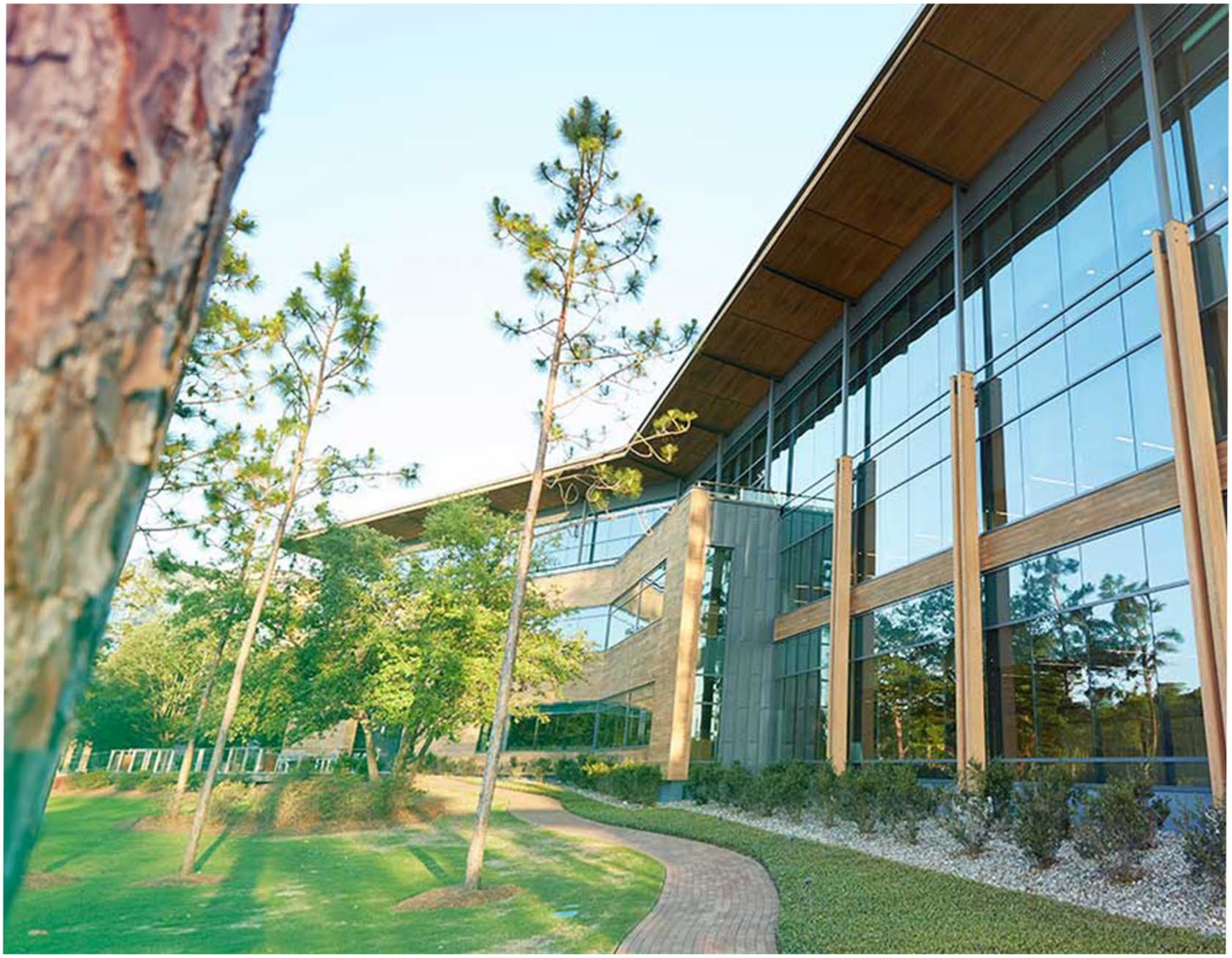
LiveOak
BANCSHARES



CFO HIGHLIGHTS

Q2 2020

July 22, 2020

CFO Highlights: Q2 2020

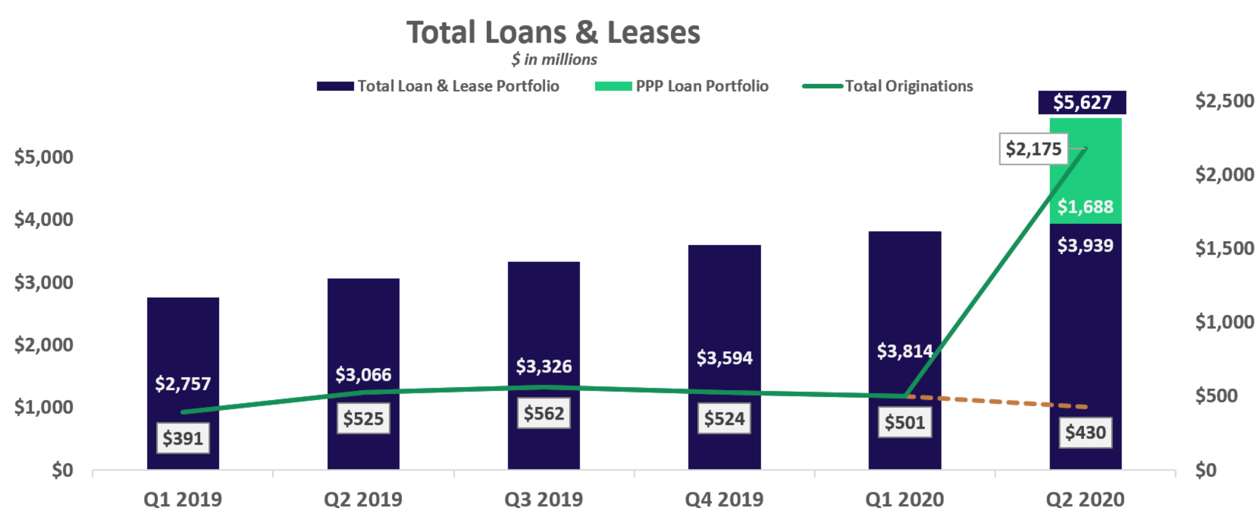
Live Oak Bank's dedication to the small business community was on full display during the second quarter of 2020 with $1.74 billion of loans originated under the SBA Paycheck Protection Program ("PPP"). While the effects of the COVID-19 pandemic continued to impact our performance through the second quarter, we successfully navigated this turbulence with recurring revenue, consisting of net interest income and servicing revenue, reaching $47.6 million. Through our lending platforms and products excluding PPP loans, we originated $430.1 million of loans and leases which included $251.4 million outside of SBA programs, a record-setting volume, and illustrative of our efforts over the past several years to diversify our lending activities. Overall, we are very proud of the historic work our teams did in the three months of the second quarter of 2020 eclipsing originations for all of 2019.

For the second quarter of 2020, we reported $0.09 per share and $5.3 million of income before taxes. Adjusting both the first and second quarter of 2020 for provision expense, valuation adjustments, and FinTech activities, our non-GAAP income before taxes increased to $19.8 million for the second quarter of 2020 from $17.5 million for the first quarter of 2020. See "Non-GAAP Earnings" below for a reconciliation of non-GAAP earnings to our reported income (loss) before taxes.

Success of Balance Sheet Strategy

The second quarter of 2020 illustrated the ongoing importance of our focus on maximizing long-term revenue and profitability. Our total portfolio of loans and leases held for investment and held for sale of $5.63 billion increased by $2.56 billion, or 83.5%, compared to the end of the second quarter 2019 and by $1.81 billion, or 47.5%, compared to the prior quarter. Excluding PPP loans, our total portfolio of loans and leases increased by $872.4 million, or 28.5%, compared to the end of the second quarter 2019 and by $125.0 million, or 3.3% compared to the prior quarter. The meaningful contribution of net interest income provided by this portfolio during a time of uncertainty is a result of our consistent focus on loan retention since late 2018. During the second quarter of 2020, loan sales normalized to levels consistent with our balance sheet strategy for the year following an increased level of guaranteed loan sales in the prior quarter to proactively bolster our capital and liquidity profile when facing unpredictable times. We continue to believe that the optionality provided by government guaranteed assets remains a strength of our balance sheet model.

