respectively. There were no restricted stock awards outstanding at December 31, 2016.

| | Years ended December 31, | | |
|--|--------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Net income | \$ 41,193 | \$ 21,695 | \$ 66,729 |
| Less: Dividends on preferred shares | 783 | 11,277 | — |
| Net income available to common stockholders | <u>\$ 40,410</u> | <u>\$ 10,418</u> | <u>\$ 66,729</u> |
| Weighted-average common stock outstanding: | | | |
| Weighted-average common stock outstanding (basic) | 33,292,619 | 26,963,517 | 20,141,630 |
| Incremental shares | 887,135 | 583,797 | 289,153 |
| Weighted-average common stock outstanding (dilutive) | <u>34,179,754</u> | <u>27,547,314</u> | <u>20,430,783</u> |
| Basic earnings per common share | \$ 1.21 | \$ 0.39 | \$ 3.31 |
| Diluted earnings per common share | \$ 1.18 | \$ 0.38 | \$ 3.27 |

Note 25—Stockholders' Equity

A summary of the Company's preferred and common stock at December 31, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|--|-------------|-------------|
| Series B 7.5% fixed to floating non-cumulative perpetual preferred stock | | |
| Par value | \$ 0.01 | \$ 0.01 |
| Shares authorized | 50,000 | 50,000 |
| Shares issued | 10,438 | 10,438 |
| Shares outstanding | 10,438 | 10,438 |
| Common stock, voting | | |
| Par value | \$ 0.01 | \$ 0.01 |
| Shares authorized | 150,000,000 | 150,000,000 |
| Shares issued | 36,343,239 | 29,317,298 |
| Shares outstanding | 36,343,239 | 29,317,298 |

During 2016, the Company authorized and issued Series B 7.50% fixed-to-floating non-voting, noncumulative perpetual preferred stock with a liquidation preference of \$1,000 per share, plus the amount of unpaid dividends, if any, which is redeemable at the Company's option on or after March 31, 2022. Holders of Series B Preferred Stock do not have any rights to convert such stock into shares of any other class of capital stock of the Company. Holders of Series B Preferred Stock are entitled to receive a fixed dividend of 7.50% per annum from the original issue date through December 30, 2021, after which the dividend is paid at a floating rate of three-month LIBOR plus 5.41% per annum.

The Company Series B Preferred Stock is included in Tier 1 capital for regulatory capital purposes and is redeemable at the option of the Company at a redemption price of \$1,000 per share, plus any declared and unpaid dividends (i) in whole or part on any dividend payment date on or after March 31, 2022, and (ii) in whole but not in part prior to March 31, 2022, within 90 days following a regulatory event, as defined in the Certificate of Designations of the Company Series B Preferred Stock. The Company must receive approval of the Federal Reserve Board prior to any redemption of the Company Series B Preferred Stock.

For the year ended December 31, 2018, the Company declared and paid dividends on the Series B Preferred Stock of \$783,000, compared to \$776,000 for the year ended December 31, 2017.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 26—Selected Quarterly Financial Data (unaudited)

| | For the year ended December 31, 2018 | | | |
|---|--------------------------------------|-------------------|------------------|-------------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Interest and dividend income | \$ 38,142 | \$ 44,841 | \$ 61,073 | \$ 62,895 |
| Interest expense | 4,447 | 5,785 | 8,480 | 9,634 |
| Net interest income | 33,695 | 39,056 | 52,593 | 53,261 |
| Provision for loan and lease losses | 5,115 | 3,956 | 5,842 | 3,882 |
| Net interest income after provision for loan and lease losses ... | 28,580 | 35,100 | 46,751 | 49,379 |
| Non-interest income | 11,428 | 14,502 | 11,143 | 14,566 |
| Non-interest expense | 31,919 | 45,770 | 37,956 | 40,364 |
| Income before provision for income taxes | 8,089 | 3,832 | 19,938 | 23,581 |
| Provision for income taxes | 1,321 | 1,064 | 5,402 | 6,460 |
| Net income | 6,768 | 2,768 | 14,536 | 17,121 |
| Dividends on preferred shares | 193 | 198 | 196 | 196 |
| Income available to common stockholders | <u>\$ 6,575</u> | <u>\$ 2,570</u> | <u>\$ 14,340</u> | <u>\$ 16,925</u> |
| Basic earnings per common share | \$ 0.22 | \$ 0.08 | \$ 0.40 | \$ 0.47 |
| Diluted earnings per common share | \$ 0.22 | \$ 0.08 | \$ 0.39 | \$ 0.46 |

