UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2020

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: 001-37497

LIVE OAK BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

North Carolina	**26-4596286**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1741 Tiburon Drive **Wilmington, North Carolina**	**28403**
(Address of principal executive offices)	(Zip Code)

(910) 790-5867
(Registrant's telephone number, including area code)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See 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 registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Voting Common Stock, no par value per share	**LOB**	**The NASDAQ Stock Market LLC**

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 4, 2020, there were 37,817,698 shares of the registrant's voting common stock outstanding and 2,715,531 shares of the registrant's non-voting common stock outstanding.

Live Oak Bancshares, Inc.

Form 10-Q

For the Quarterly Period Ended June 30, 2020

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Balance Sheets
As of June 30, 2020 (unaudited) and December 31, 2019*
(Dollars in thousands)

	June 30, 2020	December 31, 2019
Assets		
Cash and due from banks	$ 1,256,958	$ 124,610
Federal funds sold	91,188	96,787
Certificates of deposit with other banks	7,250	7,250
Investment securities available-for-sale	779,794	540,045
Loans held for sale (includes $32,071 and $16,198 measured at fair value, respectively)	976,594	966,447
Loans and leases held for investment (includes $834,602 and $824,520 measured at fair value, respectively)	4,650,056	2,627,286
Allowance for credit losses on loans and leases	(44,083)	(28,234)
Net loans and leases	4,605,973	2,599,052
Premises and equipment, net	269,063	279,099
Foreclosed assets	5,660	5,612
Servicing assets	33,834	35,365
Operating lease right-of-use assets	2,886	2,427
Other assets	179,954	156,134
Total assets	$ 8,209,154	$ 4,812,828
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 53,938	$ 51,965
Interest-bearing	5,819,354	4,175,015
Total deposits	5,873,292	4,226,980
Borrowings	1,721,029	14
Operating lease liabilities	3,079	2,619
Other liabilities	63,319	50,829
Total liabilities	7,660,719	4,280,442
Shareholders' equity		
Preferred stock, no par value, 1,000,000 authorized, none issued or outstanding at June 30, 2020 and December 31, 2019	—	—
Class A common stock, no par value, 100,000,000 shares authorized, 37,810,101 and 37,401,443 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	319,542	309,526
Class B common stock, no par value, 10,000,000 shares authorized, 2,715,531 and 2,915,531 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	28,753	30,871
Retained earnings	174,837	180,265
Accumulated other comprehensive income	25,303	11,724
Total shareholders' equity	548,435	532,386
Total liabilities and shareholders' equity	$ 8,209,154	$ 4,812,828

* Derived from audited consolidated financial statements.

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Income
For the three and six months ended June 30, 2020 and 2019 (unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Interest income				
Loans and fees on loans	$ 62,022	$ 49,914	$ 120,983	$ 94,880
Investment securities, taxable	3,786	4,116	7,548	7,433
Other interest earning assets	1,009	1,108	1,759	2,747
Total interest income	66,817	55,138	130,290	105,060
Interest expense				
Deposits	25,121	21,203	48,376	40,520
Borrowings	798	—	855	—
Total interest expense	25,919	21,203	49,231	40,520
Net interest income	40,898	33,935	81,059	64,540
Provision for loan and lease credit losses	9,958	3,412	21,750	6,443
Net interest income after provision for loan and lease credit losses	30,940	30,523	59,309	58,097
Noninterest income				
Loan servicing revenue	6,691	7,063	13,113	14,473
Loan servicing asset revaluation	(1,571)	(3,245)	(6,263)	(7,285)
Net gains on sales of loans	10,695	6,015	21,807	10,213
Net (loss) gain on loans accounted for under the fair value option	(1,089)	2,791	(11,727)	4,874
Equity method investments income (loss)	(2,243)	(1,736)	(4,721)	(3,750)
Equity security investments gains (losses), net	161	32	97	135
Gain on sale of investment securities available-for-sale, net	734	—	655	5
Lease income	2,635	2,369	5,259	4,694
Management fee income	1,206	91	2,850	91
Construction supervision fee income	684	386	1,074	1,165
Other noninterest income	4,508	884	6,009	3,351
Total noninterest income	22,411	14,650	28,153	27,966
Noninterest expense				
Salaries and employee benefits	30,782	21,990	58,845	43,845
Travel expense	364	1,541	2,145	2,741
Professional services expense	1,385	1,621	3,322	3,803
Advertising and marketing expense	624	1,665	1,985	3,029
Occupancy expense	1,955	1,848	4,376	3,457
Data processing expense	2,764	1,947	5,921	4,346
Equipment expense	4,652	4,239	9,287	7,564
Other loan origination and maintenance expense	2,492	1,708	4,948	3,347
Renewable energy tax credit investment impairment	—	602	—	602
FDIC insurance	1,721	699	3,231	1,334
Other expense	1,361	1,716	3,531	3,709
Total noninterest expense	48,100	39,576	97,591	77,777
Income (loss) before taxes	5,251	5,597	(10,129)	8,286
Income tax expense (benefit)	1,474	662	(6,304)	979
Net income (loss)	$ 3,777	$ 4,935	$ (3,825)	$ 7,307
Basic earnings (loss) per share	$ 0.09	$ 0.12	$ (0.10)	$ 0.18
Diluted earnings (loss) per share	$ 0.09	$ 0.12	$ (0.10)	$ 0.18

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Comprehensive Income
For the three and six months ended June 30, 2020 and 2019 (unaudited)
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income (loss)	$ 3,777	$ 4,935	$ (3,825)	$ 7,307
Other comprehensive income before tax:				
Net unrealized gain on investment securities arising during the period	10,673	15,637	18,522	19,155
Reclassification adjustment for gain on sale of securities available-for-sale included in net income	(734)	—	(655)	(5)
Other comprehensive income before tax	9,939	15,637	17,867	19,150
Income tax expense	(2,385)	(3,753)	(4,288)	(4,596)
Other comprehensive income, net of tax	7,554	11,884	13,579	14,554
Total comprehensive income	$ 11,331	$ 16,819	$ 9,754	$ 21,861

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity
For the three and six months ended June 30, 2020 and 2019 (unaudited)
(Dollars in thousands)

	Three Months Ended					
	Common stock				Accumulated other comprehensive income	
	Shares			Retained earnings		Total equity
	Class A	Class B	Amount			
Balance at March 31, 2020	37,664,670	2,715,531	$ 343,747	$ 172,276	$ 17,749	$ 533,772
Net income	—	—	—	3,777	—	3,777
Other comprehensive income	—	—	—	—	7,554	7,554
Issuance of restricted stock	21,965	—	—	—	—	—
Withholding cash issued in lieu of restricted stock issuance	—	—	(61)	—	—	(61)
Stock option exercises	33,539	—	148	—	—	148
Stock option based compensation expense	—	—	406	—	—	406
Restricted stock expense	—	—	2,933	—	—	2,933
Issuance of common stock in connection with acquisition of wholly-owned subsidiary	89,927	—	1,122	—	—	1,122
Cash dividends ($0.03 per share)	—	—	—	(1,216)	—	(1,216)
Balance at June 30, 2020	37,810,101	2,715,531	$ 348,295	$ 174,837	$ 25,303	$ 548,435
Balance at March 31, 2019	35,531,549	4,643,530	$ 331,162	$ 168,225	$ 993	$ 500,380
Net income	—	—	—	4,935	—	4,935
Other comprehensive income	—	—	—	—	11,884	11,884
Issuance of restricted stock	19,346	—	—	—	—	—
Withholding cash issued in lieu of restricted stock issuance	—	—	(81)	—	—	(81)
Stock option exercises	26,491	—	158	—	—	158
Stock option based compensation expense	—	—	400	—	—	400
Restricted stock expense	—	—	2,516	—	—	2,516
Cash dividends ($0.03 per share)	—	—	—	(1,206)	—	(1,206)
Balance at June 30, 2019	35,577,386	4,643,530	$ 334,155	$ 171,954	$ 12,877	$ 518,986

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity (Continued)
For the three and six months ended June 30, 2020 and 2019 (unaudited)
(Dollars in thousands)

	Six Months Ended					
	Common stock				Accumulated other	
	Shares					
	Class A	Class B	Amount	Retained earnings	comprehensive income (loss)	Total equity
Balance at December 31, 2019	37,401,443	2,915,531	$ 340,397	$ 180,265	$ 11,724	$ 532,386
Net loss	—	—	—	(3,825)	—	(3,825)
Other comprehensive income	—	—	—	—	13,579	13,579
Issuance of restricted stock	29,389	—	—	—	—	—
Withholding cash issued in lieu of restricted stock issuance	—	—	(109)	—	—	(109)
Employee stock purchase program	25,161	—	232	—	—	232
Stock option exercises	64,181	—	406	—	—	406
Stock option based compensation expense	—	—	772	—	—	772
Restricted stock expense	—	—	5,475	—	—	5,475
Issuance of common stock in connection with acquisition of wholly-owned subsidiary	89,927	—	1,122	—	—	1,122
Non-voting common stock converted to voting common stock in private sale	200,000	(200,000)	—	—	—	—
Cumulative effect of accounting change for Accounting Standards Update 2016-13	—	—	—	822	—	822
Cash dividends ($0.06 per share)	—	—	—	(2,425)	—	(2,425)
Balance at June 30, 2020	37,810,101	2,715,531	$ 348,295	$ 174,837	$ 25,303	$ 548,435
Balance at December 31, 2018	35,512,262	4,643,530	$ 328,113	$ 167,124	$ (1,677)	$ 493,560
Net income	—	—	—	7,307	—	7,307
Other comprehensive income	—	—	—	—	14,554	14,554
Issuance of restricted stock	21,486	—	—	—	—	—
Withholding cash issued in lieu of restricted stock issuance	—	—	(86)	—	—	(86)
Employee stock purchase program	14,059	—	182	—	—	182
Stock option exercises	29,579	—	172	—	—	172
Stock option based compensation expense	—	—	870	—	—	870
Restricted stock expense	—	—	4,904	—	—	4,904
Cumulative effect of accounting change for Accounting Standards Update 2016-02	—	—	—	(66)	—	(66)
Cash dividends ($0.06 per share)	—	—	—	(2,411)	—	(2,411)
Balance at June 30, 2019	35,577,386	4,643,530	$ 334,155	$ 171,954	$ 12,877	$ 518,986

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Cash Flows
For the six months ended June 30, 2020 and 2019 (unaudited)
(Dollars in thousands)

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities		
Net (loss) income	$ (3,825)	$ 7,307
Adjustments to reconcile net (loss) income to net cash used by operating activities:		
Depreciation and amortization	11,194	9,101
Provision for loan and lease credit losses	21,750	6,443
Amortization of premium on securities, net of accretion	636	254
Deferred tax benefit	(11,164)	(417)
Originations of loans held for sale	(483,741)	(455,456)
Proceeds from sales of loans held for sale	391,706	168,981
Net gains on sale of loans held for sale	(21,807)	(10,213)
Net (gain) loss on sale of foreclosed assets	(10)	4
Net loss (gain) on loans accounted for under fair value option	11,727	(4,874)
Net decrease in servicing assets	1,531	5,954
Gain on sale of investment securities available-for-sale, net	(655)	(5)
Net gain on disposal of long-lived asset	—	(357)
Net loss on disposal of property and equipment	38	109
Equity method investments (income) loss	4,721	3,750
Equity security investments (gains) losses, net	(97)	(135)
Renewable energy tax credit investment impairment	—	602
Stock option based compensation expense	772	870
Restricted stock expense	5,475	4,904
Stock based compensation expense tax shortfall	(93)	(76)
Changes in assets and liabilities:		
Lease right-of-use assets and liabilities, net	1	102
Other assets	(24,383)	10,089
Other liabilities	16,886	154
Net cash used by operating activities	(79,338)	(252,909)
Cash flows from investing activities		
Purchases of securities available-for-sale	(292,825)	(205,829)
Proceeds from sales, maturities, calls, and principal paydown of securities available-for-sale	70,962	28,945
Proceeds from SBA reimbursement/sale of foreclosed assets	2,026	393
Business combination, net of cash acquired	(895)	—
Loan and lease originations and principal collections, net	(1,937,416)	(256,823)
Proceeds from sale of long-lived asset	—	10,895
Purchases of premises and equipment, net	(1,196)	(27,823)
Net cash used by investing activities	(2,159,344)	(450,242)

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Cash Flows (Continued)
For the six months ended June 30, 2020 and 2019 (unaudited)
(Dollars in thousands)

	Six Months Ended June 30,	
	2020	2019
Cash flows from financing activities		
Net increase in deposits	$ 1,646,312	$ 566,698
Proceeds from borrowings	1,781,966	—
Repayment of borrowings	(60,951)	(98)
Stock option exercises	406	172
Employee stock purchase program	232	182
Withholding cash issued in lieu of restricted stock	(109)	(86)
Shareholder dividend distributions	(2,425)	(2,411)
Net cash provided by financing activities	3,365,431	564,457
Net increase (decrease) in cash and cash equivalents	1,126,749	(138,694)
Cash and cash equivalents, beginning	221,397	319,311
Cash and cash equivalents, ending	$ 1,348,146	$ 180,617
Supplemental disclosures of cash flow information		
Interest paid	$ 49,397	$ 39,391
Income tax paid (received)	460	(12,439)
Supplemental disclosures of noncash operating, investing, and financing activities		
Unrealized holding gains on available-for-sale securities, net of taxes	$ 13,579	$ 14,554
Transfers from loans and leases to foreclosed real estate and other repossessions	2,034	5,058
Net transfers between foreclosed real estate and SBA receivable	30	(289)
Right-of-use assets obtained in exchange for lessee operating lease liabilities	—	2,241
Transfer of loans held for sale to loans and leases held for investment	98,002	146,305
Transfer of loans and leases held for investment to loans held for sale	22,948	23,321
Business combination:		
Assets acquired (excluding goodwill)	2,523	—
Liabilities assumed	2,074	—
Goodwill recorded	1,797	—

See Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Basis of Presentation

Nature of Operations

Live Oak Bancshares, Inc. (the “Company” or “LOB”) is a bank holding company headquartered in Wilmington, North Carolina incorporated under the laws of North Carolina in December 2008. The Company conducts business operations primarily through its commercial bank subsidiary, Live Oak Banking Company (the “Bank”). The Bank was organized and incorporated under the laws of the State of North Carolina on February 25, 2008 and commenced operations on May 12, 2008. The Bank specializes in providing lending services to small businesses nationwide. The Bank identifies and grows lending to credit-worthy borrowers both within specific industries, also called verticals, through expertise within those industries, and more broadly to select borrowers outside of those industries. A significant portion of the loans originated by the Bank are guaranteed by the Small Business Administration (“SBA”) under the 7(a) Loan Program and the U.S. Department of Agriculture ("USDA") Rural Energy for America Program ("REAP"), Water and Environmental Program (“WEP”) and Business & Industry ("B&I") loan programs.

The Bank’s wholly owned subsidiaries are Live Oak Number One, Inc., Live Oak Clean Energy Financing LLC (“LOCEF”), and Live Oak Private Wealth, LLC.

Live Oak Private Wealth, LLC’s wholly owned subsidiary is Jolley Asset Management, LLC (“JAM”). See Business Combination discussion below for more information on this new subsidiary.

The Company’s wholly owned subsidiaries are the Bank, Government Loan Solutions (“GLS”), Live Oak Grove, LLC (“the Grove”), Live Oak Ventures, Inc. (“Live Oak Ventures”), and Canapi Advisors, LLC (“Canapi”).

Live Oak Number One, Inc. holds properties foreclosed on by the Bank. GLS is a management and technology consulting firm that advises and offers solutions and services to participants in the government guaranteed lending sector. GLS primarily provides services in connection with the settlement, accounting, and securitization processes for government guaranteed loans, including loans originated under the SBA 7(a) loan programs and USDA guaranteed loans. The Grove provides Company employees and business visitors an on-site restaurant location. Live Oak Ventures’ purpose is investing in businesses that align with the Company's strategic initiative to be a leader in financial technology. LOCEF provides financing to entities for renewable energy applications and became a wholly owned subsidiary of the Bank during the first quarter of 2019. Live Oak Private Wealth, LLC and JAM provide high-net-worth individuals and families with strategic wealth and investment management services. Canapi provides investment advisory services to a series of new funds focused on providing venture capital to new and emerging financial technology companies.

The Company jointly formed 504 Fund Advisors, LLC (“504FA”) to serve as the investment adviser for the 504 Fund, a closed-end mutual fund organized to invest in SBA section 504 loans. 504FA exited as advisor for the 504 Fund in May 2019 and the Company subsequently dissolved this legal entity.

The Company generates revenue primarily from net interest income and secondarily through the origination and sale of government guaranteed loans. Income from the retention of loans is comprised of interest income. The Company elects to account for certain loans under the fair value option with interest reported in interest income and changes in fair value reported in the net (loss) gain on loans accounted for under the fair value option line item of the consolidated statements of income. Income from the sale of loans is comprised of loan servicing revenue and revaluation of related servicing assets along with net gains on sales of loans. Offsetting these revenues are the cost of funding sources, provision for loan and lease credit losses, any costs related to foreclosed assets and other operating costs such as salaries and employee benefits, travel, professional services, advertising and marketing and tax expense.

General

In the opinion of management, all adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented have been included, and all intercompany transactions have been eliminated in consolidation. Results of operations for the six months ended June 30, 2020 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2020. The condensed consolidated balance sheet as of December 31, 2019 has been derived from the audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the Securities Exchange Commission on February 27, 2020 (SEC File No. 001-37497) (the "2019 Annual Report"). A summary description of the significant accounting policies followed by the Company is set forth in Note 1 of the Notes to Consolidated Financial Statements in the Company's 2019 Annual Report. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes in the Company's 2019 Annual Report.

The preparation of financial statements in conformity with United States generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Amounts in all tables in the Notes to Unaudited Condensed Consolidated Financial Statements have been presented in thousands, except percentage, time period, stock option, share and per share data or where otherwise indicated.

Business Segments

Management has determined that the Company has one significant operating segment, which is providing a lending platform for small businesses nationwide. In determining the appropriateness of segment definition, the Company considers the materiality of a potential segment, the components of the business about which financial information is available, and components for which management regularly evaluates relative to resource allocation and performance assessment.

Reclassifications

Certain reclassifications have been made to the prior period's consolidated financial statements to place them on a comparable basis with the current year. Net income and shareholders' equity previously reported were not affected by these reclassifications. Current period reclassifications were primarily related to fair value presentation requirements for loans in which the fair value option had previously been elected and included a reclassification of amounts representing the credit component of the fair value discount that was previously reported as a component of the allowance for credit losses on loans and leases to be netted directly against loans and leases held for investment on the Company's consolidated balance sheet. Amounts reclassified from the allowance for credit losses on loans and leases to net directly against total loans and leases held for investment was $20.0 million, as of December 31, 2019. In addition, the change in the credit component of the fair value discount was previously reported in the provision for loan and lease credit losses while the change in the liquidity component of the fair value discount was previously reported in the loan servicing asset revaluation in the consolidated statements of income, but both have now been reclassified to net (loss) gain on loans accounted for under the fair value option. Amounts reclassified from the provision for loan and lease credit losses and the loan servicing asset revaluation to net (loss) gain on loans accounted for under the fair value option were $(51) thousand and $2.8 million, respectively, for the three months ended June 30, 2019, and $(238) thousand and $4.6 million, respectively for the six months ended June 30, 2019.

The effect of the above discussed reclassifications on the consolidated balance sheet as of December 31, 2019 is reflected in the March 31, 2020 10-Q. The effect on the consolidated statements of income and consolidated statements of cash flows for each period are presented below:

	As Reported	Reclassifications	As Reclassified
Consolidated Statement of Income for the three months ended June 30, 2019			
Provision for loan and lease credit losses	$ 3,463	$ (51)	$ 3,412
Net interest income after provision for loan and lease credit losses	30,472	51	30,523
Loan servicing asset revaluation	(403)	(2,842)	(3,245)
Net (loss) gain on loans accounted for under the fair value option	—	2,791	2,791
Total noninterest income	14,701	(51)	14,650
Net income	4,935	—	4,935
Consolidated Statement of Income for the six months ended June 30, 2019			
Provision for loan and lease credit losses	$ 6,205	$ 238	$ 6,443
Net interest income after provision for loan and lease credit losses	58,335	(238)	58,097
Loan servicing asset revaluation	(2,649)	(4,636)	(7,285)
Net (loss) gain on loans accounted for under the fair value option	—	4,874	4,874
Total noninterest income	27,728	238	27,966
Net income	7,307	—	7,307
Consolidated Statement of Cash Flows for the six months ended June 30, 2019			
Provision for loan and lease credit losses	$ 6,205	$ 238	$ 6,443
Net decrease in servicing assets	5,954	—	5,954
Change in discount on unguaranteed loans	(3,431)	3,431	—
Net loss (gain) on loans accounted for under fair value option	—	(4,874)	(4,874)
Net cash used by operating activities	(251,704)	(1,205)	(252,909)
Loan and lease originations and principal collections, net	(258,028)	1,205	(256,823)
Net cash used by investing activities	(451,447)	1,205	(450,242)

As a result of the increase in number and diversification of the industry verticals that the Company serves, management also made changes to the loan and lease classes used in the credit quality disclosures in Note 5. Loans and leases are now grouped in one of the following classes (also referred to as divisions): Small Business Banking, Specialty Lending, or Paycheck Protection Program. Small Business Banking includes loans to customers in verticals that generally have traditional loan structures. Specialty Lending includes loans to customers in verticals that generally have atypical ownership structures as well as complex collateral arrangements, underwriting requirements, and servicing needs. Paycheck Protection Program ("PPP") includes all loans originated under the PPP pursuant to the Coronavirus Aid, Relief, and Economic Security Act's ("CARES Act") economic relief program and carry a 100% government guarantee. These loan and lease classes were determined based on industry risk characteristics and management's method for monitoring credit risk and managing those lending divisions. There were no changes to the Company's portfolio segments.

Adoption of New Accounting Standard

On January 1, 2020, the Company adopted Accounting Standards Update ("ASU") No. 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13") along with its amendments, which replaces the incurred loss impairment methodology in current standards with the current expected credit loss methodology ("CECL") and requires consideration of a broader range of information to determine credit loss estimates. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell.

The Company adopted Accounting Standards Codification ("ASC") 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net increase to retained earnings of $822 thousand, comprised of a $1.3 million decrease in the allowance for credit losses combined with a $499 thousand increase in reserve on unfunded commitments, as of January 1, 2020 for the cumulative effect of adopting ASC 326.

Allowance for Credit Losses – Loans and Leases Held for Investment

The allowance for credit losses ("ACL") is a valuation account that is deducted from, or added to, the amortized cost basis of loans and leases to present a net amount expected to be collected. The ACL excludes loans held for sale and loans accounted for under the fair value option. Loans and leases are charged-off against the ACL when management believes the uncollectibility of a loan or lease balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The Company's ACL on loans and leases is estimated using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Company's historical credit loss experience provides the basis for the estimation of expected credit losses. Management adjusts historical loss information for differences in current risk characteristics such as portfolio risk grading, delinquency levels, or portfolio mix as well as for changes in environmental conditions such as changes in unemployment rates.

The ACL is measured on a pooled basis when similar risk characteristics are present in the portfolio. The Company has identified portfolio segments based on industry and whether the receivable is secured by real estate or another form of collateral. Additional information related to the portfolio segments can be found in the Company's 2019 Form 10-K. Expected credit losses for pooled loans and leases are estimated using a discounted cash flow ("DCF") methodology.

Loans or leases that do not share risk characteristics are evaluated on an individual basis and are excluded from the pooled evaluation. This generally occurs when, based on current information and events, it is probable that the Company will be unable to collect all interest and principal payments due according to the originally contracted, or reasonably modified, terms of the loan or lease agreement. The Company has determined that loans and leases meeting the criteria defined below must be reviewed quarterly to determine if they should be evaluated for expected credit losses on an individual basis.

