CFO Highlights: Q3 2019

October 23, 2019

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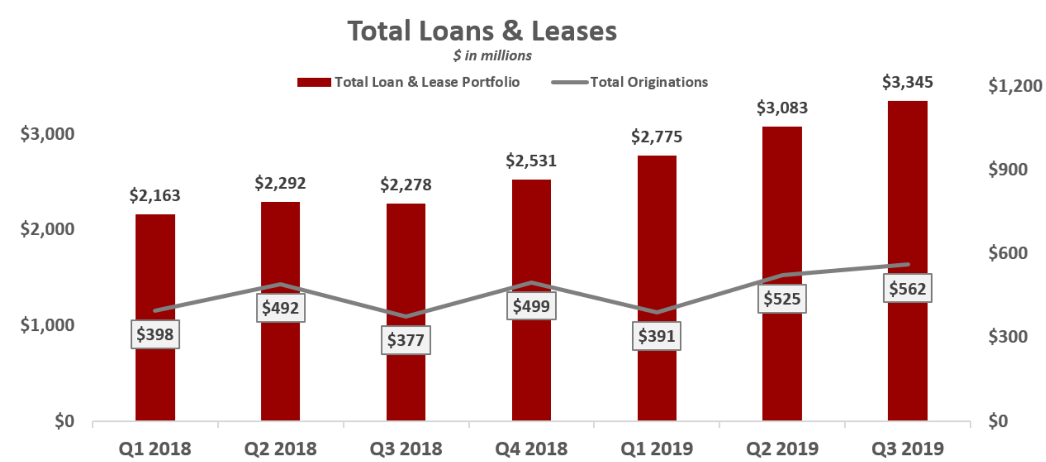
Our net income in the third quarter of 2019 totaled $3.9 million, or $0.09 per diluted share. The quarter was marked by continued strength in operating fundamentals including sustained growth and improvement in balance sheet levels, recurring revenues, loan and deposit originations, operating efficiency and pre-tax pre-provision earnings. The loan and lease portfolio experienced 46.9% growth from the third quarter of 2018 and 8.5% from the prior quarter. Our recurring revenue, consisting of net interest income and servicing revenue, rose to $44.4 million for the third quarter of 2019, which comprised 79.0% of our total revenue for the quarter.

During the third quarter, $276.5 million of guaranteed loans became eligible for sale and $100.5 million were sold, a 63.7% retention rate. Year-to-date we have held $506.2 million of $741.6 million that has become eligible for sale, a 68.3% retention rate and in line with our long-term target.

SUCCESS OF REVISED STRATEGY

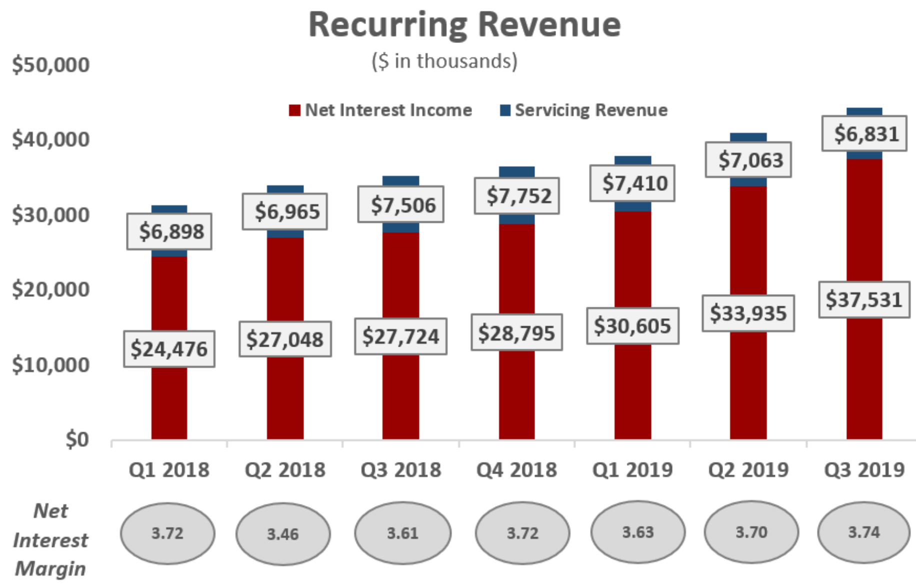
The continued success of our business model pivot intended to maximize long-term profitability was again illustrated in the third quarter of 2019. Our persistent focus in execution of this strategy was evidenced by recurring revenue growth of $9.1 million, or 25.9%, over the third quarter of 2018 and $3.4 million, or 8.2%, over the second quarter of 2019. Further enhancing predictability of the earnings stream, the strategic decision to sell fewer loans has contributed to significant reductions in our historically volatile servicing asset.