The Company recorded net income of \$2.8 million, or \$0.08 per common share, for the second quarter of 2018. The Company's net interest income before provision for loan losses was \$39.1 million. On May 31, 2018, the Company acquired the assets and assumed the liabilities of First Evanston. Revenue and expenses of the acquired company since the acquisition were included in the Company's operating results. Additionally, during the second quarter, the Company incurred \$8.1 million in data processing costs related to a termination fee for our successful core system conversion.

BYLINE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands, except share and per share data)

Note 26—Selected Quarterly Financial Data (unaudited) (continued)

| | For the year ended December 31, 2017 | | | |
|---|--------------------------------------|-------------------|------------------|-------------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Interest and dividend income | \$ 32,488 | \$ 33,315 | \$ 35,044 | \$ 35,956 |
| Interest expense | 2,950 | 3,504 | 3,632 | 3,805 |
| Net interest income | 29,538 | 29,811 | 31,412 | 32,151 |
| Provision for loan and lease losses | 1,891 | 3,515 | 3,900 | 3,347 |
| Net interest income after provision for loan and lease losses ... | 27,647 | 26,296 | 27,512 | 28,804 |
| Non-interest income | 12,308 | 13,193 | 11,918 | 12,639 |
| Non-interest expense | 28,851 | 29,249 | 31,065 | 30,358 |
| Income before provision for income taxes | 11,104 | 10,240 | 8,365 | 11,085 |
| Provision (benefit) for income taxes | 4,544 | 4,094 | (1,390) | 11,851 |
| Net income (loss) | 6,560 | 6,146 | 9,755 | (766) |
| Dividends on preferred shares | 189 | 10,697 | 195 | 196 |
| Income available (loss attributable) to common stockholders | <u>\$ 6,371</u> | <u>\$ (4,551)</u> | <u>\$ 9,560</u> | <u>\$ (962)</u> |
| Basic earnings (loss) per common share | \$ 0.26 | \$ (0.18) | \$ 0.33 | \$ (0.03) |
| Diluted earnings (loss) per common share | \$ 0.25 | \$ (0.18) | \$ 0.32 | \$ (0.03) |

During the second quarter of 2017, in connection with the Company's initial public offering, proceeds were used to repurchase Series A Preferred Stock, which included \$10.5 million of dividends in arrears. During the third quarter of 2017, the Legislature of the state of Illinois passed an increase in the corporate tax rate from 5.25% to 7.00%. As a result of the increase, the Company recorded a benefit of \$4.6 million resulting from an increase in the value of deferred tax assets related to Illinois net loss deductions.

The Company recorded a net loss of \$766,000, or \$0.03 per common share, for the fourth quarter of 2017. The Company's net interest income before provision for loan losses was \$32.2 million. In December 2017, the "Tax Cuts and Jobs Act" reduced the federal corporate tax rate to 21% effective January 1, 2018. As a result of the decrease, the Company's fourth quarter 2017 operating results included incremental tax expense of \$7.2 million from enactment of Tax Cuts and Jobs Act of 2017.