- All commercial loans and leases classified substandard or worse.
- Any loan or lease that is on nonaccrual, or any loan or lease that is delinquent greater than 90 days past due and still accruing interest.
- Any loan or lease that meets the definition of a troubled debt restructuring ("TDR").

Expected credit losses are estimated over the contractual term of the loan or lease, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless management has a reasonable expectation at the reporting date that a TDR will be executed with an individual borrower or the extension or renewal options are included in the contract at the reporting date and are not unconditionally cancellable by the Company.

When the ACL, for pooled or individually evaluated loans and leases, is estimated using the DCF method, the effective interest rate used to discount expected cash flows is adjusted for expected prepayments.

Past due status of loans and leases is determined based on contractual terms. Loans and leases are placed in nonaccrual status and interest accrual is discontinued if they become 90 days delinquent or there is evidence that the borrower's ability to make the required payments is impaired. When interest accrual is discontinued, all unpaid accrued interest is reversed. Management has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses.

A loan or lease is accounted for as a TDR if the Company, for reasons related to the borrower's financial difficulties, restructures a loan or lease, and grants a concession to the borrower that it would not otherwise grant. A TDR typically involves a more than short-term modification of terms such as a reduction of the interest rate below the current market rate for a loan or lease with similar risk characteristics or the waiving of certain financial covenants without corresponding offsetting compensation or additional support.

When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Allowance for Credit Losses – Off-Balance Sheet Credit Exposures

Expected credit losses on off-balance sheet credit exposures is estimated over the contractual period in which the Company is exposed to such losses, unless the obligation to extend credit is unconditionally cancellable. The estimate of off-balance sheet credit exposures includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated losses. The estimate is influenced by historical loss experience, adjusted for current risk characteristics, and economic forecasts.

Allowance for Credit Losses – Available-for-Sale Securities

When available-for-sale debt securities are in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. Available-for-sale debt securities that do not meet the aforementioned criteria are evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected from the security is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the ACL are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Management has made the accounting policy election to exclude accrued interest receivable on available-for-sale debt securities from the estimate of credit losses. Available-for-sale securities are charged-off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met.

Common Stock

On March 15, 2020, the Board of Directors of the Company authorized the repurchase of up to $20,000,000 in shares of the Company's voting common stock from time to time through December 31, 2020 (the "Repurchase Program"). The Repurchase Program enables the Company to acquire shares through open market purchases or privately negotiated transactions, including through a Rule 10b5-1 plan, at the discretion of management and on terms (including quantity, timing, and price) that management determines to be advisable. Actions in connection with the repurchase program will be subject to various factors, including the Company's capital and liquidity positions, regulatory and accounting considerations, the Company's financial and operational performance, alternative uses of capital, the trading price of the Company's common stock, and market conditions. The repurchase program does not obligate the Company to acquire a specific dollar amount or number of shares and may be extended, modified, or discontinued at any time. There were no shares repurchased during the three and six months ended June 30, 2020.

Business Combination

On April 1, 2020, the Company acquired 100% of the equity interests of JAM, a registered investment advisor based in Rocky Mount, North Carolina. Goodwill, intangible assets and contingent consideration of $1.8 million, $2.3 million and $2.1 million, respectively, have been recorded by the Company. Intangible assets are almost entirely comprised of customer relationships that are being amortized using the straight-line method over 15 years. As a result of this acquisition, the Bank's subsidiary Live Oak Private Wealth, LLC, expects to broaden service offerings to existing high-net-worth individuals and families, attract new clients from an expanded footprint and benefit from economies of scale. The acquisition did not materially impact the Company's financial position, results of operations or cash flows. Given the impact of the above acquisition was immaterial to the Company and its result of operations, pro forma information has not been included.

Note 2. Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). ASU 2018-13 removes, modifies and adds certain fair value disclosure requirements on fair value measurements. The Company adopted the standard on January 1, 2020 with no material effect on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" ("ASU 2018-15"). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Company adopted the standard on January 1, 2020 with no material effect on its consolidated financial statements.

In March 2019, the FASB issued ASU No. 2019-01, "Leases (Topic 842): Codification Improvements" ("ASU 2019-01"). ASU 2019-01 provides updates to Topic 842 including: (i) guidance on how to determine fair value of leased items for lessors who are not dealers or manufacturers, (ii) cash flow presentation for lessors of sales-type and direct financing leases and (iii) clarifies certain transition disclosures. The Company adopted the standard on January 1, 2020 with no material effect on its consolidated financial statements.

In April 2019, the FASB issued ASU No. 2019-04, "Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments" ("ASU 2019-04"). ASU 2019-04 provides clarification and minor improvements related to ASU 2016-01 "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," ASU 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" and ASU 2017-12 "Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities." The Company adopted the standard on January 1, 2020 with no material effect on its consolidated financial statements.

In January 2020, the FASB issued ASU No. 2020-01, "Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)-Clarifying the Interactions between Topic 321, Topic 323, and Topic 815" ("ASU 2020-01"). ASU 2020-01 clarifies the interaction between accounting standards related to equity securities, equity method investments, and certain derivatives including accounting for the transition into and out of the equity method and measuring certain purchased options and forward contracts to acquire investments. The amendments in this standard will be effective for the Company on January 1, 2021. The Company does not expect this standard to have a material effect on its consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-03, "Codification Improvements to Financial Instruments" ("ASU 2020-03"). The amendments represent clarification and improvements to the codification and correct unintended application. This standard was effective immediately upon issuance and its adoption did not have a material effect on the Company's consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU 2020-04"). ASU 2020-04 provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments are effective for the Company as of March 12, 2020 through December 31, 2022. The Company does not believe this standard will have a material impact on its consolidated financial statements.

Note 3. Earnings Per Share

Basic and diluted earnings per share are computed based on the weighted average number of shares outstanding during each period. Diluted earnings per share reflects the potential dilution that could occur, upon the exercise of stock options or upon the vesting of restricted stock grants, any of which would result in the issuance of common stock that would then be shared in the net income of the Company.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Basic earnings (loss) per share:				
Net income (loss)	$ 3,777	$ 4,935	$ (3,825)	$ 7,307
Weighted-average basic shares outstanding	40,506,671	40,196,662	40,420,425	40,178,491
Basic earnings (loss) per share	$ 0.09	$ 0.12	$ (0.10)	$ 0.18
Diluted earnings (loss) per share:				
Net income (loss), for diluted earnings (loss) per share	$ 3,777	$ 4,935	$ (3,825)	$ 7,307
Total weighted-average basic shares outstanding	40,506,671	40,196,662	40,420,425	40,178,491
Add effect of dilutive stock options and restricted stock grants	615,354	801,879	677,612	801,879
Total weighted-average diluted shares outstanding	41,122,025	40,998,541	41,098,037	40,980,370
Diluted earnings (loss) per share	$ 0.09	$ 0.12	$ (0.10)	$ 0.18
Anti-dilutive shares	2,077,886	1,578,197	2,077,886	1,578,197

Note 4. Investment Securities

The carrying amount of investment securities and their approximate fair values are reflected in the following table:

June 30, 2020	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
US treasury securities	$ 4,997	$ 21	$ —	$ —	$ 5,018
US government agencies	19,942	652	—	—	20,594
Mortgage-backed securities	718,285	32,329	65	—	750,549
Municipal bonds	3,277	362	6	—	3,633
Total	$ 746,501	$ 33,364	$ 71	$ —	$ 779,794
December 31, 2019					
US treasury securities	$ 4,988	$ 27	$ —	$ —	$ 5,015
US government agencies	22,444	335	—	—	22,779
Mortgage-backed securities	488,694	15,530	927	—	503,297
Municipal bonds	8,493	469	8	—	8,954
Total	$ 524,619	$ 16,361	$ 935	$ —	$ 540,045

During the three months ended June 30, 2020, one US government agency matured at $2.5 million, eleven mortgage-backed securities totaling $9.6 million were sold resulting in a net gain of $114 thousand, and two municipal bonds totaling $5.2 million were sold resulting in a net gain of $620 thousand. There were no sales of securities during the three months ended June 30, 2019.

During the six months ended June 30, 2020, one US government agency matured at $2.5 million, thirteen mortgage-backed securities totaling $14.2 million were sold resulting in a net gain of $35 thousand, and two municipal bonds totaling $5.2 million were sold resulting in a net gain of $620 thousand. During the six months ended June 30, 2019, $900 thousand of one municipal bond was sold resulting in a net gain of $5 thousand.

Accrued interest receivable on available-for-sale securities totaled $2.0 million and $1.6 million at June 30, 2020 and December 31, 2019, respectively, and is included in other assets in the accompanying condensed consolidated balance sheets.

The following tables show debt securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

	Less Than 12 Months		12 Months or More		Total	
June 30, 2020	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 14,345	$ 41	$ 2,627	$ 24	$ 16,972	$ 65
Municipal bonds	—	—	94	6	94	6
Total	$ 14,345	$ 41	$ 2,721	$ 30	$ 17,066	$ 71

	Less Than 12 Months		12 Months or More		Total	
December 31, 2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 42,835	$ 460	$ 36,518	$ 467	$ 79,353	$ 927
Municipal bonds	—	—	92	8	92	8
Total	$ 42,835	$ 460	$ 36,610	$ 475	$ 79,445	$ 935

Management evaluates available-for-sale debt securities to determine whether the unrealized loss is due to credit related factors or non-credit related factors. The evaluation considers the extent to which the security's fair value is less than cost, the financial condition and near-term prospects of the issuer, and intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

At June 30, 2020, there were four mortgage-backed securities and one municipal bond in unrealized loss positions for greater than 12 months and five mortgage-backed securities in unrealized loss positions for less than 12 months. Unrealized losses at December 31, 2019 were comprised of twenty-two mortgage-backed securities and one municipal bond in unrealized loss positions for greater than 12 months and twenty mortgage-backed securities in unrealized loss positions for less than 12 months.

These unrealized losses are primarily the result of non-credit related volatility in the market and market interest rates. Since none of the unrealized losses relate to marketability of the securities or the issuer's ability to honor redemption obligations and the Company has the intent and ability to hold the securities for a sufficient period of time to recover unrealized losses, none of the losses have been recognized in the Company's consolidated statements of income.

All mortgage-backed securities in the Company's portfolio at June 30, 2020 and December 31, 2019 were backed by U.S. government sponsored enterprises ("GSEs").

The following is a summary of investment securities by maturity:

	June 30, 2020	
	Amortized cost	Fair value
US treasury securities		
Within one year	$ 4,997	$ 5,018
Total	4,997	5,018
US government agencies		
Within one year	9,503	9,644
One to five years	7,518	7,832
Five to ten years	2,921	3,118
Total	19,942	20,594
Mortgage-backed securities		
One to five years	2,501	2,709
Five to ten years	217,499	236,085
After 10 years	498,285	511,755
Total	718,285	750,549
Municipal bonds		
After 10 years	3,277	3,633
Total	3,277	3,633
Total	$ 746,501	$ 779,794

The table above reflects contractual maturities. Actual results will differ as the loans underlying the mortgage-backed securities may repay sooner than scheduled.

There were no securities pledged at June 30, 2020 or December 31, 2019.

Note 5. Loans and Leases Held for Investment and Credit Quality

As described in Note 1. Basis of Presentation, loan and lease classes were changed during the current period. Small Business Banking includes loans to customers in verticals that generally have traditional loan structures. Specialty Lending includes loans to customers in verticals that generally have atypical ownership structures as well as complex collateral arrangements, underwriting requirements, and servicing needs. Paycheck Protection Program includes all loans originated under the CARES Act's economic relief program and carry a 100% government guarantee.

The following tables present total loans and leases and an aging analysis for the Company's portfolio segments. Loans and leases are considered past due if the required principal and interest payments have not been received as of the date such payments were due.

	Current or Less than 30 Days Past Due	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Carried at Amortized Cost[1]	Loans Accounted for Under the Fair Value Option[2]	Total Loans and Leases
June 30, 2020							
Commercial & Industrial							
Small Business Banking	$ 405,176	$ 1,908	$ 4,028	$ 5,936	$ 411,112	$ 298,349	$ 709,461
Specialty Lending	208,564	437	155	592	209,156	70,612	279,768
Paycheck Protection Program	1,738,441	—	—	—	1,738,441	—	1,738,441
Total	**2,352,181**	**2,345**	**4,183**	**6,528**	**2,358,709**	**368,961**	**2,727,670**
Construction & Development							
Small Business Banking	250,479	—	—	—	250,479	—	250,479
Specialty Lending	61,577	3,715	—	3,715	65,292	—	65,292
Total	**312,056**	**3,715**	**—**	**3,715**	**315,771**	**—**	**315,771**
Commercial Real Estate							
Small Business Banking	666,543	—	8,089	8,089	674,632	331,152	1,005,784
Specialty Lending	192,690	5,525	1,849	7,374	200,064	24,006	224,070
Total	**859,233**	**5,525**	**9,938**	**15,463**	**874,696**	**355,158**	**1,229,854**
Commercial Land							
Small Business Banking	302,989	2,111	2,168	4,279	307,268	110,483	417,751
Total	**302,989**	**2,111**	**2,168**	**4,279**	**307,268**	**110,483**	**417,751**
Total	**$ 3,826,459**	**$ 13,696**	**$ 16,289**	**$ 29,985**	**$ 3,856,444**	**$ 834,602**	**$ 4,691,046**
Net Deferred (Fees) Costs							$ (40,990)
Loan and Leases, Net of unearned							**$ 4,650,056**

December 31, 2019	Current or Less than 30 Days Past Due	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Carried at Amortized Cost[1]	Loans Accounted for Under the Fair Value Option[2]	Total Loans and Leases
Commercial & Industrial							
Small Business Banking	$ 374,283	$ 7,363	$ 4,577	$ 11,940	$ 386,223	$ 275,269	$ 661,492
Specialty Lending	166,710	532	776	1,308	168,018	58,044	226,062
Total	**540,993**	**7,895**	**5,353**	**13,248**	**554,241**	**333,313**	**887,554**
Construction & Development							
Small Business Banking	302,470	—	—	—	302,470	—	302,470
Specialty Lending	44,848	—	—	—	44,848	—	44,848
Total	**347,318**	**—**	**—**	**—**	**347,318**	**—**	**347,318**
Commercial Real Estate							
Small Business Banking	525,858	7,210	5,586	12,796	538,654	358,359	897,013
Specialty Lending	121,191	1,849	—	1,849	123,040	27,291	150,331
Total	**647,049**	**9,059**	**5,586**	**14,645**	**661,694**	**385,650**	**1,047,344**
Commercial Land							
Small Business Banking	234,133	—	—	—	234,133	105,557	339,690
Total	**234,133**	**—**	**—**	**—**	**234,133**	**105,557**	**339,690**
Total	**$ 1,769,493**	**$ 16,954**	**$ 10,939**	**$ 27,893**	**$ 1,797,386**	**$ 824,520**	**$ 2,621,906**
Net Deferred (Fees) Costs							$ 5,380
Loan and Leases, Net of unearned							**$ 2,627,286**

1 Total loans and leases include $2.47 billion of U.S. government guaranteed loans as of June 30, 2020, of which $11.1 million is 90 days or more past due, $3.5 million is past due 30-89 days and $2.46 billion are current. Total loans and leases include $622.6 million of U.S. government guaranteed loans as of December 31, 2019, of which $6.4 million is 90 days or more past due, $13.6 million is past due 30-89 days and $602.6 million are current.

2 The Company measures the carrying value of the retained portion of loans sold at fair value under ASC Subtopic 825-10. See Note 9. Fair Value of Financial Instruments for additional information.

Credit Quality Indicators

The following tables presents asset quality indicators by portfolio class and origination year. See Note 5. Loans and Leases Held for Investment and Credit Quality in the Company's 2019 Form 10-K for additional discussion around the asset quality indicators that the Company uses to manage and monitor credit risk.

	Term Loans and Leases Amortized Cost Basis by Origination Year								
	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total[1,2]
June 30, 2020									
Small Business Banking									
Risk Grades 1 - 4	$ 152,493	$ 485,989	$ 316,738	$ 280,574	$ 178,817	$ 71,894	$ 32,064	$ 622	$ 1,519,191
Risk Grade 5	582	11,182	24,647	19,148	17,308	4,497	5,070	71	82,505
Risk Grades 6 - 8	—	3,270	7,619	12,389	7,929	9,972	442	175	41,796
Total	**153,075**	**500,441**	**349,004**	**312,111**	**204,054**	**86,363**	**37,576**	**868**	**1,643,492**
Specialty Lending									
Risk Grades 1 - 4	105,105	107,475	61,902	82,857	7,339	37,008	49,857	332	451,875
Risk Grade 5	—	—	2,946	—	8,479	—	480	—	11,905
Risk Grades 6 - 8	—	—	8,715	155	1,849	—	12	—	10,731
Total	**105,105**	**107,475**	**73,563**	**83,012**	**17,667**	**37,008**	**50,349**	**332**	**474,511**
Payroll Protection Program									
Risk Grades 1 - 4	1,738,441	—	—	—	—	—	—	—	1,738,441
Risk Grade 5	—	—	—	—	—	—	—	—	—
Risk Grades 6 - 8	—	—	—	—	—	—	—	—	—
Total	**1,738,441**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,738,441**
Total	**$ 1,996,621**	**$ 607,916**	**$ 422,567**	**$ 395,123**	**$ 221,721**	**$ 123,371**	**$ 87,925**	**$ 1,200**	**$ 3,856,444**

	Total[1,2]
December 31, 2019	
Small Business Banking	
Risk Grades 1 - 4	$ 1,361,220
Risk Grade 5	63,015
Risk Grades 6 - 8	37,249
Total	**1,461,484**
Specialty Lending	
Risk Grades 1 - 4	307,098
Risk Grade 5	26,497
Risk Grades 6 - 8	2,307
Total	**335,902**
Total	**$ 1,797,386**

1 Total loans and leases include $2.47 billion of U.S. government guaranteed loans as of June 30, 2020, segregated by risk grade as follows: Risk Grades 1 – 4 = $2.39 billion, Risk Grade 5 = $46.0 million, Risk Grades 6 – 8 = $33.0 million. As of December 31, 2019, total loans and leases include $622.6 million of U.S. government guaranteed loans, segregated by risk grade as follows: Risk Grades 1 – 4 = $556.8 million, Risk Grade 5 = $42.7 million, Risk Grades 6 – 8 = $23.1 million. Total loans and leases exclude loans accounted for under the fair value option.

2 Excludes $834.6 million and $824.5 million of loans accounted for under the fair value option as of June 30, 2020 and December 31, 2019, respectively.

Nonaccrual Loans and Leases

As of June 30, 2020 and December 31, 2019 there were no loans greater than 90 days past due and still accruing. There was no interest income recognized on nonaccrual loans and leases during the three and six month periods ended June 30, 2020 or June 30, 2019. All nonaccrual loans and leases are included in the held for investment portfolio. Accrued interest receivable on loans totaled $27.2 million and $19.8 million at June 30, 2020 and December 31, 2019, respectively, and is included in other assets in the accompanying condensed consolidated balance sheets.

Nonaccrual loans and leases as of June 30, 2020 and December 31, 2019 are as follows:

June 30, 2020	Loan Balance[1]	Guaranteed Balance	Unguaranteed Balance	Unguaranteed Exposure with No ACL
Commercial & Industrial				
Small Business Banking	$ 13,777	$ 11,844	$ 1,933	$ —
Specialty Lending	155	155	—	—
Total	**13,932**	**11,999**	**1,933**	**—**
Construction & Development				
Specialty Lending	3,715	—	3,715	3,715
Total	**3,715**	**—**	**3,715**	**3,715**
Commercial Real Estate				
Small Business Banking	11,501	6,654	4,847	1,841
Specialty Lending	6,849	5,137	1,712	—
Total	**18,350**	**11,791**	**6,559**	**1,841**
Commercial Land				
Small Business Banking	4,278	3,363	915	32
Total	**4,278**	**3,363**	**915**	**32**
Total	**$ 40,275**	**$ 27,153**	**$ 13,122**	**$ 5,588**

December 31, 2019	Loan Balance[1]	Guaranteed Balance	Unguaranteed Balance
Commercial & Industrial			
Small Business Banking	$ 6,162	$ 5,399	$ 763
Specialty Lending	776	157	619
Total	**6,938**	**5,556**	**1,382**
Commercial Real Estate			
Small Business Banking	8,245	4,130	4,115
Total	**8,245**	**4,130**	**4,115**
Commercial Land			
Small Business Banking	6,756	5,028	1,728
Total	**6,756**	**5,028**	**1,728**
Total	**$ 21,939**	**$ 14,714**	**$ 7,225**

1 Excludes nonaccrual loans accounted for under the fair value option. See Note 9. Fair Value of Financial Instruments for additional information.

The following table presents the amortized cost basis of collateral-dependent loans and leases, which are individually evaluated to determine expected credit losses, as of June 30, 2020:

	Total Collateral Dependent Loans			Unguaranteed Portion			
June 30, 2020	Real Estate	Business Assets	Other	Real Estate	Business Assets	Other	Allowance for Credit Losses
Commercial & Industrial							
Small Business Banking	$ 2,468	$ 5,401	$ 207	$ 572	$ 136	$ 75	$ 161
Specialty Lending	—	163	—	—	8	—	8
Total	**2,468**	**5,564**	**207**	**572**	**144**	**75**	**169**
Commercial Real Estate							
Small Business Banking	8,857	—	—	3,457	—	—	183
Specialty Lending	1,869	—	—	483	—	—	3
Total	**10,726**	**—**	**—**	**3,940**	**—**	**—**	**186**
Commercial Land							
Small Business Banking	4,299	—	—	934	—	—	314
Total	**4,299**	**—**	**—**	**934**	**—**	**—**	**314**
Total	**$ 17,493**	**$ 5,564**	**$ 207**	**$ 5,446**	**$ 144**	**$ 75**	**$ 669**

Allowance for Credit Losses - Loans and Leases

On January 1, 2020 the Company adopted ASC 326. Upon adoption, the Company maintains the ACL at levels management believes represents the future expected credit losses in the loan and lease portfolios as of the balance sheet date. See Note 1. Basis of Presentation for additional information around the Company's methodology for estimating the ACL. See Note 1. Organization and Summary of Significant Accounting Policies and Note 5. Loans and Leases Held for Investment and Credit Quality in the Company's 2019 Form 10-K for additional information related to the Company's methodology for estimating the prior period allowance for credit losses under ASC 310.

The following table details activity in the ACL by portfolio segment allowance for the periods presented:

Three Months Ended	Construction & Development	Commercial Real Estate	Commercial & Industrial	Commercial Land	Total
June 30, 2020					
Beginning Balance	$ 4,823	$ 13,110	$ 16,337	$ 1,636	$ 35,906
Charge offs	—	—	(1,825)	—	(1,825)
Recoveries	—	15	29	—	44
Provision	38	2,972	6,962	(14)	9,958
Ending Balance	$ 4,861	$ 16,097	$ 21,503	$ 1,622	$ 44,083
June 30, 2019					
Beginning Balance	$ 2,236	$ 5,379	$ 8,282	$ 1,653	$ 17,550
Charge offs	—	—	(145)	(24)	(169)
Recoveries	—	6	42	—	48
Provision	688	1,463	1,162	99	3,412
Ending Balance	$ 2,924	$ 6,848	$ 9,341	$ 1,728	$ 20,841

Six Months Ended	Construction & Development	Commercial Real Estate	Commercial & Industrial	Commercial Land	Total
June 30, 2020					
Beginning Balance, prior to adoption of ASC 326	$ 2,732	$ 8,427	$ 15,757	$ 1,318	$ 28,234
Impact of adopting ASC 326	1,131	1,916	(4,561)	193	(1,321)
Charge offs	—	(109)	(4,170)	(408)	(4,687)
Recoveries	—	43	64	—	107
Provision	998	5,820	14,413	519	21,750
Ending Balance	$ 4,861	$ 16,097	$ 21,503	$ 1,622	$ 44,083
June 30, 2019					
Beginning Balance	$ 2,042	$ 5,259	$ 6,524	$ 607	$ 14,432
Charge offs	—	—	(145)	(24)	(169)
Recoveries	—	14	121	—	135
Provision	882	1,575	2,841	1,145	6,443
Ending Balance	$ 2,924	$ 6,848	$ 9,341	$ 1,728	$ 20,841

During the three and six month periods ended June 30, 2020, increases to the ACL were primarily related to the severity of forecasted unemployment rates and ongoing developments as a result of the COVID-19 pandemic. Unemployment rates were forecasted for twelve months followed by a twelve-month straight-line reversion period. Additionally, the provision expense was impacted by loan and lease growth and net charge-offs during the period.

