

# Live Oak Bank



The Next Generation, Completely Digital, Business Bank



LIVE OAK BANK

## LIVE OAK BANCSHARES | FORWARD LOOKING STATEMENTS

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

- deterioration in the financial condition of borrowers resulting in significant increases in the our loan 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 our status as an SBA Preferred Lender;
- 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 losses;
- changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments;
- a reduction in or the termination of our ability to use the technology-based platform that is critical to the success of our business model, including a failure in or a breach of our operational or security systems or those of its third party service providers;
- changes in financial market conditions, either internationally, nationally or locally in areas in which we conducts operations, including reductions in rates of business formation and growth, demand for our products and services, commercial and residential real estate development and prices, premiums paid in the secondary market for the sale of loans, and valuation of servicing rights;
- changes in accounting principles, policies, and guidelines applicable to bank holding companies and banking;
- fluctuations in markets for equity, fixed-income, commercial paper and other securities, which could affect availability, market liquidity levels, and pricing;
- the effects of competition from other commercial banks, non-bank lenders, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and mutual funds, and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone and the Internet;
- our ability to attract and retain key personnel;
- governmental monetary and fiscal policies as well as other legislative and regulatory changes, including with respect to SBA lending programs;
- changes in political and economic conditions, including continuing political and economic effects of the global economic downturn and other major developments;
- the impact of heightened regulatory scrutiny of financial products and services, primarily led by the Consumer Financial Protection Bureau;
- our ability to comply with any requirements imposed on us by our regulators, and the potential negative consequences that may result;
- operational, compliance and other factors, including conditions in local areas in which we conduct business such as inclement weather or a reduction in the availability of services or products for which loan proceeds will be used, that could prevent or delay closing and funding loans before they can be sold in the secondary market;
- the effect of any mergers, acquisitions or other transactions, to which we may from time to time be a party, including management’s ability to successfully integrate any businesses that we acquire;
- other risk factors listed from time to time in reports that we file with the SEC, including in our registration statement on Form S-1 (File No. 333-205126), as amended; and
- our success at managing the risks involved in the foregoing.

Given these risks, uncertainties and other factors, you should not place undue reliance on these forward looking statements. Moreover, these forward-looking statements speak only as of the date they are made and based only on information actually known to us at the time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Except as otherwise disclosed, forward-looking statements do not reflect: (i) the effect of any acquisitions, divestitures or similar transactions that have not been previously disclosed; (ii) any changes in laws, regulations or regulatory interpretations; or (iii) any change in current dividend or repurchase strategies, in each case after the date as of which such statements are made.

# Live Oak Revenue Generation

Typical \$1 Million Loan		
<b>75% Guaranteed</b>		<b>750,000</b>
Gain on Sale	10%	75,000
Servicing Income	1%	7,500
<b>15% Unguaranteed</b>		<b>150,000</b>
Participated Loan	15%	150,000
Gain On Sale	1%	1,500
<b>10% Unguaranteed</b>		<b>100,000</b>
Retained Portion	10%	100,000
Interest Income P+2%	5.25%	5,250
<b>TOTAL EXPOSURE</b>		<b>100,000</b>
Year 1 Revenue		89,250
Recurring Revenue (Yr. 1)		12,750

Income Statement	
Year ended December 31, 2015 (in \$000s)	
Interest Income	34,451
Interest Expense	8,862
Net Interest Income	25,589
Loan Loss Provision	3,806
Net Income After Provision	21,783
Net gains on sales of loans	67,385
Loan servicing revenue	16,081
Loan servicing revaluation	(6,229)
Other noninterest income	7,091
Total Noninterest Income	84,328
Total Noninterest Expense	71,715
Income before Taxes	34,396



