

**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 September 30, 2022

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 November 1, 2022, there were 43,984,400 shares of the registrant's voting common stock outstanding.

Live Oak Bancshares, Inc.
Form 10-Q
For the Quarterly Period Ended September 30, 2022

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Live Oak Bancshares, Inc.

Condensed Consolidated Balance Sheets

*As of September 30, 2022 (unaudited) and December 31, 2021**

(Dollars in thousands)

	September 30, 2022	December 31, 2021
Assets		
Cash and due from banks	\$ 335,046	\$ 187,203
Federal funds sold	68,324	16,547
Certificates of deposit with other banks	4,250	4,750
Investment securities available-for-sale	1,005,372	906,052
Loans held for sale (includes \$25,310 measured at fair value at December 31, 2021)	537,649	1,116,519
Loans and leases held for investment (includes \$512,183 and \$645,201 measured at fair value, respectively)	6,853,382	5,521,262
Allowance for credit losses on loans and leases	(78,291)	(63,584)
Net loans and leases	6,775,091	5,457,678
Premises and equipment, net	260,285	240,196
Foreclosed assets	1,178	620
Servicing assets	29,081	33,574
Other assets	298,374	250,254
Total assets	<u>\$ 9,314,650</u>	<u>\$ 8,213,393</u>
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	\$ 170,336	\$ 89,279
Interest-bearing	8,234,573	7,022,765
Total deposits	8,404,909	7,112,044
Borrowings	35,616	318,289
Other liabilities	71,957	67,927
Total liabilities	<u>8,512,482</u>	<u>7,498,260</u>
Shareholders' equity		
Preferred stock, no par value, 1,000,000 shares authorized, none issued or outstanding at September 30, 2022 and December 31, 2021	—	—
Class A common stock, no par value, 100,000,000 shares authorized, 43,981,350 and 43,494,046 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	325,632	310,970
Class B common stock, no par value, 10,000,000 shares authorized, none issued or outstanding at September 30, 2022 and 125,024 shares issued and outstanding at December 31, 2021	—	1,324
Retained earnings	571,778	400,893
Accumulated other comprehensive (loss) income	(95,242)	1,946
Total shareholders' equity	<u>802,168</u>	<u>715,133</u>
Total liabilities and shareholders' equity	<u>\$ 9,314,650</u>	<u>\$ 8,213,393</u>

* 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 nine months ended September 30, 2022 and 2021 (unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest income				
Loans and fees on loans	\$ 107,880	\$ 89,388	\$ 291,235	\$ 259,161
Investment securities, taxable	5,506	3,174	12,951	9,078
Other interest earning assets	2,448	224	3,677	771
Total interest income	115,834	92,786	307,863	269,010
Interest expense				
Deposits	31,553	14,159	64,678	45,923
Borrowings	395	892	1,586	3,940
Total interest expense	31,948	15,051	66,264	49,863
Net interest income	83,886	77,735	241,599	219,147
Provision for loan and lease credit losses	14,169	4,319	21,272	11,292
Net interest income after provision for loan and lease credit losses	69,717	73,416	220,327	207,855
Noninterest income				
Loan servicing revenue	6,230	6,278	19,063	18,930
Loan servicing asset revaluation	(1,324)	(5,878)	(11,561)	(7,566)
Net gains on sales of loans	9,275	18,860	35,882	47,023
Net gain (loss) on loans accounted for under the fair value option	4,420	(1,030)	475	4,323
Equity method investments income (loss)	29,136	(1,250)	146,068	(4,685)
Equity security investments gains (losses), net	876	176	2,487	44,534
Lease income	2,516	2,527	7,529	7,742
Management fee income	2,844	1,489	6,890	4,896
Other noninterest income	3,751	4,104	12,088	11,247
Total noninterest income	57,724	25,276	218,921	126,444
Noninterest expense				
Salaries and employee benefits	43,479	28,202	128,262	92,468
Travel expense	2,372	1,819	6,627	4,027
Professional services expense	2,505	4,251	9,284	11,411
Advertising and marketing expense	2,621	1,631	6,651	3,158
Occupancy expense	2,519	2,042	7,619	6,378
Technology expense	7,770	6,150	19,585	16,159
Equipment expense	3,761	3,706	11,361	11,128
Other loan origination and maintenance expense	3,376	3,489	9,511	10,123
Renewable energy tax credit investment impairment	7,721	60	7,771	3,187
FDIC insurance	2,697	1,670	6,833	5,139
Contributions and donations	191	523	6,429	2,003
Other expense	4,036	1,916	9,708	6,108
Total noninterest expense	83,048	55,459	229,641	171,289
Income before taxes	44,393	43,233	209,607	163,010
Income tax expense	1,525	9,394	35,191	26,162
Net income	\$ 42,868	\$ 33,839	\$ 174,416	\$ 136,848
Basic earnings per share	\$ 0.97	\$ 0.78	\$ 3.98	\$ 3.18
Diluted earnings per share	\$ 0.96	\$ 0.76	\$ 3.88	\$ 3.05