LOAN & LEASE PORTFOLIO



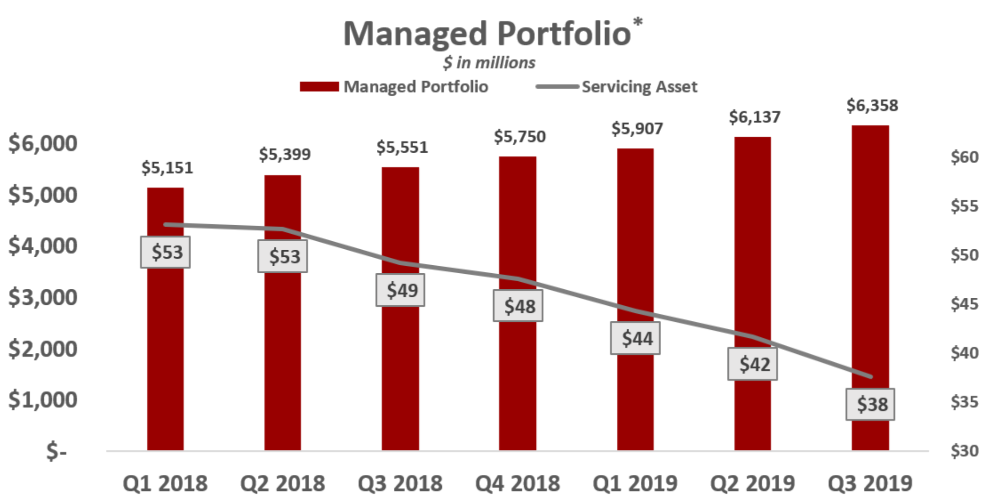
Our total portfolio of loans and leases held for investment and held for sale of $3.35 billion increased by $1.07 billion, or 46.9%, over the same quarter a year ago and by $261.7 million, or 8.5%, compared to the prior quarter. Loan originations rose to $562.3 million during the third quarter of 2019, reflecting growth in activity across many of our legacy and emerging industry verticals and the ongoing investment in experienced SBA lending generalists. This brings our year-to-date origination level to $1.48 billion.

SUSTAINED RECURRING REVENUE



The recurring revenue streams of net interest income and servicing revenue grew to $44.4 million for the third quarter of 2019, a 25.9% increase compared to the prior year, and represented 79.0% of total revenues for the third quarter of 2019 compared to 67.7% for the third quarter of 2018. Net interest income increased in the third quarter to $37.5 million, a 35.4% increase over the prior year attributable largely to much higher interest earning asset levels. On a linked quarter basis, the net interest margin rose 4 basis points to 3.74% as the 7-basis point increase in yield on interest earning assets outpaced the 3-basis point increase in the average cost of interest-bearing liabilities. The margin also benefited in the third quarter of 2019 from the delayed repricing of our primarily variable rate loan portfolio following the recent rate cuts. Servicing revenue on our sold and serviced loan portfolio amounted to $6.8 million during the third quarter of 2019, a decrease of 9.0% over the prior year and 3.3% over the prior quarter, as the amortization of the serviced portfolio outpaced the addition of new loans to that portfolio driven by our strategic decision to sell fewer loans.