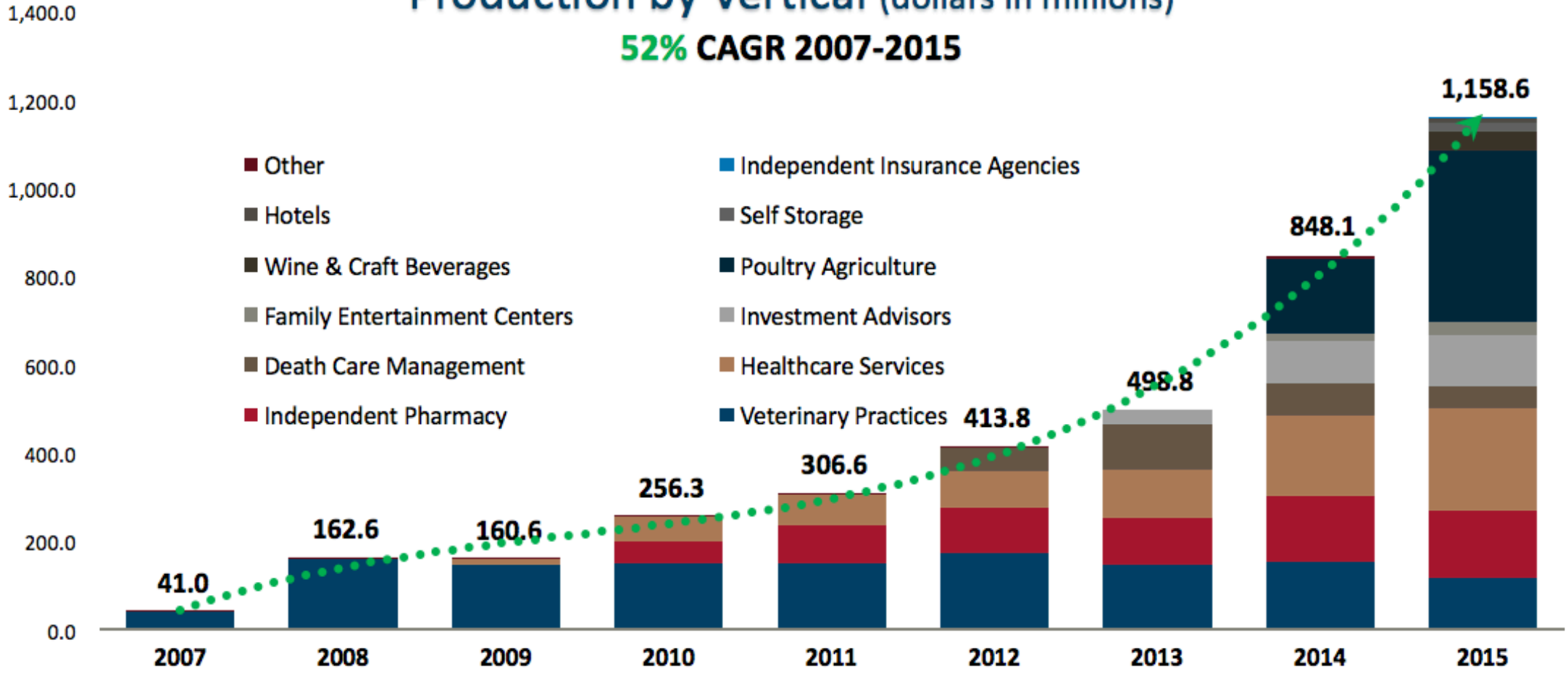
1) Represents the combination of a \$2.2 million loss of non-consolidated affiliates, a \$74 thousand loss from the sale of investment securities AFS, and \$1.7 million of other noninterest income.