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Comprehensive Income
For the three and nine months ended September 30, 2022 and 2021 (unaudited)
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 42,868	\$ 33,839	\$ 174,416	\$ 136,848
Other comprehensive loss before tax:				
Net unrealized loss on investment securities available-for-sale during the period	(47,318)	(6,656)	(127,879)	(17,687)
Reclassification adjustment for gain on sale of securities available-for-sale included in net income	—	—	—	—
Other comprehensive loss before tax	(47,318)	(6,656)	(127,879)	(17,687)
Income tax benefit	11,359	1,598	30,691	4,245
Other comprehensive loss, net of tax	(35,959)	(5,058)	(97,188)	(13,442)
Total comprehensive income	\$ 6,909	\$ 28,781	\$ 77,228	\$ 123,406

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity
For the three and nine months ended September 30, 2022 and 2021 (unaudited)
(Dollars in thousands)

	Three Months Ended					
	Common stock			Retained earnings	Accumulated other comprehensive income (loss)	Total equity
	Shares		Amount			
	Class A	Class B				
Balance at June 30, 2022	43,854,011	—	\$ 320,924	\$ 530,021	\$ (59,283)	\$ 791,662
Net income	—	—	—	42,868	—	42,868
Other comprehensive loss	—	—	—	—	(35,959)	(35,959)
Issuance of restricted stock	59,603	—	—	—	—	—
Tax withholding related to vesting of restricted stock and other	—	—	(1,362)	—	—	(1,362)
Employee stock purchase program	18,264	—	532	—	—	532
Stock option exercises	49,472	—	497	—	—	497
Stock option compensation expense	—	—	261	—	—	261
Restricted stock compensation expense	—	—	4,780	—	—	4,780
Transfer from retained earnings to other assets for pro rata portion of equity method investee stock compensation expense	—	—	—	208	—	208
Cash dividends (\$0.03 per share)	—	—	—	(1,319)	—	(1,319)
Balance at September 30, 2022	43,981,350	—	\$ 325,632	\$ 571,778	\$ (95,242)	\$ 802,168
Balance at June 30, 2021	42,754,133	510,327	\$ 305,213	\$ 339,011	\$ 13,123	\$ 657,347
Net income	—	—	—	33,839	—	33,839
Other comprehensive loss	—	—	—	—	(5,058)	(5,058)
Issuance of restricted stock	16,819	—	—	—	—	—
Tax withholding related to vesting of restricted stock and other	—	—	(504)	—	—	(504)
Employee stock purchase program	7,988	—	374	—	—	374
Stock option exercises	91,747	—	693	—	—	693
Stock option compensation expense	—	—	384	—	—	384
Restricted stock compensation expense	—	—	3,329	—	—	3,329
Transfer from retained earnings to other assets for pro rata portion of equity method investee stock compensation expense	—	—	—	320	—	320
Cash dividends (\$0.03 per share)	—	—	—	(1,301)	—	(1,301)
Balance at September 30, 2021	42,870,687	510,327	\$ 309,489	\$ 371,869	\$ 8,065	\$ 689,423