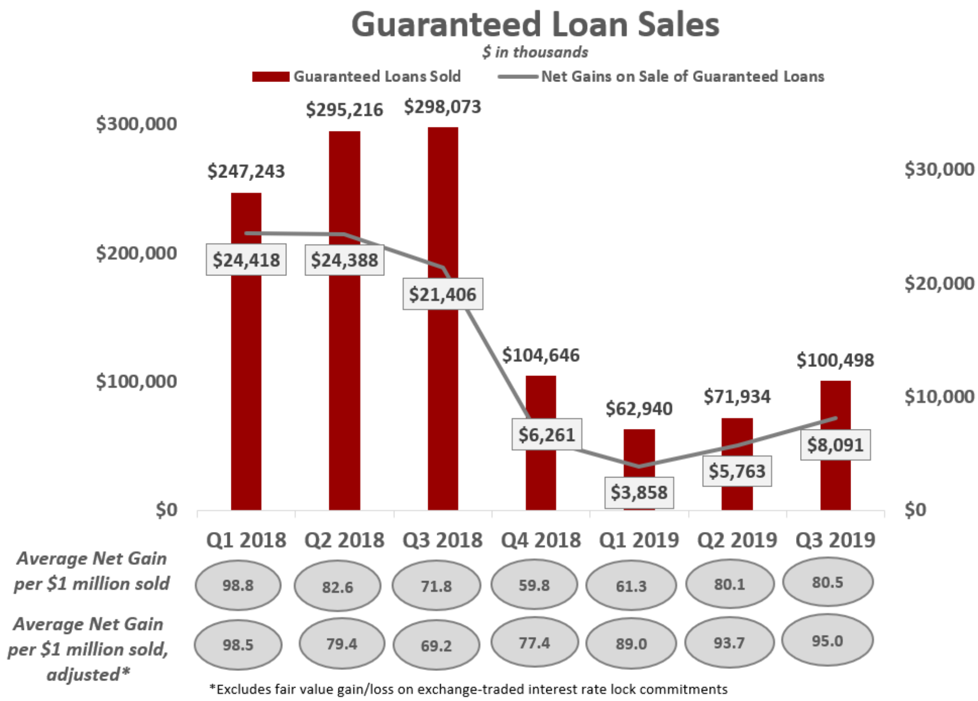
The managed portfolio at September 30, 2019, totaled $6.4 billion, a 14.5% increase over its level a year ago.



*Outstanding balance of sold and serviced loans plus loans and leases held for investment and held for sale.

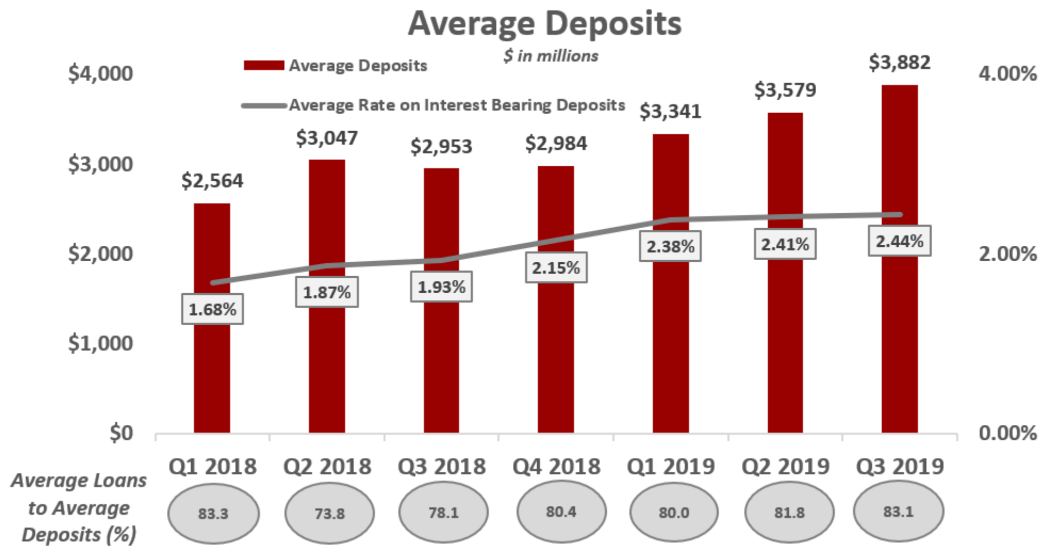
At the end of the third quarter of 2019, the carrying value of the servicing asset amounted to $37.6 million, representing 7.1% of our total equity, a downward trend from 10.3% a year ago. The net loss arising from the revaluation of the loan servicing asset amounted to $859 thousand in the third quarter of 2019 compared to net losses of $9.4 million in the third quarter of 2018 and $403 thousand in the linked quarter and was primarily attributable to amortization of the serviced portfolio.