# Production Growth & Platform Scalability

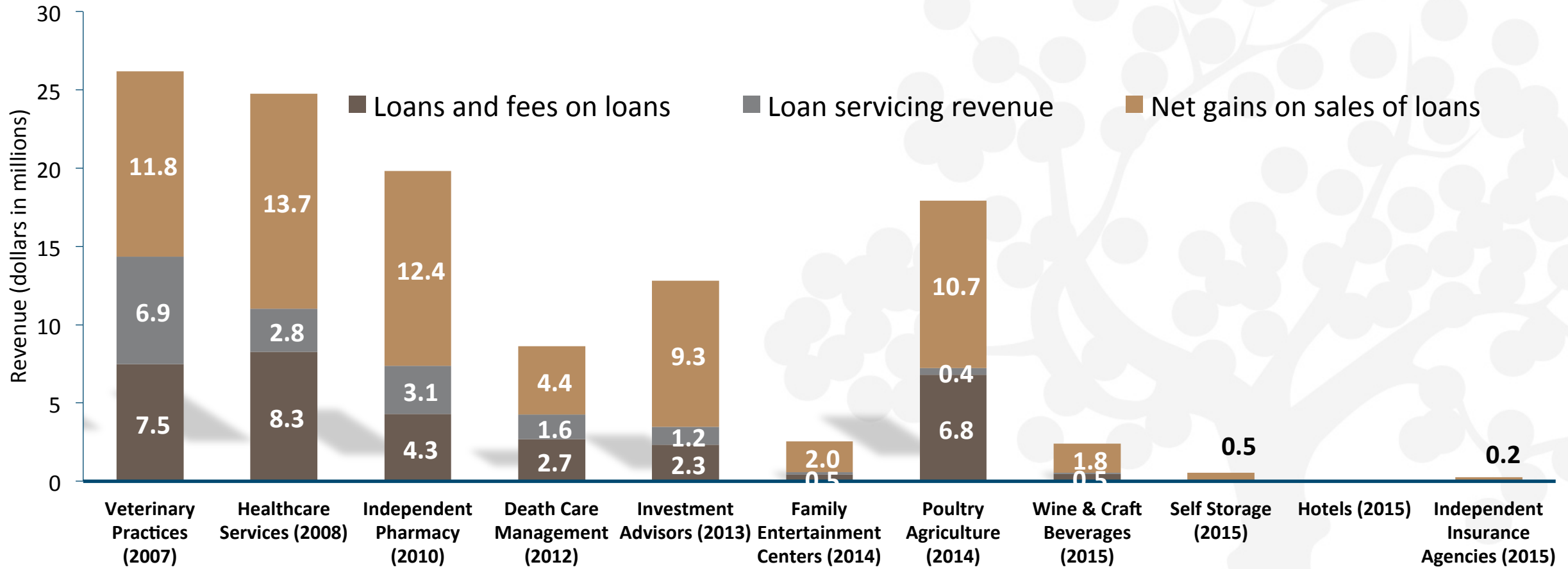
Verticality

## Production by Vertical (dollars in millions)

**52% CAGR 2007-2015**



# Revenue over Time by Key Verticals (Year Ended December 31, 2015)



Verticals (Year of 1st Originations)

# Just for Grins – A Lookback

	2015	2014	2013
Net interest income, servicing revenue & gains on sale of loans	\$109.1M	\$77.5M	\$59.3M
Adjusted Pre-Tax Net Income <small>(see below)</small>	\$30.6M	\$22.1M	\$15.7M
Capital	\$199.5M	\$91.8M	\$48.4M
Headcount	337	192	141
Production	\$1,158.6M	\$848.1M	\$498.8M
<b>Reconciliation of reported pre-tax net income to pre-tax net income adjusted for non-recurring income and expenses</b>			
Pre-Tax Net Income (as reported)	\$34.4M	\$17.4M	\$27.9M
Non-Operating Revenue Adjustments <small>(1)</small>	\$(3.8)M	-	\$(12.2)M
Non-Operating Expense Adjustments <small>(2)</small>	-	\$4.7M	-
Adjusted Pre-Tax Net Income	\$30.6M	\$22.1M	\$15.7M
<small>(1) Non-operating revenue adjustments consist of a \$3.8 million gain on sale of non-consolidated affiliate investment in 2015 and a \$12.2 million gain on deconsolidation of subsidiary in 2013.            (2) Non-operating expense adjustments consist of \$1.7 million in costs related to exploration of alternative capital raises and \$3.0 million in stock grants, all of which were in 2014.</small>			

# Continued Growth

Loan Originations	<u>2013</u>	<u>2014</u>	<u>2015</u>
	\$498.8 million	\$848.1 million	\$1,158.6 million
<b>Verticals</b>	Veterinary	Veterinary	Veterinary
	Healthcare	Healthcare	Healthcare
	Pharmacy	Pharmacy	Pharmacy
	Death Care	Death Care	Death Care
		Investment Advisors	Investment Advisors
	Chickens	Chickens	