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 nine months ended September 30, 2022 and 2021 (unaudited)
(Dollars in thousands)

	Nine Months Ended					
	Common stock			Retained earnings	Accumulated other comprehensive income (loss)	Total equity
	Class A	Class B	Amount			
Balance at December 31, 2021	43,494,046	125,024	\$ 312,294	\$ 400,893	\$ 1,946	\$ 715,133
Net income	—	—	—	174,416	—	174,416
Other comprehensive loss	—	—	—	—	(97,188)	(97,188)
Issuance of restricted stock	172,296	—	—	—	—	—
Tax withholding related to vesting of restricted stock and other	—	—	(4,453)	—	—	(4,453)
Employee stock purchase program	29,383	—	1,066	—	—	1,066
Stock option exercises	160,601	—	1,650	—	—	1,650
Stock option compensation expense	—	—	886	—	—	886
Restricted stock compensation expense	—	—	14,189	—	—	14,189
Non-voting common stock converted to voting common stock in private sale	125,024	(125,024)	—	—	—	—
Transfer from retained earnings to other assets for pro rata portion of equity method investee stock compensation expense	—	—	—	415	—	415
Cash dividends (\$0.09 per share)	—	—	—	(3,946)	—	(3,946)
Balance at September 30, 2022	43,981,350	—	\$ 325,632	\$ 571,778	\$ (95,242)	\$ 802,168
Balance at December 31, 2020	41,344,689	1,107,757	\$ 310,619	\$ 235,724	\$ 21,507	\$ 567,850
Net income	—	—	—	136,848	—	136,848
Other comprehensive loss	—	—	—	—	(13,442)	(13,442)
Issuance of restricted stock	433,642	—	—	—	—	—
Tax withholding related to vesting of restricted stock and other	—	—	(17,504)	—	—	(17,504)
Employee stock purchase program	13,674	—	670	—	—	670
Stock option exercises	481,252	—	2,857	—	—	2,857
Stock option compensation expense	—	—	1,081	—	—	1,081
Restricted stock compensation expense	—	—	11,766	—	—	11,766
Non-voting common stock converted to voting common stock in private sale	597,430	(597,430)	—	—	—	—
Transfer from retained earnings to other assets for pro rata portion of equity method investee stock compensation expense	—	—	—	3,177	—	3,177
Cash dividends (\$0.09 per share)	—	—	—	(3,880)	—	(3,880)
Balance at September 30, 2021	42,870,687	510,327	\$ 309,489	\$ 371,869	\$ 8,065	\$ 689,423

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Cash Flows
For the nine months ended September 30, 2022 and 2021 (unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2022	2021
<i>Cash flows from operating activities</i>		
Net income	\$ 174,416	\$ 136,848
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	15,626	15,894
Provision for loan and lease credit losses	21,272	11,292
Amortization of premium on securities, net of accretion	3,019	5,005
Deferred tax expense	17,258	9,493
Originations of loans held for sale	(787,633)	(1,062,694)
Proceeds from sales of loans held for sale	796,286	794,892
Net gains on sale of loans held for sale	(35,882)	(47,023)
Net loss (gain) on sale of foreclosed assets	49	(798)
Net gain on loans accounted for under fair value option	(475)	(4,323)
Net decrease (increase) in servicing assets	4,493	(50)
Net gain on disposal of long-lived asset	—	(114)
Net loss (gain) on disposal of property and equipment	31	(48)
Impairment on premises and equipment, net	—	904
Equity method investments (income) loss	(146,068)	4,685
Equity security investments (gains) losses, net	(2,487)	(44,534)
Renewable energy tax credit investment impairment	7,771	3,187
Stock option compensation expense	886	1,081
Restricted stock compensation expense	14,189	11,766
Stock based compensation excess tax benefit	876	8,882
Lease right-of-use assets and liabilities, net	252	(3)
Changes in assets and liabilities:		
Other assets	12,377	19,171
Other liabilities	2,072	2,279
Net cash provided (used) by operating activities	98,328	(134,208)
<i>Cash flows from investing activities</i>		
Purchases of investment securities available-for-sale	(360,058)	(317,711)
Proceeds from sales, maturities, calls, and principal paydown of investment securities available-for-sale	129,840	183,740
Proceeds from SBA reimbursement/sale of foreclosed assets, net	432	6,542
Maturities of certificates of deposits with other banks	500	500
Loan and lease originations and principal collections, net	(746,991)	167,475
Proceeds from sale of long-lived asset	—	8,988
Purchases of equity security investments	(9,213)	(226)
Purchases of equity method investments	(30,178)	(14,669)
Proceeds from sale of equity security investment	369	15,000
Proceeds from sale of equity method investments	147,713	—
Purchases of premises and equipment, net	(35,631)	(1,580)
Net cash (used) provided by investing activities	\$ (903,217)	\$ 48,059

