# Live Oak Bancshares Investor Materials

December 2018

LIVE OAK BANCSHARES

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.

# About Us

**NATIONWIDE SMALL BUSINESS FOCUS**
Supported by domain expertise which enables us to play a consultative role with our clients during the financing process

**EFFICIENT DIRECT DEPOSIT PLATFORM**
Award winning nationwide savings products

**#1 SBA 7(A) LENDER**
By volume (SBA Fiscal Year 2018)[1]

**HIGHEST VOLUME USDA LENDER**
2018 Rural Energy for America Program (REAP) and Business & Industry (B&I) loan programs combined [2]

**2018 BAI GLOBAL INNOVATION AWARD WINNER**
Internal process innovation category for converting all bank operations to the cloud

LIVE OAK BANK®

**$1.27 BILLION**
YTD loan and lease originations for the nine months ended September 30, 2018

**$5.6 BILLION**
Managed Loan & Lease Portfolio[3] as of September 30, 2018

**LESS THAN 1%**[4]
Charge-off rate remains low

Approximately **6,800 LOANS** originated comprising **$8.6 BILLION** since inception (2008)

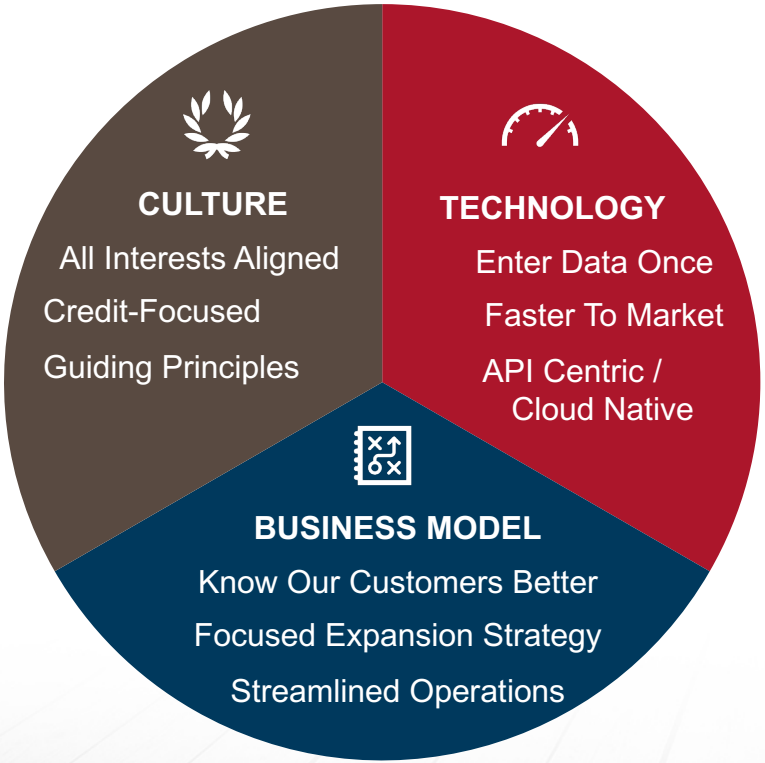
**504 EMPLOYEES**
as of September 30, 2018

1. Based on SBA Fiscal Reporting
2. Based on USDA Fiscal Reporting
3. Total loans and leases plus outstanding balances of loans sold
4. For the nine months ended September 30, 2018



LIVE OAK BANCSHARES

# Keys to Our Success




## OUR MANTRA

**TREAT EVERY CUSTOMER LIKE THE ONLY CUSTOMER IN THE BANK**

## OUR PHILOSOPHY

**SOUNDNESS, PROFITABILITY, AND GROWTH, IN THAT ORDER**

# Live Oak Bank – Executing Today & Building for Tomorrow



**How We Reach Our Customers**



**Banking Products**



**Balance Sheet**



**Technology**

| Historic Live Oak Bank | Live Oak Bank Today | Future Roadmap |
|---|---|---|
| Theory of Verticality | Elite In-Market Bankers | Banking as a Service (BaaS) |
| SBA 7(a)<br>CDs | USDA • Conventional • Leasing • CRE • ABL<br>Savings • Wealth Management | Transaction Accounts • Payments |
| Gain on Sale | Transition to Balance Sheet | Optimal Mix of Balance Sheet & Distribution |
| Workflow Management •<br>nCino • Old Core | Custom Enhancements • Cloud Native | API Based Platform • Next Gen Core |

# The Small Business Challenge Amplified

**Cashflow and access to capital are just part of the problem…**



## Set Up

- Business Plan / Model
- Raise Capital
- Legal Setup
- Choose Bank
- Find Accountant / Tax Help
- Web Site Design & Hosting
- Market and Sell Products and Services
- Setup Tech Infrastructure
  - Business Operating System
  - Network
  - Phones
  - POS
- Buy / Lease Space
- Establish Credit
- Construction
- Office Space Retrofit
- Buy / Lease Equipment
- Find Suppliers
- Buy Supplies / Inventory
- Collect Payments
- Make Payments
- Hire Employees
- Business Insurance
- Employee Benefits
  - 401K
  - Health Coverage
  - Life Insurance
- Secure Business and Data



## Run

- Sell Products & Services
- Track
  - Sales
  - Cashflow
  - Employees
  - Customers
- Collect Payments
- Pay
  - Vendors
  - Employees
  - Taxes
- Invest
- Borrow
- Plan, Forecast, Report
- Manage / replenish inventory
- Update insurance coverages



## Grow

- Business Expansion
- New Products & Services
- Grow Employee Talent
- Grow Customers
- Merger & Acquisition Finance

# **EVOLUTION** | LENDING

Attracting & Retaining the Best Talent

Verticality… From Theory to Practice

Diversification & Expansion



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# Attracting & Retaining the Best Talent