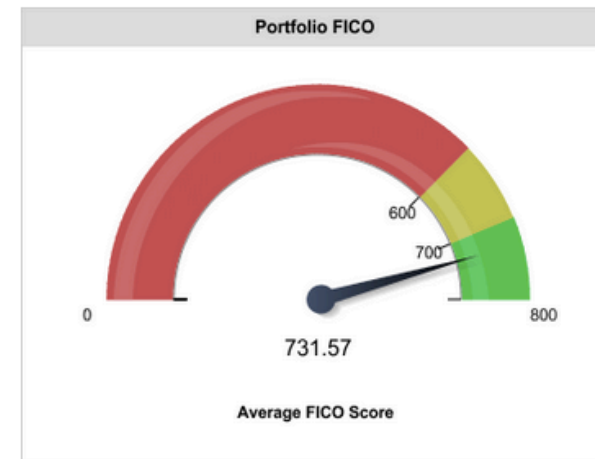
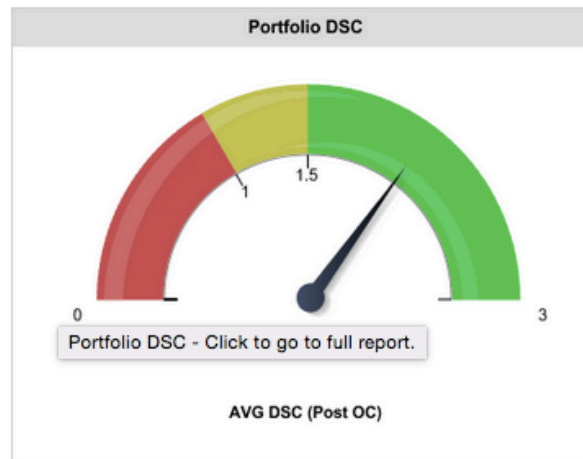
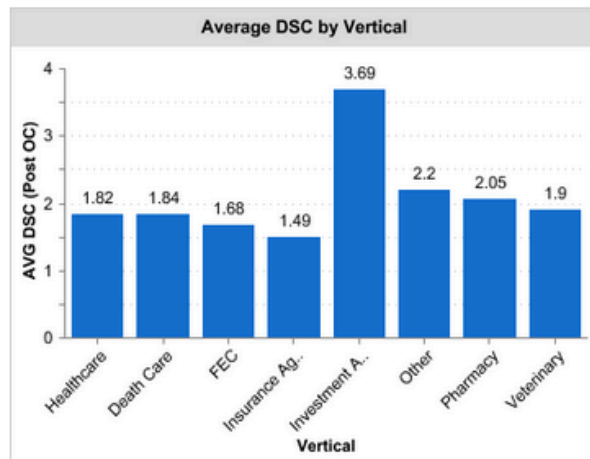
In each year listed above, in excess of 90% of our originations were in the noted verticals. We currently operate in Family Entertainment, Hotels, Wine & Craft Beverage, Self-Storage, Insurance Agents, and eLending

## 2016 Expectations

- 15% to 20% growth over 2015 in loans originated (\$1.35 Billion to \$1.40 billion)
- 40% to 45% of loans fully funded at closing

# Portfolio Characteristics

- Granular: \$340 million of unguaranteed exposure (\$133,000 per loan)
- Geographic Diversity: California largest concentration (13% of portfolio)
- Avg. DSCR approximately 2.0 to net operating income (Based on latest financial statement)
- Historical Avg. borrower FICO greater than 700
- 0.41% 2014 Net Charge-offs Unguaranteed
- 0.30% Q1 2015 Net Charge-offs Unguaranteed
- 2.61% NPLs to total assets at March 31, 2015
- 0.41% UnGty NPLs to total assets at March 31, 2015
- 0.21% LOB Unguaranteed Participants





# Safety & Soundness

- Portfolio Average DSCR greater than 2.0x
- Portfolio Average FICO greater than 700
- Net charge-offs were \$205 thousand in the fourth quarter of 2015