The following tables represent the types of TDRs that were made during the periods presented:

	Three Months Ended June 30, 2020					
	Extended Amortization		Payment Deferral		Total TDRs	
	Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end
Commercial & Industrial						
Small Business Banking	—	$ —	3	$ 439	3	$ 439
Total	**—**	**—**	**3**	**439**	**3**	**439**
Commercial Land						
Small Business Banking	1	4,921	—	—	1	4,921
Total	**1**	**4,921**	**—**	**—**	**1**	**4,921**
Total	**1**	**$ 4,921**	**3**	**$ 439**	**4**	**$ 5,360**

There were no TDRs modified during the three months ended June 30, 2019.

	Six Months Ended June 30, 2020					
	Extended Amortization		Payment Deferral		Total TDRs	
	Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end
Commercial & Industrial						
Small Business Banking	—	$ —	5	$ 1,882	5	$ 1,882
Specialty Lending	1	224	—	—	1	224
Total	**1**	**224**	**5**	**1,882**	**6**	**2,106**
Commercial Real Estate						
Small Business Banking	—	—	1	3,412	1	3,412
Total	**—**	**—**	**1**	**3,412**	**1**	**3,412**
Commercial Land						
Small Business Banking	1	4,921	—	—	1	4,921
Total	**1**	**4,921**	**—**	**—**	**1**	**4,921**
Total	**2**	**$ 5,145**	**6**	**$ 5,294**	**8**	**$ 10,439**

	Six Months Ended June 30, 2019					
	Extended Amortization		Payment Deferral		Total TDRs	
	Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end
Commercial Real Estate						
Small Business Banking	—	$ —	1	$ 1,853	1	$ 1,853
Total	**—**	**—**	**1**	**1,853**	**1**	**1,853**
Commercial Land						
Small Business Banking	1	3,475	—	—	1	3,475
Total	**1**	**3,475**	**—**	**—**	**1**	**3,475**
Total	**1**	**$ 3,475**	**1**	**$ 1,853**	**2**	**$ 5,328**

Concessions made to improve a loan or lease's performance have varying degrees of success. One TDR was modified within the twelve months ended June 30, 2020 and subsequently defaulted during the three and six months ended June 30, 2020. The TDR that defaulted was a Commercial & Industrial Small Business Banking loan that had been previously modified for payment deferral and had a recorded investment of $39 thousand at June 30, 2020. No TDRs that were modified within the twelve months ended June 30, 2019 subsequently defaulted during the three and six months ended June 30, 2019.

The following tables detail the recorded allowance for loan and lease losses and the investment in loans and leases related to each portfolio segment, disaggregated on the basis of impairment evaluation methodology:

December 31, 2019	Construction & Development	Commercial Real Estate	Commercial & Industrial	Commercial Land	Total[1,2]
Allowance for loan and lease losses:					
Loans and leases individually evaluated for impairment	$ 17	$ 2,067	$ 3,989	$ 748	$ 6,821
Loans and leases collectively evaluated for impairment	2,715	6,360	11,768	570	21,413
Total allowance for loan and lease losses	$ 2,732	$ 8,427	$ 15,757	$ 1,318	$ 28,234
Loans and leases receivable:					
Loans and leases individually evaluated for impairment	$ 719	$ 25,389	$ 14,052	$ 17,347	$ 57,507
Loans and leases collectively evaluated for impairment	346,599	636,305	540,189	216,786	1,739,879
Total loans and leases receivable	$ 347,318	$ 661,694	$ 554,241	$ 234,133	$ 1,797,386

1 As of December 31, 2019, loans and leases receivable includes $622.6 million of U.S. government guaranteed loans, of which $36.0 million are considered impaired.

2 Loans and leases receivable exclude $824.5 million of loans accounted for under the fair value option.

Loans and leases classified as impaired as of the dates presented are summarized in the following tables.

December 31, 2019	Recorded Investment	Guaranteed Balance	Unguaranteed Exposure
Commercial & Industrial			
Small Business Banking	$ 11,612	$ 7,841	$ 3,771
Specialty Lending	2,440	157	2,283
Total	**14,052**	**7,998**	**6,054**
Construction & Development			
Small Business Banking	719	530	189
Total	**719**	**530**	**189**
Commercial Real Estate			
Small Business Banking	23,473	13,198	10,275
Specialty Lending	1,916	1,387	529
Total	**25,389**	**14,585**	**10,804**
Commercial Land			
Small Business Banking	17,347	12,898	4,449
Total	**17,347**	**12,898**	**4,449**
Total	**$ 57,507**	**$ 36,011**	**$ 21,496**

The following table presents evaluated balances of loans and leases classified as impaired at the dates presented that carried an associated reserve as compared to those with no reserve. The recorded investment includes accrued interest and net deferred loan and lease fees or costs.

	December 31, 2019				
	Recorded Investment				
	With a Recorded Allowance	With No Recorded Allowance	Total	Unpaid Principal Balance	Related Allowance Recorded
Commercial & Industrial					
Small Business Banking	$ 11,607	$ 5	$ 11,612	$ 12,577	$ 1,967
Specialty Lending	2,440	—	2,440	2,307	2,022
Total	**14,047**	**5**	**14,052**	**14,884**	**3,989**
Construction & Development					
Small Business Banking	719	—	719	706	17
Total	**719**	**—**	**719**	**706**	**17**
Commercial Real Estate					
Small Business Banking	21,370	2,103	23,473	23,996	2,055
Specialty Lending	1,916	—	1,916	1,849	12
Total	**23,286**	**2,103**	**25,389**	**25,845**	**2,067**
Commercial Land					
Small Business Banking	17,347	—	17,347	17,399	748
Total	**17,347**	**—**	**17,347**	**17,399**	**748**
Total Impaired Loans and Leases	**$ 55,399**	**$ 2,108**	**$ 57,507**	**$ 58,834**	**$ 6,821**

The following table presents the average recorded investment of impaired loans and leases for each period presented and interest income recognized during the period in which the loans and leases were considered impaired.

	Three Months Ended June 30, 2019	
	Average Balance	**Interest Income Recognized**
Commercial & Industrial		
Small Business Banking	$ 7,135	$ 24
Specialty Lending	765	7
Total	**7,900**	**31**
Commercial Real Estate		
Small Business Banking	15,945	167
Specialty Lending	1,588	—
Total	**17,533**	**167**
Commercial Land		
Small Business Banking	18,940	236
Total	**18,940**	**236**
Total	**$ 44,373**	**$ 434**

	Six Months Ended June 30, 2019	
	Average Balance	**Interest Income Recognized**
Commercial & Industrial		
Small Business Banking	$ 7,196	$ 54
Specialty Lending	763	24
Total	**7,959**	**78**
Commercial Real Estate		
Small Business Banking	16,000	309
Specialty Lending	1,588	—
Total	**17,588**	**309**
Commercial Land		
Small Business Banking	19,000	432
Total	**19,000**	**432**
Total	**$ 44,547**	**$ 819**

Note 6. Leases

Lessor Equipment Leasing

The Company purchases new equipment for the purpose of leasing such equipment to customers within its verticals. Equipment purchased to fulfill commitments to commercial renewable energy projects is rented out under operating leases while leases of equipment outside of the renewable energy vertical are generally direct financing leases. Accordingly, leased assets under operating leases are included in premises and equipment while leased assets under direct financing leases are included in loans and leases held for investment.

Direct Financing Leases

Interest income on direct financing leases is recognized when earned. Unearned interest is recognized over the lease term on a basis which results in a constant rate of return on the unrecovered lease investment. The term of each lease is generally 3-7 years which is consistent with the useful life of the equipment with no residual value. The gross lease payments receivable and the net investment included in accounts receivable for such leases are as follows:

	June 30, 2020	December 31, 2019
Gross direct finance lease payments receivable	$ 12,452	$ 13,959
Less – unearned interest	(2,110)	(2,562)
Net investment in direct financing leases	$ 10,342	$ 11,397

Future minimum lease payments under finance leases are as follows:

As of June 30, 2020	Amount
2020	$ 1,606
2021	3,100
2022	2,675
2023	2,233
2024	1,591
Thereafter	1,247
Total	$ 12,452

Interest income of $212 thousand and $267 thousand was recognized in the three months ended June 30, 2020 and 2019, respectively. Interest income of $445 thousand and $501 thousand was recognized in the six months ended June 30, 2020 and 2019, respectively.

Operating Leases

The term of each operating lease is generally 10 to 15 years. The Company retains ownership of the equipment and associated tax benefits such as investment tax credits and accelerated depreciation. At the end of the lease term, the lessee has the option to renew the lease for two additional terms or purchase the equipment at the then current fair market value.

Rental revenue from operating leases is recognized on a straight-line basis over the term of the lease. Rental equipment is recorded at cost and depreciated to an estimated residual value on a straight-line basis over the estimated useful life. The useful lives generally range from 20 to 25 years and residual values generally range from 20% to 50%, however, they are subject to periodic evaluation. Changes in useful lives or residual values will impact depreciation expense and any gain or loss from the sale of used equipment. The estimated useful lives and residual values of the Company's leasing equipment are based on industry disposal experience and the Company's expectations for future sale prices.

If the Company decides to sell or otherwise dispose of rental equipment, it is carried at the lower of cost or fair value less costs to sell or dispose. Repair and maintenance costs that do not extend the lives of the rental equipment are charged to direct operating expenses at the time the costs are incurred.

As of June 30, 2020 and December 31, 2019, the Company had a net investment of $139.4 million and $144.3 million, respectively, in assets included in premises and equipment that are subject to operating leases. Of the net investment, the gross balance of the assets was $164.3 million as of June 30, 2020 and December 31, 2019 and accumulated depreciation was $24.9 million and $20.0 million as of June 30, 2020 and December 31, 2019, respectively. Depreciation expense recognized on these assets for the three months ended June 30, 2020 and 2019 was $2.4 million. Depreciation expense recognized on these assets for the six months ended June 30, 2020 and 2019 was $4.9 million and $4.8 million, respectively.

Lease income of $2.4 million was recognized in the three months ended June 30, 2020 and 2019. Lease income of $4.8 million and $4.7 million was recognized in the six months ended June 30, 2020 and 2019, respectively.

A maturity analysis of future minimum lease payments under non-cancelable operating leases is as follows:

As of June 30, 2020	Amount
2020	$ 4,010
2021	9,052
2022	9,044
2023	9,075
2024	8,808
Thereafter	40,110
Total	$ 80,099

Note 7. Servicing Assets

Loans serviced for others are not included in the accompanying condensed consolidated balance sheets. The unpaid principal balances of loans serviced for others requiring recognition of a servicing asset were $2.25 billion and $2.26 billion at June 30, 2020 and December 31, 2019, respectively. The unpaid principal balance for all loans serviced for others was $3.07 billion and $2.97 billion at June 30, 2020 and December 31, 2019, respectively.

The following summarizes the activity pertaining to servicing rights:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Balance at beginning of period	$ 33,532	$ 44,324	$ 35,365	$ 47,641
Additions, net	1,873	608	4,732	1,331
Fair value changes:				
Due to changes in valuation inputs or assumptions	(123)	260	(2,162)	(489)
Decay due to increases in principal paydowns or runoff	(1,448)	(3,505)	(4,101)	(6,796)
Balance at end of period	$ 33,834	$ 41,687	$ 33,834	$ 41,687

The fair value of servicing rights was determined using a weighted average discount rate of 13.4% on June 30, 2020 and 2019. The fair value of servicing rights was determined using a weighted average prepayment speed of 18.7% on June 30, 2020 and 14.1% on June 30, 2019, depending on the stratification of the specific right. Changes to fair value are reported in loan servicing asset revaluation within the consolidated statements of income.

The fair value of servicing rights is highly sensitive to changes in underlying assumptions. Changes in prepayment speed assumptions typically 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 results in a decrease in the fair value of servicing assets, however, weakening economic conditions or significant declines in interest rates can also increase loan prepayment activity. Measurement of fair value is limited to the conditions existing and the assumptions used as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different time.

Note 8. Borrowings

Total outstanding borrowings consisted of the following:

Borrowings	**June 30, 2020**	**December 31, 2019**
In 2019, the Company renewed a revolving line of credit issued in 2017. The line of credit is unsecured and accrues interest at 30-day LIBOR plus 1.15% for a term of 13 months. Payments are interest only with all principal and accrued interest due on October 20, 2020. The terms of this loan require the Company to maintain minimum capital and debt service coverage ratios. The $50.0 million line of credit was fully advanced at March 31, 2020. The Company made a principal paydown of $45.0 million on May 28, 2020 and there is $45.0 million of available credit at June 30, 2020.	$ 5,000	$ —
In April 2020, the Company entered into the Federal Reserve Bank's Paycheck Protection Program Liquidity Facility ("PPPLF"). Under the PPPLF, advances must be secured by pledges of loans to small businesses originated by the Company under the U.S. Small Business Administration's 7(a) loan program titled the Paycheck Protection Program. The PPPLF accrues interest at thirty-five basis points and matures at various dates equal to the maturity date of the PPPLF collateral pledged to secure the advance, ranging from April 1, 2022 to June 24, 2022, and will be accelerated on and to the extent of any 7(a) loan forgiveness reimbursement by the SBA for any PPPLF collateral or the date of purchase by the SBA from the borrower of any PPPLF collateral. On the maturity date of each advance, the Company shall repay the advance plus accrued interest. This $1.72 billion borrowing was fully advanced at June 30, 2020.	1,716,018	—
In October 2017, the Company entered into a financing lease of $19 thousand with an unaffiliated equipment lease company, secured by fitness equipment which is included in other assets on the consolidated balance sheet. Payments are principal and interest due monthly starting December 15, 2017 over a term of 60 months. At the end of the lease term there is a $1.00 bargain purchase option. As of January 1, 2019, this borrowing was revised in accordance with ASU 2016-02.	11	14
Total borrowings	$ 1,721,029	$ 14

The Company may purchase federal funds through unsecured federal funds lines of credit with various correspondent banks, which totaled $72.5 million as of June 30, 2020 and December 31, 2019. These lines are intended for short-term borrowings and are subject to restrictions limiting the frequency and terms of advances. These lines of credit are payable on demand and bear interest based upon the daily federal funds rate. The Company had no outstanding balances on the lines of credit as of June 30, 2020 and December 31, 2019.

The Company has entered into a repurchase agreement with a third party for $5.0 million as of June 30, 2020 and December 31, 2019. At the time the Company enters into a transaction with the third party, the Company must transfer securities or other assets against the funds received. The terms of the agreement are set at market conditions at the time the Company enters into such transaction. The Company had no outstanding balance on the repurchase agreement as of June 30, 2020 and December 31, 2019.

On June 18, 2018, the Company entered into a borrowing agreement with the Federal Home Loan Bank of Atlanta. These borrowings must be secured with eligible collateral approved by the Federal Home Loan Bank of Atlanta. At June 30, 2020 and December 31, 2019, the Company had approximately $1.30 billion and $1.14 billion, respectively, in borrowing capacity available under these agreements. There is no collateral pledged and no advances outstanding as of June 30, 2020 and December 31, 2019.

The Company may borrow funds through the Federal Reserve Bank’s discount window. These borrowings are secured by a blanket floating lien on qualifying loans with a balance of $1.40 billion and $526.8 million as of June 30, 2020 and December 31, 2019, respectively. At June 30, 2020 and December 31, 2019, the Company had approximately $1.03 billion and $294.5 million, respectively, in borrowing capacity available under these arrangements with no outstanding balance as of June 30, 2020 and December 31, 2019.

Note 9. Fair Value of Financial Instruments

Fair Value Hierarchy

There are three levels of inputs in the fair value hierarchy that may be used to measure fair value. Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

Recurring Fair Value

The following sections provide a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the fair value hierarchy:

Investment securities: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, discounted cash flow or at net asset value per share. Level 2 securities would include U.S. government agency securities, mortgage-backed securities, obligations of states and political subdivisions and certain corporate, asset backed mutual fund and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Loans held for sale: The fair values of loans held for sale are determined by discounting estimated cash flows using interest rates approximating prevailing market rates for similar loans adjusted to reflect the inherent credit risk.

Loans held for investment: The fair values of loans held for investment are typically determined based on discounted cash flow analyses using market-based interest rate spreads. Discounted cash flow analyses are adjusted, as appropriate, to reflect current market conditions and borrower-specific credit risk. If the loan is collateral dependent, the fair value is determined based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. Fair value of the loan’s collateral is determined by appraisals, independent valuation, or management’s estimation of fair value which is then adjusted for the cost related to liquidation of the collateral.

Servicing assets: Servicing rights do not trade in an active, open market with readily observable prices. While sales of servicing rights do occur, the precise terms and conditions typically are not readily available. Accordingly, the Company estimates the fair value of servicing rights using discounted cash flow models incorporating numerous assumptions from the perspective of a market participant including servicing income, servicing costs, market discount rates and prepayment speeds. Due to the nature of the valuation inputs, servicing rights are classified within Level 3 of the valuation hierarchy.

Mutual fund: The following mutual fund is registered with the Securities and Exchange Commission as a closed-end, non-diversified management investment company and operates as an interval fund. The fund primarily invests in the unguaranteed portion of SBA504 First Lien Loans secured by owner-occupied commercial real estate. This investment is valued using quoted prices in markets that are not active and is classified as Level 2 within the valuation hierarchy.

Equity warrant assets: Fair value measurements of equity warrant assets of private companies are priced based on a Black-Scholes option pricing model to estimate the asset value by using stated strike prices, option expiration dates, risk-free interest rates and option volatility assumptions. Option volatility assumptions used in the Black-Scholes model are based on public companies that operate in similar industries as the companies in the Company's private company portfolio. Option expiration dates are modified to account for estimates to actual life relative to stated expiration. Values are further adjusted for a general lack of liquidity due to the private nature of the associated underlying company. The Company classifies equity warrant assets within Level 3 of the valuation hierarchy.

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis.

June 30, 2020	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
US treasury securities	$ 5,018	$ —	$ 5,018	$ —
US government agencies	20,594	—	20,594	—
Mortgage-backed securities	750,549	—	750,549	—
Municipal bonds[1]	3,633	—	3,539	94
Loans held for sale	32,071	—	—	32,071
Loans held for investment	834,602	—	—	834,602
Servicing assets[2]	33,834	—	—	33,834
Mutual fund	2,303	—	2,303	—
Equity warrant assets[3]	855	—	—	855
Total assets at fair value	$ 1,683,459	$ —	$ 782,003	$ 901,456

December 31, 2019	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
US treasury securities	$ 5,015	$ —	$ 5,015	$ —
US government agencies	22,779	—	22,779	—
Mortgage-backed securities	503,297	—	503,297	—
Municipal bonds[1]	8,954	—	8,862	92
Loans held for sale	16,198	—	—	16,198
Loans held for investment	824,520	—	—	824,520
Servicing assets[2]	35,365	—	—	35,365
Mutual fund	2,206	—	2,206	—
Equity warrant assets[3]	570	—	—	570
Total assets at fair value	$ 1,418,904	$ —	$ 542,159	$ 876,745

1 During the three and six months ended June 30, 2020, the Company recorded a fair value adjustment gain of $1 thousand and $2 thousand, respectively. During the six months ended June 30, 2019, the Company sold $900 thousand of a municipal bond to a third party and recorded a fair value adjustment loss of $7 thousand. During the three months ended June 30, 2019, the Company recorded no fair value adjustment.

2 See Note 7 for a rollforward of recurring Level 3 fair values for servicing assets.

3 During the six months ended June 30 ,2020, the Company entered into equity warrant assets with a fair value of $179 thousand at the time of issuance and recorded net gains on derivative instruments of $106 thousand. During the three months ended June 30, 2020, the Company entered into equity warrant assets with a fair value of $15 thousand at the time of issuance and recorded net gains on derivative instruments of $138 thousand. During the six months ended June 30, 2019, the Company recorded net gains on derivative instruments of $193 thousand. During the three months ended June 30, 2019, the Company recorded net losses on derivative instruments of $62 thousand.

Fair Value Option

The Company elects to account for retained participating interests of government guaranteed loans under the fair value option in order to align the accounting presentation with the Company's viewpoint of the economics of the loans. Interest income on loans accounted for under the fair value option is recognized in loans and fees on loans on the Company's consolidated statements of income. There were no loans accounted for under the fair value option that were 90 days or more past due and still accruing interest at June 30, 2020 or December 31, 2019. The unpaid principal balance of unguaranteed exposure for nonaccruals was $8.5 million and $10.7 million at June 30, 2020 and December 31, 2019, respectively.

The following tables provide more information about the fair value carrying amount and the unpaid principal outstanding of loans accounted for under the fair value option at June 30, 2020 and December 31, 2019.

	June 30, 2020								
	Total Loans			Nonaccruals			90 Days or More Past Due		
Fair Value Option Elections	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference
Loans held for sale	$ 32,071	$ 34,424	$ (2,353)	$ —	$ —	$ —	$ —	$ —	$ —
Loans held for investment	834,602	862,735	(28,133)	46,221	50,536	(4,315)	27,312	29,435	(2,123)
	$ 866,673	$ 897,159	$ (30,486)	$ 46,221	$ 50,536	$ (4,315)	$ 27,312	$ 29,435	$ (2,123)

	December 31, 2019								
	Total Loans			Nonaccruals			90 Days or More Past Due		
Fair Value Option Elections	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference
Loans held for sale	$ 16,198	$ 17,230	$ (1,032)	$ —	$ —	$ —	$ —	$ —	$ —
Loans held for investment	824,520	842,456	(17,936)	49,739	54,370	(4,631)	26,644	28,137	(1,493)
	$ 840,718	$ 859,686	$ (18,968)	$ 49,739	$ 54,370	$ (4,631)	$ 26,644	$ 28,137	$ (1,493)

The following table presents the net gains (losses) from changes in fair value.

	Three Months Ended June 30,		Six Months Ended June 30,	
Gains (Losses) on Loans Accounted for under the Fair Value Option	2020	2019	2020	2019
Loans held for sale	$ (106)	$ 822	$ 14	$ 471
Loans held for investment	(983)	1,969	(11,741)	4,403
	$ (1,089)	$ 2,791	$ (11,727)	$ 4,874

Losses related to borrower-specific credit risk were $913 thousand and $1.8 million for the three and six months ended June 30, 2020, respectively, and $1.1 million and $1.7 million for the three and six months ended June 30, 2019, respectively.

The following tables summarize the activity pertaining to loans accounted for under the fair value option.