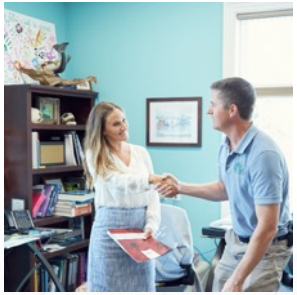


TEAMWORK INNOVATIVE

EMPOWERED **FAMILY**

DRIVEN PASSIONATE










Live Oak Bank, four time winner of American Banker's **Best Banks to Work For** Award



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# Attracting & Retaining the Best Talent



## THE THREE-LEGGED STOOL

- Employees
- Customers
- Shareholders



## RELATIONSHIP BANK

- Treat every customer like the only customer
- Customers are partners
- Like family



## TEAM APPROACH

- One Team
- One Mantra
- One Philosophy



## PLATFORM FOR SUCCESS

- Flexible and Nimble
- Empowered with Trust
- Enabled with Technology

# Verticality… From Theory to Practice

## 2008-2014

- Veterinary
- Healthcare
- Pharmacies
- Death Care
- Investment Advisory
- Family Entertainment
- Chickens

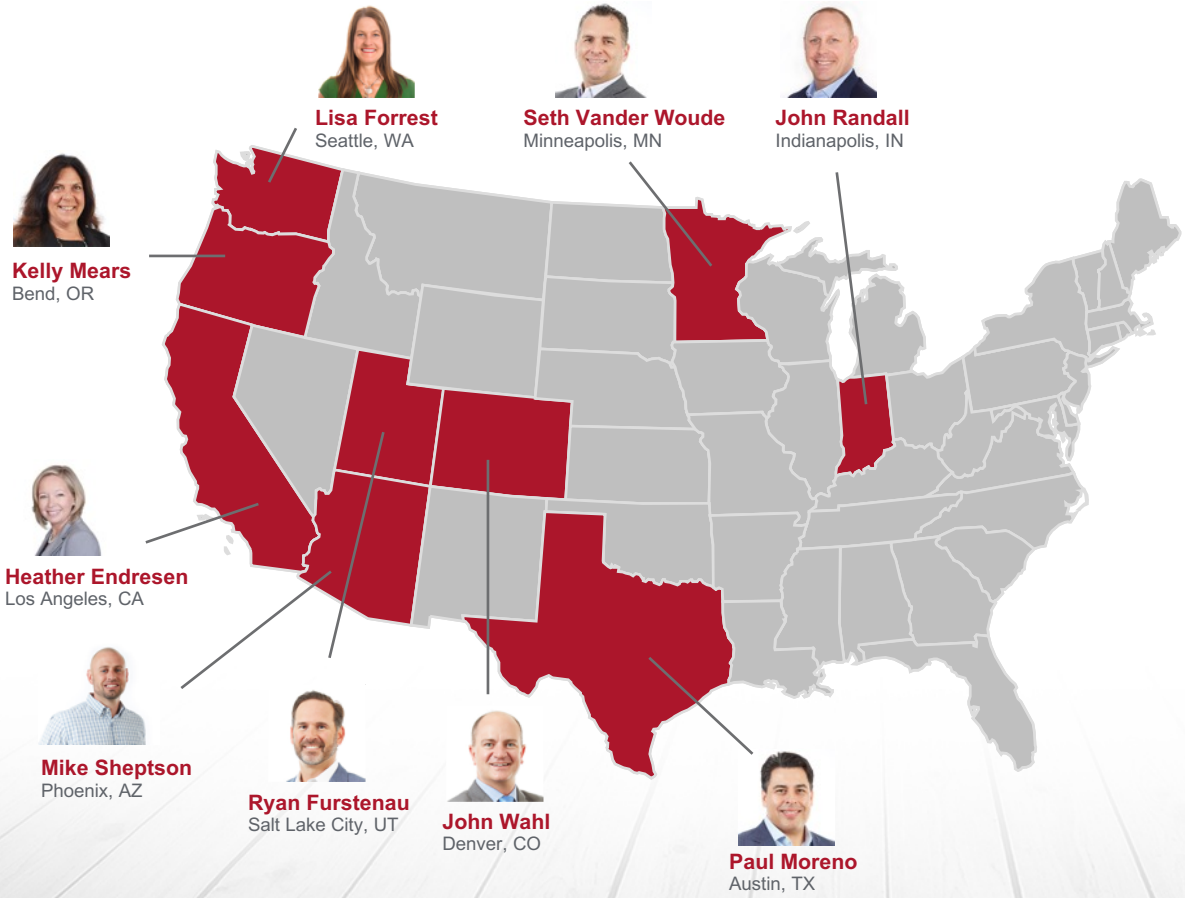
## 2015-2016

- Wine and Craft Beverages
- Self-Storage
- Independent Insurance
- Hotels
- Renewable Energy
- Government Contractors

## 2017-2018

- Solar Panel Leasing
- Early Education Services
- Senior Care
- Professional Services
- Automotive After-Market
- Bio Energy
- Fitness Centers
- Quick Serve Restaurants
- Service Contractors
- Home Restoration
- Wireless Internet Providers
- Water & Environmental