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Cash Flows (Continued)
For the nine months ended September 30, 2022 and 2021 (unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2022	2021
<i>Cash flows from financing activities</i>		
Net increase in deposits	\$ 1,292,865	\$ 1,103,785
Proceeds from borrowings	12,074	594,820
Repayment of borrowings	(294,747)	(1,565,885)
Stock option exercises	1,650	2,857
Employee stock purchase program	1,066	670
Withholding cash issued in lieu of restricted stock and other	(4,453)	(17,504)
Shareholder dividend distributions	(3,946)	(3,880)
Net cash provided by financing activities	1,004,509	114,863
Net increase in cash and cash equivalents	199,620	28,714
<i>Cash and cash equivalents, beginning</i>	203,750	318,320
<i>Cash and cash equivalents, ending</i>	<u>\$ 403,370</u>	<u>\$ 347,034</u>
<i>Supplemental disclosures of cash flow information</i>		
Interest paid	\$ 66,975	\$ 51,846
Income tax paid, net	17,128	16,546
<i>Supplemental disclosures of noncash operating, investing, and financing activities</i>		
Unrealized holding losses on investment securities available-for-sale, net of taxes	\$ (97,188)	\$ (13,442)
Transfers from loans and leases to foreclosed real estate and other repossessions or SBA receivable	14,880	10,782
Net transfers between foreclosed real estate and SBA receivable	139	(1,643)
Transfer of loans held for sale to loans and leases held for investment	843,639	617,475
Transfer of loans and leases held for investment to loans held for sale	356,429	247,680
Transfer from retained earnings to other assets for pro rata portion of equity method investee stock compensation expense	415	3,177
Recording of secured borrowing	—	3,993
Equity method investment commitments	14,732	—
Equity security investment commitments	394	2,250

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Basis of Presentation

Nature of Operations

Live Oak Bancshares, Inc. (collectively with its subsidiaries including Live Oak Banking Company, the “Company”) is a bank holding company headquartered in Wilmington, North Carolina incorporated under the laws of the State 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 lending and deposit related services to small businesses nationwide. The Bank identifies and extends 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’s (“USDA”) Rural Energy for America Program (“REAP”), Water and Environmental Program (“WEP”) and Business & Industry (“B&I”) loan programs.

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

The Bank’s wholly owned subsidiaries are Live Oak Number One, Inc., Live Oak Clean Energy Financing LLC (“LOCEF”), Live Oak Private Wealth, LLC (“Live Oak Private Wealth”) and Tiburon Land Holdings, LLC (“TLH”). Live Oak Number One, Inc. holds properties foreclosed on by the Bank. LOCEF provides financing to entities for renewable energy applications. Live Oak Private Wealth provides high-net-worth individuals and families with strategic wealth and investment management services. During the first quarter of 2022, Jolley Asset Management, LLC (“JAM”) was merged into Live Oak Private Wealth. JAM was previously a wholly owned subsidiary of Live Oak Private Wealth. TLH was formed in the third quarter of 2022 to hold land adjacent to the Bank’s headquarters consisting of wetlands and other protected property for the use and enjoyment of the Bank’s employees and customers.

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. Canapi Advisors provides investment advisory services to a series of funds focused on providing venture capital to new and emerging financial technology companies.