	Three Months Ended June 30,		Six Months Ended June 30,	
Loans held for sale	2020	2019	2020	2019
Balance at beginning of period	$ 19,151	$ 25,293	$ 16,198	$ 17,745
Issuances	13,154	6,207	16,199	19,842
Fair value changes	(106)	822	14	471
Sales	—	(5,644)	—	(11,344)
Settlements	(128)	(75)	(340)	(111)
Balance at end of period	$ 32,071	$ 26,603	$ 32,071	$ 26,603

	Three Months Ended June 30,		Six Months Ended June 30,	
Loans held for investment	**2020**	**2019**	**2020**	**2019**
Balance at beginning of period	$ 831,426	$ 868,654	$ 824,520	$ 885,527
Issuances	37,761	24,413	99,372	54,521
Fair value changes	(983)	1,969	(11,741)	4,403
Settlements	(33,602)	(55,956)	(77,549)	(105,371)
Balance at end of period	$ 834,602	$ 839,080	$ 834,602	$ 839,080

Non-recurring Fair Value

The following sections provide a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis, as well as the general classification of such instruments pursuant to the fair value hierarchy:

Collateral dependent loans: Loans are considered collateral dependent when the Company has determined that foreclosure of the collateral is probable or when a borrower is experiencing financial difficulty and the loan is expected to be repaid substantially through the operation or sale of collateral. A collateral dependent loan’s ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. Fair value of the loan’s collateral is determined by appraisals, independent valuation, or management’s estimation of fair value which is then adjusted for the cost related to liquidation of the collateral. Collateral dependent loans are generally classified as Level 3 based on management’s judgment and estimation.

Foreclosed assets: Foreclosed real estate is adjusted to fair value less selling costs upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed real estate is carried at the lower of carrying value or fair value less selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management’s estimation of the value of the collateral. Given the lack of observable market prices for identical properties and market discounts applied to appraised values, the Company generally classifies foreclosed assets as nonrecurring Level 3.

Equity security investment with a non-readily determinable fair value: The following equity security investment is measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. When an observable price change in an orderly transaction occurs, the investment is classified as nonrecurring Level 1 within the valuation hierarchy.

The tables below present the recorded amount of assets and liabilities measured at fair value on a non-recurring basis.

June 30, 2020	**Total**	**Level 1**	**Level 2**	**Level 3**
Collateral dependent loans	$ 2,056	$ —	$ —	$ 2,056
Foreclosed assets	5,660	—	—	5,660
Total assets at fair value	$ 7,716	$ —	$ —	$ 7,716

December 31, 2019	**Total**	**Level 1**	**Level 2**	**Level 3**
Collateral dependent loans	$ 1,245	$ —	$ —	$ 1,245
Foreclosed assets	5,612	—	—	5,612
Equity security investment with a non-readily determinable fair value	8,738	8,738	—	—
Total assets at fair value	$ 15,595	$ 8,738	$ —	$ 6,857

Level 3 Analysis

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of June 30, 2020 and December 31, 2019 the significant unobservable inputs used in the fair value measurements were as follows:

June 30, 2020

Level 3 Assets with Significant Unobservable Inputs	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Recurring fair value				
Municipal bond	$ 94	Discounted expected cash flows	Discount rate Prepayment speed	4.1% 5.0%
Loans held for sale	$ 32,071	Discounted expected cash flows	Discount rate Prepayment speed	5.1% to 21.1% WAVG 18.6%
Loans held for investment	$ 834,602	Discounted expected cash flows Discounted appraisals	Loss rate Discount rate Prepayment speed Appraisal adjustments	0.0% to 74.2% (WAVG 1.8%) 5.1% to 21.1% WAVG 18.6% 10% to 45%
Equity warrant assets	$ 855	Black-Scholes option pricing model	Volatility Risk-free interest rate Marketability discount Remaining life	25.8 to 84.9% 0.66% 20.0% 5-10 years
Non-recurring fair value				
Collateral dependent loans	$ 2,056	Discounted appraisals	Appraisal adjustments (1)	10.0% to 55.0%
Foreclosed assets	$ 5,660	Discounted appraisals	Appraisal adjustments (1)	4.0% to 14.5%

December 31, 2019

Level 3 Assets with Significant Unobservable Inputs	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Recurring fair value				
Municipal bond	$ 92	Discounted expected cash flows	Discount rate Prepayment speed	4.6% 5.0%
Loans held for sale	$ 16,198	Discounted expected cash flows	Discount rate Prepayment speed	7.7% to 21.4% WAVG 13.1%
Loans held for investment	$ 824,520	Discounted expected cash flows Discounted appraisals	Loss rate Discount rate Prepayment speed Appraisal adjustments	0.0% to 10.9% (WAVG 1.3%) 7.7% to 21.4% WAVG 13.1% 10.0% to 70.0%
Equity warrant assets	$ 570	Black-Scholes option pricing model	Volatility Risk-free interest rate Marketability discount Remaining life	21.0-75.0% 1.90% 20.0% 8-10 years
Non-recurring fair value				
Collateral dependent loans	$ 1,245	Discounted appraisals	Appraisal adjustments (1)	10.0% to 57.0%
Foreclosed assets	$ 5,612	Discounted appraisals	Appraisal adjustments (1)	10.0% to 37.0%

(1) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.

Estimated Fair Value of Other Financial Instruments

GAAP also requires disclosure of the fair value of financial instruments carried at book value on the consolidated balance sheets.

The carrying amounts and estimated fair values of the Company's financial instruments not measured at fair value on a recurring or non-recurring basis are as follows:

June 30, 2020	Carrying Amount	Quoted Price In Active Markets for Identical Assets /Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets					
Cash and due from banks	$ 1,256,958	$ 1,256,958	$ —	$ —	$ 1,256,958
Federal funds sold	91,188	91,188	—	—	91,188
Certificates of deposit with other banks	7,250	7,753	—	—	7,753
Loans held for sale	944,523	—	—	1,022,635	1,022,635
Loans and leases, net of allowance for credit losses on loans and leases	3,771,371	—	—	3,928,595	3,928,595
Financial liabilities					
Deposits	5,873,292	—	5,935,529	—	5,935,529
Borrowings	1,721,029	—	—	1,718,449	1,718,449

December 31, 2019	Carrying Amount	Quoted Price In Active Markets for Identical Assets /Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Financial assets					
Cash and due from banks	$ 124,610	$ 124,610	$ —	$ —	$ 124,610
Federal funds sold	96,787	96,787	—	—	96,787
Certificates of deposit with other banks	7,250	7,568	—	—	7,568
Loans held for sale	950,249	—	—	1,004,135	1,004,135
Loans and leases, net of allowance for credit losses on loans and leases	1,774,532	—	—	1,822,569	1,822,569
Financial liabilities					
Deposits	4,226,980	—	4,211,522	—	4,211,522
Borrowings	14	—	—	14	14

Note 10. Commitments and Contingencies

Litigation

In the normal course of business the Company is involved in various legal proceedings. Management believes that the outcome of such proceedings will not materially affect the financial position, results of operations or cash flows of the Company.

Financial Instruments with Off-balance-sheet Risk

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. These instruments involve, to varying degrees, credit risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as for on-balance-sheet instruments. A summary of the Company's commitments is as follows:

	June 30, 2020	December 31, 2019
Commitments to extend credit	$ 1,575,314	$ 1,834,449
Standby letters of credit	26,997	25,532
Total unfunded off-balance-sheet credit risk	$ 1,602,311	$ 1,859,981

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 amounts do 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 party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties. In 2012, the Company began issuing commitment letters after approval of the loan by the Credit Department. Commitment letters generally expire ninety days after issuance.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary.

As of June 30, 2020 and December 31, 2019, the Company had unfunded commitments to provide capital contributions for on-balance-sheet investments in the amount of $16.8 million and $16.9 million, respectively.

Concentrations of Credit Risk

Although the Company is not subject to any geographic concentrations, a substantial amount of the Company's loans, leases, and commitments to extend credit have been granted to customers in the agriculture, healthcare and veterinary verticals. The concentrations of credit by type of loan are set forth in Note 5. The distribution of commitments to extend credit approximates the distribution of loans outstanding. The Company does not have a significant number of credits to any single borrower or group of related borrowers whereby their retained unguaranteed exposure exceeds $7.5 million, except for 34 relationships that have a retained unguaranteed exposure of $422.3 million of which $248.4 million of the unguaranteed exposure has been disbursed.

Additionally, the Company has future minimum lease payments due under non-cancelable operating leases totaling $80.1 million, of which $57.4 million is due from four relationships.

The Company from time-to-time may have cash and cash equivalents on deposit with financial institutions that exceed federally-insured limits.

Note 11. Stock Plans

On March 20, 2015, the Company adopted the 2015 Omnibus Stock Incentive Plan which replaced the previously existing Amended Incentive Stock Option Plan and Nonstatutory Stock Option Plan. Subsequently on May 24, 2016, the 2015 Omnibus Stock Incentive Plan was amended to authorize awards covering a maximum of 7,000,000 common voting shares and has an expiration date of March 20, 2025. On May 15, 2018, the Amended and Restated 2015 Omnibus Stock Incentive Plan was amended to authorize awards covering a maximum of 8,750,000 common voting shares. Options or restricted shares granted under the Amended and Restated 2015 Omnibus Stock Incentive Plan (the "Plan") expire no more than 10 years from the date of grant. Exercise prices under the Plan are set by the Board of Directors at the date of grant, but shall not be less than 100% of fair market value of the related stock at the date of the grant. Options vest over a minimum of three years from the date of the grant. Restricted stock grants vest in equal installments ranging from immediate vesting to over a seven year period from the date of the grant. Market Restricted Stock Units also have a restriction based on the passage of time and non-market-related performance criteria, but also have a restriction based on market price criteria related to the Company’s share price closing at or above a specified price defined at time of grant.

Stock Options

There were no stock options granted during the three and six months ended June 30, 2020.

At June 30, 2020, unrecognized compensation costs relating to stock options amounted to $3.2 million which will be recognized over a weighted average period of 2.11 years.

Restricted Stock

Restricted stock awards are authorized in the form of restricted stock awards or units ("RSU"s) and restricted stock awards or units with a market price condition ("Market RSU"s).

RSUs have a restriction based on the passage of time and may also have a restriction based on a non-market-related performance criteria. The fair value of the RSUs is based on the closing price on the date of the grant.

Market RSUs also have a restriction based on the passage of time and non-market-related performance criteria, but also have a restriction based on market price criteria related to the Company’s share price closing at or above a specified price ranging from $34.00 to $55.00 per share for at least twenty (20) consecutive trading days at any time prior to expiration date. The amount of Market RSUs earned will not exceed 100% of the Market RSUs awarded. The fair value of the Market RSUs and the implied service period is calculated using the Monte Carlo simulation method.

For the three months ended June 30, 2020, 58,348 RSUs were granted with a weighted average grant date fair value of $12.52. For the six months ended June 30, 2020, 541,679 RSUs were granted with a weighted average grant date fair value of $17.39. Of the RSUs granted in the six month period, 447,273 were awarded in connection with annual long term incentive stock compensation.

At June 30, 2020, unrecognized compensation costs relating to RSUs amounted to $15.9 million which will be recognized over a weighted average period of 4.61 years.

There were no Market RSUs granted during the three and six months ended June 30, 2020.

At June 30, 2020, unrecognized compensation costs relating to Market RSUs amounted to $8.0 million which will be recognized over a weighted average period of 2.91 years.

Note 12. Significant Equity Method Investments

In accordance with Rule 10-01(b)(1) of Regulation S-X, the Company must assess whether any of its equity method investments are significant equity method investments. In evaluating the significance of these investments, the Company performed the income test and the investment test described in S-X 3-05 and S-X 1-02(w). Rule 10-01(b)(1) of Regulation S-X requires summarized financial information in a quarterly report if any of the two tests exceeds 20%. Under the income test, the Company's proportionate share of its equity method investees' aggregated net losses exceeded the applicable threshold of 20% and is accordingly required to provide summarized financial information for these investees for all periods presented in this Form 10-Q.

The following table provides summarized balance sheet information for the Company's equity method investments as of June 30, 2020 and December 31, 2019. The Company's equity method investments are included in the other assets line on the condensed consolidated balance sheets and are largely concentrated in new or emerging financial service technology companies.

	June 30, 2020	December 31, 2019
Balance sheet data		
Current assets	$ 47,724	$ 56,710
Noncurrent assets	175,022	162,304
Total assets	$ 222,746	$ 219,014
Current liabilities	$ 22,698	$ 19,910
Noncurrent liabilities	451	683
Total liabilities	23,149	20,593
Equity interests	199,597	198,421
Total liabilities and equity	$ 222,746	$ 219,014

The following table provides summarized income statement information for the Company's equity method investments for the three and six months ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Summary of operations				
Total revenues	$ 16,180	$ 13,851	$ 31,972	$ 27,240
Net loss	(13,053)	(6,100)	(29,486)	(13,220)

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following presents management’s discussion and analysis of the financial condition and results of operations of Live Oak Bancshares, Inc. (the “Company” or “LOB”). This discussion should be read in conjunction with the financial statements and related notes included elsewhere in this quarterly report on Form 10-Q and with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "2019 Annual Report"). Results of operations for the periods included in this quarterly report on Form 10-Q are not necessarily indicative of results to be obtained during any future period.

Important Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains statements that management believes are forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. These statements generally relate to the Company’s financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking terminology, such as “believes,” “expects,” or “are expected to,” “plans,” “projects,” “goals,” “estimates,” “will,” “may,” “should,” “could,” “would,” “continues,” “intends to,” “outlook” or “anticipates,” or variations of these and similar words, or by discussions of strategies that involve risks and uncertainties. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including but not limited to, those described in this quarterly report on Form 10-Q. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements management may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information actually known to the Company at the time. Management undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Forward-looking statements contained in this quarterly report on Form 10-Q are based on current expectations, estimates and projections about the Company’s business, management’s beliefs and assumptions made by management. These statements are not guarantees of the Company’s future performance and involve certain risks, uncertainties and assumptions, 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 the Company’s 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 the status of Live Oak Banking Company (the "Bank") as an SBA Preferred Lender;
- changes in rules, regulations or procedures for other government loan programs, including those of the USDA;
- 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;
- the potential impacts of the Coronavirus Disease 2019 (COVID-19) pandemic on trade (including supply chains and export levels), travel, employee productivity and other economic activities that may have a destabilizing and negative effect on financial markets, economic activity and customer behavior;
- a reduction in or the termination of the Company’s ability to use the technology-based platform that is critical to the success of the Company’s business model or to develop a next-generation banking platform, including a failure in or a breach of the Company’s 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 the Company conducts operations, including reductions in rates of business formation and growth, demand for the Company’s 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 the Company's 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;
- the Company's 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 or USDA 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 and various state agencies;
- the Company's ability to comply with any requirements imposed on it by regulators, and the potential negative consequences that may result;
- operational, compliance and other factors, including conditions in local areas in which the Company conducts 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 the Company or the Bank may from time to time be a party, including management's ability to successfully integrate any businesses acquired;
- other risk factors listed from time to time in reports that the Company files with the SEC, including in the Company's 2019 Annual Report; and
- the Company's success at managing the risks involved in the foregoing.

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. All forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any statement, to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

Amounts in all tables in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") have been presented in thousands, except percentage, time period, stock option, share and per share data or where otherwise indicated.

Nature of Operations

LOB is a bank holding company headquartered in Wilmington, North Carolina incorporated under the laws of North Carolina in December 2008. The Company conducts business operations primarily through its commercial bank subsidiary, Live Oak Banking Company (the "Bank"). The Bank was incorporated in February 2008 as a North Carolina-chartered commercial bank. The Bank specializes in providing lending services to small businesses nationwide. The Bank identifies and grows within selected industry sectors, or verticals, by leveraging expertise within those industries, and more broadly to select borrowers outside of those industries. A significant portion of the loans originated by the Bank are guaranteed by the SBA under the 7(a) Loan Program and the U.S. Department of Agriculture ("USDA") Rural Energy for America Program ("REAP"), Water and Environmental Program ("WEP") and Business & Industry ("B&I") loan programs.

Effective July 29, 2016, the Company elected to become a "financial holding company" within the meaning of the Bank Holding Company Act. A financial holding company, and the nonbank companies under its control, are permitted to engage in activities considered financial in nature or incidental to financial activities. For the Company to become and remain eligible for financial holding company status, it and the Bank must meet certain criteria, including capital, management and Community Reinvestment Act ("CRA") requirements. The failure to meet such criteria could, depending on which requirements were not met, result in the Company facing restrictions on new financial activities or acquisitions or being required to discontinue existing activities that are not otherwise permissible for bank holding companies.

In 2018, the Company formed Canapi Advisors, LLC for the purpose of providing investment advisory services to a series of new funds focused on providing venture capital to new and emerging financial technology companies. In 2019, Live Oak Clean Energy Financing LLC ("LOCEF") became a subsidiary of the Bank. LOCEF was formed in November 2016 as a subsidiary of the Company for the purpose of providing financing to entities for renewable energy applications. In 2018, the Bank formed Live Oak Private Wealth, LLC, a registered investment advisor that provides high-net-worth individuals and families with strategic wealth and investment management services, and on April 1, 2020, it acquired Jolley Asset Management, LLC to broaden service offerings for existing high-net-worth individuals and families, attract new clients from an expanded footprint and benefit from economies of scale. In 2017, the Bank entered into a joint venture, Apiture LLC ("Apiture"), with First Data Corporation for the purpose of creating next generation technology for financial institutions. In addition to the Bank, the Company owns Live Oak Ventures, Inc., formed in August 2016 for the purpose of investing in businesses that align with the Company's strategic initiative to be a leader in financial technology; Live Oak Grove, LLC, formed in February 2015 for the purpose of providing Company employees and business visitors an on-site restaurant location; and Government Loan Solutions, Inc. ("GLS"), a management and technology consulting firm that specializes in the settlement, accounting, and securitization processes for government guaranteed loans, including loans originated under the SBA 7(a) loan program and USDA-guaranteed loans. In 2019, 504 Fund Advisors, LLC ("504FA") exited as the advisor to The 504 Fund, and the Company dissolved this legal entity.

The Company generates revenue primarily from net interest income and secondarily through origination and sale of government guaranteed loans. Income from the retention of loans is comprised principally of interest income. The Company elects to account for certain loans under the fair value option with interest reported in interest income and changes in fair value reported in the net (loss) gain on loans accounted for under the fair value option line item of the consolidated statements of income. Income from the sale of loans is comprised of loan servicing revenue and revaluation of related servicing assets along with net gains on sales of loans. Offsetting these revenues are the cost of funding sources, provision for loan and lease credit losses, any costs related to foreclosed assets and other operating costs such as salaries and employee benefits, travel, professional services, advertising and marketing and tax expense.

Recent Developments

The COVID-19 pandemic in the United States continues to have a complex and significant adverse impact on the economy, the banking industry and the Company, all subject to a high degree of uncertainty. While it is still not possible to know the full universe or extent of these impacts as of the date of this filing, we are disclosing potentially material items of which we are currently aware.

Financial position and results of operations

Relating to our June 30, 2020 financial condition and results of operations, COVID-19 had a significant impact on the allowance for credit losses ("ACL") on loans and leases, loans carried at fair value, loan servicing asset revaluation, net gains on sales of loans and net interest income. While the Company has not yet experienced any charge-offs related to COVID-19, the ACL and loan fair value calculation and resulting provision for loan and lease credit losses and net loss on loans accounted for under the fair value option were significantly impacted by changes in forecasted economic conditions. Given that forecasted economic scenarios continued to be negative with substantial uncertainty since the pandemic was declared in early March combined with effects surfacing in certain pandemic-at-risk verticals and the risk that payments being made by the SBA for borrowers under its programs may be skewing actual indications of ability to repay, the need for additional credit related reserves increased significantly by the end of the second quarter. Refer to the discussion of the ACL and loans at fair value in Notes 5 and 9, respectively, of the unaudited condensed consolidated financial statements as well as further discussion below in MD&A. Also impacted by deteriorating market conditions was the Company's valuation of the loan servicing asset as discussed in Note 7 of the unaudited condensed consolidated financial statements and net gains on sales of loans, both of which are further discussed below in MD&A. The secondary market improved at the end of the second quarter which offset earlier negative COVID-19 adjustments for loans carried at fair value and the loan servicing asset valuation. In the second quarter the net interest margin was negatively impacted by significant rate cuts in response to stimulus efforts combined with heightened levels of liquidity at the Company as a part of pandemic preparedness, while the Paycheck Protection Program (the "PPP") lending had a positive impact on net interest margin, as discussed more fully below in MD&A. Should economic conditions worsen, the Company could experience further increases in the required ACL and negative fair value marks and record additional credit or market related loss expense. It is also possible that the Company's asset quality measures could worsen at future measurement periods if the effects of COVID-19 are prolonged.

While there are current signs of recovery in the secondary market pricing, the income from gain on sale of loans in future periods could be reduced due to COVID-19. Impacts began to be felt in the latter part of March and early April with loan sales executed at that time as secondary markets conditions began to weaken. At this time, the Company is unable to project the materiality of such an impact but recognizes the breadth of the economic impact is likely to impact gains in future periods.

Interest income could be further reduced due to COVID-19. In keeping with guidance from banking regulators, the Company has and continues to actively work with COVID-19 affected borrowers to help defer their payments, interest, and fees. In addition to regulatory relief on deferrals from banking regulators, six months of payment relief are also available from the SBA for certain loans guaranteed by that agency. While interest and fees will still accrue to interest, should eventual credit losses on these loans with deferred payments emerge, interest income and fees accrued would need to be reversed. In such a scenario, interest income in future periods could be negatively impacted. At this time, we are unable to project the materiality of such an impact, but recognize the breadth of the economic impact may affect our borrowers' ability to repay in future periods.

Capital and liquidity

As of June 30, 2020, all of the Company's capital ratios, and the Bank's capital ratios, were in excess of all regulatory requirements. While the Company believes that capital is sufficient to withstand an extended economic recession brought about by COVID-19, reported and regulatory capital ratios could be adversely impacted by further credit losses. The Company relies on cash on hand as well as dividends from the Bank to service any debt at the Company. If our capital deteriorates such that the Bank is unable to pay dividends to the Company for an extended period of time, the Company may not be able to service its debt.

The Company maintains access to multiple sources of liquidity. Wholesale funding markets have remained open to the Company, but rates for short term funding have recently been volatile and the secondary market for guaranteed loans has shown reactionary and varying responses to the changing economic environment. In addition to increased levels of loan sales, the Company also increased its levels of deposits and borrowings in the first half of the year, as discussed further in MD&A. If funding costs are elevated for an extended period of time, it could have an adverse effect on the Company's net interest margin. If an extended recession causes large numbers of the Company's deposit customers to withdraw their funds, the Company might become more reliant on volatile or more expensive sources of funding.

The Federal Reserve has created the Paycheck Protection Program Liquidity Facility ("PPPLF") to help provide financing for the origination of PPP loans. The PPPLF extends loans to banks that have loaned money to small businesses under the PPP, discussed in more detail below. Amounts borrowed are non-recourse and have a 100% advance rate equal to the principal amount of PPP loans pledged as security. In addition, loans financed under the PPPLF have a neutral impact on regulatory leverage capital ratios. The maturity date of a borrowing under the PPPLF is equal to the maturity date of the PPP loan pledged to secure the borrowing and would be accelerated (i) if the underlying PPP loan goes into default and is transferred to the SBA to realize on the SBA guarantee or (ii) to the extent that any loan forgiveness reimbursement is received from the SBA. Borrowings under the PPPLF bear interest at a rate of 0.35%, and there are no fees paid by the Company. As of June 30, 2020, the Company had borrowed $1.72 billion from the PPPLF.

Lending operations and accommodations to borrowers

With the passage of the PPP, administered by the SBA, the Company has actively interpreted and implemented new loan programs and systems using its technology platform while participating in assisting its customers and other small businesses in need of resources through the program. PPP loans earn interest at 1% and currently have a two-year or five-year contractual term depending on the origination date. For the earlier loans with a two-year term there is an option to extend to five years if requested by the borrower and approved by the lender. The Company expects that some portion of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. As of June 30, 2020, the Company has secured funding from the SBA for 10,847 PPP loans representing $1.74 billion in originations. Loans funded through the PPP are fully guaranteed by the SBA, subject to the terms and conditions of the program. Should those circumstances change, the Company could be required to record additional credit loss expense through earnings.