Note 27—Consolidated Statements of Changes in Accumulated Other Comprehensive Income (Loss)

The following table summarized the change in accumulated other comprehensive income (loss) for the years ended December 31, 2018, 2017 and 2016:

| (dollars in thousands) | Gains on Cash Flow Hedges | Unrealized Gains (Losses) on Available-for- -Sale Securities | Total Accumulated Other Comprehensive Income (Loss) |
|---|---------------------------------|--|--|
| | Balance, January 1, 2016 | \$ — | \$ (5,707) |
| Other comprehensive income (loss), net of tax | 2,233 | (3,794) | (1,561) |
| Balance, December 31, 2016 | 2,233 | (9,501) | (7,268) |
| Other comprehensive income, net of tax | 680 | 1,501 | 2,181 |
| Balance, December 31, 2017 | 2,913 | (8,000) | (5,087) |
| Reclassification of certain income tax effects from accumulated other comprehensive income | 687 | (1,450) | (763) |
| Other comprehensive income (loss), net of tax | 1,163 | (4,811) | (3,648) |
| Balance, December 31, 2018 | <u>\$ 4,763</u> | <u>\$ (14,261)</u> | <u>\$ (9,498)</u> |

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of disclosure controls and procedures. This Company's management, including our President and Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, our President and Chief Executive Officer and our Chief Financial Officer have concluded that, as of December 31, 2018, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to the Company's management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's annual report on internal control over financial reporting. Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. Internal control is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. This assessment was based on criteria for effective internal control over financial reporting established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our Chief Executive Officer and Chief Financial Officer have determined that the Company maintained effective internal control over financial reporting as of December 31, 2018 based on the specified criteria.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. As an emerging growth company, management's report was not subject to attestation by the Company's independent registered public accounting firm in accordance with the JOBS Act.

Changes in internal control over financial reporting. There was no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers. The information concerning our directors and executive officers required by this item is incorporated herein by reference from our definitive proxy statement for our 2019 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

Section 16(a) Beneficial Ownership Reporting Compliance. The information concerning our directors' and executive officers' compliance with the reporting requirements of Section 16(a) of the Exchange Act required by this item is incorporated herein by reference from our definitive proxy statement for our 2019 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

Code of Business Conduct and Ethics. Our board of directors has adopted a code of business conduct and ethics (the "Code of Ethics") that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer and persons performing similar functions. A copy of the Code of Ethics is available without charge upon written request to Corporate Secretary, Byline Bancorp, Inc., 180 North LaSalle Street, Suite 300, Chicago, Illinois 60601 and is also posted on our website at www.bylinebancorp.com. If we amend or grant any waiver from a provision of our Code of Ethics that applies to our executive officers, we will publicly disclose such amendment or waiver on our website and as required by applicable law, including by filing a Current Report on Form 8-K.

Shareholder Nominating Procedures: The information concerning procedures as to how shareholders can nominate directors for election at a shareholder meeting can be found in the Company's Registration Statement on Form S-4, as amended (File No.333-222935) filed on February 8, 2018. There have been no changes to these procedures.

Audit Committee: Information regarding our Audit Committee and Audit Committee Financial Expert is incorporated herein by reference from our definitive proxy statement for our 2019 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

Item 11. Executive Compensation.

The information concerning our executive compensation required by this item is incorporated herein by reference from our definitive proxy statement for our 2019 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

The information regarding the payments payable to our executive officers in the event of a change in control of the Company will be included in our definitive proxy statement for our 2019 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

The information concerning our compensation committee interlocks required by this item is incorporated herein by reference from our definitive proxy statement for our 2019 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

The information concerning the Report of the Compensation Committee required by this item is incorporated herein by reference from our definitive proxy statement for our 2019 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information concerning the ownership of shares of our common stock by certain beneficial owners and management required by this item is incorporated herein by reference from our definitive proxy statement for our 2019 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