As of and for the three months ended

	4Q 2015	3Q 2015	2Q 2015	1Q 2015	4Q 2014
<b>Asset Quality Ratios</b>					
Allowance for loan losses to loans held for investment	2.65%	2.37%	2.18%	2.37%	2.16%
Net charge-offs to average loans held for investment	0.30	0.40	0.17	0.47	1.15
Nonperforming loans not guaranteed by the SBA and foreclosures	2,410	2,610	3,123	2,968	3,508
Nonperforming loans not guaranteed by the SBA and foreclosures to total assets	0.23%	0.26%	0.35%	0.41%	0.52%

# Fourth Quarter 2015 Highlights

Financials

- Loan production totaled \$330.8 million
- Guaranteed loans sold in the secondary market rose to \$219.3 million
- Net gains on loan sales grew to \$20.8 million
- Combined net interest and servicing revenues increased to \$12.9 million
- Nonperforming loans (unguaranteed) declined to \$2.0 million in Q4 2015 versus \$2.6 million in Q3 2015.

# Year over Year Highlights

Financials

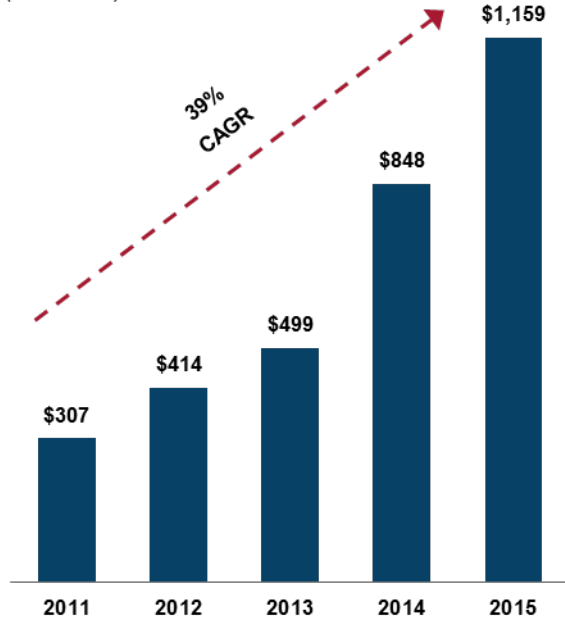
(Dollars in millions, except per share data)

	2015	2014	Increase	
			Dollars	Percent
Net income	\$ 20.6	\$ 10.0	\$ 10.6	106%
Basic EPS	0.66	0.42	0.24	57
Diluted EPS	0.65	0.41	0.24	59
Loan production	1,158.6	848.1	310.5	37
Loan sales	640.9	433.9	207	48
Net gains on sales of loans	67.4	50.0	17.4	35
Net interest income	25.6	14.7	10.9	74
Loan servicing revenue	16.1	12.8	3.3	26

# Year over Year Growth

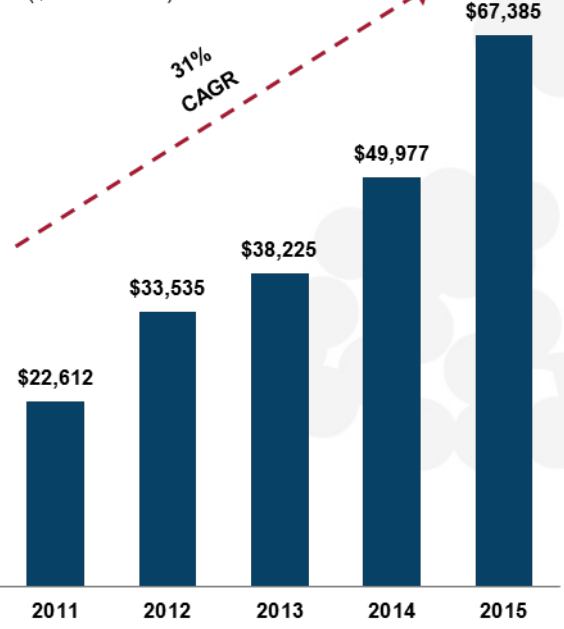
## Originate

Loans Originated  
(\$ millions)



