

# Live Oak Bancshares

Fourth Quarter 2017



LIVE OAK  
BANCSHARES

## 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,” “would,” “should,” “could,” “expect,” “anticipate,” “estimate,” “believe,” “plan,” “intend,” “project,” “goals,” “outlook,” or “continue,” or the negative thereof or other variations thereof or comparable terminology. These statements represent our judgment concerning the future and are subject to business, economic and other risks and uncertainties, both known and unknown. These statements are based on current expectations, estimates and projections about our business, management’s beliefs and assumptions made by management. These statements are not guarantees of our future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in the forward-looking statements. These risks, uncertainties and assumptions include, without limitation:

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

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

# 2017 Highlights & Beyond

- **First – The “Noise”**

- FDC/LOB joint venture – Apiture: One-time gain of \$68 million
- Reltco and M&A expenses of approximately \$8 million
- DTL revaluation of approximately \$19 million (income tax credit)

- **Strong Core Operating Business**

- YoY loan originations – up 26% from \$1.54 to \$1.93 billion
- Our march to increasing recurring revenue while surgically enhancing ROE through strategic loan sales continues
- Excellent credit quality
- Capital generation allows us to grow without diluting shareholders

- **Software Development 2.0**

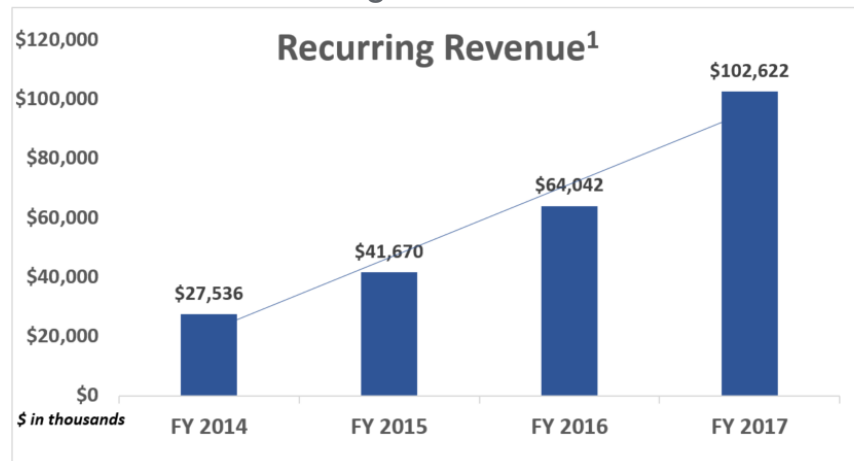
- The left side of the balance sheet – nCino, noted by industry leaders, has made commercial loan origination easier
- The right side of the balance sheet – Apiture will expose next gen deposit technology to over 500 banks