# Diversification & Expansion




**9**

**SBA General Lenders**

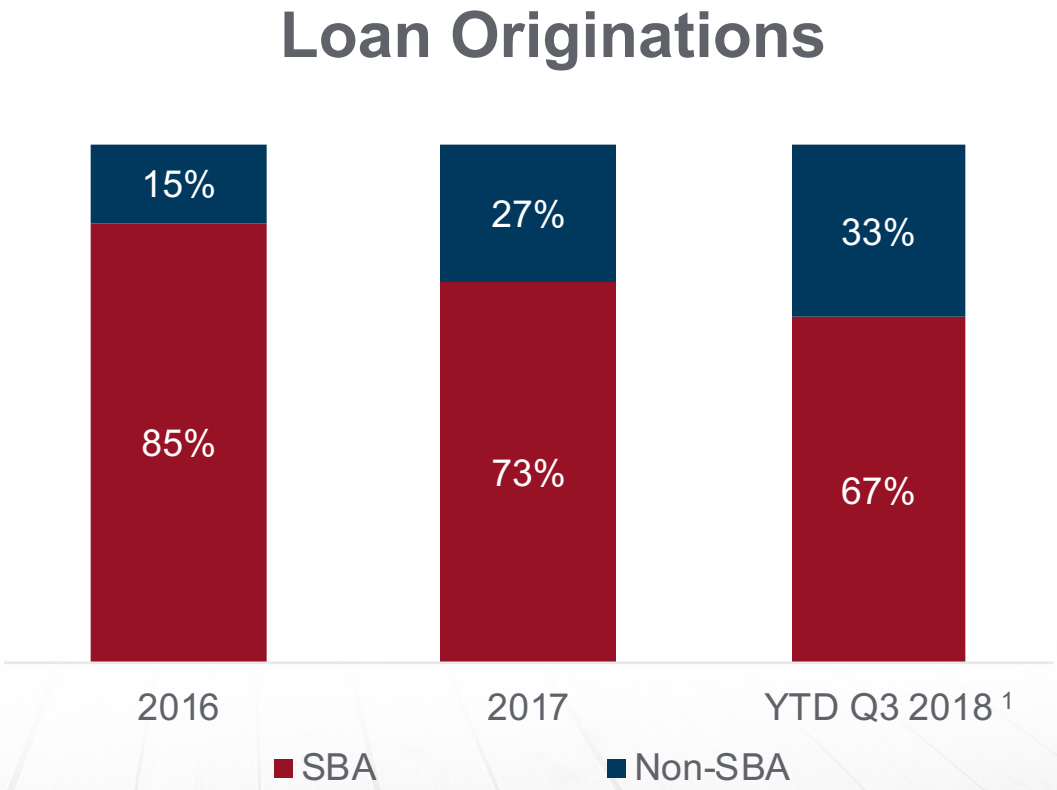
**17**

**Average Years Working in SBA Lending**

# Diversification & Expansion

**2017-2018**

- Equipment Leasing
- Mergers & Acquisitions
- Commercial Real Estate
- Asset Based Lending

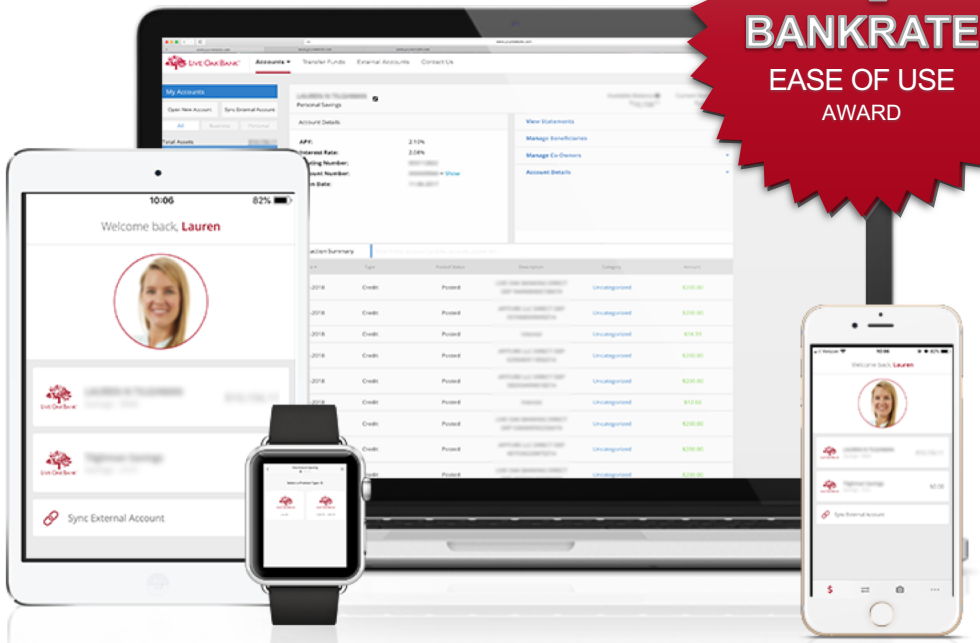



1. For the nine months ended September 30, 2018

# **REVOLUTION** | DEPOSITS

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# Live Oak Bank Digital




**#1**
**BANKRATE**
EASE OF USE
AWARD

**$960**
**MILLION**
YTD New Online
Savings/CDs
Originations[1]

**17,940**
YTD NEW ACCOUNTS[1]

**BUILT**
**IN-HOUSE**
by Live Oak Bank

1. Deposit Account Growth as of September 30, 2018, compared to active accounts at December 31, 2017

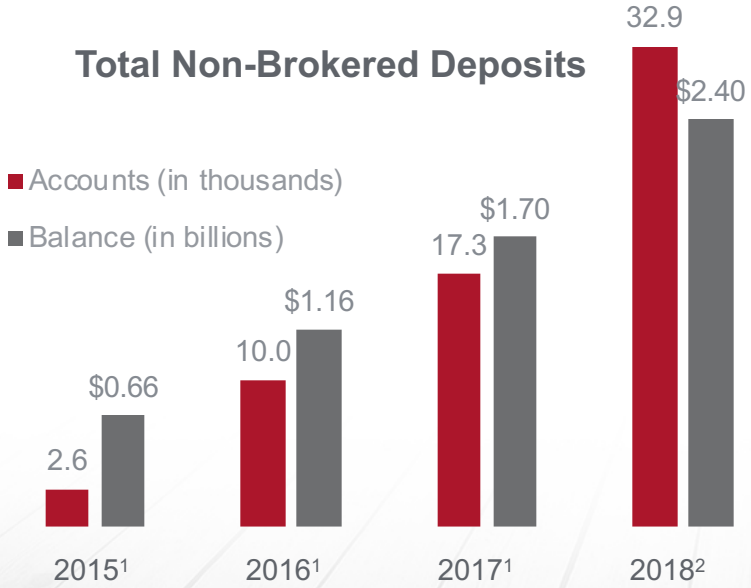


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# Building an Efficient Non-Brokered Deposit Portfolio