The following table sets forth information as of December 31, 2018, regarding our equity compensation plans that provide for the award of equity securities or the grant of options to purchase equity securities of the Registrant to employees and directors of Byline and its subsidiaries:

| | (A) | (B) | (C) |
|---|--|--|---|
| Plan Category | Number of Securities to be issued upon exercise of outstanding options or vesting of outstanding restricted stock grants | Weighted average exercise price of outstanding options | Number of Securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (A) |
| Equity compensation plans approved by stockholders | | | |
| 2017 Omnibus Incentive Compensation Plan | 196,480 | N/A | 1,350,545 |
| Equity compensation plans not approved by stockholders | | | |
| Byline Bancorp Equity Incentive Plan | 1,598,872 | \$ 11.84 | — |
| First Evanston Option Exchange | <u>624,383</u> | \$ 11.31 | — |
| Total | <u><u>2,419,735</u></u> | | <u><u>1,350,545</u></u> |

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information concerning certain relationships and related transactions, our policy regarding the review and approval of related party transactions and our directors' independence required by this item is incorporated herein by reference from our definitive proxy statement for our 2019 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

Item 14. Principal Accounting Fees and Services.

The information concerning the services provided by and the fees paid to our independent registered public accounting firm, Moss Adams LLP, required by this item is incorporated herein by reference from our definitive proxy statement for our 2019 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

- (a) (1) Financial Statements
See Index to Consolidated Financial Statements on page 77
- (2) Financial Statement Schedules
All financial statement schedules are omitted because they are either not applicable or not required, or because the required information is included in the Consolidated Financial Statements or the Notes thereto included in Part II, Item 8.
- (3) Exhibits
See (b) below
- (b) Exhibits
The exhibits filed as part of this report and exhibits incorporated by reference to other documents are as follows:

| EXHIBIT | |
|----------------|---|
| Number | Description |
| 2.1 | Agreement and Plan of Merger, dated as of November 27, 2017, by and among Byline Bancorp, Inc., First Evanston Bancorp, Inc. and Wildcat Acquisition Corporation (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 001-38139) filed on November 30, 2017 and incorporated herein by reference) |
| 3.1 | Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19, 2017 and incorporated herein by reference) |
| 3.2 | Amended and Restated Bylaws (filed as Exhibit 3.2 to the Company's Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19, 2017 and incorporated herein by reference) |
| 3.3 | Certificate of Designations of Noncumulative Perpetual Preferred Stock, Series A (filed as Exhibit 3.3 to the Company's Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19, 2017 and incorporated herein by reference) |
| 3.4 | Form of Repurchase Agreement for Noncumulative Perpetual Preferred Stock, Series A (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-38139) filed on July 17, 2017 and incorporated herein by reference) |
| 3.5 | Certificate of Designations of 7.50% Fixed-to-Floating Noncumulative Perpetual Preferred Stock, Series B (filed as Exhibit 3.4 to the Company's Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19, 2017 and incorporated herein by reference) |
| 4.1 | Certain instruments defining the rights of holders of long-term debt securities of the Company and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company hereby undertakes to furnish to the SEC, upon request, copies of any such instruments. |
| 10.1 | Revolving Credit Agreement, dated as of October 13, 2016, by and between Byline Bancorp, Inc. and CIBC Bank USA (formerly known as The PrivateBank and Trust Company) (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19, 2017 and incorporated herein by reference) |
| 10.2 | Waiver Letter, dated June 7, 2017, by and between Byline Bancorp, Inc. and CIBC Bank USA (formerly known as The PrivateBank and Trust Company) (filed as Exhibit 10.2 to the Company's Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19, 2017 and incorporated herein by reference) |
| 10.3 | Second Amendment to Revolving Credit Agreement (filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K (File No. 001-38139) filed on March 29, 2018 and incorporated herein by reference) |
| 10.4 | Third Amendment to Revolving Credit Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-38139) filed on October 16, 2018 and incorporated herein by reference) |
| 10.5 | Employment Agreement with Alberto J. Paracchini (filed as Exhibit 10.3 to the Company's Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19, 2017 and incorporated herein by reference) † |
| 10.6 | Employment Agreement with Timothy C. Hadro (filed as Exhibit 10.4 to the Company's Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19, 2017 and incorporated herein by reference) † |

