Live Oak Bancshares

CFO Highlights

CFO Highlights: Q3 2018

Summary of Third Quarter 2018 Notable Items

Secondary Market for Loan Sales: The premiums paid for SBA loans sold in the secondary market declined during the third quarter, primarily driven by a reduction in the number of active buyers and an increase in the overall volume of loans sold combined with increasing prepayment speeds. Prepayment speeds have increased substantially in tandem with the rising rate environment and flat yield curve. As the servicing asset valuation is heavily influenced by prepayment speeds and current market pricing, the revaluation of the loan servicing asset for the third quarter of 2018 resulted in a net loss of $9.4 million.

Provision for Loan and Lease Losses: We recorded a negative provision of $243 thousand in the third quarter of 2018 primarily as a result of updated loss factors consistent with our methodology for estimating the allowance for loan and lease losses. Specifically, during the third quarter of 2018, the family entertainment portfolio passed our experience milestone for new verticals to transition to mature verticals and moved from using industry loss rates to actual incurred loss rates. The allowance for loan and lease losses as a percentage of total loans and leases held for investment was 1.64% for the third quarter of 2018 compared to 1.91% for the prior quarter.

Sale of Title Insurance Business: During the third quarter, the Company financed the sale of its entire interest in Reltco, Inc. and National Assurance Title, Inc. for $3.0 million. The Company's divestiture was driven by expectations of future profitability under current market conditions impacting the mortgage industry. In total, the transaction resulted in a one-time net cost of $2.7 million.

Income Tax (Benefit): Our solar panel leasing activities and related investment tax credits resulted in a net tax benefit of $3.2 million for the third quarter of 2018. We expect a negative effective tax rate for the full year of 2018.

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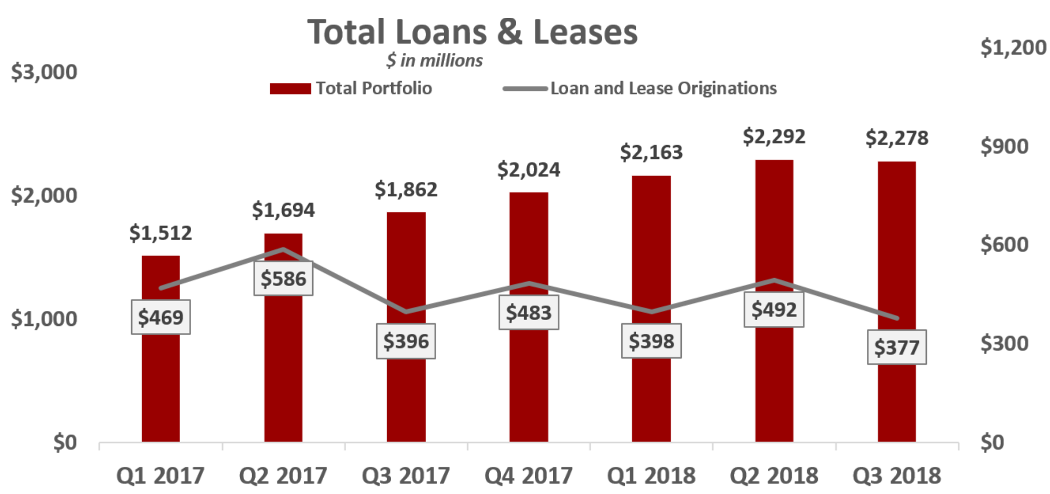
Loan & Lease Portfolio



Our loan and lease portfolio increased by 22.3% over the prior year and remained relatively flat with the prior quarter. The linked quarter decline in the loan and lease portfolio was largely driven by increased competitive pressure in the small business lending space combined with an increase in prepayments in the existing portfolio. The decline in originations during the third quarter is primarily the result of seasonal slowdowns in the renewable energy sector combined with increased competition in existing verticals. We anticipate our continued expansion into new industry verticals and selective hiring of SBA Generalists will help to drive future originations.