- Non-Brokered Accounts up ~30,000 and balances up $1.7 billion since year end 2015
- Consistent mix of Non-Brokered & Brokered to fund overall Balance Sheet growth
- Technology platform allows efficiency through marketing & in FTE requirements

## Total Non-Brokered Deposits



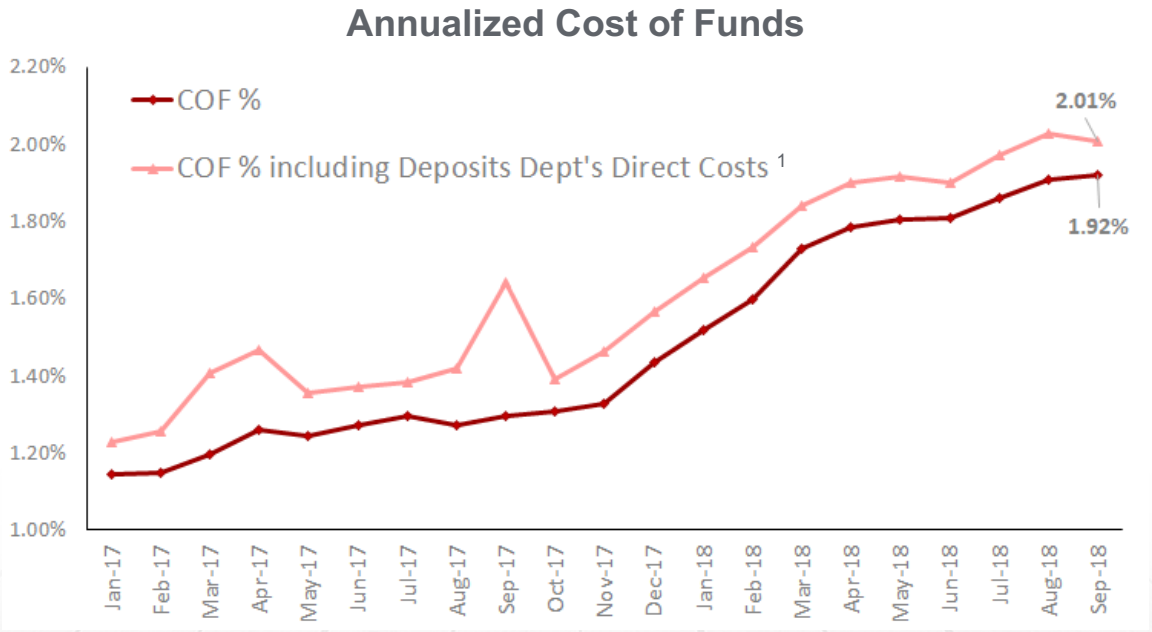

1. As of calendar year-end
2. As of September 30, 2018

## Non-Brokered Savings & Certificate of Deposits ("CDs") Characteristics

| | Balance (in billions)[2] | Retention Rate since 12/31/17 | Beta since 12/31/17 |
|---|---|---|---|
| Savings | $0.91 | 75% | 58% |
| CDs | $1.25 | 65% | 70-80% |

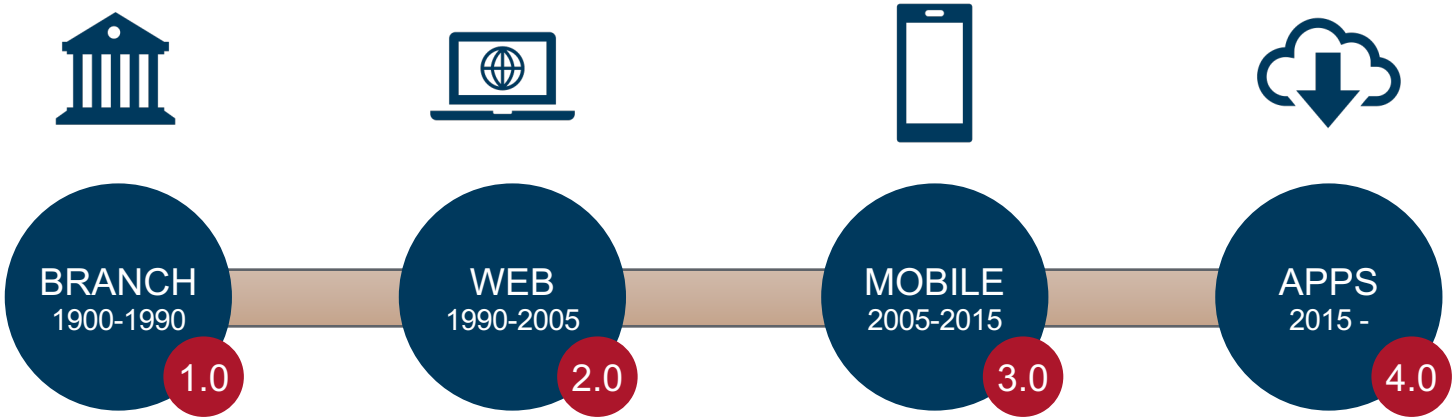
# Low Direct Costs Offsets Competitive Rates

- **Branchless Strategy Reduces Meaningful Fixed Costs Present in Brick & Mortar Strategies**
- **Account quantity has doubled since September 30, 2017, with only four additional full time employees**