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. Income from the sale of loans is comprised of net gains on sales of loans along with loan servicing revenue and revaluation of related servicing assets. 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. The Company also generates gains and losses arising from its financial technology investments in its fintech segment.

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

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 three and nine months ended September 30, 2022 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2022. The Unaudited Condensed Consolidated Balance Sheet as of December 31, 2021 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, 2021, filed with the Securities Exchange Commission on February 24, 2022 (SEC File No. 001-37497) (the "2021 Form 10-K"). 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 2021 Form 10-K. These Unaudited Interim Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements and footnotes in the Company's 2021 Form 10-K.

The preparation of financial statements in conformity with United States generally accepted accounting principles ("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, share and per share data or where otherwise indicated.

Business Segments

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Management has determined that the Company has two reportable operating segments: Banking and Fintech, as discussed more fully in Note 11. Segments. In determining the appropriateness of a segment definition, the Company considers the criteria of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 280, *Segment Reporting*.

Reclassifications

Certain reclassifications have been made to the prior period's Unaudited Condensed 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.

Note 2. Recent Accounting Pronouncements

In March 2020, the FASB issued Accounting Standards Update ("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 and can be adopted by the Company as of March 12, 2020, through December 31, 2022. The Company does not expect this standard will have a material impact on its consolidated financial statements. To address the discontinuance of LIBOR, the Company has stopped originating variable LIBOR-based loans effective December 31, 2021 and has started to negotiate loans using the preferred replacement index, the Secured Overnight Financing Rate ("SOFR") or a relevant duration U.S. Treasury rate. For currently outstanding LIBOR-based loans, the timing and manner in which each customer's contract transitions from LIBOR to another rate will vary on a case-by-case basis. The Company expects to complete all transitions by the second quarter of 2023 or at the next repricing date if later in 2023.

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

In March 2022, the FASB issued ASU No. 2022-02 “Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings (“TDRs”) and Vintage Disclosures” (“ASU 2022-02”). ASU 2022-02 eliminates the accounting guidance for TDRs by creditors in ASC 310-40, *Receivables – Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. Additionally, for public business entities, ASU 2022-02 requires that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of ASC 326-20, *Financial Instruments – Credit Losses – Measured at Amortized Cost*. The amendments in this standard will be effective for the Company on January 1, 2023. The Company does not believe this standard will have a material impact on its consolidated financial statements.

In June 2022, the FASB issued ASU No. 2022-03 “Fair Value Measurement (Topic 820) Fair Value Measurement of Equity Securities Subject to Contractual Restrictions” (“ASU 2022-03”). ASU 2022-03 indicates a contractual sale restriction on equity securities should not be considered in measuring fair value, however, disclosure should be made about such restrictions. The amendments in this standard will be effective for the Company on January 1, 2024. 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 share in the net income of the Company.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Basic earnings per share:				
Net income	\$ 42,868	\$ 33,839	\$ 174,416	\$ 136,848
Weighted-average basic shares outstanding	43,914,920	43,329,889	43,814,648	43,061,642
Basic earnings per share	\$ 0.97	\$ 0.78	\$ 3.98	\$ 3.18
Diluted earnings per share:				
Net income, for diluted earnings per share	\$ 42,868	\$ 33,839	\$ 174,416	\$ 136,848
Total weighted-average basic shares outstanding	43,914,920	43,329,889	43,814,648	43,061,642
Add effect of dilutive stock options and restricted stock grants	882,189	1,710,801	1,128,784	1,874,372
Total weighted-average diluted shares outstanding	44,797,109	45,040,690	44,943,432	44,936,014
Diluted earnings per share	\$ 0.96	\$ 0.76	\$ 3.88	\$ 3.05
Anti-dilutive stock options and restricted shares	1,335,254	207,811	1,335,254	207,811