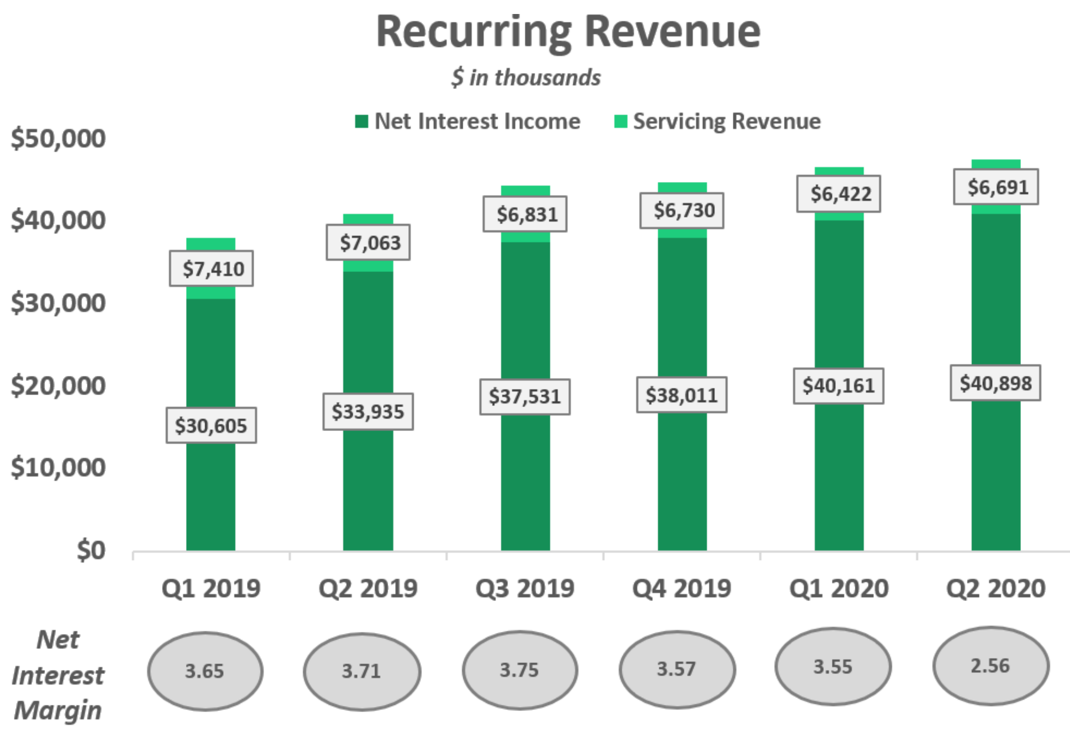
Loan & Lease Portfolio



Loan and lease originations during the second quarter of 2020 consisted of $430.1 million from our traditional lending platforms and $1.74 billion of PPP loans for a total of $2.18 billion. While the nationwide effects of COVID-19 depressed total loan originations in our traditional lending platforms during the second quarter, we continued to maintain our focus on quality loan and lease origination while considering the ongoing pandemic related impacts. During the second quarter of 2020, our Energy & Infrastructure group contributed $179.0 million of originations as demand for and performance of these loans remained strong in the second quarter.

Sustained Recurring Revenue

The recurring revenue streams of net interest income and servicing revenue grew to $47.6 million for the second quarter of 2020, a 16.1% increase compared to the second quarter of 2019. The stability of these revenue streams during periods of uncertainty and volatility validated our strategy to focus more on loan retention to maximize long-term value.



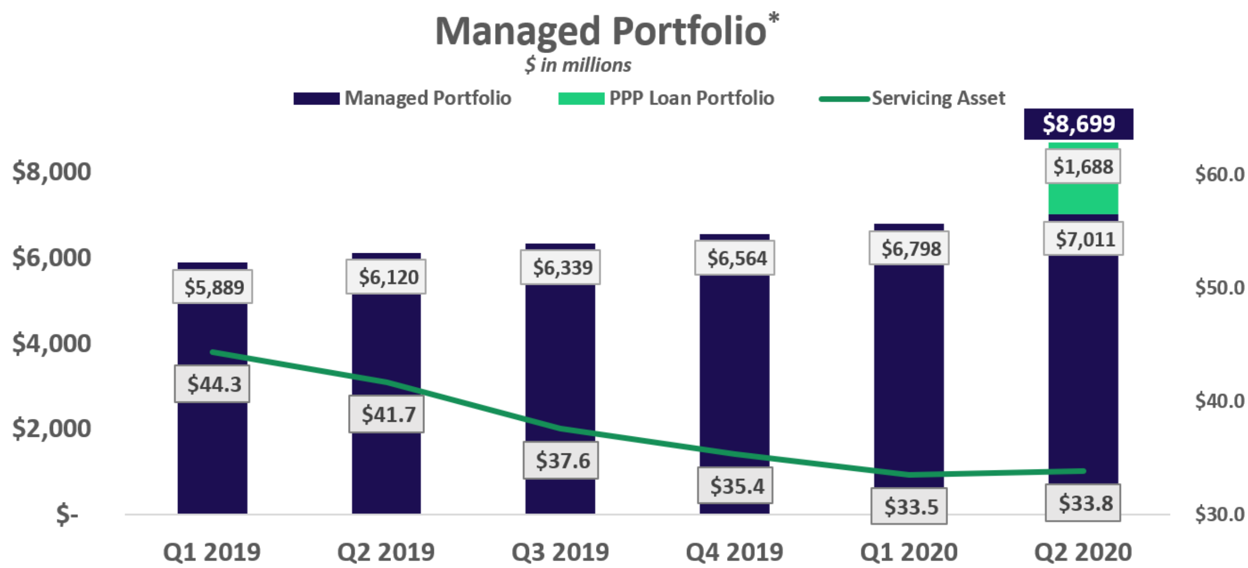
Net interest income for the second quarter of 2020 increased to $40.9 million, a 20.5% increase over the second quarter of 2019. Our efforts in the PPP contributed $8.7 million to total interest income through the recognition of net deferred fees combined with a 1.0% annualized interest rate earned on the loans. Partially offsetting increased levels of total interest income was interest on borrowings from the Federal Reserve's Paycheck Protection Program Liquidity Facility ("PPPLF") used to help fund PPP loans, with a 100% advance rate equal to the principal amount of PPP loans pledged as security and with an interest rate of 0.35%. As of June 30, 2020, total borrowings under the PPPLF totaled $1.72 billion. Compared to the second quarter of 2019, the increase in net interest income attributable to year-over-year balance sheet growth was offset by the negative pressure of a 225-basis point decline in the Prime Rate used for quarterly adjusting loans, which comprised 53.9% of our loan and lease portfolio at April 1, 2020.