SECONDARY MARKET SALES



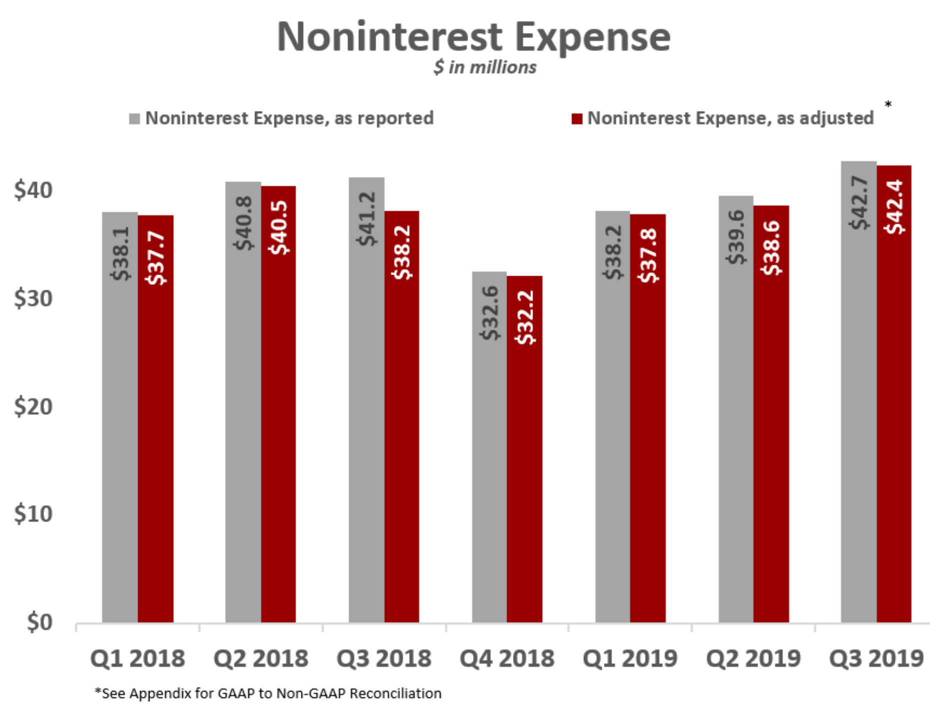
Loan sale volumes in the third quarter of 2019 decreased materially compared to the prior year as we continued to execute our strategy of loan retention. Accordingly, gain on sale revenue from the sale of guaranteed loans in the third quarter of 2019 amounted to $8.1 million compared to $21.4 million in the third quarter of 2018. The average net gain per $1 million sold, excluding the fair value adjustment for exchange-traded interest rate lock commitments of $1.5 million, increased to $95.0 thousand for the third quarter of 2019 compared to $93.7 thousand for the second quarter of 2019, reflecting continued strength of the secondary market.