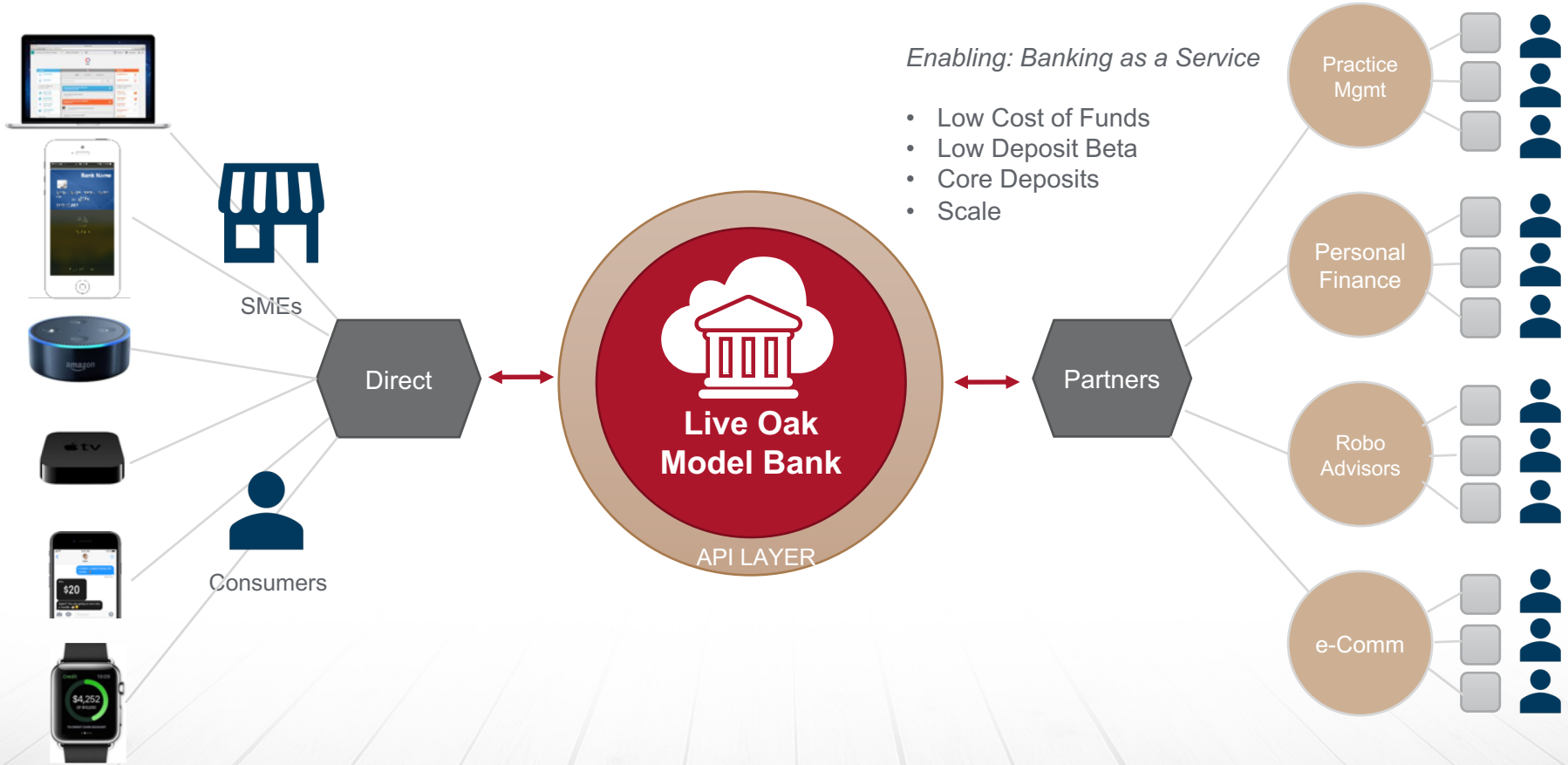



1. See Appendix for Non-GAAP Reconciliation Deposits Direct Costs, including management estimated cost for 20 FTEs, core processing costs, fraud losses, and allocated digital marketing spend