With the passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on March 27, 2020, the SBA will be making six months of principal and interest payments on all fully disbursed SBA 7(a) and SBA Express loans in regular servicing status that close by September 27, 2020. In addition, with regulatory guidance to work with borrowers during this unprecedented situation, the Company has also mobilized to provide a payment deferral program when needed by customers that are adversely affected by the pandemic. Depending on the demonstrated need of the client, the Company is deferring either the full loan payment or the principal component of the loan payment for 60 or 90 days. In accordance with interagency guidance issued in March 2020, these short-term deferrals are not considered troubled debt restructurings. At June 30, 2020 the Company estimated that as a percentage to total loans and leases at amortized cost, excluding PPP, 60% of its loans were receiving the six months of payments from the SBA and that 9% of its loans had a payment deferral in place.

On June 5, 2020, the Paycheck Protection Program Flexibility Act (the "new Act") was signed into law, and made significant changes to the PPP to provide additional relief for small businesses. The new Act increased flexibility for small businesses that have been unable to rehire employees due to lack of employee availability, or have been unable to operate as normal due to COVID-19 related restrictions. It extended the period that businesses have to use PPP funds to qualify for loan forgiveness to 24 weeks, up from 8 weeks under the original rules. The new Act also relaxed the requirements that loan recipients must adhere to in order to qualify for loan forgiveness. In addition, the new Act extended the payment deferral period for PPP loans until the date when the amount of loan forgiveness is determined and remitted to the lender. For PPP recipients who do not apply for forgiveness, the loan deferral period is 10 months after the applicable forgiveness period ends.

Credit

While all industries have and will continue to experience adverse impacts as a result of COVID-19, the Company has exposures in the following verticals considered to be "at-risk" of significant impact as of June 30, 2020: hotels, wine and craft beverage, educational services, entertainment centers, fitness centers, and quick service restaurants each comprising $178.9 million or 8.1%, $101.6 million or 4.6%, $80.4 million or 3.6%, $56.8 million or 2.6%, $22.8 million or 1.0%, and $12.3 million or 0.6% of total unguaranteed loans and leases (all at amortized cost, inclusive of loans carried at fair value), respectively.

The Company continues to work with customers directly affected by COVID-19 and is prepared to offer short-term assistance in accordance with regulatory guidelines. As a result of the uncertain economic environment caused by COVID-19, the Company is engaging in more frequent communication with borrowers to better understand their situation and the challenges faced and circumstances evolve, which the Company anticipates will allow it to respond proactively as needs and issues arise.

Results of Operations

Performance Summary

Three months ended June 30, 2020 compared with three months ended June 30, 2019

For the three months ended June 30, 2020, the Company reported net earnings of $3.8 million, or $0.09 per diluted share, compared to net earnings of $4.9 million, or $0.12 per diluted share, for the second quarter of 2019. This decrease in net income was largely due to continued risks and uncertainties related to the COVID-19 pandemic with significant impacts to the Company's credit reserves and fair value adjustments, as outlined below:

- The provision for loan and lease credit losses increased $6.5 million, or 191.9%; and

- The net loss on loans accounted for under the fair value option increased $3.8 million, or 139.0%.

Outside of the continued effects of COVID-19, which was intensified by the adoption of new current expected credit losses model ("CECL") in the first quarter of 2020, salaries and employee benefits increased $8.8 million, or 40.0%, as the Company continued to invest in its workforce to support growth and a variety of initiatives including $7.2 million in expense for a performance bonus pool that was available to all employees other than executive officers.

The primary factors partially offsetting the decrease in net income for the three months ended June 30, 2020 were:

- Increase in net interest income of $7.0 million, or 20.5%, predominately driven by significant growth in total loan and lease portfolios which was accentuated by the origination of $1.74 billion in PPP loans during the second quarter of 2020;

- Net gains on sales of loans increased $4.7 million, or 77.8%, due largely to a higher volume of loans sold in the second quarter of 2020. The volume in guaranteed loan sales in the second quarter of 2020 increased to $154.5 million, in line with the Company's balance sheet strategy, compared to $71.9 million in the second quarter of 2019; and

- Other noninterest income increased $3.6 million, or 410.0%, primarily as the result of $2.5 million in revenue resulting from the sale of services from co-developed technology for processing PPP loans.

Six months ended June 30, 2020 compared with six months ended June 30, 2019

For the six months ended June 30, 2020, the Company reported a net loss of $3.8 million, or $(0.10) per diluted share, as compared to net earnings of $7.3 million, or $0.18 per diluted share, for the six months ended June 30, 2019. This decrease in net income was largely the due to continuation of the above-mentioned risks and uncertainties related to the COVID-19 pandemic during the first half of 2020, as reflected below:

- The provision for loan and lease credit losses increased $15.3 million, or 237.6%; and

- The net loss on loans accounted for under the fair value option increased $16.6 million, or 340.6%.

Outside of COVID-19 effects on the first half of 2020, salaries and employee benefits increased $15.0 million, or 34.2%, as the Company continued to invest in its workforce to support growth and a variety of initiatives, as discussed more fully above.

The primary factors partially offsetting the net loss for the six months ended June 30, 2020 were:

- Increase in net interest income of $16.5 million, or 25.6%, predominately driven by significant growth in total loan and lease portfolios which was accentuated by the origination of $1.74 billion in PPP loans during the second quarter of 2020;

- Net gains on sales of loans increased $11.6 million, or 113.5% largely due to higher sale volumes in the first quarter to strengthen the Company's capital and liquidity profile in preparation for pandemic uncertainties. The volume in guaranteed loan sales in the first half of 2020 increased to $317.3 million compared to $134.9 million in the first half of 2019;

- Other noninterest income increased $2.7 million, or 79.3%, primarily as the result of $2.5 million in revenue resulting from the sale of services from co-developed technology for processing PPP loans; and

- Income tax benefit increased $7.3 million primarily as a result of a $3.7 million estimated benefit related to the enactment of the CARES Act which allows the carryback of certain net operating losses for five years combined with the Company's overall net pretax loss in the first half of 2020.

Net Interest Income and Margin

Net interest income represents the difference between the income that the Company earns on interest-earning assets and the cost it incurs on interest-bearing liabilities. The Company's net interest income depends upon the volume of interest-earning assets and interest-bearing liabilities and the interest rates that the Company earns or pays on them, respectively. Net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as "volume changes." It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds, referred to as "rate changes." As a bank without a branch network, the Bank gathers deposits over the Internet and in the community in which it is headquartered. Due to the nature of a branchless bank and the relatively low overhead required for deposit gathering, the rates that the Bank offers are generally above the industry average.

Three months ended June 30, 2020 compared with three months ended June 30, 2019

For the three months ended June 30, 2020, net interest income increased $7.0 million, or 20.5%, to $40.9 million compared to $33.9 million for the three months ended June 30, 2019. The increase was principally due to the significant growth in the held for investment loan and lease portfolio reflecting the Company's ongoing initiative to grow recurring revenue sources and strengthen liquidity. This increase over the prior year was primarily a product of the aforementioned origination of $1.74 billion in PPP loans in the second quarter of 2020 with $8.7 million in interest income coming from recognition of net deferred fees combined with a 1% annualized interest rate. Accordingly, average interest earning assets increased by $2.73 billion, or 74.6%, to $6.40 billion for the three months ended June 30, 2020, compared to $3.66 billion for the three months ended June 30, 2019, while the yield on average interest earning assets decreased 185 basis points to 4.19%. The cost of funds on interest bearing liabilities for the three months ended June 30, 2020 decreased 76 basis points to 1.65%, and the average balance of interest bearing liabilities increased by $2.78 billion, or 78.8%, over the same period in 2019. The increase in average interest bearing liabilities was largely driven by strategically heightened levels of liquidity related to COVID-19 risks and uncertainties and funding for PPP loans. As indicated in the rate/volume table below, increased interest earning asset volume more than offset lower yields outpacing the higher volume and lower levels of cost declines for interest bearing liabilities, resulting in increased interest income of $11.7 million and increased interest expense of $4.7 million for the three months ended June 30, 2020 compared to the three months ended June 30, 2019. For the three months ended June 30, 2019 compared to the three months ended June 30, 2020, net interest margin decreased from 3.71% to 2.56%, respectively, principally due to the Company's interest earning assets repricing more rapidly from lower fed funds rates than its interest bearing liabilities, combined with above mentioned impacts of PPP related activities and heightened liquidity.

Six Months Ended June 30, 2020 compared with six months ended June 30, 2019

For the six months ended June 30, 2020, net interest income increased $16.5 million, or 25.6%, to $81.1 million compared to $64.5 million for the six months ended June 30, 2019. This increase was principally due to the significant growth in the combined held for sale and held for investment loan and lease portfolios along with higher investment security holdings reflecting the Company's ongoing initiative to grow recurring revenue sources and strengthen liquidity. This increase over the first half of 2019 was also enhanced by the above mentioned origination of PPP loans in the second quarter. Accordingly, average interest earning assets increased by $1.93 billion, or 54.7%, to $5.47 billion for the six months ended June 30, 2020, compared to $3.53 billion for the six months ended June 30, 2019, while the yield on average interest earning assets decreased 122 basis points to 4.78%. The cost of funds on interest bearing liabilities for the six months ended June 30, 2020 decreased 54 basis points to 1.85%, and the average balance of interest bearing liabilities increased by $1.93 billion, or 56.5%, over the same period in 2019. The increase in average interest bearing liabilities was also largely impacted by strategically heightened levels of liquidity in the first half of 2020 related to COVID-19 risks and uncertainties and funding sources for PPP loans. As indicated in the rate/volume table below, the increase in interest earning assets and corresponding yields outpaced the higher volume and decreased cost of interest bearing liabilities, resulting in increased interest income of $25.2 million and increased interest expense of $8.7 million for the six months ended June 30, 2020 compared to the six months ended June 30, 2019. For the six months ended June 30, 2019 compared to the six months ended June 30, 2020, net interest margin decreased from 3.68% to 2.97%, respectively, principally due to lower fed funds rates impacting the yield on interest earning assets more rapidly than the cost of interest bearing liabilities in the first half of 2020, combined with the above mentioned impacts of PPP related activities and heightened levels of liquidity.

Average Balances and Yields. The following table presents information regarding average balances for assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amount of interest expense on average interest-bearing liabilities, and the resulting average yields and costs. The yields and costs for the periods indicated are derived by dividing the income or expense by the average balances for assets or liabilities, respectively, for the periods presented and annualizing that result. Loan fees are included in interest income on loans.

	Three Months Ended June 30,					
	2020			2019		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Interest earning assets:						
Federal funds sold and interest earning balances in other banks	$ 711,916	$ 1,009	0.57%	$ 184,986	$ 1,108	2.40%
Investment securities	556,014	3,786	2.73	566,159	4,116	2.92
Loans held for sale	921,956	13,115	5.71	839,724	14,333	6.85
Loans and leases held for investment(1)	4,208,109	48,907	4.66	2,073,297	35,581	6.88
Total interest earning assets	6,397,995	66,817	4.19	3,664,166	55,138	6.04
Less: Allowance for credit losses on loans and leases	(35,875)			(19,196)		
Non-interest earning assets	603,610			472,529		
Total assets	$ 6,965,730			$ 4,117,499		
Interest bearing liabilities:						
Interest bearing checking	$ 462,977	$ 646	0.56%	$ —	$ —	—%
Savings	1,398,378	4,814	1.38	989,512	5,235	2.12
Money market accounts	82,908	89	0.43	85,982	161	0.75
Certificates of deposit	3,689,041	19,572	2.13	2,452,159	15,807	2.59
Total deposits	5,633,304	25,121	1.79	3,527,653	21,203	2.41
Borrowings	676,849	798	0.47	1,409	—	—
Total interest bearing liabilities	6,310,153	25,919	1.65	3,529,062	21,203	2.41
Non-interest bearing deposits	41,218			49,466		
Non-interest bearing liabilities	50,554			26,580		
Shareholders' equity	563,805			512,391		
Total liabilities and shareholders' equity	$ 6,965,730			$ 4,117,499		
Net interest income and interest rate spread		$ 40,898	2.54%		$ 33,935	3.63%
Net interest margin			2.56%			3.71%
Ratio of average interest-earning assets to average interest-bearing liabilities			101.39%			103.83%

(1) Average loan and lease balances include non-accruing loans and leases.

	Six Months Ended June 30,					
	2020			2019		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Interest earning assets:						
Federal funds sold and interest earning balances in other banks	$ 470,901	$ 1,759	0.75%	$ 233,904	$ 2,747	2.37%
Investment securities	546,110	7,548	2.77	514,038	7,433	2.92
Loans held for sale	963,359	28,980	6.03	794,919	26,934	6.83
Loans and leases held for investment(1)	3,485,135	92,003	5.29	1,990,054	67,946	6.89
Total interest earning assets	5,465,505	130,290	4.78	3,532,915	105,060	6.00
Less: Allowance for credit losses on loans and leases	(31,439)			(17,600)		
Non-interest earning assets	555,469			473,512		
Total assets	$ 5,989,535			$ 3,988,827		
Interest bearing liabilities:						
Interest bearing checking	$ 231,489	$ 646	0.56%	$ 84	$ —	—%
Savings	1,261,131	9,658	1.54	958,716	10,021	2.11
Money market accounts	80,265	189	0.47	84,648	269	0.64
Certificates of deposit	3,425,850	37,883	2.22	2,367,902	30,230	2.57
Total deposits	4,998,735	48,376	1.94	3,411,350	40,520	2.40
Borrowings	342,002	855	0.50	1,436	—	—
Total interest bearing liabilities	5,340,737	49,231	1.85	3,412,786	40,520	2.39
Non-interest bearing deposits	45,071			47,294		
Non-interest bearing liabilities	52,024			20,548		
Shareholders' equity	551,703			508,199		
Total liabilities and shareholders' equity	$ 5,989,535			$ 3,988,827		
Net interest income and interest rate spread		$ 81,059	2.93%		$ 64,540	3.61%
Net interest margin			2.97%			3.68%
Ratio of average interest-earning assets to average interest-bearing liabilities			102.34%			103.52%

(1) Average loan and lease balances include non-accruing loans and leases.

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior columns. For purposes of this table, increases or decreases attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume.

	Three Months Ended June 30, 2020 vs. 2019 Increase (Decrease) Due to			Six Months Ended June 30, 2020 vs. 2019 Increase (Decrease) Due to		
	Rate	Volume	Total	Rate	Volume	Total
Interest income:						
Federal funds sold and interest earning balances in other banks	$ (2,050)	$ 1,951	$ (99)	$ (2,822)	$ 1,834	$ (988)
Investment securities	(259)	(71)	(330)	(339)	454	115
Loans held for sale	(2,505)	1,287	(1,218)	(3,341)	5,387	2,046
Loans and leases held for investment	(17,398)	30,724	13,326	(21,200)	45,257	24,057
Total interest income	(22,212)	33,891	11,679	(27,702)	52,932	25,230
Interest expense:						
Interest bearing checking	—	646	646	—	646	646
Savings	(2,206)	1,785	(421)	(3,101)	2,738	(363)
Money market accounts	(67)	(5)	(72)	(68)	(12)	(80)
Certificates of deposit	(3,503)	7,268	3,765	(4,950)	12,603	7,653
Borrowings	2	796	798	4	851	855
Total interest expense	(5,774)	10,490	4,716	(8,115)	16,826	8,711
Net interest income	$ (16,438)	$ 23,401	$ 6,963	$ (19,587)	$ 36,106	$ 16,519

Provision for Loan and Lease Credit Losses

The provision for loan and lease credit losses represents the amount necessary to be charged against the current period's earnings to maintain the allowance for credit losses ("ACL") on loans and leases at a level that is appropriate in relation to the estimated losses inherent in the loan and lease portfolio.

Losses inherent in loan relationships are mitigated if a portion of the loan is guaranteed by the SBA or USDA. A typical SBA 7(a) loan carries a 75% guarantee while USDA guarantees range from 50% to 90% depending on loan size, which serve to reduce the risk profile of these loans. The Company believes that its focus on compliance with regulations and guidance from the SBA and USDA are key factors to managing this risk.

For the second quarter of 2020, the provision for loan and lease credit losses was $10.0 million compared to $3.4 million for the same period in 2019, an increase of $6.5 million. For the first half of 2020, the provision for loan and lease credit losses was $21.8 million compared to $6.4 million for the same period in 2019, an increase of $15.3 million. The Company adopted the new current expected credit losses ("CECL") standard effective January 1, 2020 and accordingly determined to use forecasted levels of unemployment as a primary economic variable in forecasting future expected losses. The majority of the provision for the second quarter of 2020 was due to the effects of the COVID-19 pandemic, while approximately $15.5 million of the first half of 2020 provision was estimated to be based upon the severity of ongoing developments resulting from the COVID-19 pandemic.

Loans and leases held for investment at historical cost were $3.82 billion as of June 30, 2020, increasing by $2.45 billion, or 178.7%, compared to June 30, 2019. This growth was largely fueled by $1.74 billion in PPP loan originations in the second quarter of 2020. Excluding PPP loan originations and net unearned fees on those loans, the balance in loans and leases held for investment at historical cost was $2.13 billion at June 30, 2020, an increase of $758.2 million, or 55.4%, over June 30, 2019. This growth, outside of PPP activity in the second quarter of 2020, was fueled by continued origination volumes combined with retention of substantially more loans on the balance sheet.

Net charge-offs for loans and leases carried at historical cost were $1.8 million, or 0.21% of average quarterly loans and leases held for investment, carried at historical cost, on an annualized basis, for the three months ended June 30, 2020, compared to $121 thousand, or 0.04%, for the three months ended June 30, 2019. Net charge-offs for loans and leases carried at historical cost for the second quarter of 2020 was 0.25% of average quarterly loans and leases held for investment, excluding PPP loans, on an annualized basis. For the six months ended June 30, 2020, net charge-offs totaled $4.6 million compared to $34 thousand for the six months ended June 30, 2019, an increase of $4.5 million, or 13,370.6%. The increase in net charge-offs largely consisted of a number of loans in the Government Contracting, Healthcare, Family Entertainment, and Independent Pharmacies verticals. Net charge-offs are a key element of historical experience in the Company's estimation of the allowance for credit losses on loans and leases.

In addition, nonperforming loans and leases not guaranteed by the SBA or USDA, excluding $6.4 million and $7.7 million accounted for under the fair value option at June 30, 2020 and 2019, respectively, totaled $13.1 million, which was 0.34% of the held for investment loan and lease portfolio carried at historical cost at June 30, 2020, compared to $6.5 million, or 0.48% of loans and leases held for investment at June 30, 2019. Nonperforming loans and leases carried at historical cost which are not guaranteed by the SBA or USDA were 0.62% of the historical cost portion of the held for investment loan and lease portfolio, excluding PPP loans, at June 30, 2020.

Noninterest Income

Noninterest income is principally comprised of net gains from the sale of SBA and USDA-guaranteed loans along with loan servicing revenue and related revaluation of the servicing asset. Revenue from the sale of loans depends upon the volume, maturity structure and rates of underlying loans as well as the pricing and availability of funds in the secondary markets prevailing in the period between completed loan funding and closing of sale. In addition, the loan servicing revaluation is significantly impacted by changes in market rates and other underlying assumptions such as prepayment speeds and default rates. Net (loss) gain on loans accounted for under the fair value option is also significantly impacted by changes in market rates, prepayment speeds and inherent credit risk. Other less common elements of noninterest income include nonrecurring gains and losses on investments.

The following table shows the components of noninterest income and the dollar and percentage changes for the periods presented.

	Three Months Ended June 30,		2020/2019 Increase (Decrease)	
	2020	2019	Amount	Percent
Noninterest income				
Loan servicing revenue	$ 6,691	$ 7,063	$ (372)	(5.27)%
Loan servicing asset revaluation	(1,571)	(3,245)	1,674	51.59
Net gains on sales of loans	10,695	6,015	4,680	77.81
Net (loss) gain on loans accounted for under the fair value option	(1,089)	2,791	(3,880)	(139.02)
Equity method investments income (loss)	(2,243)	(1,736)	(507)	29.21
Equity security investments gains (losses), net	161	32	129	403.13
Gain on sale of investment securities available-for-sale, net	734	—	734	100.00
Lease income	2,635	2,369	266	11.23
Management fee income	1,206	91	1,115	1,225.27
Construction supervision fee income	684	386	298	77.20
Other noninterest income	4,508	884	3,624	409.95
Total noninterest income	**$ 22,411**	**$ 14,650**	**$ 7,761**	**52.98%**

	Six Months Ended June 30,		2020/2019 Increase (Decrease)	
	2020	2019	Amount	Percent
Noninterest income				
Loan servicing revenue	$ 13,113	$ 14,473	$ (1,360)	(9.40)%
Loan servicing asset revaluation	(6,263)	(7,285)	1,022	14.03
Net gains on sales of loans	21,807	10,213	11,594	113.52
Net (loss) gain on loans accounted for under the fair value option	(11,727)	4,874	(16,601)	(340.60)
Equity method investments income (loss)	(4,721)	(3,750)	(971)	25.89
Equity security investments gains (losses), net	97	135	(38)	(28.15)
Gain on sale of investment securities available-for-sale, net	655	5	650	13,000.00
Lease income	5,259	4,694	565	12.04
Management fee income	2,850	91	2,759	3,031.87
Construction supervision fee income	1,074	1,165	(91)	(7.81)
Other noninterest income	6,009	3,351	2,658	79.32
Total noninterest income	**$ 28,153**	**$ 27,966**	**$ 187**	**0.67%**

For the three months ended June 30, 2020, noninterest income increased by $7.8 million, or 53.0%, compared to the three months ended June 30, 2019. The increase from the prior year is primarily the result of the aforementioned increase in net gains on sales of loans combined with a $3.6 million increase in other noninterest income largely comprised of $2.5 million in revenue resulting from the sale of services from co-developed technology for processing PPP loans. Other items contributing to the increase in noninterest income were a lower net loss on the loan servicing asset revaluation of $1.7 million and management fee income earned by Canapi Advisors, the Company’s investment advisor subsidiary, increasing by $1.1 million. Offsetting the increases in noninterest income for the second quarter of 2020 was the aforementioned net negative valuation adjustment related to loans measured at fair value which increased by $3.9 million.

For the six months ended June 30, 2020, noninterest income increased by $187 thousand, or 0.7%, compared to the six months ended June 30, 2019. The slight increase from the prior year is also primarily the result of the aforementioned increase in net gains on sales of loans combined with a $2.7 million increase in other noninterest income largely comprised of $2.5 million in revenue resulting from the sale of services from co-developed technology for processing PPP loans. Other items contributing to the increase in noninterest income were a lower net loss on the loan servicing asset revaluation of $1.0 million and management fee income earned by Canapi Advisors, the Company’s investment advisor subsidiary, increasing by $2.8 million. Offsetting the increases in noninterest income for the first half of 2020 was the aforementioned net negative valuation adjustment related to loans measured at fair value which increased by $16.6 million and decreased loan servicing revenue of $1.4 million.

The following table reflects loan and lease production, sales of guaranteed loans and the aggregate balance in guaranteed loans sold. These components are key drivers of the Company's noninterest income.