# Growing Recurring Revenue Annually

CAGR

## 55%

Recurring Revenue<sup>1</sup> Growth



37%

38%

47%

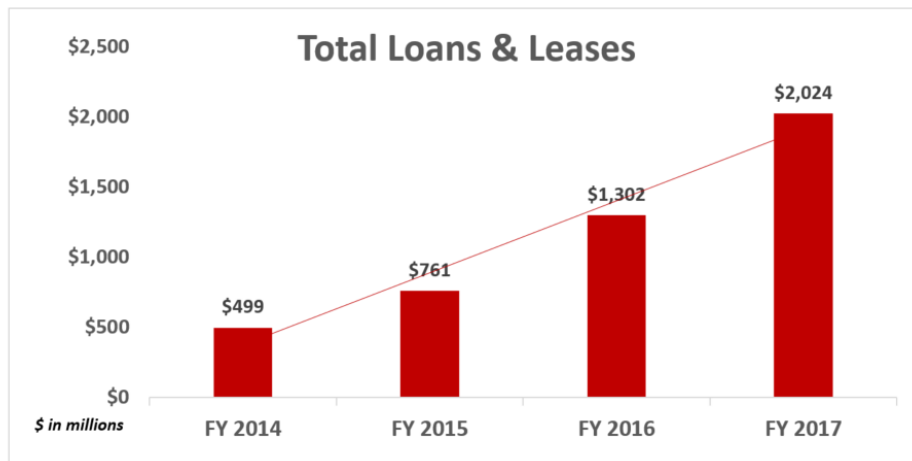
56%

Recurring Revenue as a percent of Total Revenue<sup>2</sup>

CAGR

## 59%

Portfolio Growth



32%

34%

33%

39%

Guaranteed Loans as a percent of Total Loans & Leases

1. Net Interest Income plus Loan Servicing Revenue
2. Q4 2017 excludes one-time gain of \$68 million



# Growing Recurring Revenue Quarterly

Year-Over-Year

## 60%

Recurring Revenue<sup>1</sup> Growth



47%

52%

55%

60%

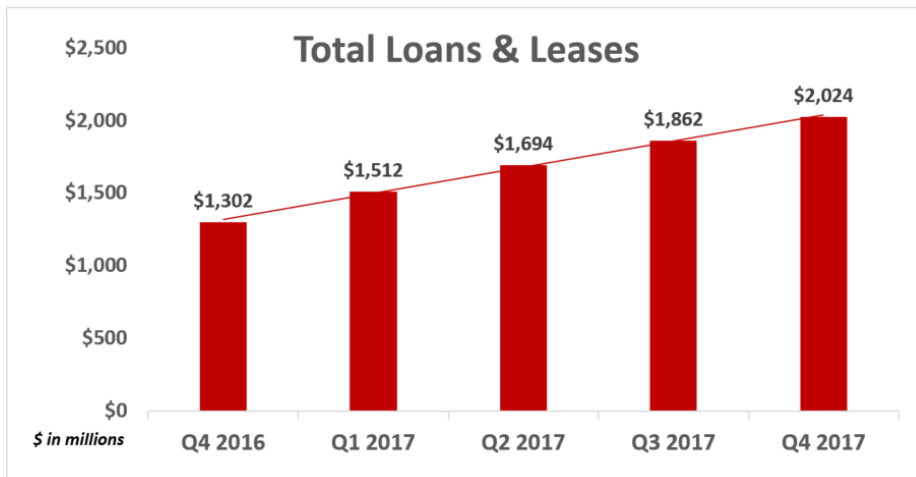
58%

Recurring Revenue as a percent of Total Revenue<sup>2</sup>

Year-Over-Year

## 56%

Portfolio Growth



33%

37%

38%

39%

39%

Guaranteed Loans as a percent of Total Loans & Leases

1. Net Interest Income plus Loan Servicing Revenue

2. Q4 2017 excludes one-time gain of \$68 million

# Q4 2017 – Strong Credit Quality

**28 bps**

Versus Q3 2017 of 34 bps  
Annualized Net CO to  
Average Loans & Leases HFI

**1.80%**

Versus Q3 2017 of 1.80%  
ALLL to Loans & Leases HFI

**\$3.7 million**

Versus Q3 2017 of \$3.7 million  
Unguaranteed Nonperforming Loans &  
Foreclosures

**13 bps**

Versus Q3 2017 of 15 bps  
Unguaranteed Nonperforming Loans &  
Foreclosures to Total Assets