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Note 4. Securities

Available-for-Sale

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>September 30, 2022</u>				
US government agencies	\$ 20,447	\$ —	\$ 398	\$ 20,049
Mortgage-backed securities	1,106,515	240	124,914	981,841
Municipal bonds	3,229	—	247	2,982
Other debt securities	500	—	—	500
Total	<u>\$ 1,130,691</u>	<u>\$ 240</u>	<u>\$ 125,559</u>	<u>\$ 1,005,372</u>
<u>December 31, 2021</u>				
US government agencies	\$ 10,444	\$ 193	\$ —	\$ 10,637
Mortgage-backed securities	887,302	14,246	12,209	889,339
Municipal bonds	3,246	333	3	3,576
Other debt securities	2,500	—	—	2,500
Total	<u>\$ 903,492</u>	<u>\$ 14,772</u>	<u>\$ 12,212</u>	<u>\$ 906,052</u>

During the three months ended September 30, 2022, two mortgage-backed securities totaling \$3.8 million were settled. During the three months ended September 30, 2021, two mortgage-backed securities totaling \$6.2 million were settled.

During the nine months ended September 30, 2022, twenty mortgage-backed securities totaling \$36.5 million were settled. During the nine months ended September 30, 2021, one US government agency matured at \$5.0 million and eight mortgage-backed securities totaling \$23.1 million were settled.

Accrued interest receivable on available-for-sale securities totaled \$2.9 million and \$1.9 million at September 30, 2022 and December 31, 2021, respectively, and is included in other assets in the accompanying Unaudited 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	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>September 30, 2022</u>						
US government agencies	\$ 20,049	\$ 398	\$ —	\$ —	\$ 20,049	\$ 398
Mortgage-backed securities	623,625	52,828	332,084	72,086	955,709	124,914
Municipal bonds	2,889	242	93	5	2,982	247
Total	<u>\$ 646,563</u>	<u>\$ 53,468</u>	<u>\$ 332,177</u>	<u>\$ 72,091</u>	<u>\$ 978,740</u>	<u>\$ 125,559</u>
<u>December 31, 2021</u>						
Mortgage-backed securities	\$ 479,322	\$ 8,503	\$ 110,633	\$ 3,706	\$ 589,955	\$ 12,209
Municipal bonds	—	—	96	3	96	3
Total	<u>\$ 479,322</u>	<u>\$ 8,503</u>	<u>\$ 110,729</u>	<u>\$ 3,709</u>	<u>\$ 590,051</u>	<u>\$ 12,212</u>

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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 September 30, 2022, there were one hundred twenty-eight mortgage-backed securities and one municipal bond in unrealized loss positions for greater than 12 months. There were six US government agency securities, two hundred eighty-three mortgage-backed securities, and one municipal bond in unrealized loss positions for less than 12 months. Unrealized losses at December 31, 2021 were comprised of thirty-one mortgage-backed securities and one municipal bond in unrealized loss positions for greater than 12 months, and one hundred forty-two 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 issuers' 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 Unaudited Condensed Consolidated Statements of Income.

All mortgage-backed securities in the Company's portfolio at September 30, 2022 and December 31, 2021 were backed by U.S. government sponsored enterprises ("GSEs").

The following is a summary of investment securities by maturity:

	September 30, 2022	
	Available-for-Sale	
	Amortized cost	Fair value
US government agencies		
Within one year	\$ 7,502	\$ 7,494
One to five years	12,945	12,555
Total	20,447	20,049
Mortgage-backed securities		
One to five years	154,971	145,228
Five to ten years	208,714	181,882
After 10 years	742,830	654,731
Total	1,106,515	981,841
Municipal bonds		
After 10 years	3,229	2,982
Total	3,229	2,982
Other debt securities		
Within one year	500	500
Total	500	500
Total	\$ 1,130,691	\$ 1,005,372

Mortgage-backed securities are included in maturity categories based on their contractual maturity date. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

There were no securities pledged at September 30, 2022 or December 31, 2021.

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Other

Other investments, largely comprised of non-marketable equity investments, are generally accounted for under the equity method or equity security accounting and are included in other assets in the accompanying Unaudited Condensed Consolidated Balance Sheets. The below tables provide additional information related to investments accounted for under these two methods.