	Three months ended June 30,		Three months ended March 31,	
	2020	2019	2020	2019
Amount of loans and leases originated	$ 2,175,055	$ 525,088	$ 500,634	$ 390,851
Guaranteed portions of loans sold	154,980	71,934	162,297	62,940
Outstanding balance of guaranteed loans sold (1)	2,840,429	2,870,108	2,761,015	2,952,774

	Six Months Ended June 30,		For years ended December 31,			
	2020	2019	2019	2018	2017	2016
Amount of loans and leases originated	$ 2,675,689	$ 915,939	$ 2,001,886	$ 1,765,680	$ 1,934,238	$ 1,537,010
Guaranteed portions of loans sold	317,277	134,874	340,374	945,178	787,926	761,933
Outstanding balance of guaranteed loans sold (1)	2,840,429	2,870,108	2,746,840	3,045,460	2,680,641	2,278,618

(1) This represents the outstanding principal balance of guaranteed loans serviced, as of the last day of the applicable period, which have been sold into the secondary market.

Changes in various components of noninterest income are discussed in more detail below.

Loan Servicing Revenue: While portions of the loans that the Bank originates are sold and generate gain on sale revenue, servicing rights for those sold portions are retained by the Bank. In exchange for continuing to service sold loans, the Bank receives fee income represented in loan servicing revenue equivalent to 1.0% of the outstanding balance of SBA loans sold and 0.40% of the outstanding balance of USDA loans sold. In addition, the standard cost (adequate compensation) for servicing sold loans is approximately 0.40% of the balance of the loans sold, which is included in the loan servicing revaluation computations. Unrecognized servicing revenue above the standard cost to service is reflected in a servicing asset recorded on the balance sheet. Revenues associated with the servicing of loans are recognized over the expected life of the loan through the income statement, and the servicing asset is reduced as this revenue is recognized. For the quarter ended June 30, 2020, loan servicing revenue decreased $372 thousand, or 5.27%, to $6.7 million as compared to the quarter ended June 30, 2019. For the six months ended June 30, 2020, loan servicing revenue decreased $1.4 million, or 9.4% to $13.1 million as compared to the six months ended June 30, 2019. The lower servicing revenue for the second quarter and first half of 2020 has been a result of the declining balance of the serviced portfolio. At June 30, 2020, the outstanding balance of guaranteed loans sold in the secondary market was $2.84 billion compared to $2.87 billion at June 30, 2019.

Loan Servicing Revaluation: The Company revalues its serviced loan portfolio at least quarterly. The revaluation considers the amortization of the portfolio, current market conditions for loan sale premiums, and current prepayment speeds. For the three months ended June 30, 2020, there was a net negative loan servicing revaluation adjustment of $1.6 million compared to a net negative adjustment of $3.2 million for the three months ended June 30, 2019. For the six months ended June 30, 2020, there was a net negative loan servicing revaluation adjustment of $6.3 million compared to a net negative adjustment of $7.3 million for the six months ended June 30, 2019.The lower revaluation amount for the second quarter and first half of 2020 as compared to the corresponding period of 2019 was primarily a result of improving market conditions.

Net Gains on Sale of Loans: For the three months ended June 30, 2020, net gains on sales of loans increased $4.7 million, or 77.8%, compared to the three months ended June 30, 2019. For the three months ended June 30, 2020, the volume of guaranteed loans sold increased $83.0 million, or 115.4%, to $155.0 million from $71.9 million for the three months ended June 30, 2019. For the six months ended June 30, 2020, net gains on sales of loans increased $11.6 million, or 113.5%, compared to the six months ended June 30, 2019. For the six months ended June 30, 2020, the volume of guaranteed loans sold increased $182.4 million, or 135.2%, to $317.3 million from $134.9 million for the six months ended June 30, 2019. The average net gain on guaranteed loan sales decreased from $80.1 thousand to $66.8 thousand, per million sold, in the second quarters of 2019 and 2020, respectively, and decreased from $71.3 thousand to $65.2 thousand, per million sold, in the first half of 2019 and 2020, respectively. With this overall decrease in market value due to loan sales earlier in the second quarter combined with the mix of loan sales, the increase in net gains on sales of loans in the second quarter and second half of 2020 is due to a higher volume of loans sold. Secondary market values continued to recover as the second quarter of 2020 progressed. The volume of sales in the first quarter of 2020 was heightened to strengthen the Company’s capital and liquidity profile in light of uncertain market conditions while the second quarter of 2020 sales volume is in-line with the Company’s balance sheet strategy. Also enhancing the increase in net gains on sale of loans in the second quarter of 2020 are $1.1 million in decreased losses from fair value changes in exchange-traded interest rate futures contracts. This decrease in volatility of exchange-traded interest rate futures contracts was the product of the Company preemptively exiting such contracts in the first quarter.

Net (Loss) Gain on Loans Accounted for Under the Fair Value Option: For the three months ended June 30, 2020, the net loss on loans accounted for under the fair value option increased $3.9 million, or 139.0%, compared to the three months ended June 30, 2019. For the six months ended June 30, 2020, the net loss on loans accounted for under the fair value option increased $16.6 million, or 340.6%, compared to the six months ended June 30, 2019. The carrying amount of loans accounted for under the fair value option at June 30, 2020 and 2019 was $866.7 million ($32.1 million classified as held for sale and $834.6 million classified as held for investment) and $865.7 million ($26.6 million classified as held for sale and $839.1 million classified as held for investment), respectively, an increase of $990 thousand, or 0.1%. The first half of 2020 net loss on loans accounted for under the fair value option was estimated to be approximately $9.7 million related to the severity of ongoing developments of the COVID-19 pandemic. The magnitude of COVID-19 related impacts on loan fair value adjustments in the second quarter of 2020 was dampened by improving market conditions for unguaranteed loans.

Noninterest Expense

Noninterest expense comprises all operating costs of the Company, such as employee related costs, travel, professional services, advertising and marketing expenses, exclusive of interest and income tax expense.

The following table shows the components of noninterest expense and the related dollar and percentage changes for the periods presented.

	Three Months Ended June 30,		2020/2019 Increase (Decrease)	
	2020	2019	Amount	Percent
Noninterest expense				
Salaries and employee benefits	$ 30,782	$ 21,990	$ 8,792	39.98%
Non-staff expenses:				
Travel expense	364	1,541	(1,177)	(76.38)
Professional services expense	1,385	1,621	(236)	(14.56)
Advertising and marketing expense	624	1,665	(1,041)	(62.52)
Occupancy expense	1,955	1,848	107	5.79
Data processing expense	2,764	1,947	817	41.96
Equipment expense	4,652	4,239	413	9.74
Other loan origination and maintenance expense	2,492	1,708	784	45.90
Renewable energy tax credit investment impairment	—	602	(602)	(100.00)
FDIC insurance	1,721	699	1,022	146.21
Other expense	1,361	1,716	(355)	(20.69)
Total non-staff expenses	17,318	17,586	(268)	(1.52)
Total noninterest expense	**$ 48,100**	**$ 39,576**	**$ 8,524**	**21.54%**

	Six Months Ended June 30,		2020/2019 Increase (Decrease)	
	2020	2019	Amount	Percent
Noninterest expense				
Salaries and employee benefits	$ 58,845	$ 43,845	$ 15,000	34.21%
Non-staff expenses:				
Travel expense	2,145	2,741	(596)	(21.74)
Professional services expense	3,322	3,803	(481)	(12.65)
Advertising and marketing expense	1,985	3,029	(1,044)	(34.47)
Occupancy expense	4,376	3,457	919	26.58
Data processing expense	5,921	4,346	1,575	36.24
Equipment expense	9,287	7,564	1,723	22.78
Other loan origination and maintenance expense	4,948	3,347	1,601	47.83
Renewable energy tax credit investment impairment	—	602	(602)	(100.00)
FDIC insurance	3,231	1,334	1,897	142.20
Other expense	3,531	3,709	(178)	(4.80)
Total non-staff expenses	38,746	33,932	4,814	14.19
Total noninterest expense	**$ 97,591**	**$ 77,777**	**$ 19,814**	**25.48%**

Total noninterest expense for the three and six months ended June 30, 2020 increased $8.5 million, or 21.5%, and $19.8 million, or 25.5%, respectively, compared to the same periods in 2019. The increase in noninterest expense was largely driven by salaries and employee benefits. Changes in various components of noninterest expense are discussed below.

Salaries and employee benefits: Total personnel expense for the three and six months ended June 30, 2020 increased by $8.8 million, or 40.0%, and $15.0 million, or 34.2%, respectively, compared to the same periods in 2019. While personnel expense is carefully managed, this increase is principally due to the Company's commitment to and investment in its workforce to support growth and a variety of initiatives combined with $7.2 million in expense for a performance bonus pool that was available to all employees other than executive officers. Total full-time equivalent employees increased from 531 at June 30, 2019 to 640 at June 30, 2020. Salaries and employee benefits expense included $3.3 million and $6.2 million of stock-based compensation for the three and six months ended June 30, 2020, respectively, compared to $2.9 million and $5.8 million for the three and six months ended June 30, 2019, respectively. Expenses related to the employee stock purchase program, stock grants, stock option compensation and restricted stock expense are all considered stock-based compensation.

Data processing expense: Total data processing expense for the three and six months ended June 30, 2020 increased by $817 thousand, or 42.0%, and $1.6 million, or 36.2%, respectively, compared to the same periods in 2019. The increase was predominantly driven by third party costs incurred in internal software development and with additional software subscriptions to help maximize operational efficiencies.

Equipment expense: For the three and six months ended June 30, 2020, equipment expense increased $413 thousand, or 9.7%, and $1.7 million, or 22.8%, respectively, compared to the same periods in 2019. Primary factors contributing to this increase were the depreciation of technology and infrastructure investments to support the Company's growth initiatives.

Other loan origination and maintenance expense: For the three and six months ended June 30, 2020, other loan origination and maintenance expense increased $784 thousand, or 45.9%, and $1.6 million, or 47.8%, respectively, compared to the same periods in 2019 due to increased levels of SBA loans.

FDIC insurance: For the three and six months ended June 30, 2020, FDIC insurance increased $1.0 million, or 146.2%, and $1.9 million, or 142.2%, respectively, compared to the same periods in 2019 due to higher required premiums.

Travel & Advertising and marketing expenses: For the three and six months ended June 30, 2020, travel & advertising and marketing expenses in aggregate decreased $2.2 million, or 69.2%, and $1.6 million, or 28.4%, respectively. This decrease was the result of certain activities being paused due to the impact of COVID-19.

Income Tax Expense

For the three months ended June 30, 2020, income tax expense increased by $812 thousand compared to the same period in 2019, and the Company's effective tax rates were 28.1% and 11.8%, respectively. The increase in the second quarter of 2020 over the second quarter of 2019 is primarily due to the absence of expected tax credits during 2020.

For the six months ended June 30, 2020, the Company had an income tax benefit of $(6.3) million with an effective tax rate of (62.2)% while the first half of 2019 had income tax expense of $979 thousand with an effective tax rate of 11.8%. The negative effective tax rate during the first half of 2020 was a result of a discrete, estimated income tax benefit of $3.7 million related to the enactment of the CARES Act on March 27, 2020. The CARES Act allows taxpayers to carryback certain net operating losses to each of the five taxable years preceding the taxable year of such losses. As a result, the Company will be allowed to carryback its 2018 net operating loss which had been utilized and measured under the prior law using a 21% corporate income tax rate to pre-2018 taxable years during which the corporate income tax rate was 35%. The remaining income tax benefit in the first half of 2020 was predominantly driven by the Company's overall net pretax loss. Based upon current projections, the effective tax rate for the remainder of 2020 is expected to be approximately 26.0% to 28.0%; however, there can be no assurance as to the actual amount because it will be dependent upon the nature and amount of future income and expenses, investments generating investment tax credits and transactions with discrete tax effects.

Discussion and Analysis of Financial Condition

June 30, 2020 vs. December 31, 2019

Total assets at June 30, 2020 were $8.21 billion, an increase of $3.40 billion, or 70.6%, compared to total assets of $4.81 billion at December 31, 2019. The growth in total assets was principally driven by the following:

- Cash and cash equivalents, comprised of cash and due from banks and federal funds sold, increased $1.13 billion as a product of increased levels of borrowings, deposits and loan sales arising from strategically heightened levels of liquidity related to COVID-19 risks and uncertainties and funding for PPP loans originated in the second quarter;

- Increased investment securities available-for-sale of $239.7 million. This increase in investment securities was due to availability of excess surplus liquidity, discussed above related to pandemic readiness, accelerating 2020 investment growth in accordance with the Company's asset-liability and liquidity management plan; and

- Growth in loans and leases held for sale and held for investment of $2.03 billion resulting from strong origination activity in the first half of 2020, largely comprised of $1.74 billion in PPP loans.

Cash and cash equivalents, comprised of cash and due from banks and federal funds sold, was $1.35 billion at June 30, 2020, an increase of $1.13 billion, or 508.9%, compared to $221.4 million at December 31, 2019. As mentioned above, this increase reflects the impact of strategically heightened levels of liquidity related to COVID-19 risks and uncertainties and funding for PPP loans during the second quarter.

Total investment securities increased $239.7 million during the first six months of 2020, from $540.0 million at December 31, 2019, to $779.8 million at June 30, 2020, an increase of 44.4%. The Company increased its investment securities position during the first half of 2020 largely as a part of improving returns on excess liquidity and meeting annual investment asset-liability plans, as discussed above. At June 30, 2020, the investment portfolio was comprised of U.S. treasury, U.S. government agency, U.S. government- sponsored entity mortgage-backed securities and municipal bonds.

Loans and leases held for investment increased $2.02 billion, or 77.0%, during the first six months of 2020, from $2.63 billion at December 31, 2019, to $4.65 billion at June 30, 2020. The increase was primarily the result of $1.74 billion in PPP loan originations combined with $930.8 million in other loan originations in the first half of 2020.

Premises and equipment, net, decreased $10.0 million, or 3.6%, during the first six months of 2020 which was primarily driven by increased levels of depreciation of facilities and infrastructure to accommodate Company growth and solar panels to meet leasing obligations in prior periods.

Other assets increased $23.8 million, or 15.3%, from $156.1 million at December 31, 2019 to $180.0 million at June 30, 2020. This increase was due to a variety of items, principally comprised of a $7.7 million increase in accrued interest receivable driven by higher levels of interest earning assets combined with $4.6 million in increased receivables from the SBA for guarantee recoveries, $4.1 million in new intangibles added as a result of the acquisition of Jolley Asset Management, LLC (as discussed more fully in Note 1. Basis of Presentation under the subheading Business Combination), $2.5 million in additional receivables for co-developed technology PPP loan processing services and $2.3 million in capitalized software development and implementation costs.

Total deposits were $5.87 billion at June 30, 2020, an increase of $1.65 billion, or 38.9%, from $4.23 billion at December 31, 2019. The increase in deposits was largely driven by the planned origination of PPP loans and following the defensive strategy to build liquidity during the first quarter of 2020 due to the uncertainty of the effects of COVID-19.

Borrowings increased to $1.72 billion at June 30, 2020 from $14 thousand at December 31, 2019. This increase was related to $1.72 billion in new borrowings through the PPPLF in the second quarter of 2020. These PPPLF borrowings were used to help fund PPP loans and complement the defensive strategy to build liquidity which commenced in the first quarter of 2020 due to the uncertainty of the effects of COVID-19.

Shareholders' equity at June 30, 2020 was $548.4 million as compared to $532.4 million at December 31, 2019. The book value per share was $13.53 at June 30, 2020 compared to $13.20 at December 31, 2019. Average equity to average assets was 9.2% for the six months ended June 30, 2020 compared to 12.2% for the year ended December 31, 2019. The increase in shareholders' equity was principally the result of other comprehensive income of $13.6 million and stock-based compensation expense of $6.2 million, partially offset by a net loss of $3.8 million and $2.4 million in dividends.

During the first half of 2020, 200,000 shares of Class B common stock (non-voting) were converted to Class A common stock (voting) under a private sale. The conversion decreased the value of Class B common stock (non-voting) and increased the value of Class A common stock (voting) by $2.1 million.

Asset Quality

Management considers asset quality to be of primary importance. A formal loan review function, independent of loan origination, is used to identify and monitor problem loans. This function reports directly to the Audit & Risk Committee of the Board of Directors.

Nonperforming Assets

The Bank places loans and leases on nonaccrual status when they become 90 days past due as to principal or interest payments, or prior to that if management has determined based upon current information available to them that the timely collection of principal or interest is not probable. When a loan or lease is placed on nonaccrual status, any interest previously accrued as income but not actually collected is reversed and recorded as a reduction of loan or lease interest and fee income. Typically, collections of interest and principal received on a nonaccrual loan or lease are applied to the outstanding principal as determined at the time of collection of the loan or lease.

Troubled debt restructurings ("TDRs") occur when, because of economic or legal reasons pertaining to the debtor's financial difficulties, debtors are granted concessions that would not otherwise be considered. Such concessions would include, but are not limited to, the transfer of assets or the issuance of equity interests by the debtor to satisfy all or part of the debt, modification of the terms of debt or the substitution or addition of debtor(s).

Total nonperforming assets and troubled debt restructurings, including loans measured at fair value, at June 30, 2020 were $134.3 million, which represented a $23.2 million, or 20.9%, increase from December 31, 2019. These nonperforming assets, at June 30, 2020 were comprised of $90.1 million in nonaccrual loans and leases and $5.7 million in foreclosed assets. Of the $134.3 million of nonperforming assets and TDRs, $100.9 million carried an SBA guarantee, leaving an unguaranteed exposure of $33.4 million in total nonperforming assets and TDRs at June 30, 2020. This represents an increase of $6.2 million, or 22.8%, from an unguaranteed exposure of $27.2 million at December 31, 2019.

The following table provides information with respect to nonperforming assets and troubled debt restructurings, excluding loans measured at fair value, at the dates indicated.

	June 30, 2020 (1)	December 31, 2019 (1)
Nonaccrual loans and leases:		
Total nonperforming loans and leases (all on nonaccrual)	$ 40,275	$ 21,937
Total accruing loans and leases past due 90 days or more	—	—
Foreclosed assets	5,660	5,612
Total troubled debt restructurings	26,781	16,566
Less nonaccrual troubled debt restructurings	(7,477)	(2,225)
Total performing troubled debt restructurings	19,304	14,341
Total nonperforming assets and troubled debt restructurings	**$ 65,239**	**$ 41,890**
Total nonperforming loans and leases to total loans and leases held for investment	1.06%	1.22%
Total nonperforming loans and leases to total assets	0.55%	0.55%
Total nonperforming assets and troubled debt restructurings to total assets	0.89%	1.05%

	June 30, 2020 (1)	December 31, 2019 (1)
Nonaccrual loans and leases guaranteed by U.S. government:		
Total nonperforming loans and leases guaranteed by the SBA (all on nonaccrual)	$ 27,153	$ 14,713
Total accruing loans and leases past due 90 days or more guaranteed by the SBA	—	—
Foreclosed assets guaranteed by the SBA	4,461	4,492
Total troubled debt restructurings guaranteed by the SBA	18,147	10,845
Less nonaccrual troubled debt restructurings guaranteed by the SBA	(4,117)	(385)
Total performing troubled debt restructurings guaranteed by SBA	14,030	10,460
Total nonperforming assets and troubled debt restructurings guaranteed by the SBA	**$ 45,644**	**$ 29,665**
Total nonperforming loans and leases not guaranteed by the SBA to total loans and leases held for investment	0.34%	0.40%
Total nonperforming loans and leases not guaranteed by the SBA to total assets	0.18%	0.18%
Total nonperforming assets and troubled debt restructurings not guaranteed by the SBA to total assets	0.27%	0.31%

(1) Excludes loans measured at fair value.

Nonperforming assets and TDRs, excluding loans measured at fair value, at June 30, 2020 were $65.2 million, which represented a $23.3 million, or 55.7%, increase from December 31, 2019. These nonperforming assets, at June 30, 2020 were comprised of $40.3 million in nonaccrual loans and leases and $5.7 million in foreclosed assets. Of the $65.2 million of nonperforming assets and TDRs, $45.6 million carried an SBA guarantee, leaving an unguaranteed exposure of $19.6 million in total nonperforming assets and TDRs at June 30, 2020. This represents an increase of $7.4 million, or 60.3%, from an unguaranteed exposure of $12.2 million at December 31, 2019.

See the below discussion related to the change in potential problem and impaired loans and leases for management's overall observations regarding growth in total nonperforming loans and leases.

As a percentage of the Bank's total capital, nonperforming loans and leases, excluding loans measured at fair value, represented 8.1% at June 30, 2020, compared to 4.4% at December 31, 2019. Adjusting the ratio to include only the unguaranteed portion of nonperforming loans and leases at historical cost to reflect management's belief that the greater magnitude of risk resides in this portion, the ratios at June 30, 2020 and December 31, 2019 were 2.6% and 1.5%, respectively.

As of June 30, 2020, and December 31, 2019, potential problem (also referred to as criticized) and classified loans and leases, excluding loans measured at fair value, totaled $146.9 million and $129.1 million, respectively. The following is a discussion of these loans and leases. Risk Grades 5 through 8 represent the spectrum of criticized and classified loans and leases. At June 30, 2020, the portion of criticized and classified loans and leases guaranteed by the SBA or USDA totaled $79.0 million resulting in unguaranteed exposure risk of $68.0 million, or 4.9% of total held for investment unguaranteed exposure carried at historical cost. This compares to the December 31, 2019 portion of criticized and classified loans and leases guaranteed by the SBA or USDA which totaled $65.8 million resulting in unguaranteed exposure risk of $63.3 million, or 5.4% of total held for investment unguaranteed exposure carried at historical cost. As of June 30, 2020, loans and leases carried at historical cost within the following verticals comprise the largest portion of the total potential problem and classified loans and leases: Healthcare at 20.8%, Wine and Craft Beverage at 15.1%, Hotels at 13.0%, Entertainment Centers at 9.6%, Veterinary at 9.2%, Self Storage at 5.8% and Educational Services at 5.0%. As of December 31, 2019, loans and leases carried at historical cost within the following verticals comprise the largest portion of the total potential problem and classified loans and leases: Healthcare at 20.8%, Hotels at 14.7%, Wine and Craft Beverage at 14.3%, Self Storage at 8.4%, Veterinary at 7.1%, Government Contracting at 6.1%, and Educational Services at 5.7%. Other than Hotels and Government Contracting which are a part of the Company’s Specialty Lending division, all of the above listed verticals are within the Company’s Small Business Banking division. Two previously impaired Government Contracting relationships were charged off in the first half of 2020 which resulted in a reduction in impaired loans for this vertical. The majority of the increase in potential problem and classified loans and leases was comprised of a relatively small number of borrowers largely concentrated in the Company’s more mature verticals. Furthermore, the Company believes that its underwriting and credit quality standards have continued to tighten with emphasis on new production in pandemic resilient verticals and increased monitoring of existing loans in pandemic susceptible verticals as the impacts and uncertainties COVID-19 continue to evolve. With this emphasis, systemic issues which began to emerge during the latter part of 2019 related to higher than expected levels of competition in the Wine and Craft Beverage and Entertainment Center verticals combined with pandemic susceptibility continue to contribute to the increase in criticized and classified loans and leases.

The Bank does not classify loans and leases that experience insignificant payment delays and payment shortfalls as impaired. The Bank generally considers an “insignificant period of time” from payment delays to be a period of 90 days or less, unless the borrower was not past due at the time of a modification as a part of a COVID-19 assistance program. In such instances this time period could extend to a period of three months or less. The Bank would consider a modification for a customer experiencing what is expected to be a short-term event that has temporarily impacted cash flow. This could be due, among other reasons, to illness, weather, impact from a one-time expense, slower than expected start-up, construction issues or other short-term issues. In all cases, credit personnel will review the request to determine if the customer is stressed and how the event has impacted the ability of the customer to repay the loan or lease long term. To date, the only types of short-term modifications the Bank has given are payment deferral and interest only extensions. The Bank does not typically alter the rate or lengthen the amortization of the note due to insignificant payment delays. Short term modifications are not classified as TDRs, because they do not meet the definition set by the applicable accounting standards and the Federal Deposit Insurance Corporation.