# A Strong Balance Sheet

**\$437**

million

**Total Equity**

**\$24**

million

**Loan Loss Reserve**

**\$1.25**

billion

**Unguaranteed Loan Exposure**

*Total Equity + Reserve*  
*Unguaranteed Exposure*



**37%**

**Coverage**

**\$2.76**

billion

**Total Assets**

**\$304**

million

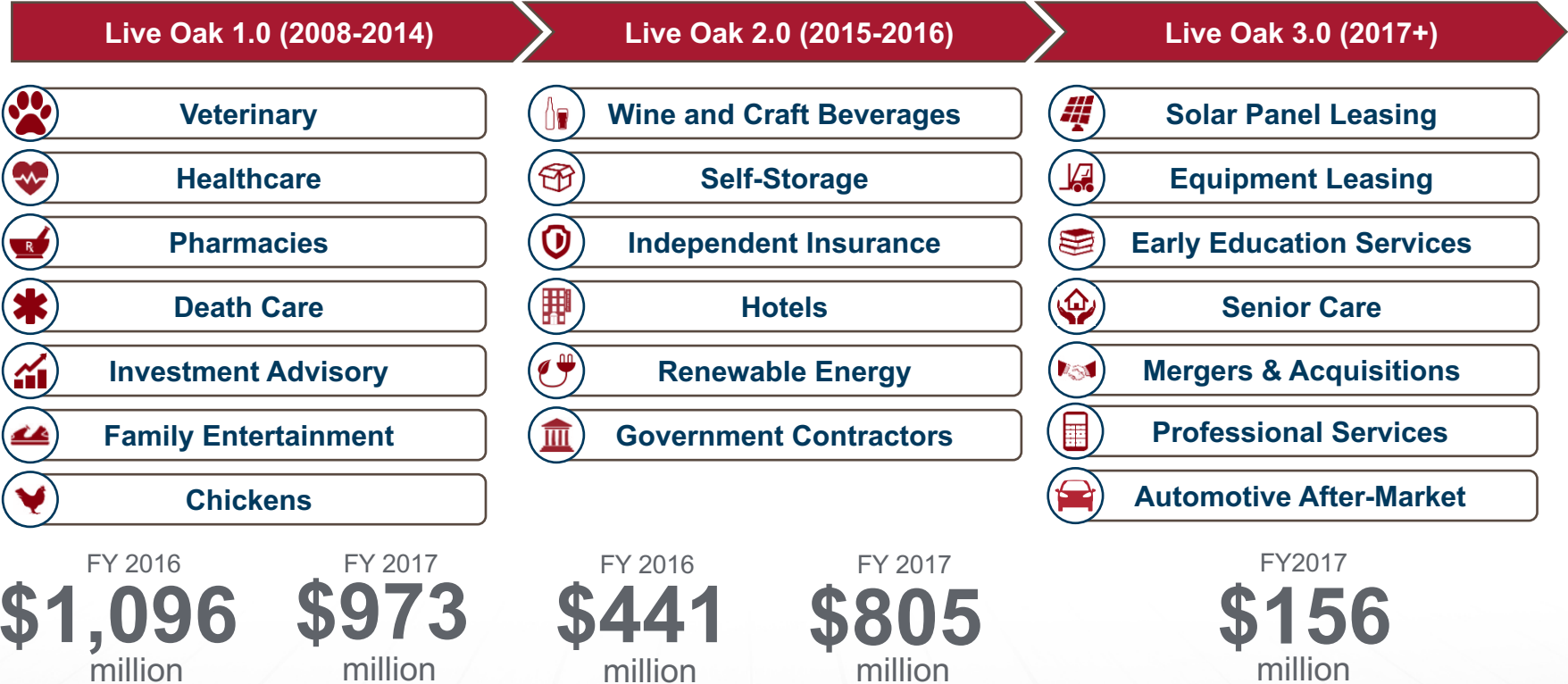
**Treasure Chest**

**\$3.6**

million

**Nonperforming  
Loans, unguaranteed**

# Proven Scalable Business Model





# Scalability

FY 2017  
Originations

Direct Operating Cost<sup>1</sup>  
per \$1 million Originations

Direct Operating<sup>1</sup> Cost  
to Revenue<sup>2</sup>

Fully Funding  
% of Originations

## 1.0

\$973  
million

\$22.4  