Equity Method Accounting

The carrying amount and ownership percentage of each equity investment over which the Company has significant influence at September 30, 2022 and December 31, 2021 is reflected in the following table:

	September 30, 2022		December 31, 2021	
	Amount	Ownership %	Amount	Ownership %
Apiture, Inc.	\$ 61,806	40.3 %	\$ 52,323	39.1 %
Canapi Ventures SBIC Fund, LP ^{(1) (5)}	19,261	2.9 %	19,431	2.9 %
Canapi Ventures Fund, LP ^{(2) (5)}	2,388	1.5 %	2,402	1.5 %
Canapi Ventures Fund II, LP ^{(3) (5)}	7,451	1.6 %	—	N/A
Canapi Ventures SBIC Fund II, LP ^{(4) (5)}	8,000	3.7 %	—	N/A
Other Fintech investments in private companies ⁽⁶⁾	240	Various	5,330	Various
Other ⁽⁷⁾	12,873	Various	4,664	Various
Total	<u>\$ 112,019</u>		<u>\$ 84,150</u>	

(1) Includes unfunded commitments of \$5.5 million and \$6.8 million as of September 30, 2022 and December 31, 2021, respectively.

(2) Includes unfunded commitments of \$632 thousand and \$770 thousand as of September 30, 2022 and December 31, 2021, respectively.

(3) Includes unfunded commitments of \$6.8 million as of September 30, 2022. There were no unfunded commitments as of December 31, 2021.

(4) Includes unfunded commitments of \$7.9 million as of September 30, 2022. There were no unfunded commitments as of December 31, 2021.

(5) Investee is accounted for under equity method due to the Company's participation as an investment advisor.

(6) As of September 30, 2022, Other Fintech investments include Kwipped, Inc. On August 31, 2022, the Company sold its investment in Payrailz, LLC, resulting in a pre-tax gain of \$28.4 million, and on April 1, 2022 the Company sold its investment in Finxact, Inc. resulting in a pre-tax gain of \$120.5 million. As of December 31, 2021 Other Fintech investments include Finxact, Inc., Payrailz, LLC and Kwipped, Inc. Investees are accounted for under equity method due to the Company's ability to exercise significant influence through executive management's board involvement.

(7) Other includes affordable housing and solar income tax credit projects.

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Equity Security Accounting

The carrying amount of the Company's investments in non-marketable equity securities with no readily determinable fair value and amounts recognized in earnings on a cumulative basis as of September 30, 2022 and as of and for the nine months ended September 30, 2022 and 2021 is reflected in the following table:

	Cumulative Adjustments	As of and for the nine month period ended	
		September 30, 2022	September 30, 2021
Carrying value ⁽¹⁾		\$ 76,438	\$ 62,341
Carrying value adjustments:			
Impairment	\$ —	—	—
Upward changes for observable prices ⁽²⁾	50,492	2,022	30,197
Downward changes for observable prices	(86)	—	—
Net upward change	\$ 50,406	\$ 2,022	\$ 30,197

(1) Includes \$3.1 million and \$2.6 million in unfunded commitments as of September 30, 2022, and September 30, 2021, respectively.

(2) Cumulative adjustments excludes \$13.9 million in realized gains for sale of an investment in the second quarter of 2021.

For the three and nine months ended September 30, 2022, the Company recognized unrealized gains on all equity securities held at the reporting date of \$493 thousand and \$1.9 million, respectively. For the three and nine months ended September 30, 2021, the Company recognized unrealized gains on all equity securities held at the reporting date of \$12 thousand and \$44.0 million, respectively.