Management endeavors to be proactive in its approach to identify and resolve problem loans and leases and is focused on working with the borrowers and guarantors of these loans and leases to provide loan and lease modifications when warranted. Management implements a proactive approach to identifying and classifying loans and leases as special mention (also referred to as criticized), Risk Grade 5. At June 30, 2020, and December 31, 2019, Risk Grade 5 loans and leases, excluding loans measured at fair value, totaled $94.4 million and $89.5 million, respectively. The increase in Risk Grade 5 loans and leases, exclusive of loans measured at fair value, during the first half of 2020 was principally confined to five verticals: Entertainment Centers ($9.2 million or 187.7%), Senior Care ($4.0 million or 82.6%), Healthcare ($4.0 million or 81.5%), Veterinary ($3.6 million or 74.2%), General Lending Solutions ($1.4 million or 29.4%), and Funeral Home & Cemetery ($1.1 million or 21.9%). Largely offsetting the increase in the above Risk Grade 5 loans and leases were decreases in Hotels ($10.5 million or 213.3%) Government Contracting ($3.8 million or 78.4%) and Self Storage ($2.1 million or 43.3%). Other than Hotels and Government Contracting which are a part of the Company’s Specialty Lending division, all of the above listed verticals are within the Company’s Small Business Banking division. The decrease in Hotels was due to two relationships moving to risk grade 6 (substandard) while the decrease in Government Contracting was due to loan paydowns which moved loans back to pass grades, and the decrease in Self Storage was due to one relationship being upgraded to a risk grade 4 (acceptable). At June 30, 2020, approximately 100.0% of loans and leases classified as Risk Grade 5 are performing with no current payments past due more than 30 days. While the level of nonperforming assets fluctuates in response to changing economic and market conditions, in light of the relative size and composition of the loan and lease portfolio and management’s degree of success in resolving problem assets, management believes that a proactive approach to early identification and intervention is critical to successfully managing a small business loan portfolio. In conjunction with this, management believes that volumes of delinquencies may be not be an accurate depiction of the borrower’s repayment abilities under the current pandemic induced circumstances due to payments being made by the SBA on behalf of borrower with loans under its programs. This payment assistance commenced in the first quarter and will continue for six months.

Allowance for Credit Losses on Loans and Leases

The allowance for credit losses (“ACL”) on loans and leases is a valuation account that is deducted from, or added to, the amortized cost basis of loans and leases to present a net amount expected to be collected. The ACL excludes loans held for sale and loans accounted for under the fair value option. Loans and leases are charged-off against the ACL when management believes the uncollectibility of a loan or lease balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Judgment in determining the adequacy of the ACL is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available and as situations and information change.

The ACL is evaluated on a quarterly basis by management and is estimated using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Company’s historical credit loss experience provides the basis for the estimation of expected credit losses. Management adjusts historical loss information for differences in current risk characteristics such as portfolio risk grading, delinquency levels, or portfolio mix as well as for changes in environmental conditions such as changes in unemployment rates.

The ACL of $28.2 million at December 31, 2019 increased by $15.8 million, or 56.1%, to $44.1 million at June 30, 2020. The ACL, as a percentage of loans and leases held for investment at historical cost amounted to 1.2% at June 30, 2020 and 1.6% at December 31, 2019. Excluding PPP loans and related reserves, the ACL, as a percentage of loans and leases held for investment at historical cost amounted to 2.0% at June 30, 2020. As mentioned earlier, the Company adopted the new CECL standard effective January 1, 2020. Upon adoption, the Company recorded a $1.3 million decrease in the ACL. In implementing CECL, the Company accordingly determined to use forecasted levels of unemployment as a primary economic variable in forecasting future expected losses. Based upon the severity of ongoing developments resulting from the COVID-19 pandemic, the Company’s allowance for credit losses on loans and leases increased significantly, combined with the effects of the above discussed increased levels of criticized and classified loans and leases and charge-offs, as addressed more fully in the Provision for Loan and Lease Credit Losses section of Results of Operations.

Actual past due held for investment loans and leases, inclusive of loans measured at fair value, have decreased by $8.5 million since December 31, 2019. This decrease was due to monthly payments being made by SBA for our SBA 7(a) borrowers. Total loans and leases 90 or more days past due increased $6.6 million, or 17.0%, compared to December 31, 2019. The increase was the result of a $6.9 million increase in the guaranteed portion of past due loans compared to December 31, 2019. At June 30, 2020 and December 31, 2019, total held for investment unguaranteed loans and leases past due as a percentage of total held for investment unguaranteed loans and leases, inclusive of loans measured at fair value, was 0.9% and 1.7%, respectively. Total unguaranteed loans and leases past due were comprised of $9.4 million carried at historical cost, an increase of $1.4 million, and $4.1 million measured at fair value, a decrease of $7.6 million as of June 30, 2020 compared to December 31, 2019. Management continues to actively monitor and work to improve asset quality. Management believes the ACL of $44.1 million at June 30, 2020 is appropriate in light of the risk inherent in the loan and lease portfolio. Management’s judgments are based on numerous assumptions about current and expected events that it believes to be reasonable, but which may or may not be valid, including but not limited to factors related to the above mentioned SBA delinquency effect and pandemic-susceptible verticals. Accordingly, no assurance can be given that management’s ongoing evaluation of the loan and lease portfolio in light of changing economic conditions and other relevant circumstances will not require significant future additions to the ACL, thus adversely affecting the Company’s operating results. Additional information on the ACL is presented in Note 5. Loans and Leases Held for Investment and Credit Quality of the Notes to the Unaudited Condensed Consolidated Financial Statements in this report.

Liquidity Management

Liquidity management refers to the ability to meet day-to-day cash flow requirements based primarily on activity in loan and deposit accounts of the Company’s customers. Liquidity is immediately available from four major sources: (a) cash on hand and on deposit at other banks; (b) the outstanding balance of federal funds sold; (c) the market value of unpledged investment securities; and (d) availability under lines of credit. At June 30, 2020, the total amount of these four items was $3.28 billion, or 40.0% of total assets, an increase of $2.09 billion from $1.19 billion, or 24.8% of total assets, at December 31, 2019.

Loans and other assets are funded by loan sales, wholesale deposits and core deposits. To date, an increasing retail deposit base and an increased long term wholesale deposit base have been adequate to meet loan obligations, while maintaining the desired level of immediate liquidity. Additionally, the investment securities portfolio is available for both immediate and secondary liquidity purposes.

At June 30, 2020, none of the investment securities portfolio was pledged to secure public deposits or pledged to retail repurchase agreements, leaving $779.8 million available as lendable collateral.

Contractual Obligations

The following table presents the Company's significant fixed and determinable contractual obligations by payment date as of June 30, 2020. The payment amounts represent those amounts contractually due to the recipient. The table excludes liabilities recorded where management cannot reasonably estimate the timing of any payments that may be required in connection with these liabilities.

	Payments Due by Period				
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Contractual Obligations					
Deposits without stated maturity	$ 2,247,774	$ 2,247,774	$ —	$ —	$ —
Time deposits	3,625,518	2,396,055	812,146	340,346	76,971
Borrowings	1,721,029	5,004	1,716,025	—	—
Operating lease obligations	3,753	736	1,430	363	1,224
Total	$ 7,598,074	$ 4,649,569	$ 2,529,601	$ 340,709	$ 78,195

As of June 30, 2020, and December 31, 2019, the Company had unfunded commitments to provide capital contributions for on-balance sheet investments in the amount of $16.8 million and $16.9 million, respectively.

Asset/Liability Management and Interest Rate Sensitivity

One of the primary objectives of asset/liability management is to maximize the net interest margin while minimizing the earnings risk associated with changes in interest rates. One method used to manage interest rate sensitivity is to measure, over various time periods, the interest rate sensitivity positions, or gaps. As of June 30, 2020, the balance sheet's total cumulative gap position was slightly liability-sensitive at -1.5%. The shift to liability-sensitive versus the prior quarter asset-sensitive position is primarily due to the variable, short-term funding added in early in the second quarter of 2020 to provide initial funding for the Payroll Protection Program fixed rate loans.

The interest rate gap method, however, addresses only the magnitude of asset and liability repricing timing differences as of the report date and does not address earnings, market value, changes in account behaviors based on the interest rate environment, nor growth. Therefore, management uses an earnings simulation model to prepare, on a regular basis, earnings projections based on a range of interest rate scenarios to measure interest rate risk more accurately. As of June 30, 2020, the Company's interest rate risk profile under the earnings simulation model method remains asset-sensitive. An asset-sensitive position means that net interest income will generally move in the same direction as interest rates. For instance, if interest rates increase, net interest income can be expected to increase, and if interest rates decrease, net interest income can be expected to decrease. The Company attempts to mitigate interest rate risk by match funding assets and liabilities with similar rate instruments. The quarterly revaluation adjustment to the servicing asset, however, adjusts in an opposite direction to interest rate changes. Asset/liability sensitivity is primarily derived from the prime-based loans that adjust as the prime interest rate changes and the longer duration of indeterminate term deposits.

Capital

The maintenance of appropriate levels of capital is a management priority and is monitored on a regular basis. The Company's principal goals related to the maintenance of capital are to provide adequate capital to support the Company's risk profile consistent with the risk appetite approved by the Board of Directors; provide financial flexibility to support future growth and client needs; comply with relevant laws, regulations, and supervisory guidance; achieve optimal credit ratings for the Company and its subsidiaries; and provide a competitive return to shareholders. Management regularly monitors the capital position of the Company on both a consolidated and bank level basis. In this regard, management's goal is to maintain capital at levels that are in excess of the regulatory "well capitalized" levels. Risk-based capital ratios, which include Tier 1 Capital, Total Capital and Common Equity Tier 1 Capital, are calculated based on regulatory guidance related to the measurement of capital and risk-weighted assets.

Capital amounts and ratios as of June 30, 2020 and December 31, 2019, are presented in the table below.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions (1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Consolidated - June 30, 2020						
Common Equity Tier 1 (to Risk-Weighted Assets)	$ 498,283	12.84%	$ 174,660	4.50%	N/A	N/A
Total Capital (to Risk-Weighted Assets)	$ 542,984	13.99%	$ 310,506	8.00%	N/A	N/A
Tier 1 Capital (to Risk-Weighted Assets)	$ 498,283	12.84%	$ 232,879	6.00%	N/A	N/A
Tier 1 Capital (to Average Assets)	$ 498,283	7.96%	$ 250,488	4.00%	N/A	N/A
Bank - June 30, 2020						
Common Equity Tier 1 (to Risk-Weighted Assets)	$ 453,473	11.85%	$ 172,243	4.50%	$ 248,795	6.50%
Total Capital (to Risk-Weighted Assets)	$ 498,174	13.02%	$ 306,210	8.00%	$ 382,762	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	$ 453,473	11.85%	$ 229,657	6.00%	$ 306,210	8.00%
Tier 1 Capital (to Average Assets)	$ 453,473	7.30%	$ 248,462	4.00%	$ 310,577	5.00%
Consolidated - December 31, 2019						
Common Equity Tier 1 (to Risk-Weighted Assets)	$ 499,513	14.90%	$ 150,927	4.50%	N/A	N/A
Total Capital (to Risk-Weighted Assets)	$ 527,747	15.74%	$ 268,315	8.00%	N/A	N/A
Tier 1 Capital (to Risk-Weighted Assets)	$ 499,513	14.90%	$ 201,236	6.00%	N/A	N/A
Tier 1 Capital (to Average Assets)	$ 499,513	10.65%	$ 187,582	4.00%	N/A	N/A
Bank - December 31, 2019						
Common Equity Tier 1 (to Risk-Weighted Assets)	$ 451,807	13.66%	$ 148,950	4.50%	$ 215,150	6.50%
Total Capital (to Risk-Weighted Assets)	$ 480,040	14.51%	$ 264,800	8.00%	$ 331,000	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	$ 451,807	13.66%	$ 198,600	6.00%	$ 264,800	8.00%
Tier 1 Capital (to Average Assets)	$ 451,807	9.68%	$ 186,627	4.00%	$ 233,283	5.00%

(1) Prompt corrective action provisions are not applicable at the bank holding company level.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in accordance with GAAP requires the Company to make estimates and judgments that affect reported amounts of assets, liabilities, income and expenses and related disclosure of contingent assets and liabilities. The Company bases estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. Estimates are evaluated on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

Accounting policies, as described in detail in the Notes to the Company's Unaudited Condensed Consolidated Financial Statements in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, are an integral part of the Company's consolidated financial statements. A thorough understanding of these accounting policies is essential when reviewing the Company's reported results of operations and financial position. Management believes that the critical accounting policies and estimates listed below require the Company to make difficult, subjective or complex judgments about matters that are inherently uncertain.

- Determination of the allowance for credit losses on loans and leases;
- Valuation of loans accounted for under the fair value option;
- Valuation of servicing assets;
- Income taxes;
- Restricted stock unit awards with market price conditions;
- Valuation of foreclosed assets;

- Business combination and goodwill; and
- Unconsolidated joint ventures.

Changes in these estimates, that are likely to occur from period to period, or the use of different estimates that the Company could have reasonably used in the current period, would have a material impact on the Company's financial position, results of operations or liquidity.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management considers interest rate risk the most significant market risk. Interest rate risk is the exposure to adverse changes in net interest income due to changes in interest rates. Consistency of net interest income is largely dependent upon the effective management of interest rate risk.

The Company's Asset/Liability Management Committee ("ALCO"), which includes senior management representatives and reports to the Board of Directors, monitors and manages interest rate risk. See "Asset/Liability Management and Interest Rate Sensitivity" in Item 2 of this Form 10-Q for further discussion.

The objective of asset/liability management is the maximization of net interest income within the Company's risk guidelines. This objective is accomplished through management of the balance sheet composition, maturities, liquidity, and interest rate risk exposures arising from changing economic conditions, interest rates and customer preferences.

To identify and manage its interest rate risk, the Company employs an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The model is based on contractual cash flows and repricing characteristics and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. The model also includes management projections for activity levels in each of the product lines offered by the Bank. Assumptions are inherently uncertain, and the measurement of net interest income or the impact of rate fluctuations on net interest income cannot be precisely predicted. Actual results may differ materially from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), was carried out under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer as of June 30, 2020, the last day of the period covered by this Quarterly Report. The Company's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of June 30, 2020, in ensuring that the information required to be disclosed in the reports the Company files or submits under the Exchange Act is (i) accumulated and communicated to management (including the Company's Chief Executive Officer and Chief Financial Officer) as appropriate to allow timely decisions regarding required disclosures, and (ii) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

Beginning January 1, 2020, the Company adopted ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The Company implemented changes to the policies, processes, and controls over the estimation of the allowance for credit losses to support the adoption of ASU 2016-13. While many controls in operation under this new standard mirror controls under prior GAAP, there were some new controls implemented.

During the three months ended June 30, 2020, the Company implemented new processes and controls related to the origination of loans through the SBA's Paycheck Protection Program. As a part of the Company's PPP efforts in the second quarter, a new loan accounting system was implemented and utilized as the system of record for PPP loans. The Company will continue to monitor and evaluate internal controls over financial reporting as it relates to the PPP portfolio and this new loan system.

Except as related to the adoption of ASU 2016-13 and the loan accounting system for PPP loans, there were no changes in the Company's internal control over financial reporting during the three and six month periods ended June 30, 2020, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of operations, the Company is party to various legal proceedings. The Company is not involved in, nor has it terminated during the three months ended June 30, 2020, any pending legal proceedings other than nonmaterial proceedings occurring in the ordinary course of business.

Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, with the exception of the following:

The ongoing COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations, and financial condition, and such effects will depend on future developments that are highly uncertain and difficult to predict.

Global health concerns relating to the COVID-19 outbreak and related government actions taken to reduce the spread of the virus have had a significant negative impact on the macroeconomic environment, and the outbreak has significantly increased economic uncertainty and reduced economic activity. The outbreak has resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place or total lock-down orders and business limitations and shutdowns. Such measures have significantly contributed to historically high unemployment and negatively impacted consumer and business spending. The United States government has taken steps to attempt to mitigate some of the more severe anticipated economic effects of the virus, including the passage of the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, but there can be no assurance that such steps will be effective or achieve their desired results in a timely fashion.

The outbreak has adversely impacted and is likely to further adversely impact our operations and the operations of our borrowers, customers, and business partners. For example, as a result of the significant uncertainty due to the COVID-19 pandemic we realized a substantial build in our allowance for credit losses for the first half of 2020. We could also experience declining values of other financial assets and other negative impacts on our financial position, including possible constraints on liquidity and capital, as well as higher costs of capital. A number of factors impacting us or our borrowers, customers or business partners could materially adversely affect our business, results of operations, and financial condition, including but not limited to:

- elevated levels of unemployment may lead to increases in loan delinquencies, losses, and charge-offs;
- collateral for loans, including real estate, may decline in value, which could cause loan losses to increase;
- demand for our products and services may decline, making it difficult to grow or maintain assets and income;
- noninterest income from premiums paid in the secondary market for the sale of loans may be reduced due to deteriorating market conditions and a decrease in the number of potential buyers;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us;
- we may experience operational failures due to changes in our normal business practices necessitated by the outbreak and related governmental actions;
- third-party vendors on which we rely may not be able to provide us critical services;
- our risk management policies and practices may be negatively impacted in general, including, but not limited to, the effectiveness and accuracy of our models given the lack of data and comparable precedent;
- cyber and payment fraud risk may increase as cybercriminals attempt to profit from the disruption given increased online and remote activity; and
- FDIC deposit insurance premiums may increase if the agency experiences additional resolution costs.

The spread of COVID-19 has caused us to modify our business practices (including restricting employee travel and developing work-from-home and social distancing plans for our employees), and we may take further actions as may be required by government authorities or as we determine are in the best interests of our employees, customers, and business partners. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or will otherwise be satisfactory to government authorities.

Federal, state and local governmental authorities have enacted, and may enact in the future, legislation, regulations, and protocols in response to the COVID-19 pandemic, including governmental programs intended to provide economic relief to businesses and individuals. Our participation in and execution of any such programs may cause operational, compliance, reputational, and credit risks, which could result in litigation, governmental action or other forms of loss. There remains significant uncertainty regarding the measures that authorities will enact in the future and the ultimate impact of the legislation, regulations, and protocols that have been and will be enacted. For example, the CARES Act temporarily added a new program titled the Paycheck Protection Program (the "PPP") to the SBA's 7(a) loan program. The PPP is intended to provide economic relief to small businesses nationwide. Under the PPP, small businesses and other entities and individuals can apply for loans from existing SBA lenders and other approved lenders that enroll in the program, subject to numerous limitations and eligibility criteria. Since the PPP launched on April 3, 2020, we have been an active participant in the program originating a substantial number and principal amount of PPP loans. Rules and guidance regarding the PPP were not readily available at the start of the program, and the SBA and other government agencies continue to release additional rules and guidance that change or update the requirements and expectations of the regulatory agencies administering the PPP and regulating participating lenders. As of the date of this report, there remains some ambiguity in the laws, rules, and guidance regarding the operation of the PPP, with a number of important aspects of the PPP where regulatory agencies have not provided adequate guidance, particularly with respect to process, procedures and criteria for forgiveness of PPP loans. Banks participating in the PPP have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP and regarding claims for fees to be paid to purported agents and other third parties, and we are exposed to the risk of litigation regarding the PPP. If any such litigation is not resolved in a manner favorable to us, it may result in significant financial liability or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. We also face credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by the Bank, such as an issue with the eligibility of a borrower to receive a PPP loan. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced by the Bank, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Bank.

Additionally, our future success and profitability substantially depends on the management skills of our executive officers and directors. The unanticipated loss or unavailability of key employees due to the outbreak could harm our ability to operate our business or execute our business strategy. We may not be successful in finding and integrating suitable successors in the event of key employee loss or unavailability.

The extent to which the COVID-19 outbreak impacts our business, results of operations, and financial condition will depend on future developments that are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts to our business, financial condition, and results of operations and prospects as a result of the virus's global economic impact, including the availability of credit, adverse impacts on our liquidity, and any recession that has occurred or may occur in the future. For more information on the impacts of COVID-19 on our business, results of operations and financial condition, see "Recent Developments" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and the ultimate impact of the outbreak is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations, or the global economy as a whole. However, the effects could have a material impact on our results of operations and heighten many of our known risks described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On April 1, 2020, the Company issued 89,927 shares of voting common stock to the members of Jolley Asset Management, LLC ("JAM"), pursuant to the acquisition of all of the outstanding membership interests of JAM. These shares were exempt from registration under the Securities Act of 1933, or the Securities Act, because they were issued in a private placement under Section 4(a)(2) of the Securities Act.

On March 15, 2020, the Board of Directors of the Company authorized the repurchase of up to $20,000,000 in shares of the Company’s voting common stock from time to time through December 31, 2020 (the “Repurchase Program”). The Repurchase Program enables the Company to acquire shares through open market purchases or privately negotiated transactions, including through a Rule 10b5-1 plan, at the discretion of management and on terms (including quantity, timing, and price) that management determines to be advisable. Actions in connection with the repurchase program will be subject to various factors, including the Company’s capital and liquidity positions, regulatory and accounting considerations, the Company’s financial and operational performance, alternative uses of capital, the trading price of the Company’s common stock, and market conditions. The repurchase program does not obligate the Company to acquire a specific dollar amount or number of shares and may be extended, modified, or discontinued at any time. As of June 30, 2020, the Company had not made any purchases of shares under the Repurchase Program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.

Exhibits to this report are listed in the Index to Exhibits section of this report.

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation of Live Oak Bancshares, Inc. (incorporated by reference to Exhibit 3.1 of the registration statement on Form S-1, filed on June 19, 2015)
3.2	Amended Bylaws of Live Oak Bancshares, Inc. (incorporated by reference to Exhibit 3.2 of the amended registration statement on Form S-1, filed on July 13, 2015)
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the registration statement on Form S-1, filed on June 19, 2015)
4.2	Registration and Other Rights Agreement between Live Oak Bancshares, Inc. and Wellington purchasers (incorporated by reference to Exhibit 4.2 of the registration statement on Form S-1, filed on June 19, 2015)
10.1	Form of 2020 RSU Award Agreement for non-employee directors* #
10.2.1	Amendment to Software Service Agreement dated April 1, 2020, between Live Oak Banking Company and nCino, Inc.*
10.2.2	Amendment to Software Service Agreement dated April 5, 2020, between Live Oak Banking Company and nCino, Inc.*
10.2.3	Amendment to Software Service Agreement dated April 24, 2020, between Live Oak Banking Company and nCino, Inc.*
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101	Interactive data files pursuant to Rule 405 of Regulation S-T, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019; (ii) Condensed Consolidated Statements of Income for the Three and Six Months Ended June 30, 2020 and 2019; (iii) Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2020 and 2019; (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity for the Three and Six Months Ended June 30, 2020 and 2019; (v) Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2020 and 2019; and (vi) Notes to Unaudited Condensed Consolidated Financial Statements*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Indicates a document being filed with this Form 10-Q.

** Furnished herewith. This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

\# Denotes management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Live Oak Bancshares, Inc.
(*Registrant*)

Date: August 5, 2020

By: /s/ S. Brett Caines
S. Brett Caines
Chief Financial Officer

Exhibit 10.1

LIVE OAK BANCSHARES, INC.
2015 OMNIBUS STOCK INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT is made and entered into effective as of May 12, 2020 (the "**Date of Grant**"), by and between LIVE OAK BANCSHARES, INC., a North Carolina corporation (the "**Company**"), and [NAME] (the "**Grantee**"). This Agreement sets forth the terms and conditions associated with the Company's award to Grantee of restricted stock units payable as described below in shares of Common Stock pursuant to the Company's 2015 Omnibus Stock Incentive Plan (as amended from time to time, the "**Plan**"). Capitalized terms not explicitly defined in this Agreement but defined in the Plan will have the meanings ascribed to them under the Plan.