thousand

16%

40%

Verticals 1.0

## 2.0

\$805  
million

\$16.2  
thousand

25%

54%

Verticals 1.0

## 3.0

\$156  
million

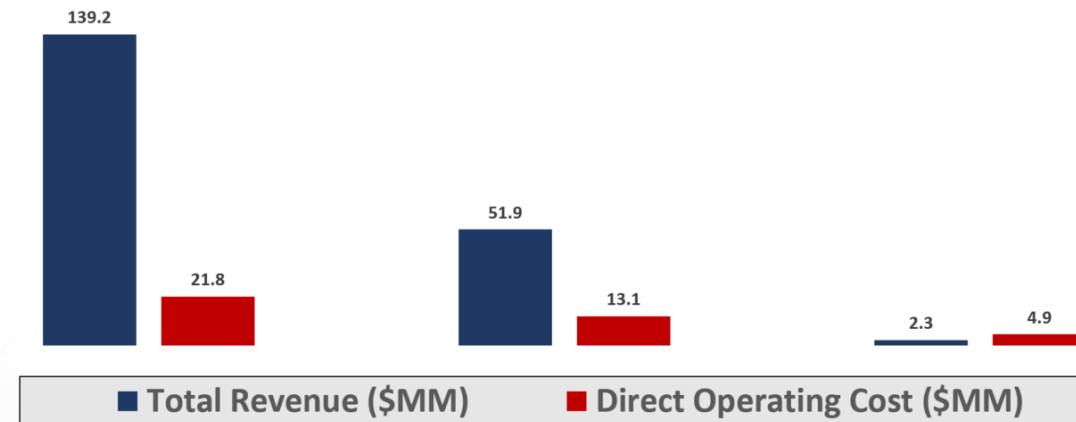
\$31.6  
thousand

217%

69%

Verticals 1.0

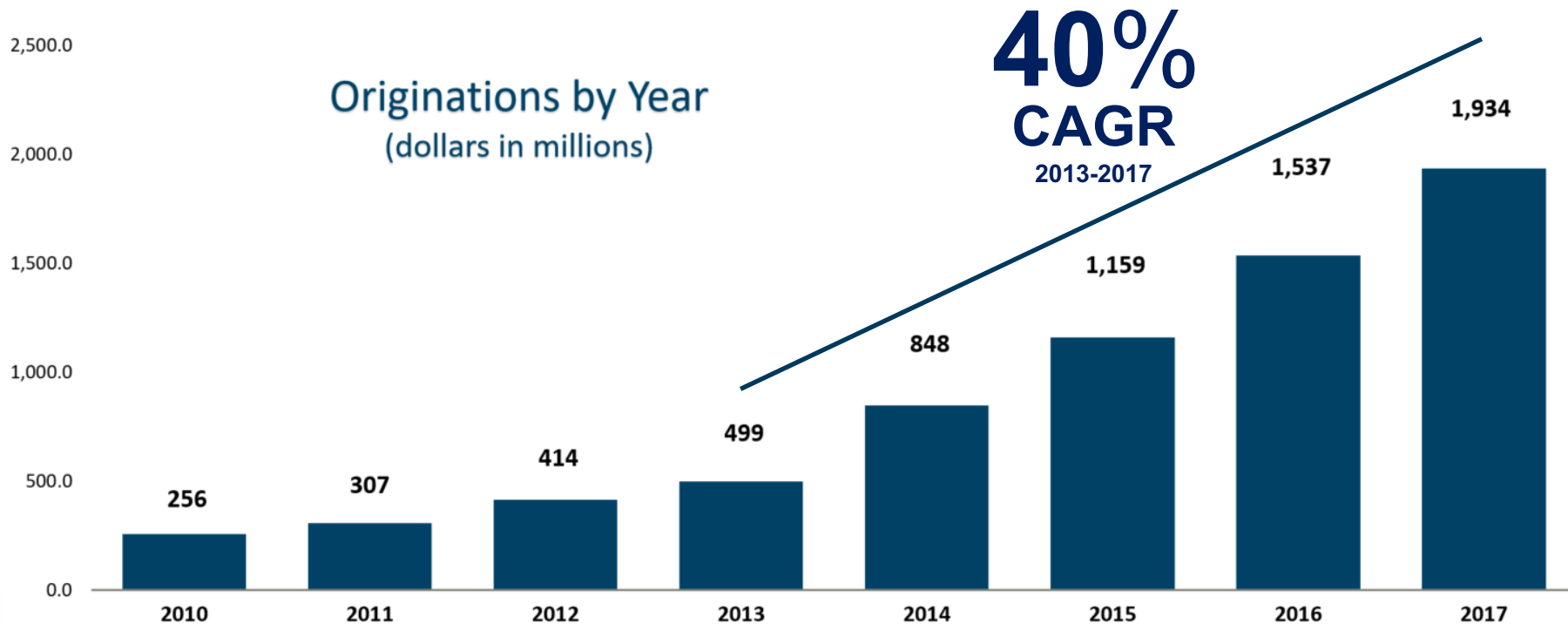
## Model Leverage



1. Direct operating costs are management-defined direct costs associated with the origination and servicing activities of the Verticals which excludes corporate/support expenses of the Bank not allocated to specific verticals and Live Oak Bancshares expenses.

2. Revenue includes loan interest & fee income and the components of noninterest income related to the activities of Live Oak Banking Company.