# The Evolution of Digital Banking



# Live Oak Bank | Model Bank



# Banking as a Service | Fintech Opportunity



WEALTH MANAGEMENT



DIGITAL BANKING



PERSONAL FINANCE & SAVINGS



ACCOUNTING & FINANCE



BUSINESS LENDING & FINANCING

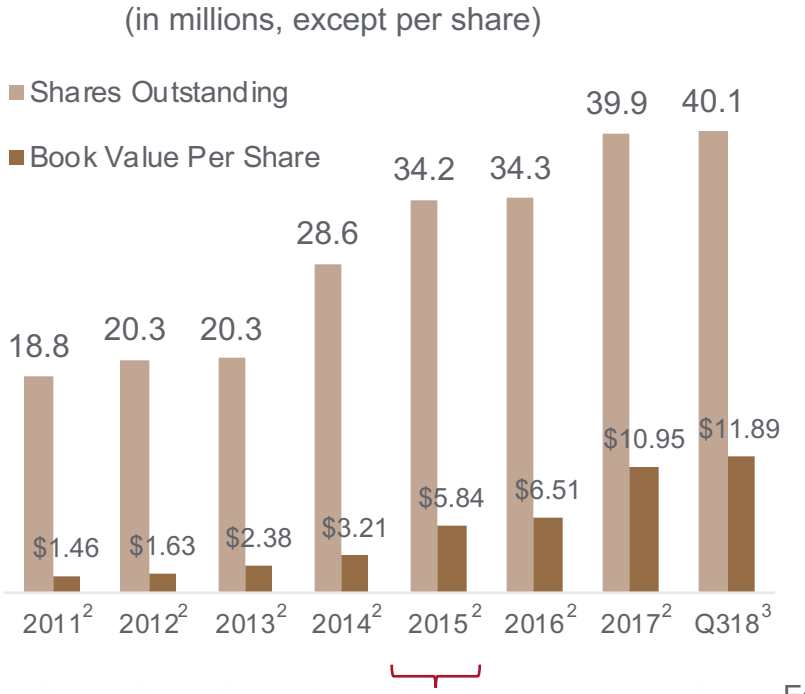


PAYROLL & BENEFITS

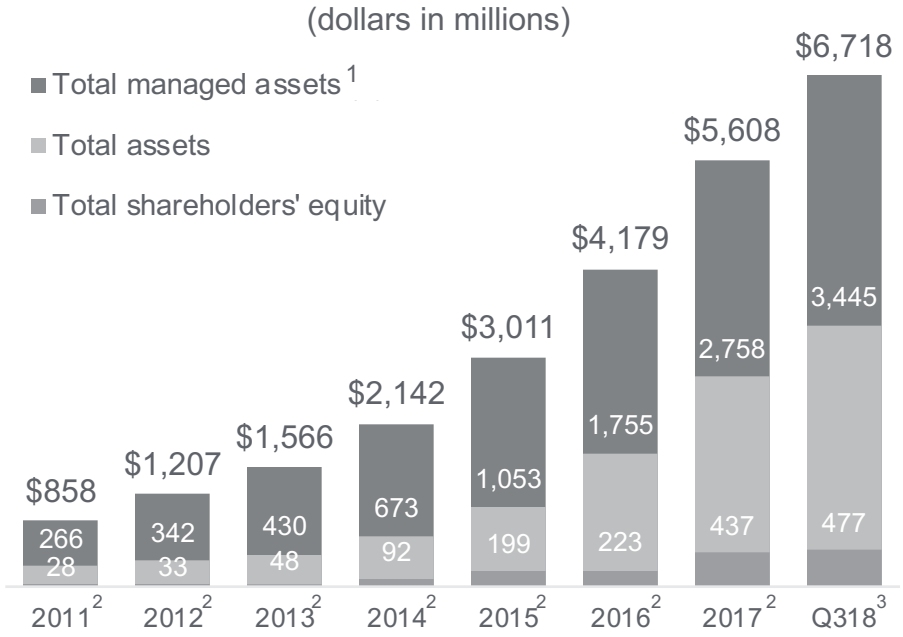
# BUSINESS MODEL CONTINUES
# FUNDING MODEL SHIFTS

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# Loan Sales Fueled Capital Efficient Growth…




FDIC growth limitation ends – 7 year de novo rule




| | 2011[2] | 2012[2] | 2013[2] | 2014[2] | 2015[2] | 2016[2] | 2017[2] | Q318[3] |
|---|---|---|---|---|---|---|---|---|
| Equity to assets | 10.4% | 9.7% | 11.2% | 13.6% | 19.0% | 12.7% | 15.8% | 13.9% |
| Equity to managed assets | 3.2% | 2.7% | 3.1% | 4.3% | 6.6% | 5.3% | 7.8% | 7.1% |

1. Total assets plus outstanding balance of loans sold
2. As of calendar year-end
3. As of September 30, 2018

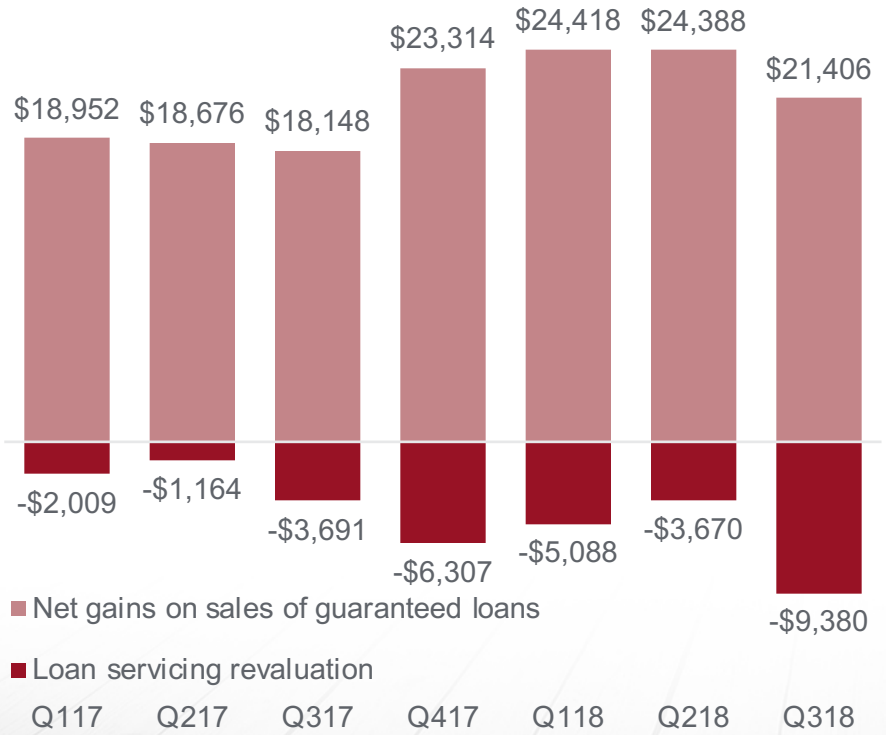


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# …But Contributed to Volatile Income Statement

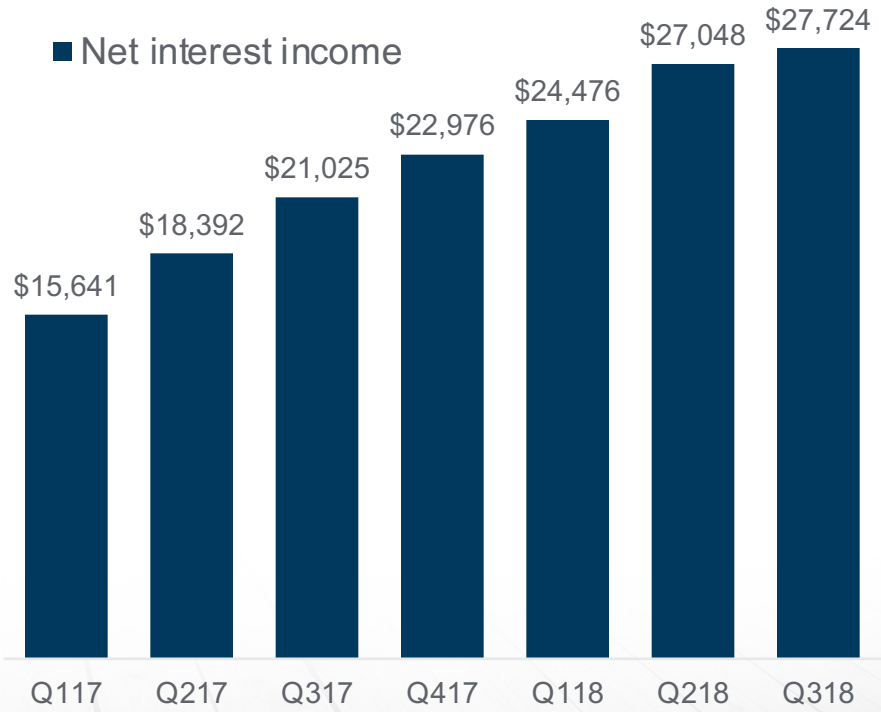
## More Volatile Revenue

(dollars in millions)