NOW, THEREFORE, in consideration of the foregoing and Grantee's continued provision of valuable services as a director of the Company, the parties hereto, intending to be legally bound, agree as follows:

1. Grant of Units. Effective as of the Date of Grant, the Company grants the Grantee 4,160 Restricted Stock Units (the "**Units**") subject to the provisions of this Agreement and the Plan. Each Unit is subject to settlement into one share of Common Stock (a "**Share**") that will be delivered to Grantee pursuant to this Agreement when and if such Unit becomes vested in accordance with this Agreement.

2. Vesting. The Units are unvested when granted and will vest May 1, 2021, subject to Grantee's provision of Continuous Service to the Company through such date. In addition, to the extent not previously forfeited, all unvested Units will vest immediately upon: (a) the consummation of a Corporate Transaction provided that Grantee provides Continuous Service to the Company through the date of such Corporate Transaction; (b) the termination of Grantee's Continuous Service as a result of Grantee's death; or (c) the termination of Grantee's Continuous Service as a result of Grantee's Disability.

3. Effect of Termination of Continuous Service. Except as provided in Section 2 in connection with the termination of Grantee's Continuous Service as a result of Grantee's death or Disability, in the event of the termination of Grantee's Continuous Service, all Units that are not vested will be immediately, automatically, and without consideration forfeited.

4. Delivery of Shares to Settle Units. When Units become vested as provided in Section 3, the vested Units will be settled by delivering to Grantee the number of Shares equal to the number of vested Units, subject to the following provisions.

(a) Delivery of the Shares will be made as soon as practicable after the date on which the Units vest, provided that the Company may provide for a reasonable delay in the delivery of the Shares to address tax and other administrative matters, and provided further that delivery of the Shares will occur no later than two and one-half months following the conclusion of the year in which the vesting occurs.

(b) Subject to the conditions described herein, as soon as practicable after the date on which the Units vest, the Company will, at its election, either: (i) issue a certificate representing the Shares deliverable pursuant to this Agreement; or (ii) not issue any certificate representing the Shares deliverable pursuant to this Agreement and instead document the Grantee's interest in the Shares by registering such Shares with the Company's transfer agent (or another custodian selected by the Company) in bookentry form in the Grantee's name.

(c) No Shares will be issued pursuant to this Agreement unless and until all then-applicable requirements imposed by U.S., foreign, and state securities and other laws, rules and regulations and by any regulatory agencies having jurisdiction, and by any exchanges upon which the Shares may be listed, have been fully met, and the Company may condition the issuance of Shares pursuant to this Agreement on the Grantee's taking any reasonable action to meet those requirements. The Company may impose such conditions on any Shares issuable pursuant to this Agreement as it may deem advisable, including, without limitation, restrictions under the Securities Act of 1933, as amended, under the requirements of any exchange upon which shares of the same class are then listed, and under any blue sky or other securities laws applicable to those shares.

5. Rights as a Shareholder. The Units represent a right to payment from the Company if the conditions of the Agreement are met and do not give the Grantee ownership of any Common Stock prior to delivery as provided in Section 4. Grantee will not have any rights and/or privileges of a stockholder of the Company with respect to the Units prior to such delivery, but Grantee will have all rights associated with the ownership of the Shares upon such delivery.

6. Non-Transferability of the Units. The Units and the right to payment under this Agreement are not transferable, and may not be sold, exchanged, transferred, pledged, hypothecated, encumbered or otherwise disposed of except by the laws of descent or distribution, or as otherwise provided by the Plan. Any purported transfer of the Units or the right to payment under this Agreement not in compliance with the preceding sentence is null and void and will not be given effect.

7. Tax Consequences. Grantee acknowledges that Grantee understands the federal, state, local, and foreign tax consequences of the award of the Units and the provisions of this Agreement. Grantee is relying solely on the advice of Grantee's own tax advisors and not on any statements or representations of the Company or any of its agents in connection with such tax consequences. Grantee understands that Grantee (and not the Company nor any Related Entity) will be responsible for Grantee's own tax liability that may arise as a result of the granting, vesting, and/or settlement of the Units (or otherwise in connection with this Agreement).

8. Withholding Obligations. As a condition to delivery of the Shares, the Grantee hereby authorizes the Company to withhold from the Shares deliverable under this Agreement a number of Shares with a Fair Market Value (measured as of the date tax withholding obligations are to be determined) equal to the federal, state, local and foreign tax withholding obligations of the Company or a Related Entity, if any, provided, however, that the number of such Shares so withheld will not exceed the amount necessary to satisfy the Company's (or a Related Entity's) required tax withholding obligations using the minimum statutory withholding rates for federal, state, local and foreign tax purposes, including payroll taxes, that are applicable to supplemental

taxable income. In the event that the Administrator determines in its discretion that such withholding of Shares is not permitted pursuant to the Applicable Laws, the rules and regulations of any regulatory agencies having jurisdiction over the Company, or the rules of any exchanges upon which the Shares may be listed, then the Administrator may, in its discretion, make alternative arrangements for satisfying the Company's (or a Related Entity's) withholding obligations, utilizing any method permitted by the Plan, including but not limited to requiring Grantee to tender a cash payment or withholding from salary or other compensation payable to Grantee.

9. Application of Section 409A of the Code. The parties intend that the delivery of Shares in respect of the Units provided under this Agreement satisfies, to the greatest extent possible, the exemption from the application of Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect (collectively, "**Section 409A**") provided under Treasury Regulations Section 1.409A-1(b)(4) (or any other applicable exemption), and this Agreement will be construed to the greatest extent possible as consistent with those provisions. To the extent not so exempt, the delivery of Shares in respect of the Units provided under this Agreement will be conducted, and this Agreement will be construed, in a manner that complies with Section 409A and is consistent with the requirements for avoiding taxes or penalties under Section 409A. The parties further intend that each installment of any payments provided for in this Agreement is a separate "payment" for purposes of Section 409A. To the extent that (a) one or more of the payments received or to be received by Grantee pursuant to this Agreement would constitute deferred compensation subject to the requirements of Section 409A, and (b) Grantee is a "specified employee" within the meaning of Section 409A, then solely to the extent necessary to avoid the imposition of any additional taxes or penalties under Section 409A, the commencement of any payments under this Agreement will be deferred until the date that is six months following the Grantee's termination of Continuous Service (or, if earlier, the date of death of the Grantee) and will instead be paid on the date that immediately follows the end of such six-month period (or death) or as soon as administratively practicable within thirty (30) days thereafter. The Company makes no representations to Grantee regarding the compliance of this Agreement or the Units with Section 409A, and Grantee is solely responsible for the payment of any taxes or penalties arising under Section 409A(a)(1), or any state law of similar effect, with respect to the grant or vesting of the Units or the delivery of the Shares hereunder.

10. Adjustments. All references to the number of Units will be appropriately adjusted to reflect any stock split, stock dividend, or other change in capitalization that may be made by the Company after the date of this Agreement, as provided in Section 13 of the Plan.

11. Electronic Delivery. Grantee hereby consents to receive documents related to the Units and any other Awards granted under the Plan by electronic delivery and agrees to participate in the Plan through an online or electronic system established and maintained by the Company or another third party designated by the Company, and such consent shall remain in effect throughout until withdrawn in writing by Grantee.

12. Data Privacy. Grantee acknowledges that the Company holds certain personal information about him/her, including, but not limited to, name, home address and telephone number, date of birth, social security number or other identification number, salary, nationality, job title, details of the Units and any other entitlement to Shares awarded, cancelled, exercised, vested or unvested. Grantee consents to the collection, use and transfer (including but not limited to transfers to parties assisting in the implementation, administration and management of the Plan), in electronic or other form, of such personal data for the purpose of implementing, administering, and managing Grantee's participation in the Plan.

13. Binding Effect. This Agreement is binding upon and inures to the benefit of Grantee and Grantee's heirs, executors, and personal representatives, and the Company and its successors and assigns.

14. Multiple Originals. This Agreement may be executed in one or more counterparts, each of which will be deemed an original but all of which together will constitute one and the same agreement. Facsimile or PDF reproductions of original signatures will be deemed binding for the purpose of the execution of this Agreement.

15. Notices. Any notice, demand or request required or permitted to be given pursuant to the terms of this Agreement must be in writing and will be deemed given when delivered personally, one day after deposit with a recognized international delivery service (such as FedEx), or three days after deposit in the U.S. mail, first class, certified or registered, return receipt requested, with postage prepaid, in each case addressed to the parties at the addresses of the parties set forth at the end of this Agreement or such other address as a party may designate by notifying the other in writing.

16. Choice of Law; Venue. This Agreement shall be construed and enforced in accordance with and governed by the laws of the State of North Carolina, without giving effect to the choice of law rules of any jurisdiction. The parties agree that any litigation arising out of or related to the Units or this Agreement will be brought exclusively in any state or federal court in New Hanover County, North Carolina. Each party (i) consents to the personal jurisdiction of said courts, (ii) waives any venue or inconvenient forum defense to any proceeding maintained in such courts, and (iii) agrees not to bring any proceeding arising out of or relating to this Agreement in any other court.

17. Modification of Agreement; Waiver. This Agreement may be modified, amended, suspended, or terminated, and any terms, representations or conditions may be waived, but only by a written instrument signed by each of the parties hereto, except as otherwise provided in the Plan. No waiver hereunder will constitute a waiver with respect to any subsequent occurrence or other transaction hereunder or of any other provision hereof.

18. Severability. The provisions of this Agreement are severable, and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, then the remaining provisions will nevertheless be binding and enforceable.

19. Entire Agreement. This Agreement, along with the Plan, constitutes and embodies the entire understanding and agreement of the parties hereto with respect to the subject matter hereof and there are no other agreements or understandings, written or oral, in effect between the parties hereto relating to the matters addressed herein.

20. Grantee's Acknowledgements. Grantee hereby acknowledges receipt of a copy of the Plan and the Company's prospectus covering the Shares issued pursuant to the Plan (the "**Prospectus**"). Grantee has read and understands the terms of this Agreement, the Plan, and the Prospectus. The Units are subject to all the provisions of the Plan, the provisions of which are hereby made a part of this Agreement, and are further subject to all interpretations, amendments, rules and regulations, which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of this Agreement and those of the Plan, the provisions of the Plan shall control.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and the Grantee has hereunto set the Grantee's hand and seal, all as of the day and year first above written.

COMPANY:

Live Oak Bancshares, Inc.

By: ______________________________

Name: ______________________________

Title: ______________________________

Address: 1741 Tiburon Drive
Wilmington, NC 28403

GRANTEE:

______________________________ (SEAL)

Print Name: ______________________________

Address: ______________________________

____

Exhibit 10.2.1

Amendment

This Amendment ("Amendment") is effective as of the date that both parties have executed this Amendment (the "Amendment Effective Date") and amends the nCino, LLC Software Service Agreement dated November 1, 2012, as amended (the "Agreement") by and between nCino, Inc. ("nCino") and Live Oak Bank ("Subscriber"). Capitalized terms used but not otherwise defined in this Amendment shall have the meanings assigned to them in the Agreement.

In exchange for the consideration detailed herein, and other good and valuable consideration, the receipt of which is acknowledged by both parties, the parties do hereby agree as follows:

1. A new Section 10 shall be added to the Agreement and shall read as follows:

10. Confidentiality. Each party will potentially share with the other certain confidential and proprietary information. Each party, as the recipient of such confidential and proprietary information ("Recipient"), agrees to protect and maintain such information of the disclosing party ("Discloser") as set forth below.

10.1 Definition. "**Confidential Information**" means information relating to Discloser's business including, without limitation, product designs, product plans, proprietary software and technology, services, financial information, marketing plans, business opportunities, pricing information, discounts, inventions and know-how to the extent disclosed to Recipient.

10.2 Disclosure of Confidential Information. Recipient shall: (i) hold the Confidential Information in confidence and take reasonable precautions to protect the Confidential Information (including, without limitation, all precautions Recipient employs with respect to its own confidential information), (ii) not divulge any Confidential Information to any third party (other than to officers, directors, employees, trustees, investors, financing sources, attorneys, accountants, advisors, consultants, agents, contractors or other authorized representatives of Recipient ("Representatives") as set forth below), (iii) not copy, decompile or reverse-engineer any Confidential Information, or remove any proprietary markings from any Confidential Information, and (iv) only use the Confidential Information in connection with the performance of this Agreement and for no other purpose. Any Representatives given access to any Confidential Information must have a legitimate "need to know" such information and Recipient shall remain responsible for each Representative's compliance with this Agreement.

10.3 Confidentiality Period. Recipient's obligations with respect to Confidential Information under this Agreement expire five (5) years from the termination or expiration of this Agreement (except that with respect to any trade secrets, the obligations shall be perpetual).

10.4 Exclusions. This Section 10 imposes no obligations with respect to information which (i) was rightfully in Recipient's possession before receipt from Discloser, (ii) is or becomes a matter of public knowledge through no fault of Recipient, (iii) was rightfully disclosed to Recipient by a third party without restriction on disclosure, or (iv) is developed by Recipient without use of the Confidential Information and such independent development can be shown by documentary evidence. Recipient may make disclosures to the extent required by applicable law or legal or governmental authority provided that Recipient provides Discloser prompt notice of any such requirement (to the extent permissible under applicable law) and reasonably cooperates with Discloser in any effort of Discloser to seek a protective order, injunction or to otherwise contest such disclosure, at Discloser's expense. Notwithstanding the above or anything else in this Agreement to the contrary, Recipient's regulators, in the ordinary course of their examinations of the Recipient may have access to the books, records, files and other materials in the possession of the Recipient, including the Confidential Information, and disclosure of the Confidential Information to such examiners solely for purposes of the examination process may occur without prior notice to Discloser.

10.5 Return/Destruction. Upon termination of this Agreement, Recipient shall promptly cease using the Confidential Information. Upon written request from Discloser, Recipient shall (i) at the discretion of Recipient, either destroy or return the Confidential Information and all copies, notes or extracts thereof to Discloser within ten (10) days of receipt of Discloser's request, and (ii) confirm in writing that it has complied with these obligations. Notwithstanding the foregoing, Recipient may retain Confidential Information of Discloser as may be required to fulfill its legal and regulatory obligations and its compliance and recordkeeping obligations, policies and procedures and need not delete electronic copies from ordinary course backups or archives; provided that any such information retained shall be held in confidence and remain subject to the confidentiality provisions set forth herein.

2. Except as set forth in this Amendment, the Agreement is unaffected and shall continue in full force and effect in accordance with its terms. Any further modification or amendment to the Agreement must be set forth in writing in a document executed by both parties.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment on the dates shown below their respective signatures.

nCino	Subscriber
Signature: /s/ Gregory D. Orenstein	**Signature:** /s/ S. Brett Caines
Name: Gregory D. Orenstein	**Name:** Brett Caines
Title: CLO	**Title:** CFO
Date: 4/1/2020	**Date:** 4/1/2020

Exhibit 10.2.2

Amendment

This Amendment ("Amendment") is effective as of the date that both parties have executed this Amendment (the "Amendment Effective Date") and amends the nCino, LLC Software Service Agreement dated November 1, 2012, as amended (the "Agreement") by and between nCino, Inc. ("nCino") and Live Oak Bank ("Subscriber"). Capitalized terms used but not otherwise defined in this Amendment shall have the meanings assigned to them in the Agreement.

In exchange for the consideration detailed herein, and other good and valuable consideration, the receipt of which is acknowledged by both parties, the parties do hereby agree as follows:

1. Subscriber hereby purchases access and use rights for the additional Subscription Services set forth in Exhibit A below (the "Additional Subscription Services") commencing on the Amendment Effective Date. Accordingly: (i) Attachment A to the Agreement shall be amended to include the Additional Subscription Services set forth in Exhibit A below effective as of the Amendment Effective Date, and (ii) the Additional Subscription Services will activate in Subscriber's Org ID 00D3k000000uAXY as soon as practicable following the Amendment Effective Date. The initial invoice for the Additional Subscription Services will be issued as of the date the Additional Subscription Services are activated, pro-rated for the initial year of activation, as applicable. Thereafter, Subscriber will be invoiced the full annual amount of the Fees for the Additional Subscription Services on each annual invoice date for the remainder of the Term of the Agreement. The term for the Additional Subscription Services will run co-terminously with the Term of the Agreement. Any Fees that are billed to Subscriber based on a percentage of the Total Annual Subscription Fees will be amended accordingly to cover the cost of the Additional Subscription Services. Subscriber acknowledges and agrees that (a) it is responsible for reviewing any laws, rules, and regulations applicable to Subscriber, including the CARES Act and the Paycheck Protection Program provided thereto (collectively, the "Regulations"), (b) it is responsible for ensuring Subscriber's compliance with the Regulations, and (c) nCino has no responsibility or obligation for ensuring Subscriber's compliance with the Regulations.

Exhibit A

Module License*	Features	Qty	Price	Annual Subscription Fees
Premium User FSC	•Salesforce CRM Enterprise Edition • Loan Origination • Portfolio Management • Dashboards & Reports • Workflow • Document Generation Engine (Forms) • Document Management • Premium User • Salesforce Financial Services Cloud	20	$145/User/Month	$34,800

*The specific features, functionality and limitations of the Operator Type(s) are set forth in the Documentation.

2. Except as set forth in this Amendment, the Agreement is unaffected and shall continue in full force and effect in accordance with its terms. Any further modification or amendment to the Agreement must be set forth in writing in a document executed by both parties.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment on the dates shown below their respective signatures.

nCino	Subscriber
Signature: /s/ Charles Ragland	**Signature:** /s/ Brian Lora
Name: Charles Ragland	**Name:** Brian Lora
Title: Global Sales Operations	**Title:** CTO
Date: 4/5/2020	**Date:** 4/5/2020

<u>Amendment</u>

This Amendment ("Amendment") is effective as of the date that both parties have executed this Amendment (the "Amendment Effective Date") and amends the nCino, LLC Software Service Agreement dated November 1, 2012, as amended (the "Agreement") by and between nCino, Inc. ("nCino") and Live Oak Bank ("Subscriber"). Capitalized terms used but not otherwise defined in this Amendment shall have the meanings assigned to them in the Agreement.

In exchange for the consideration detailed herein, and other good and valuable consideration, the receipt of which is acknowledged by both parties, the parties do hereby agree as follows:

1. This Amendment shall supersede the Amendment dated April 17, 2020 by and between the parties which is hereby terminated and of no further force or effect.

2. Commencing on the Amendment Effective Date and subject to the terms and conditions of this Amendment and the Agreement, nCino grants Subscriber a limited, non-exclusive, non-transferable, non-sublicensable right for the Operators set forth in <u>Exhibit A</u> below to access and use the additional Subscription Services set forth in <u>Exhibit A</u> below ("Additional Services") solely for Subscriber's internal business purposes to make loans to Subscriber's customers pursuant to the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). Accordingly: (i) Attachment A of the Agreement shall be amended to include the Additional Services effective as of the Amendment Effective Date, (ii) Subscriber will be provisioned the Additional Services within org ID: 00D3k000000kaRB ("Org #1") and org ID: 00D3k000000uAXY ("Org #2"), as set forth in <u>Exhibit A</u> below, and (iii) the Additional Services will activate as soon as practicable following the Amendment Effective Date. The term for the Additional Services within Org #1 will be one (1) year from April 14, 2020 and the term for the Additional Services within Org #2 will be from the April 22, 2020 until November 26, 2020. To the extent the term of the Additional Services extends beyond the Term of the Agreement, the Agreement shall continue in full force and effect with respect to the Additional Services until the expiration or termination of the Additional Services. Subscriber acknowledges and agrees that (a) it may only use the Additional Services to make and service PPP loans to its customers under the CARES Act and for no other purpose, (b) it is responsible for reviewing any laws, rules, and regulations applicable to Subscriber, including the CARES Act and the PPP (collectively, the "Regulations"), (c) it is responsible for ensuring Subscriber's compliance with the Regulations, and (d) nCino has no responsibility or obligation for ensuring Subscriber's compliance with the Regulations.

Exhibit A

Org #1: Org ID: 00D3k000000kaRB

Module License(s)*	Features	Quantity	Price***	Total Annual Fees
nCino Limited Seat**	•Access to nCino functionality •Salesforce basic Platform functionality	355 Operator(s)****	$0/Operator/Month	$0
nCino Standard Admin Seat	•Functionality for product release management into nCino Sandbox test environment •Release of features into live production environment •Continuous improvement suggestion management and release of new enhancements into live production environment •User set-up / permissions / accessibility management	25 Operator(s)****	$0/Operator/Month	$0
nCino Customer Community Plus	•Roles and Sharing •Delegated Administration capabilities •Tasks	35,000 Logins/Month	$0/Login/Month	$0
		Salesforce Shield Bundle		$0
		Annual Support and Maintenance		$0

Org #2: Org ID: 00D3k000000uAXY

Module License(s)*	Features	Quantity	Price***	Total Annual Fees
nCino Limited Seat**	•Access to nCino functionality •Salesforce basic Platform functionality	225 Operator(s)****	$0/Operator/Month	$0
		Annual Support and Maintenance		$0

*The specific features, functionality and limitations of the Module Licenses are set forth in the Documentation. The Subscription Services include a specific amount of data and file storage capacity. Additional storage capacity can be purchased if needed.

**Limited Operators are restricted from using the Subscription Services for any purpose other than for Small Business Loans.

***Subscriber has contracted with Accenture LLP ("Accenture") for Accenture to facilitate, as the lead of a consortium of companies that will provide several products and services to Subscriber in connection with the PPP, Subscriber making and processing PPP loans to its customers pursuant to the PPP (the "Project"). The parties acknowledge that nCino is supplying the Additional Services to Subscriber specifically for the Project and that Subscriber's payment for access to, and use of, such Additional Services will pass through Accenture (that is, Subscriber will pay Accenture the agreed upon fees for the entire consortium of products being provided and then Accenture will pay nCino, along with each of the other consortium members, the fees agreed upon between Accenture and each consortium member for the products and services each such consortium member provides for the Project).

****Any Accenture personnel granted access to and/or use of the Subscription Services by Subscriber for the Project shall be considered Operators (as such term is defined in the Agreement).

3. Subscriber acknowledges and agrees that it shall solely look to, and solely seek recourse from, Accenture (and not from Vendor) in connection with any questions, issues, support needs, liability or losses arising out of or relating to the Project, the Additional Services or this Amendment.

4. Except as set forth in this Amendment, the Agreement is unaffected and shall continue in full force and effect in accordance with its terms. Any further modification or amendment to the Agreement must be set forth in writing in a document executed by both parties.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment on the dates shown below their respective signatures.

nCino	**Subscriber**
Signature: /s/ David Rudow	**Signature:** /s/ Mark Moroz
Name: David Rudow	**Name:** Mark Moroz
Title: Chief Financial Officer	**Title:** EVP – Head of Product
Date: 4/24/2020	**Date:** 4/24/2020

Exhibit 31.1

Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James S. Mahan III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Live Oak Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

/s/ James S. Mahan III
James S. Mahan III
Chief Executive Officer
(principal executive officer)

Exhibit 31.2

Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, S. Brett Caines, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Live Oak Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

/s/ S. Brett Caines
S. Brett Caines
Chief Financial Officer
(principal financial officer)

Exhibit 32

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Live Oak Bancshares, Inc., a North Carolina corporation (the "Company"), does hereby certify that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2020

/s/ James S. Mahan III
James S. Mahan III
Chief Executive Officer
(principal executive officer)

Date: August 5, 2020

/s/ S. Brett Caines
S. Brett Caines
Chief Financial Officer
(principal financial officer)

This certification is being furnished solely to accompany the Form 10-Q pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of the Form 10-Q, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.