# Robust Loan & Lease Origination



# Online Savings Portfolio Increases 52%

## FY Savings Origination

# \$577 million

7,516 new accounts

Savings Stats (launched June 21, 2017):

**39**

Avg Daily New  
Accounts

**\$3.0 million**

Avg Daily New  
Balances

**\$77k**

Average Balance

## Deposits Portfolio as of 12/31/17:

# \$2.3 billion

11% Q4 Growth / 52% YoY Growth

Portfolio Stats:

**17,344**

Open Accounts

**73% / 27%**

Core vs. Brokered

**1.43%**

Cost of Funds

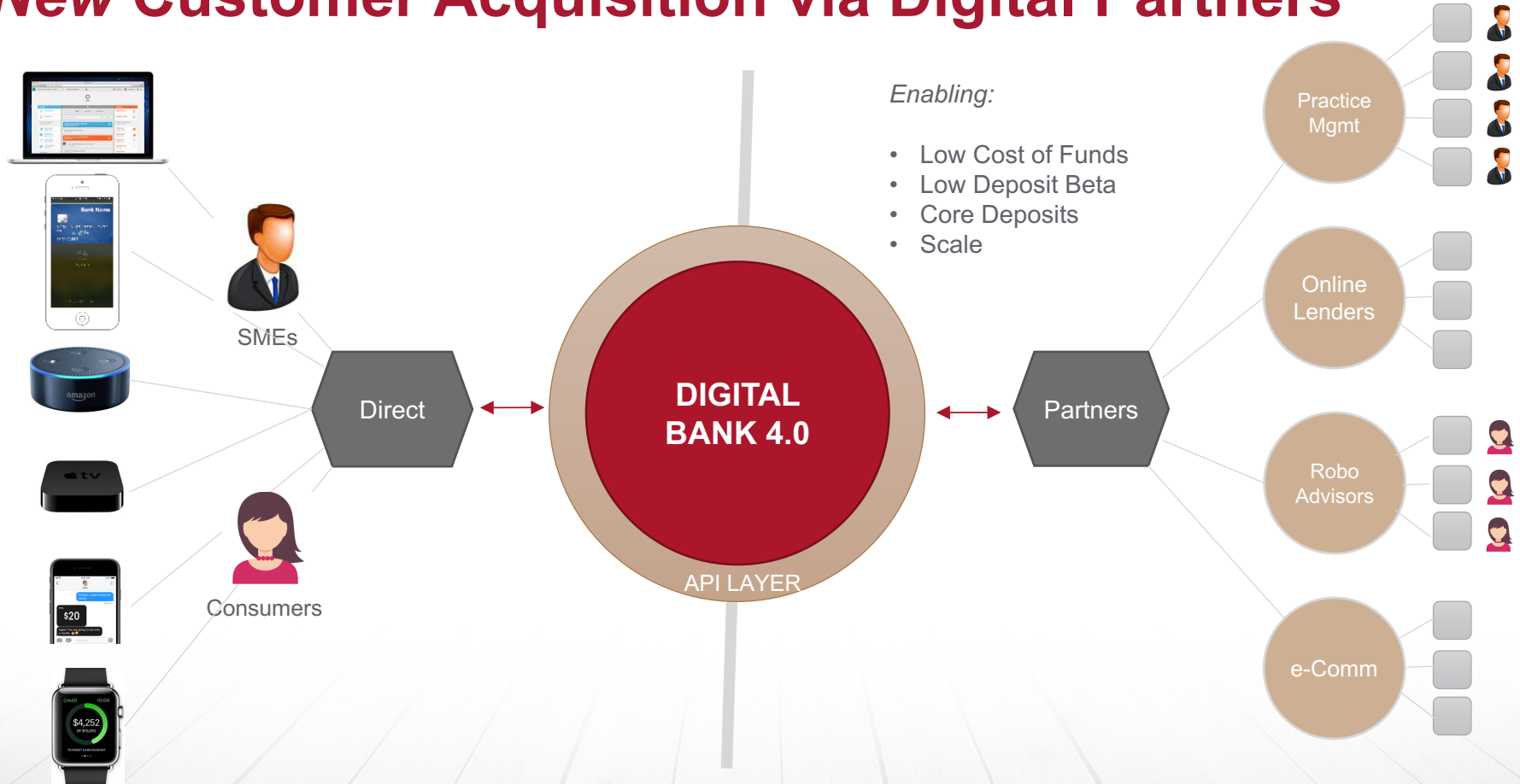
## **Q4 2017 Accomplishments**

- Mobile Banking App Launch
  - Fully functional banking experience via a phone or tablet
- New Savings Ad Campaign for Print & Digital