On a linked quarter basis, the net interest margin declined 99 basis points to 2.56%. Compared to the first quarter of 2020, the yield on interest earnings assets decreased 143 basis points to 4.19% primarily driven by 150 basis points of cuts to the federal funds rate during the first quarter of 2020. The impact on the net interest margin resulting from the decrease in the yield on interest earning assets was offset by a decrease in the cost of interest-bearing liabilities of 49 basis points during the second quarter. We estimate the negative impact to the net interest margin resulting from the rate cuts in the first quarter, the PPP loan yield, and excess balance sheet liquidity to be 48, 35, and 16 basis points, respectively, in second quarter of 2020.

The yield on our loan and lease portfolio decreased from 6.28% during the first quarter of 2020 to 4.85% during the second quarter of 2020, or 143 basis points. Excluding the impacts off PPP loans, we estimate the loan portfolio yield during the second quarter of 2020 was 5.60%.

Servicing revenue on our sold and serviced loan portfolio amounted to $6.7 million during the second quarter of 2020, a decrease of 5.3% from the second quarter of 2019 and a 4.2% increase over the prior quarter. With increased levels of guaranteed loans sold during the first quarter of 2020, the full quarter of servicing revenue on these loans contributed to the linked quarter growth during the second quarter of 2020.

The managed portfolio, consisting of the outstanding balance of sold and serviced loans plus loans and leases held for investment and held for sale, at June 30, 2020, totaled $8.70 billion, a 42.1% increase over its level at June 30, 2019. The outstanding balance of PPP loans at June 30, 2020, totaled $1.69 billion, significantly contributing to the growth in the managed portfolio. Excluding the PPP loans, the managed portfolio grew to $7.01 billion, or 14.6% over its level at June 30, 2019.