FUNDING OUR STRATEGY



Our strategic repositioning to hold more loans on balance sheet has heightened the importance of our deposit funding model which is proving very successful. The average balance of deposits increased $302.5 million, or 8.5%, during the third quarter of 2019 compared to the linked quarter. We continue to operate an efficient branchless model for deposit gathering, at a sustained incremental cost of 13 basis points for the third quarter of 2019, which allows us to offer competitive rates in an efficient manner. The average rate on interest bearing deposits increased by 3 basis points from the prior quarter.

SCALING THE PLATFORM



Our non-GAAP noninterest expense, as adjusted, totaled $42.4 million for the third quarter of 2019, an increase of $3.8 million, or 9.7%, over the prior quarter and $4.2 million, or 10.9%, over the third quarter of 2018. A main contributor to the increase in noninterest expense from the prior quarter is a $1.2 million expense associated with the repurchase of certain guaranteed loans in the portfolio during the third quarter of 2019. Other increases are attributable to the continued investments in people and initiatives that complement the Company's long-term strategic plan covering core banking activities and innovative solutions of the industry. See Appendix for reconciliation of non-GAAP noninterest expense, as adjusted, to noninterest expense, as reported.

CREDIT QUALITY

Our net charge-offs during the third quarter of 2019 totaled $2.3 million compared to $526 thousand in the prior quarter. Net charge-offs as a percentage of average held for investment loans and leases, annualized, for the third quarter of 2019 was 0.39% compared to 0.10% for the second quarter of 2019. The unguaranteed exposure of nonperforming loans and leases increased slightly to $19.8 million, or 1.08% of total unguaranteed exposure, during the third quarter of 2019 compared to $18.4 million, or 1.04%, for the prior quarter. The percentage of the unguaranteed portion of criticized and classified loans and leases to total unguaranteed held for investment loans and leases increased to 6.62% for the third quarter of 2019 compared 5.27% for the prior quarter.

Provision expense of $7.2 million increased compared to the previous quarter as the loan and lease portfolio continues to experience meaningful growth and net charge-offs and criticized and classified loans and leases increased as previously discussed. The ratio of allowance for loan and lease losses to loans and leases held for investment was 1.76% as of September 30, 2019, compared to 1.71% for the prior quarter.

INCOME TAX EXPENSE

We incurred a net income tax expense of $2.4 million, which equates to an effective rate of 37.8%, in the third quarter of 2019 compared to a net income tax benefit of $3.2 million in the third quarter of 2018 and a net income tax expense of $662 thousand for the prior quarter, resulting in effective tax rates of (28.9)% and 11.8%, respectively. Our effective tax rate is heavily influenced by the leasing of renewable energy assets which generate investment tax credits. The significant increase in the effective tax rate for the third quarter of 2019 compared to the prior quarter is the result of forecasted changes, largely comprised of a reduction in targeted solar panel leasing activity for the remainder of the year. We anticipate the effective tax rate to approximate 20% to 25% for the full year.

APPENDIX
GAAP TO NON-GAAP RECONCILIATION

Noninterest expense, as adjusted

	Three months ended						
	Q1 2018	**Q2 2018**	**Q3 2018**	**Q4 2018**	**Q1 2019**	**Q2 2019**	**Q3 2019**
Noninterest expense, as reported	$ 38,072	$ 40,830	$ 41,244	$ 32,558	$ 38,201	$ 39,576	$ 42,737
Stock based compensation expense	(352)	(357)	(360)	(360)	(352)	(357)	(360)
Impairment expense on goodwill and other intangibles, net	—	—	(2,680)	—	—	—	—
Renewable energy tax credit investment impairment	—	—	—	—	—	(602)	—
Noninterest expense, as adjusted	$ 37,720	$ 40,473	$ 38,204	$ 32,198	$ 37,849	$ 38,617	$ 42,377

Deposits Direct Cost of Funds

	Annualized YTD September 30, 2019 Expense (Dollars in thousands)
Interest	$ 85,461
Personnel	2,141
Travel & Entertainment	32
Fraud Expense	-
Marketing Expense	978
Technology Expense	1,170
Other Expenses	418
Total Direct Deposit Expenses	**$ 90,201**
Average Deposit Balances for Nine Months Ended September 30, 2019	**$3,602,541**