## **On the Horizon**

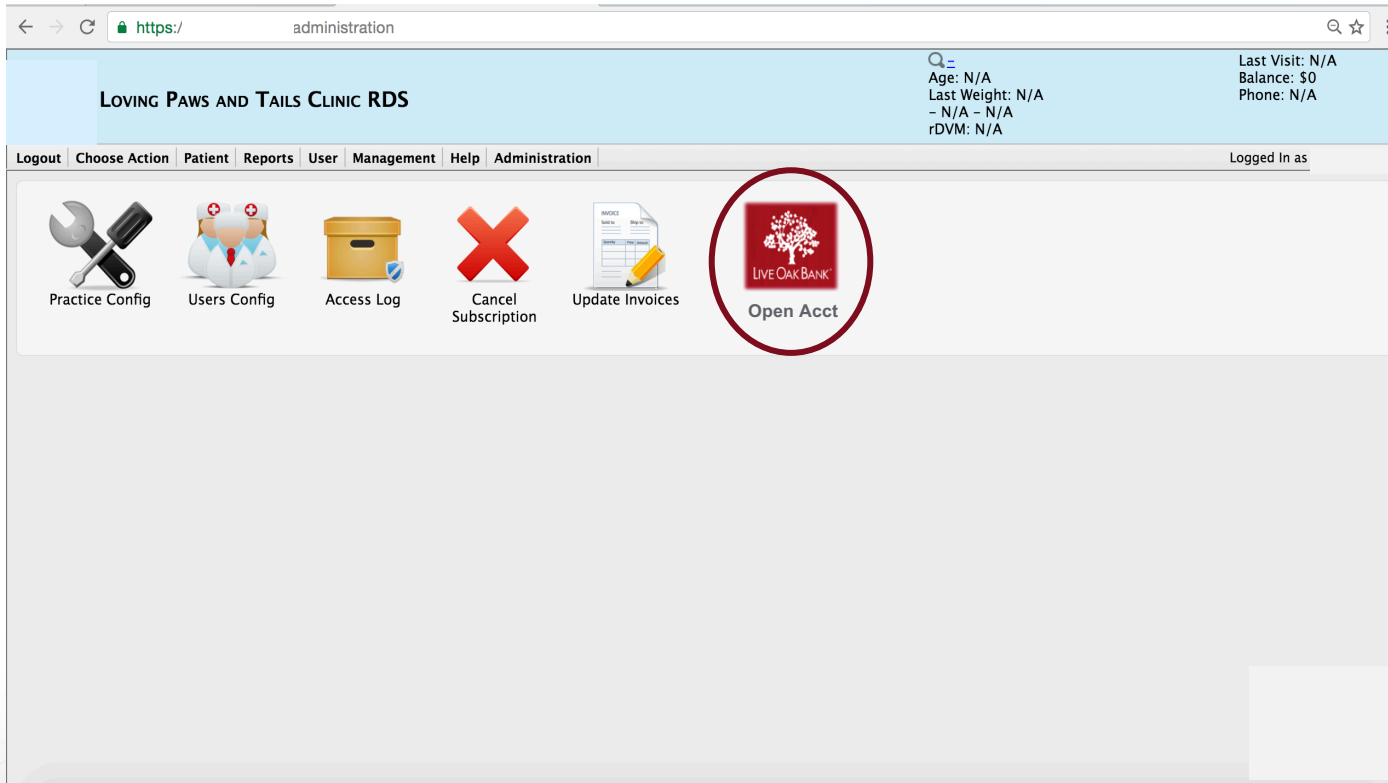
- Business & Consumer Checking products integrated with Finxact core & Payrailz