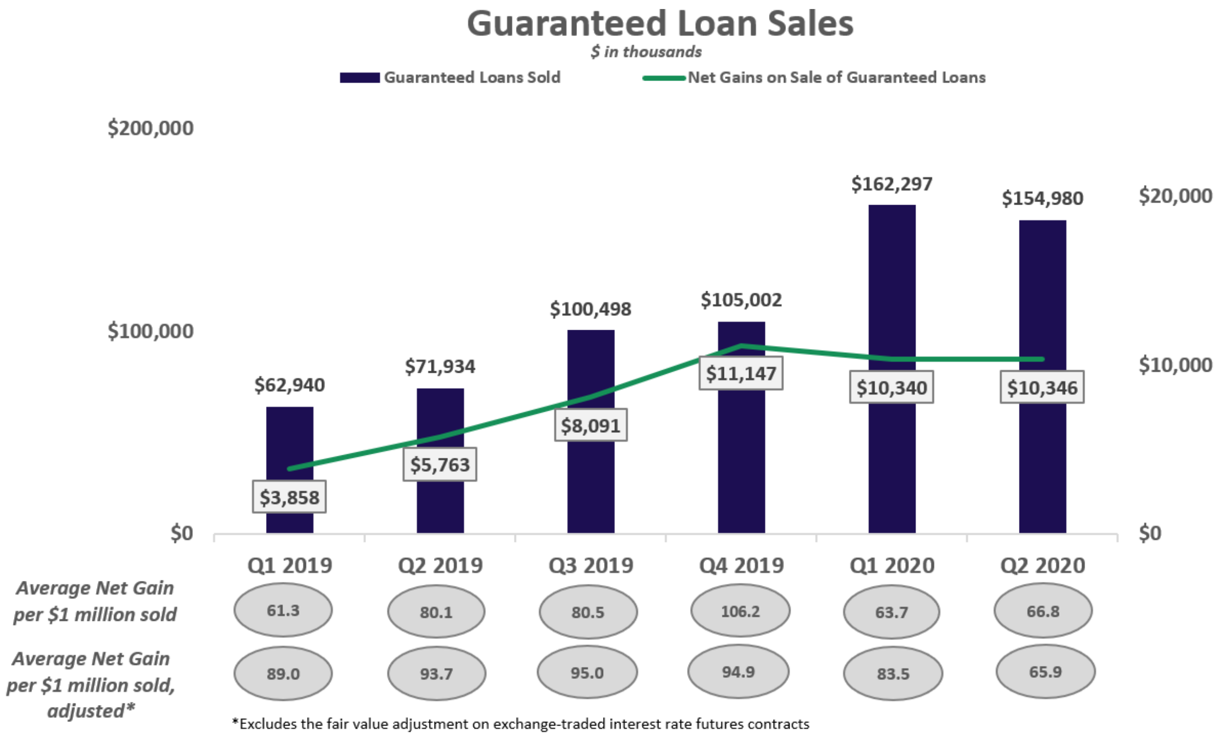


*Outstanding balance of sold and serviced loans plus loans and leases held for investment and held for sale.

At the end of the second quarter of 2020, the carrying value of the servicing asset declined 18.8% compared to the end of the second quarter of 2019 to $33.8 million, representing 6.2% of our total equity, a downward trend from 8.0% at the end of the second quarter of 2019. The loss arising from the revaluation of the loan servicing asset amounted to $1.6 million in the second quarter of 2020 compared to a loss of $3.2 million in the second quarter of 2019 and $4.7 million in the first quarter of 2020.

Secondary Market Sales

Our loan sale volumes in the second quarter of 2020 decreased to $155.0 million compared to $162.3 million in the prior quarter. The decrease for the second quarter was a return to intended sale percentages following a higher volume of loans sold for capital and liquidity planning during the first quarter ahead of uncertain impacts of COVID-19. The gain on sale revenue from the sale of guaranteed loans for the second quarter of 2020 totaled $10.3 million, including a $127 thousand gain on the fair value adjustment for exchange-traded interest rate futures contracts. The average net gain per $1 million sold, excluding the fair value adjustment on exchange-traded interest rate futures contracts, was $65.9 thousand for the second quarter of 2020 compared to $93.7 thousand for the second quarter of 2019 and $83.5 thousand for the first quarter of 2020. The average net gain per $1 million sold including such fair value adjustment was $66.8 thousand for the second quarter of 2020 compared to $80.1 thousand for the second quarter of 2019 and $63.7 thousand for the first quarter of 2020.



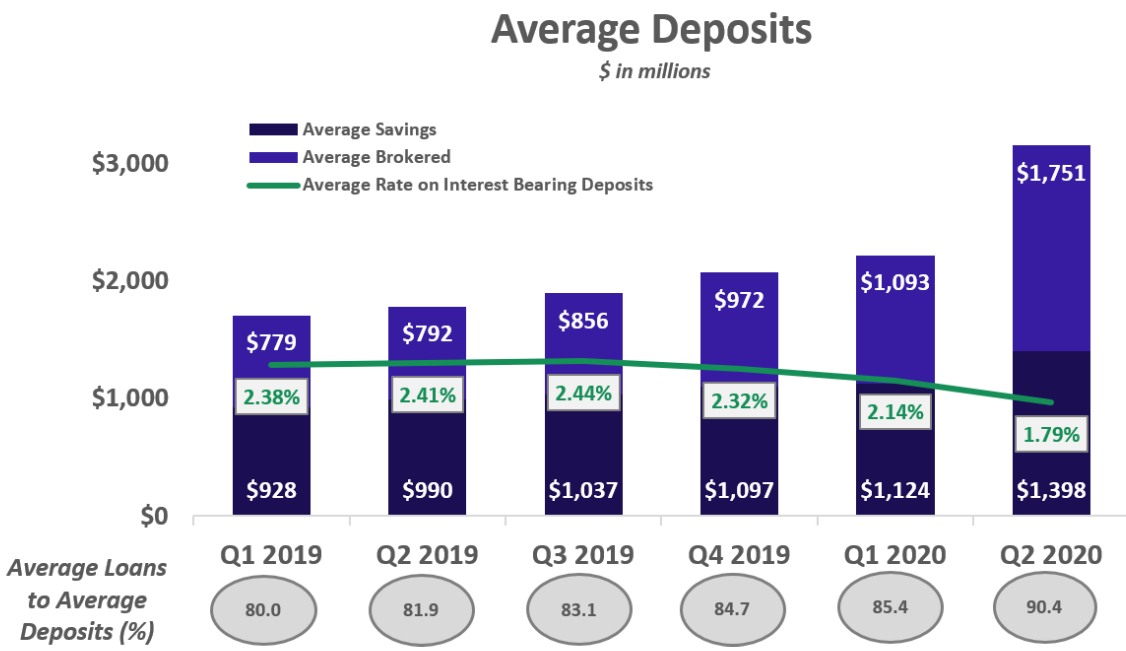
Premiums paid for guaranteed loans rebounded late in the second quarter of 2020 and returned to pre-pandemic levels with benchmark trading for 10-year and 25-year Prime+2.75% quarterly adjusting loans trading at 111.50% and 116.50%, respectively.