- 10.7 Employment Agreement with Bruce W. Lammers (filed as Exhibit 10.5 to the Company’s Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19,2017 and incorporated herein by reference)†
- 10.8 Employment Agreement with Donald J. Meyer (filed as Exhibit 10.6 to the Company’s Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19, 2017 and incorporated herein by reference)†
- 10.9 Byline Bancorp Equity Incentive Plan (filed as Exhibit 10.7 to the Company’s Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19, 2017 and incorporated herein by reference) †
- 10.10 Form of Byline Bancorp Equity Incentive Plan Stock Option Agreement (filed as Exhibit 10.8 to the Company’s Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19, 2017 and incorporated herein by reference)†
- 10.11 Byline Bancorp, Inc. 2017 Omnibus Incentive Compensation Plan (filed as Exhibit 10.1 to the Company’s Registration Statement on Form S-8 (File No. 333-219143) filed on July 3, 2017 and incorporated herein by reference) †
- 10.12 Form of Byline Bancorp, Inc. 2017 Omnibus Incentive Compensation Plan IPO Restricted Share Award Agreement (filed as Exhibit 10.10 to the Company’s Registration Statement on Form S-1, as amended (File No. 333-218362) filed on June 19, 2017 and incorporated herein by reference)†
- 10.13 Byline Bancorp, Inc. Employee Stock Purchase Plan (filed as Exhibit 10.2 to the Company’s Registration Statement on Form S-8 (File No. 333-219143) filed on July 3, 2017 and incorporated herein by reference)†
- 10.14 First Evanston Bancorp, Inc. Stock Incentive Plan (filed as Exhibit 99.1 to the Company’s Registration Statement on Form S-8 (File No. 333-222935) filed on June 5, 2018 and incorporated herein by reference)†
- 21.1 Subsidiaries of Byline Bancorp, Inc.
- 23.1 Consent of Moss Adams LLP
- 24.1 Power of Attorney (included on signature page hereto)
- 31.1 Certification of the Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, and Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, and Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1^(a) Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 Financial information from the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Changes in Stockholders’ Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements

† Indicates a management contract or compensatory plan.

(a) This exhibit shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

Item 16. Form 10-K Summary.

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

BYLINE BANCORP, INC.

Date: March 15, 2019

By: /s/ Alberto J. Paracchini

Alberto J. Paracchini

President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Roberto R. Herencia and Alberto J. Paracchini, with full power to act without the other, his or her true and lawful attorney-in-fact and agent, with full and several powers of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully as to all intents and purposes as each of the undersigned might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

| <u>Name</u> | <u>Title</u> | <u>Date</u> |
|---|---|----------------|
| <u>/s/ Alberto J. Paracchini</u> Alberto J. Paracchini | Director, President and Chief Executive Officer (principal executive officer) | March 15, 2019 |
| <u>/s/ Lindsay Corby</u> Lindsay Corby | Executive Vice President and Chief Financial Officer (principal financial and accounting officer) | March 15, 2019 |
| <u>/s/ Roberto R. Herencia</u> Roberto R. Herencia | Director (Chairman) | March 15, 2019 |
| <u>/s/ William Kistner</u> William Kistner | Director | March 15, 2019 |
| <u>/s/ Phillip R. Cabrera</u> Phillip R. Cabrera | Director | March 15, 2019 |
| <u>/s/ Antonio del Valle Perochena</u> Antonio del Valle Perochena | Director | March 15, 2019 |
| <u>/s/ Jaime Ruiz Sacristán</u> Jaime Ruiz Sacristán | Director | March 15, 2019 |
| <u>/s/ Steven M. Rull</u> Steven M. Rull | Director | March 15, 2019 |
| <u>/s/ Robert Yohanan</u> Robert Yohanan | Director | March 15, 2019 |

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