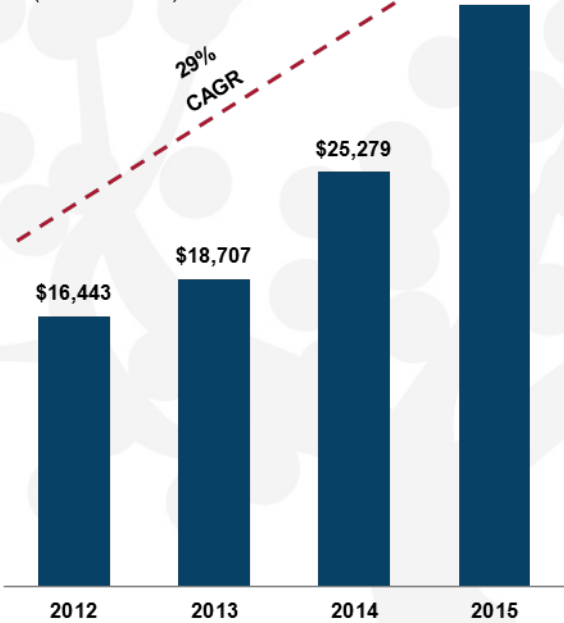
## Sell

Net Gain on Sale  
(\$ thousands)



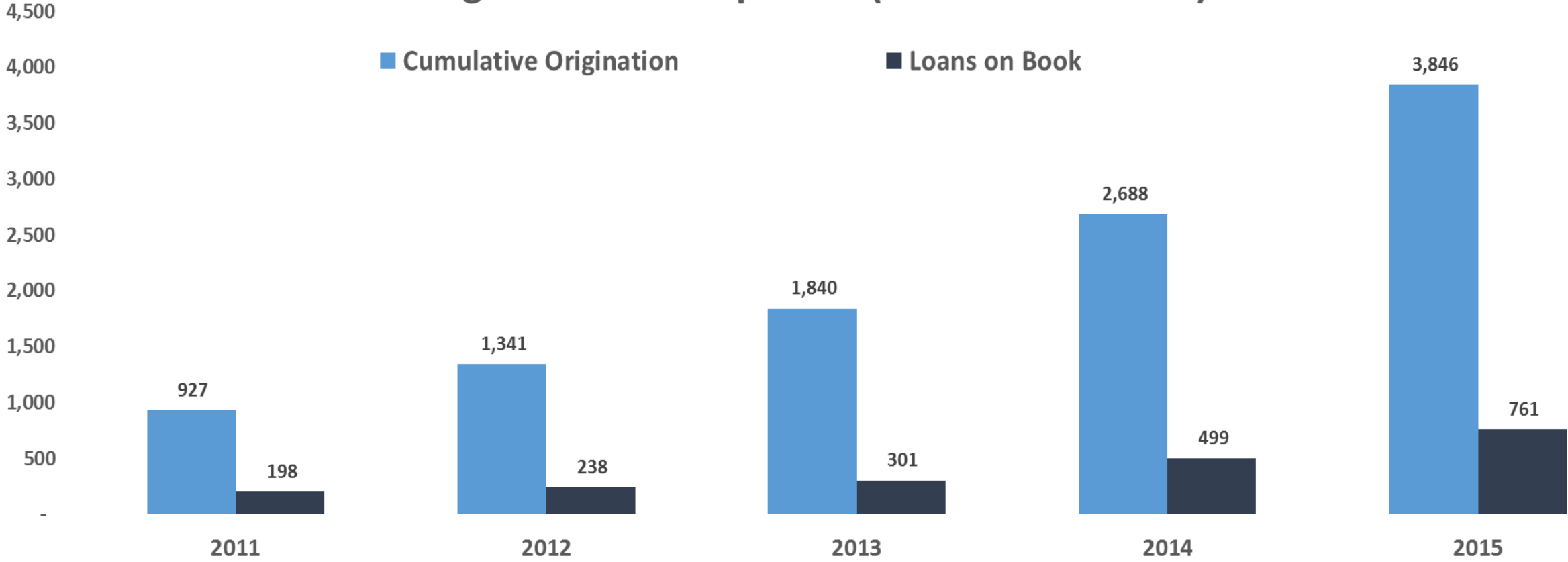
## Service

Recurring Revenue  
(\$ thousands)