Our eligible for sale guaranteed loan portfolio increased to $1.12 billion as of June 30, 2020. This is comprised of loans in our portfolio that meet the requirements for immediate sale in the secondary market.

Funding Our Strategy

Average deposit balances at June 30, 2020, grew $2.10 billion, or 58.7%, to $5.68 billion compared to the end of the second quarter of 2019. The average balance of deposits increased $1.26 billion, or 28.6%, during the second quarter of 2020 compared to the prior quarter. The growth in average deposits was driven by anticipated PPP loan originations and included $657.9 million of brokered deposits before the above mentioned PPPLF became available. We continue to operate what we believe is an efficient branchless model for deposit gathering, at an incremental cost of eight basis points[1] during the second quarter of 2020, which allows us to offer competitive rates. The average rate on interest bearing deposits decreased by 35 basis points from the prior quarter.

1. See Appendix for incremental cost determination

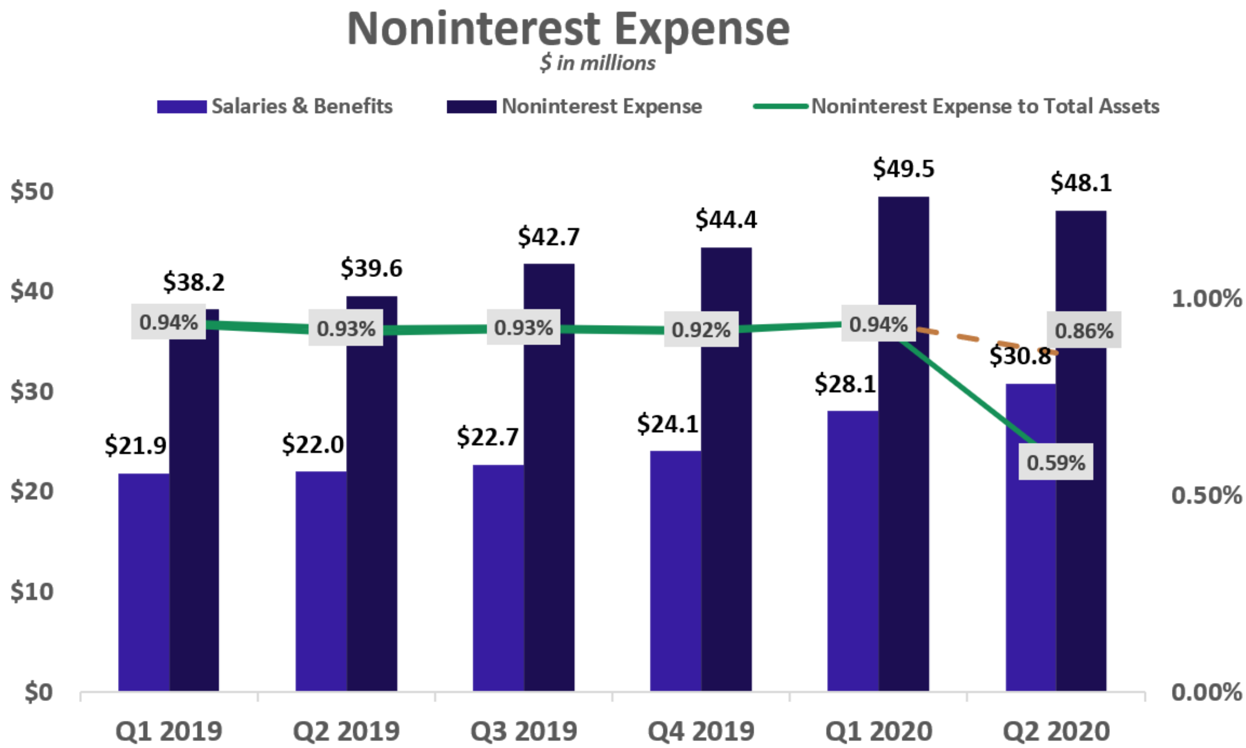


Scaling The Platform

Our noninterest expense totaled $48.1 million for the second quarter of 2020, a decrease of $1.4 million, or 2.8%, over the prior quarter. The main contributors to the decrease in noninterest expense from the prior quarter were reductions in travel expenses and in advertising and marketing expenses as certain activities were paused due to the impact of COVID-19. The ratio of noninterest expense to total assets dropped to 0.59% as of June 30, 2020. This reduction is significantly impacted by the addition of PPP loans to the balance sheet and excess balance sheet liquidity. Excluding the estimated impact of PPP activities from total assets, the ratio declined to 0.86%[1] for the second quarter of 2020. See Appendix for adjusted total assets.