## More Predictable Revenue

(dollars in millions)

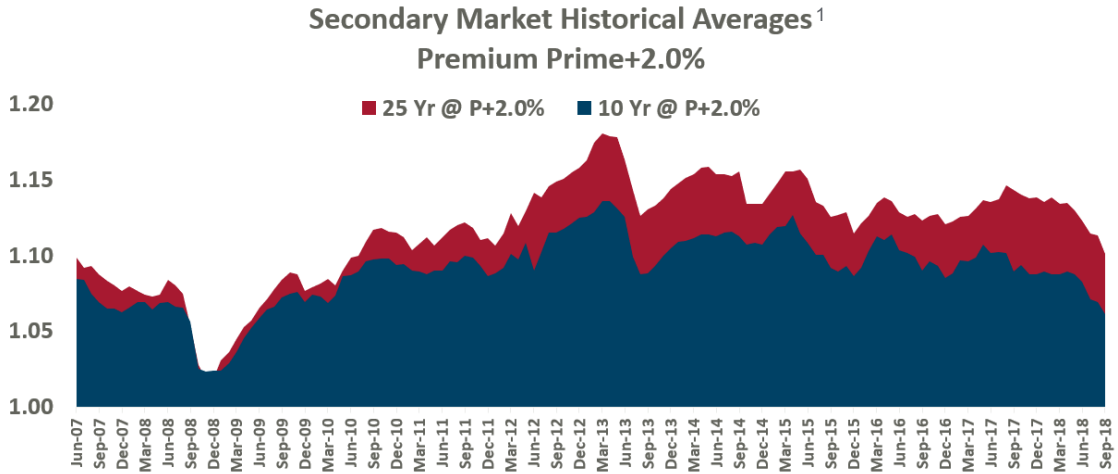



Note: Quarterly data is for the calendar quarters then ended



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# SBA Secondary Market in Context




**Despite relative long term consistency, the market has experienced recent softness**

**Cyclical Factors:**

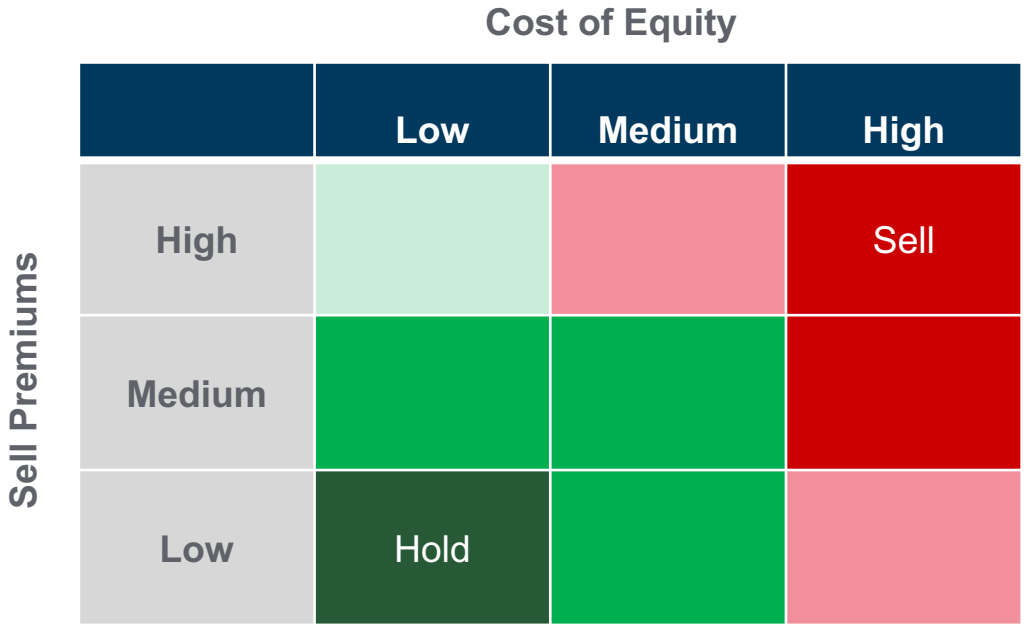
- Increased Prepayment Speeds (CPRs)
- Lower Spreads due to Increased Competition

**Systemic Factors:**

- Excess Loan Supply
- IO Buyers Seeking Alternative Investments
- Stricter SBA Pooling Requirements

1. Government Loan Solutions

# NPV Analysis is Useful Tool for Evaluating Loan Sales…




**Factors that Impact NPV**

- Terms & Rate
- Operating Costs
- Funding Costs
- Credit & Prepayment
- Cost of Capital
- Capital and Liquidity Requirements
- Market Premiums

**NPV Analysis is an important factor, but not the only factor in a decision to hold or sell**

**Green = More Value to Hold**

**Red = More Value to Sell**

Note: Illustrative Example of Holding vs Selling Determination

# …But Incremental Considerations Drive Hold Strategy

- Reduced Earnings Volatility & Lower Risk Asset Mix Drives Lower Cost of Capital
- Enhanced Customer Flexibility Allows Ability to Modify Loans and Retain Relationships
- Lower Cost Deposits will Increase Value of Loans on Balance Sheet




Note: illustrative Example of Holding vs Selling Determination

# Roadmap for Future Funding Strategy

- **Continue to originate loans eligible for government guarantee programs**
- **Evaluate NPV of buying vs. selling for each guaranteed loan that is eligible for sale**
- **Consider incremental factors that drive a hold strategy**
- **Additional factors that may influence the ultimate amount of sale in any given quarter**
  - Production estimates vs. actual closings
  - Mix of production
  - Capital and liquidity considerations
- **Expected quarterly outcome – hold between 50-75% of guaranteed loans eligible for sale**