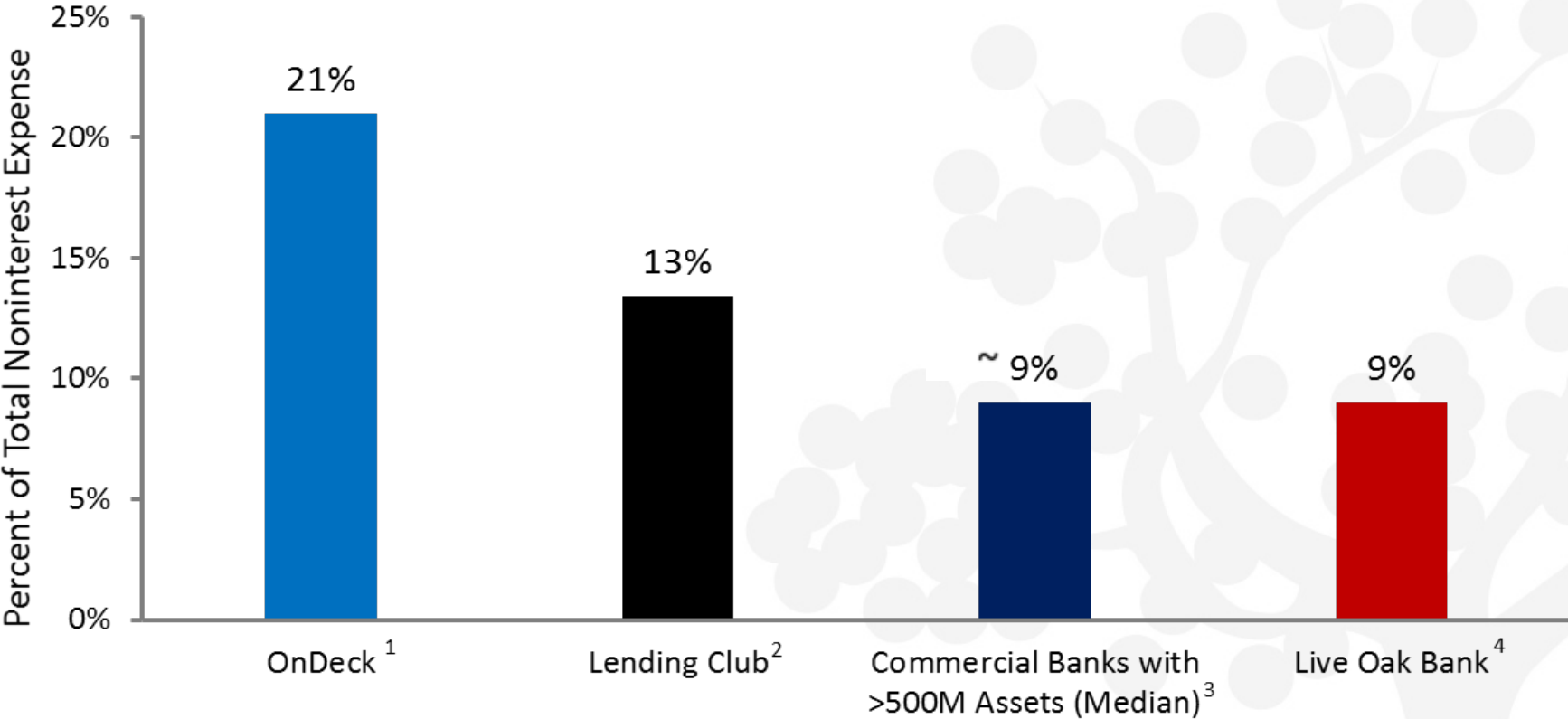


# Capital Efficiency

### Loan Origination and Exposure (dollars in millions)



# Technology Spend as a Function of NIE



<sup>1</sup> 2014 OnDeck S-1 Filing: Technology and Analytics/Total Operating Expenses

<sup>2</sup> 2014 Lending Club S-1 Filing: Engineering and Product Development/Total Operating Expenses

<sup>3</sup> 2012 ICBA Community Bank Technology Survey Results (Technology Spend as a Percent of Noninterest Expense); 52% of community banks of this asset size spent less than 9% on technology as a percent of Noninterest expense

<sup>4</sup> 2015 Live Oak Technology Expenses include all costs related to Developers, IT and any other tech related expense across the organization



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