1. See Appendix for adjustments to total assets

Salaries and employee benefits for the second quarter of 2020 increased to $30.8 million compared to $28.1 million for the first quarter of 2020. The growth from the prior quarter is primarily the result of recognizing a $7.2 million expense for a performance bonus pool that was available to all our employees other than executive officers. This expense was mitigated by $4.2 million of deferred salary expense associated with the origination of more than 10,000 PPP loans during the second quarter of 2020.



Loan Credit Quality & Fair Value Marks

Credit Quality

Net charge-offs of loans carried at historical cost totaled $1.8 million in the second quarter of 2020 compared to $2.8 million in the first quarter of 2020. Net charge-offs as a percentage of average held for investment loans and leases carried at historical cost, annualized, for the quarters ended June 30, 2020, and March 31, 2020, were 0.21% and 0.58%, respectively. The linked quarter decline was significantly impacted by the addition of PPP loans categorized as held for investment carried at historical cost.

The unguaranteed exposure of nonperforming loans and leases, including loans accounted for under the fair value option, increased to $19.5 million at June 30, 2020, compared to $17.8 million at March 31, 2020.

The provision for loan and lease credit losses for the second quarter of 2020 totaled $10.0 million compared to $11.8 million for the first quarter of 2020. Our model to determine the allowance for credit losses on loans and leases uses forecasted levels of unemployment as a primary economic variable in forecasting future expected losses. Based upon the severity of recent independent unemployment forecasts and other related factors as a result of the COVID-19 pandemic, our allowance for credit losses on loans and leases increased significantly.

The allowance for credit losses (“ACL”) on loans and leases totaled $44.1 million at June 30, 2020, compared to $35.9 million at March 31, 2020. The allowance for credit losses on loans and leases as a percentage of total loans and leases held for investment carried at historical cost was 1.16% and 1.81% at June 30, 2020, and March 31, 2020, respectively. The linked quarter decline was significantly influenced by the addition of government guaranteed PPP loans categorized as loans held for investment carried at historical cost.

Fair Value Marks

The Company recognized a net negative valuation adjustment for loans measured at fair value of $1.1 million in the second quarter of 2020 compared to a net negative adjustment of $10.6 million for the first quarter of 2020. Negative valuation adjustments arising from the COVID-19 pandemic were mitigated by more favorable market conditions in the second quarter of 2020 for unguaranteed loans measured at fair value.

ACL and Unguaranteed Held for Investment Portfolio

The combined ACL and fair value mark on our total held for investment unguaranteed loan portfolio at amortized cost totaled $67.2 million at June 30, 2020, compared to $61.3 million at March 31, 2020, an increase of $6.0 million. This total as a percentage of total held for investment unguaranteed loans at amortized cost grew to 3.09% at June 30, 2020, from 2.93% at March 31, 2020. For the quarter ended June 30, 2020, the ACL on our total held for investment unguaranteed loan portfolio increased $6.6 million and the fair value mark on our total held for investment unguaranteed loan portfolio decreased $663 thousand compared to the quarter ended March 31, 2020.

Non-Gaap Earnings

For the second quarter of 2020, we reported $5.3 million income before taxes. Excluding our provision expense, total fair value adjustments, and the impacts of our FinTech activities of $14.5 million, our non-GAAP income before taxes grew to $19.8 million for the second quarter of 2020 compared to $17.5 million for the prior quarter.

	Q4 2019	Q1 2020	Q2 2020
		$ in thousands	
Income (loss) before taxes[1]	**$ 8,917**	**$ (15,380)**	**$ 5,251**
Add:			
Provision for loan and lease credit losses[1]	4,809	11,792	9,958
Fair value adjustments			
Loan servicing asset revaluation[1]	4,135	4,692	1,571
Exchange-traded interest rate futures contracts (gain) loss[2]	(1,187)	3,209	(127)
Net (gain) loss on loans accounted for under the fair value option[1]	(1,432)	10,638	1,089
Other losses (gains) on valuation adjustments[3]	227	176	(271)
Total fair value adjustments	1,743	18,715	2,262
FinTech activities[4]	1,761	2,370	2,303
Non-GAAP income before taxes	**$ 17,230**	**$ 17,497**	**$ 19,774**

1. As reported
2. Included as a component of the net gains on sales of loans on the income statement
3. Includes valuation losses related to equity security investments, equity warrant assets, and foreclosed assets
4. See Appendix

Income Tax Expense

Income tax expense was $1.5 million in the second quarter of 2020 compared to an income tax expense of $662 thousand in the second quarter of 2019 and an income tax benefit of $7.8 million in the first quarter of 2020. The effective tax rate for the second quarter of 2020 was 28.1%. The increase in income tax expense over the second quarter of 2019 was principally due to no anticipated investment tax credits in the Company's expected annual 2020 tax rate. The increase in income tax expense over the first quarter of 2020 was principally the product of both net pretax income in the second quarter combined with the first quarter estimated tax benefit of $3.7 million related to the enactment of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on March 27, 2020 which allows the carryback of certain net operating losses to each of the five taxable years preceding the taxable year of such losses.