# New Customer Acquisition via Digital Partners



# Setup Vet Practice

- Setup Vet practice and open LOB account during initial setup



# Setup Practice + LOB Account

- Open Savings, CD accounts now, checking later

inistration/practice-config

**LOVING PAWS AND TAILS CLINIC RDS**

Logout Choose Action Patient Reports User Management Help Administration

Units: english Apply

**Practice Locations**

Location Name	Address 1	Address 2	City	State	Zip	Phone 1	Primary
Loving Paws and Tails Clinic RDS	123 Main Street	Suite 100	Lexington	Kentucky	40505	859-123-4567	<input checked="" type="radio"/>
AI Animal Clinic	456 Rose Street		Brisbane	Queensland	4101	859-456-7890	<input type="radio"/>
NZ 4042 Vet				North Carolina			<input type="radio"/>
Boarding Facility	123 Main Street		Lexington	Kentucky	40505	859-123-4567	<input type="radio"/>
Jack's Animal Rescue	300 North Broadway		Amytown	Kentucky	40511	859-555-5555	<input type="radio"/>

**Location Name:** Loving Paws and Tails Clinic RDS **Primary:** Yes No

**Address 1:** 123 Main Street **City:** Lexington **State:** Kentucky **Zip Code:** 40505

**Address 2:** Suite 100 **Phone 1:** 859-123-4567 **Phone 2:**

**Address 3:** **Phone 3:** **Fax:** 8591231244

**Time Zone:** (UTC-05:00) Eastern Time (US & Canada)

Apply

API Call

**LIVE OAK BANK**

Accounts Move Money Merchant Vault Timeline Services Preferences Logout

**My Accounts** All Business Personal

Operating Account \$87,442<sup>28</sup>

Payroll Account \$34,052<sup>21</sup>

Greenberg's CD \$100,000<sup>98</sup>

Open New Account +

**Managing Account:** Operating Account \*\*\*\*\*1234

**Business Information** Ownership Regulatory

Choose an existing business: Business Option 1 Associated Accounts: LOB Checking, LOB CD

View documents associated with this business

**Business Information**

Live Business Name: D.T. Dentistry, LLC Doing Business As (DBA): Dave's Mobile Molar Removal

Legal Structure: Limited Liability Company Tax ID: \*\*\*7654

U.S. Citizen: Yes Industry: Dental

Business Phone: (348) 345-7456

**Business Address**

Street Address 1: 3715 Village Way Billing Address: Same as Mailing

Street Address 2: Unit F

City: Wallace State: NC Zip: 29873

Years at this address: 1 year Country of Operations: United States of America

**Deposits Team**

Sally Smithfield Job title 887.949.0988

Contact Sally

**Chatter**

Hello, Welcome to Live Oak Bank!

I see you have opened your account. Is there anything I can help you with.

Type a message here...

Submit Message



# Partner Banking Opportunity

- Practice Management Systems
- Robo Advisors
- Tax Prep Companies
- eCommerce Store fronts
- Online Lenders
- FinTech Checking Accounts

# FY 2017 | Financial Highlights

**26%** 

increase versus FY 2016

Loan & Lease Originations

**\$1.93 billion**

**60%** 

increase versus FY 2016

Net Interest Income &  
Loan Servicing Revenue

**\$103 million**

**186%** 

increase versus FY 2016

Other Revenue\*

**\$15 million**

**4%** 

increase versus FY 2016

Net Gain on Sale of Loans

**\$79 million**

**3%** 

increase versus FY 2016

Guaranteed Loans Sold

**\$788 million**

**1278 bps** 

improved diversification versus FY 2016

% of SBA Loans to Total Originations

**70%**

*\*Other revenue comprised of construction supervision fee income, title insurance income, and other interest income*

# Fourth Quarter 2017 | Financial Highlights

6% ↓

decrease versus Q4 2016

Loan & Lease Originations

**\$483 million**

60% ↑

increase versus Q4 2016

Net Interest Income &  
Loan Servicing Revenue

**\$29 million**

56% ↑

increase versus Q4 2016

Total Loans & Leases

**\$2.0 billion**

19% ↓

decrease versus Q4 2016

Guaranteed Loans Sold

**\$212 million**

44% ↑

increase versus Q4 2016

Guaranteed Portion of HFS Loans  
(Note Amount)

**\$1.1 billion**

403 bps ↑

decreased diversification versus Q4 2016

% of SBA Loans to Total Originations

**70%**



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