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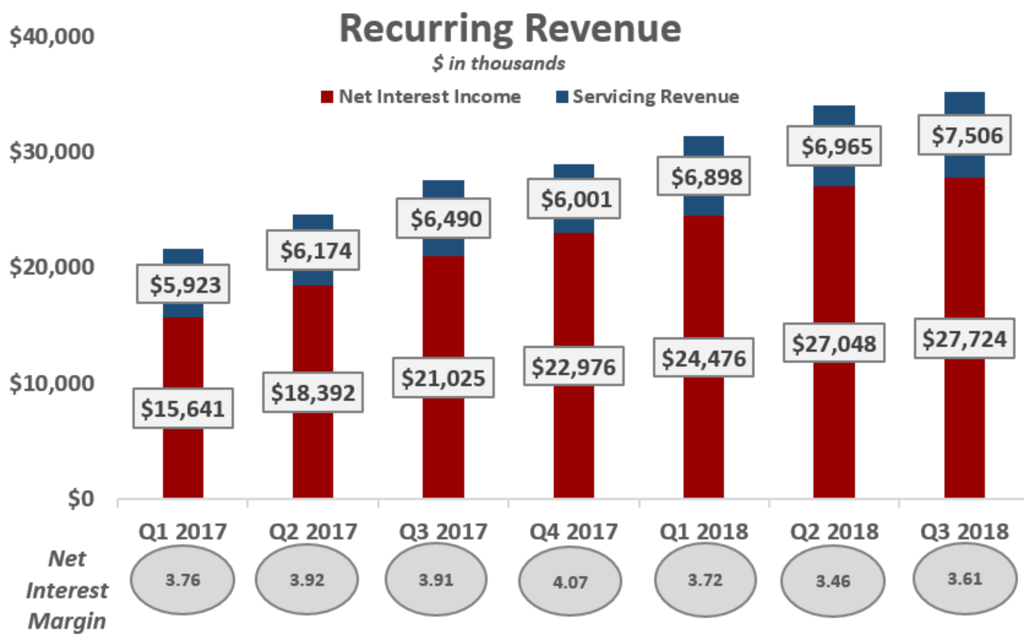
Sustained Recurring Revenue



Our recurring revenue streams of net interest income and servicing revenue continued their growth in the third quarter of 2018, growing 28.0% above the prior year level, and have now risen to 67.7% of total revenues.

Net interest income increased in the third quarter of 2018 to $27.7 million, a 31.9% increase over the prior year which was heavily driven by the significant growth in average loan levels. On a linked quarter basis, the net interest margin rose 15 basis points to 3.61% and benefited from the variable-pricing nature of the loan portfolio. We expect the repricing of the loan portfolio to outpace that of our deposits to provide continued margin expansion.

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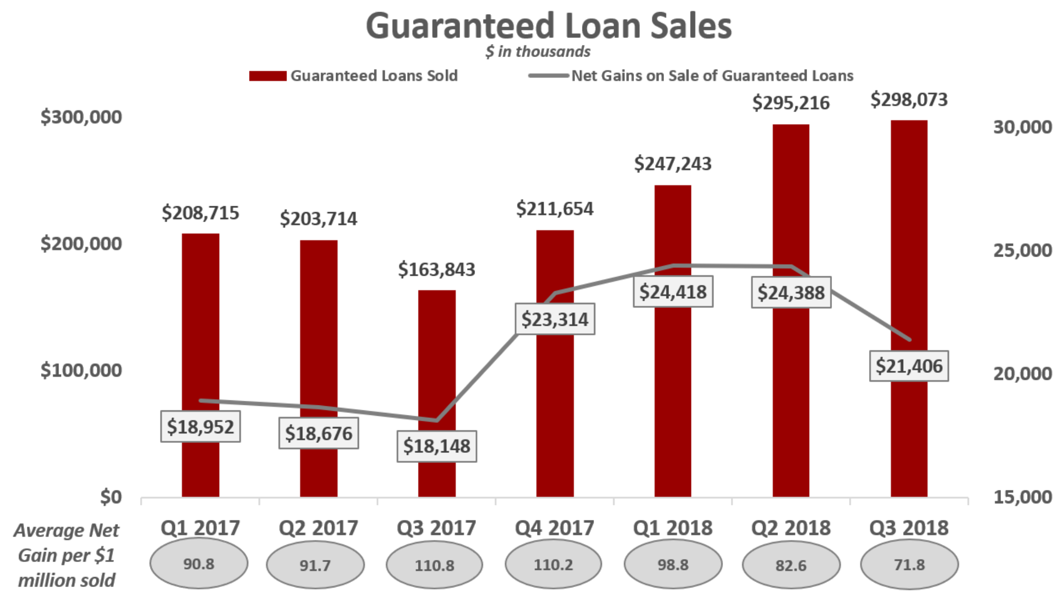
Secondary Market Sales



Loan sale volumes in the third quarter of 2018 were consistent with the prior quarter. Gain on sale revenue decreased in the third quarter of 2018 due to a decline in the average net gain per $1 million sold. As the servicing asset valuation is heavily influenced by prepayment speeds and current market pricing in the secondary market, the revaluation of the loan servicing asset for the third quarter of 2018 resulted in a net loss of $9.4 million. At the end of the third quarter of 2018, the carrying value of the servicing asset amounted to $49.3 million.