Appendix

	Three months ended June 30, 2020 ($ in thousands)
Interest	$ 25,121
Personnel	592
Travel & Entertainment	-
Fraud Expense	-
Marketing Expense	88
Technology Expense	277
Other Expense	78
Total Direct Deposit Expenses	**$ 26,156**
Average Deposit Balances for Three Months Ended June 30, 2020	**$ 5,674,522**

	Annualized Cost of Funds Three months ended June 30, 2020
Interest	1.79%
Personnel	0.04%
Travel & Entertainment	0.00%
Fraud Expense	0.00%
Marketing Expense	0.01%
Technology Expense	0.02%
Other Expense	0.01%
Cost of Funds % including Deposits Department	**1.87%**
Direct Nonintereset Cost of Funds	**0.08%**

FinTech Activities Impact on Consolidated Financials
($ in thousands)

	Banking Activities	Apiture	Live Oak Ventures	Canapi Advisors	FinTech Activities	Consolidated, as reported
Actuals for the quarter ended June 30, 2020						
Net interest income	$ 40,898	$ -	$ -	$ -	$ -	$ 40,898
Provision for credit losses	9,958	-	-	-	-	9,958
Noninterest income (loss)	23,346	(1,276)	(865)	1,206	(935)	22,411
Noninterest expense	46,732	-	54	1,314	1,368	48,100
Income (loss) before income tax expense	**$ 7,554**	**$ (1,276)**	**$ (919)**	**$ (108)**	**$ (2,303)**	**$ 5,251**

	Banking Activities	Apiture	Live Oak Ventures	Canapi Advisors	FinTech Activities	Consolidated, as reported
Actuals for the quarter ended March 31, 2020						
Net interest income	$ 40,161	$ -	$ -	$ -	$ -	$ 40,161
Provision for credit losses	11,792	-	-	-	-	11,792
Noninterest income (loss)	6,622	(1,352)	(1,172)	1,644	(880)	5,742
Noninterest expense	48,001	-	59	1,431	1,490	49,491
Income (loss) before income tax expense	**$ (13,010)**	**$ (1,352)**	**$ (1,231)**	**$ 213**	**$ (2,370)**	**$ (15,380)**

	Banking Activities	Apiture	Live Oak Ventures	Canapi Advisors	FinTech Activities	Consolidated, as reported
Actuals for the quarter ended December 31, 2019						
Net interest income	$ 38,011	$ -	$ -	$ -	$ -	$ 38,011
Provision for credit losses	4,809	-	-	-	-	4,809
Noninterest income (loss)	20,327	(712)	(1,045)	1,555	(202)	20,125
Noninterest expense	42,851	-	87	1,472	1,559	44,410
Income (loss) before income tax expense	**$ 10,678**	**$ (712)**	**$ (1,132)**	**$ 83**	**$ (1,761)**	**$ 8,917**

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	($ in thousands)	
	Total Assets, as reported for the quarter ended June 30, 2020	**$ 8,209,154**
	PPP-related activities	
	Cash and cash receivable for origination fees	61,492
	Loans, net of unearned	1,688,104
	Allowance for credit losses	(1,565)
	Accrued interest receivable	3,289
	Estimated excess balance sheet liquidity arising from PPP	874,195
	Total adjustments for PPP activities	2,625,514
a	**Total Assets, as adjusted to exclude PPP activities**	**5,583,640**
b	**Noninterest Expense, as reported for the quarter ended June 30, 2020**	**48,100**
b/a	Noninterest Expense to Total Assets, as adjusted	**0.86%**

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Forward-Looking Statements

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

- deterioration in the financial condition of borrowers resulting in significant increases in our loan and lease losses and provisions for those losses and other adverse impacts to results of operations and financial condition;
- changes in SBA rules, regulations and loan products, including specifically the Section 7(a) program, changes in SBA standard operating procedures or changes to Live Oak Banking Company’s status as an SBA Preferred Lender;
- changes in rules, regulations or procedures for other government loan programs, including those of the United States Department of Agriculture;
- changes in interest rates that affect the level and composition of deposits, loan demand and the values of loan collateral, securities, and interest sensitive assets and liabilities;
- the failure of assumptions underlying the establishment of reserves for possible loan and lease losses;
- changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments;
- the potential impacts of the coronavirus 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 our ability to use the technology-based platform that is critical to the success of our business model or to develop a next-generation banking platform, 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 and various state agencies;
- 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.