## HOLD STRATEGY

**2:1** HOLD:SELL RATIO

**LONG TERM TARGET:**

**HOLD $2 OF GUARANTEED LOANS ELIGIBLE FOR SALE FOR EVERY $1 SOLD**

# Successful Strategy Drives Results

**We expect to achieve high performing bank metrics when our balance sheet reaches $7-8 billion in assets**

| Current State[1] | | High Performing Bank Metrics |
|---|---|---|
| 3.59% | NIM | 3.50% - 3.75% |
| 52.0% | Noninterest Income to Total Revenue | 25.0% - 30.0% |
| 72.8%[2] | Efficiency | <60% |
| 1.65%[3] | ROA | 1.25% - 1.75% |
| 12.1%[3] | ROE | 15.0% - 20.0% |
| 12.5% | Tier 1 Leverage | 8.5% - 10.0% |

1. As of and for the nine months ended September 30, 2018
2. See Appendix for Non-GAAP Reconciliations
3. Annualized

# APPENDIX

# Non-GAAP Reconciliation – Deposit Direct Costs

| | As of and for the Months Ended | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1/31/17 | 2/28/17 | 3/31/17 | 4/30/17 | 5/31/17 | 6/30/17 | 7/31/17 | 8/31/17 | 9/30/17 | 10/31/17 | 11/30/17 |
| | (dollars in thousands) | | | | | | | | | | |
| Interest | $ 1,499 | $ 1,508 | $ 1,638 | $ 1,798 | $ 2,030 | $ 2,001 | $ 2,159 | $ 2,268 | $ 2,242 | $ 2,271 | $ 2,332 |
| Personnel | 86 | 94 | 90 | 106 | 121 | 110 | 100 | 106 | 103 | 104 | 106 |
| Travel & Entertainment | - | 1 | 0 | 0 | 6 | 1 | - | 0 | 1 | 0 | 2 |
| Fraud Expense | - | - | - | - | - | - | - | - | 319 | - | - |
| Marketing Expense | 1 | 12 | 123 | 112 | 28 | 18 | 26 | 132 | 129 | 7 | 72 |
| Technology Expense | 18 | 31 | 70 | 73 | 20 | 19 | 19 | 19 | 29 | 25 | 45 |
| Other Expenses | 2 | 2 | 6 | 3 | 3 | 3 | 3 | 9 | 21 | 4 | 13 |
| **Total COF Including Other Direct Costs** | **1,606** | **1,649** | **1,928** | **2,093** | **2,208** | **2,152** | **2,307** | **2,534** | **2,843** | **2,413** | **2,570** |
| **Total Deposits** | **1,569,604** | **1,577,214** | **1,642,649** | **1,711,463** | **1,955,087** | **1,886,213** | **1,998,836** | **2,143,162** | **2,076,188** | **2,082,201** | **2,107,678** |
| **COF interest only[1]** | **1.15%** | **1.15%** | **1.20%** | **1.26%** | **1.25%** | **1.27%** | **1.30%** | **1.27%** | **1.30%** | **1.31%** | **1.33%** |
| **COF Including Other Direct Costs[1]** | **1.23%** | **1.25%** | **1.41%** | **1.47%** | **1.36%** | **1.37%** | **1.38%** | **1.42%** | **1.64%** | **1.39%** | **1.46%** |

1. Annualized

# Non-GAAP Reconciliation – Deposit Direct Costs (Continued)

| | As of and for the Months Ended | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 12/31/17 | 1/31/18 | 2/28/18 | 3/31/18 | 4/30/18 | 5/31/18 | 6/30/18 | 7/31/18 | 8/31/18 | 9/30/18 |
| | (dollars in thousands) | | | | | | | | | |
| Interest | $ 2,764 | $ 3,052 | $ 3,567 | $ 4,314 | $ 4,634 | $ 4,613 | $ 4,512 | $ 4,629 | $ 4,763 | $ 4,712 |
| Personnel | 106 | 115 | 109 | 124 | 124 | 122 | 125 | 130 | 132 | 128 |
| Travel & Entertainment | 0 | - | 0 | 0 | - | 1 | 3 | 1 | 2 | 1 |
| Fraud Expense | 16 | - | - | - | - | 2 | - | - | - | - |
| Marketing Expense | 89 | 128 | 130 | 77 | 131 | 74 | 52 | 52 | 123 | 22 |
| Technology Expense | 28 | 25 | 60 | 62 | 30 | 59 | 35 | 84 | 41 | 52 |
| Other Expenses | 15 | 6 | 5 | 5 | 17 | 26 | 14 | 5 | 9 | 7 |
| **Total COF Including Other Direct Costs** | **3,019** | **3,326** | **3,871** | **4,583** | **4,936** | **4,896** | **4,740** | **4,902** | **5,070** | **4,922** |
| **Total Deposits** | **2,311,955** | **2,413,186** | **2,678,584** | **2,991,091** | **3,119,613** | **3,065,193** | **2,991,952** | **2,983,573** | **2,998,543** | **2,944,256** |
| **COF interest only[1]** | **1.43%** | **1.52%** | **1.60%** | **1.73%** | **1.78%** | **1.81%** | **1.81%** | **1.86%** | **1.91%** | **1.92%** |
| **COF Including Other Direct Costs[1]** | **1.57%** | **1.65%** | **1.73%** | **1.84%** | **1.90%** | **1.92%** | **1.90%** | **1.97%** | **2.03%** | **2.01%** |

1. Annualized

# Non-GAAP Reconciliation – Efficiency Ratio

| (dollars in thousands) | YTD 2018 [1] |
|---|---|
| Efficiency Ratio: | |
| Noninterest expense(a) | $120,146 |
| Net Interest income | 79,248 |
| Noninterest income | 85,700 |
| Adjusted operating revenue(b) | $164,948 |
| Efficiency Ratio (b/a) | 72.84% |

1. For the nine months ended September 30, 2018