	Cost of Funds (Annualized for YTD September 30, 2019 Expense)
Interest	2.37%
Personnel	0.06%
Travel & Entertainment	0.00%
Fraud Expense	0.00%
Marketing Expense	0.03%
Technology Expense	0.03%
Other Expenses	0.01%
Cost of Funds % including Deposits Department	**2.50%**
Direct Noninterest Cost of Funds	**0.13%**

FORWARD-LOOKING STATEMENTS

Information in this document may contain “forward-looking statements” within the Private Securities Litigation Reform Act of 1995. These statements generally relate to our financial condition, results of operations, plans, objectives, future performance or business and usually can be identified by the use of forward-looking terminology such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “estimate,” “believe,” “plan,” “intend,” “project,” “goals,” “outlook,” or “continue,” or the negative thereof or other variations thereof or comparable terminology. These statements represent our judgment concerning the future and are subject to business, economic and other risks and uncertainties, both known and unknown. These statements are based on current expectations, estimates and projections about our business, management’s beliefs and assumptions made by management. These statements are not guarantees of our future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in the forward-looking statements. These risks, uncertainties and assumptions include, without limitation:

- deterioration in the financial condition of borrowers resulting in significant increases in our loan and lease losses and provisions for those losses and other adverse impacts to results of operations and financial condition;
- changes in SBA rules, regulations and loan products, including specifically the Section 7(a) program, changes in SBA standard operating procedures or changes to Live Oak Banking Company’s status as an SBA Preferred Lender;
- changes in rules, regulations or procedures for other government loan programs, including those of the United States Department of Agriculture;
- changes in interest rates that affect the level and composition of deposits, loan demand and the values of loan collateral, securities, and interest sensitive assets and liabilities;
- the failure of assumptions underlying the establishment of reserves for possible loan and lease losses;
- changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments;
- a reduction in or the termination of our ability to use the technology-based platform that is critical to the success of our business model, including a failure in or a breach of our operational or security systems or those of its third party service providers;
- changes in financial market conditions, either internationally, nationally or locally in areas in which we conduct operations, including reductions in rates of business formation and growth, demand for our products and services, commercial and residential real estate development and prices, premiums paid in the secondary market for the sale of loans, and valuation of servicing rights;
- changes in accounting principles, policies, and guidelines applicable to bank holding companies and banking;
- fluctuations in markets for equity, fixed-income, commercial paper and other securities, which could affect availability, market liquidity levels, and pricing;
- the effects of competition from other commercial banks, non-bank lenders, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and mutual funds, and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone and the Internet;
- our ability to attract and retain key personnel;
- changes in governmental monetary and fiscal policies as well as other legislative and regulatory changes, including with respect to SBA lending programs and investment tax credits;
- changes in political and economic conditions;
- the impact of heightened regulatory scrutiny of financial products and services, primarily led by the Consumer Financial Protection Bureau;
- our ability to comply with any requirements imposed on us by our regulators, and the potential negative consequences that may result;
- operational, compliance and other factors, including conditions in local areas in which we conduct business such as inclement weather or a reduction in the availability of services or products for which loan proceeds will be used, that could prevent or delay closing and funding loans before they can be sold in the secondary market;
- the effect of any mergers, acquisitions or other transactions, to which we may from time to time be a party, including management’s ability to successfully integrate any businesses that we acquire;
- other risk factors listed from time to time in reports that we file with the SEC, including in our Annual Report on Form 10-K; and
- our success at managing the risks involved in the foregoing.

Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Moreover, these forward-looking statements speak only as of the date they are made and based only on information actually known to us at the time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Except as otherwise disclosed, forward-looking statements do not reflect: (i) the effect of any acquisitions, divestitures or similar transactions that have not been previously disclosed; (ii) any changes in laws, regulations or regulatory interpretations; or (iii) any change in current dividend or repurchase strategies, in each case after the date as of which such statements are made.