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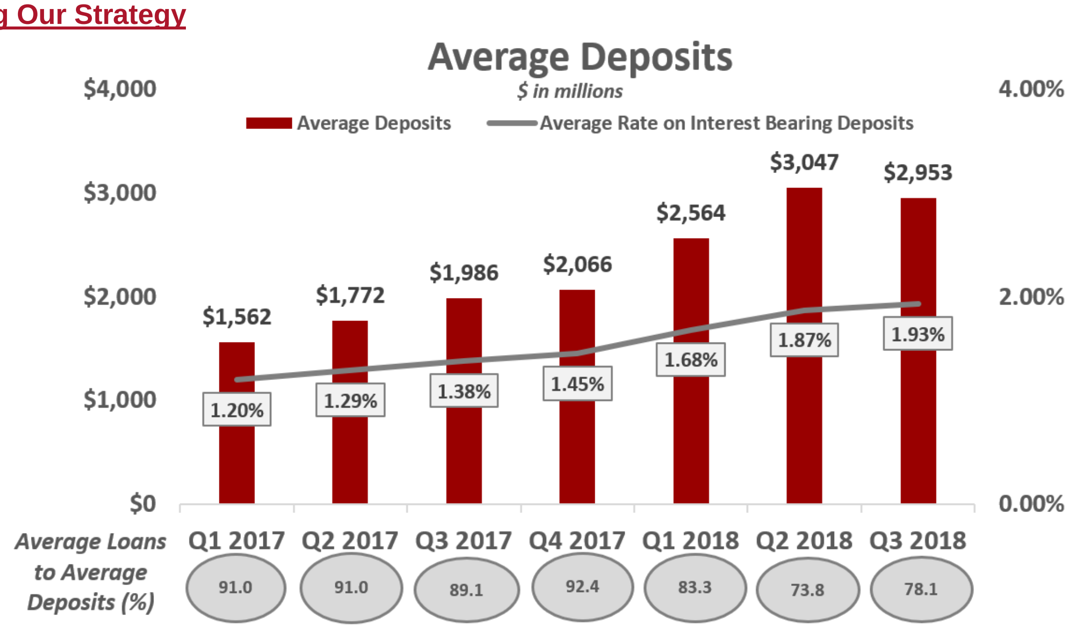
Funding Our Strategy



During the first half of 2018, we grew deposits to materially strengthen our liquidity position and reinvested excess funds to build a larger securities portfolio and cash position. We allowed our deposit portfolio to decline during the third quarter of 2018 as loan sale proceeds met our funding needs. As such, the average rate on interest bearing deposits increased only six basis points from the prior quarter as we continue to operate a branchless model for deposit gathering activities.

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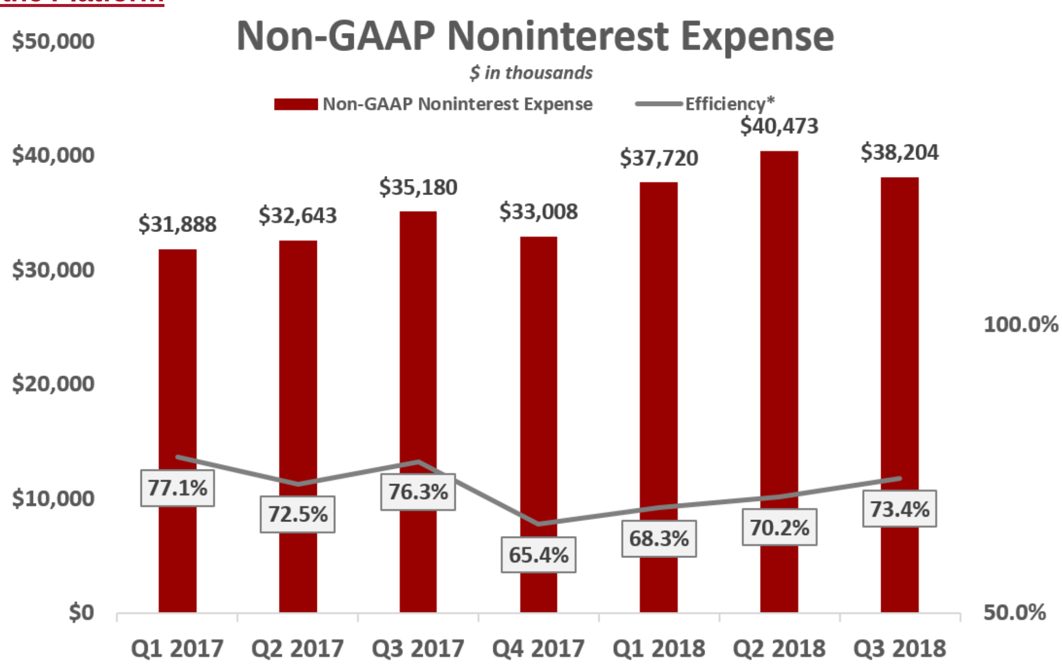
Scaling the Platform



*Efficiency is the ratio of non-GAAP noninterest expense to the sum of net interest income and non-GAAP noninterest income expressed as a percentage.

Our non-GAAP noninterest expense[(1)] decreased to $38.2 million for the third quarter of 2018. This is an adjustment to the noninterest expense base as we exited the title insurance business in the third quarter with the sale of Reltco, Inc.

(1) For underlying non-GAAP disclosure support see the GAAP to Non-GAAP Reconciliation included in the Company's third quarter 2018 earnings release.

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.