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

The following tables present total loans and leases held for investment 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	Loans Accounted for Under the Fair Value Option ¹	Total Loans and Leases
September 30, 2022							
Commercial & Industrial							
Small Business Banking	\$ 1,660,870	\$ 5,643	\$ 16,643	\$ 22,286	\$ 1,683,156	\$ 194,709	\$ 1,877,865
Specialty Lending	1,256,847	3,089	166	3,255	1,260,102	76,483	1,336,585
Paycheck Protection Program	24,367	—	—	—	24,367	—	24,367
Total	2,942,084	8,732	16,809	25,541	2,967,625	271,192	3,238,817
Construction & Development							
Small Business Banking	453,015	—	23	23	453,038	—	453,038
Specialty Lending	127,001	—	—	—	127,001	—	127,001
Total	580,016	—	23	23	580,039	—	580,039
Commercial Real Estate							
Small Business Banking	1,993,613	10,292	2,547	12,839	2,006,452	180,249	2,186,701
Specialty Lending	390,299	—	—	—	390,299	17,326	407,625
Total	2,383,912	10,292	2,547	12,839	2,396,751	197,575	2,594,326
Commercial Land							
Small Business Banking	402,545	—	1,917	1,917	404,462	43,416	447,878
Total	402,545	—	1,917	1,917	404,462	43,416	447,878
Total	\$ 6,308,557	\$ 19,024	\$ 21,296	\$ 40,320	\$ 6,348,877	\$ 512,183	\$ 6,861,060
Net deferred fees							(7,678)
Loans and Leases, Net							\$ 6,853,382
Guaranteed Balance	\$ 2,561,284	\$ 15,496	\$ 18,199	\$ 33,695	\$ 2,594,979	\$ 55,376	\$ 2,650,355
% Guaranteed	40.6%	81.5%	85.5%	83.6%	40.9%	10.8%	38.6%

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	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	Loans Accounted for Under the Fair Value Option ¹	Total Loans and Leases
December 31, 2021							
Commercial & Industrial							
Small Business Banking	\$ 1,103,915	\$ 13,171	\$ 7,320	\$ 20,491	\$ 1,124,406	\$ 248,806	\$ 1,373,212
Specialty Lending	875,367	—	—	—	875,367	64,525	939,892
Paycheck Protection Program	266,893	68	1,414	1,482	268,375	—	268,375
Total	2,246,175	13,239	8,734	21,973	2,268,148	313,331	2,581,479
Construction & Development							
Small Business Banking	275,786	—	1,366	1,366	277,152	—	277,152
Specialty Lending	82,014	—	—	—	82,014	—	82,014
Total	357,800	—	1,366	1,366	359,166	—	359,166
Commercial Real Estate							
Small Business Banking	1,577,765	5,802	10,761	16,563	1,594,328	250,856	1,845,184
Specialty Lending	285,373	—	2,315	2,315	287,688	19,481	307,169
Total	1,863,138	5,802	13,076	18,878	1,882,016	270,337	2,152,353
Commercial Land							
Small Business Banking	362,881	7,399	2,055	9,454	372,335	61,533	433,868
Total	362,881	7,399	2,055	9,454	372,335	61,533	433,868
Total	\$ 4,829,994	\$ 26,440	\$ 25,231	\$ 51,671	\$ 4,881,665	\$ 645,201	\$ 5,526,866
Net deferred fees							(5,604)
Loans and Leases, Net							\$ 5,521,262
Guaranteed Balance	\$ 2,037,509	\$ 18,421	\$ 16,440	\$ 34,861	\$ 2,072,370	\$ 77,722	\$ 2,150,092
% Guaranteed	42.2%	69.7%	65.2%	67.5%	42.5%	12.0%	38.9%

(1) Retained portions of government guaranteed loans sold prior to January 1, 2020 are carried at fair value under FASB ASC Subtopic 825-10, *Financial Instruments: Overall*. See Note 9. Fair Value of Financial Instruments for additional information.

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Notes to Unaudited Condensed Consolidated Financial Statements

Credit Quality Indicators

The following tables present asset quality indicators by portfolio class and origination year. See Note 3. Loans and Leases Held for Investment and Credit Quality in the Company's 2021 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						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total ¹
	2022	2021	2020	2019	2018	Prior			
September 30, 2022									
Small Business Banking									
Risk Grades 1 - 4	\$ 976,643	\$ 1,334,130	\$ 862,157	\$ 516,864	\$ 257,295	\$ 254,670	\$ 67,534	\$ 1,155	\$ 4,270,448
Risk Grade 5	5,923	11,725	38,072	40,760	36,927	44,322	4,040	—	181,769
Risk Grades 6 - 8	1,018	2,700	16,548	29,655	12,717	30,019	1,912	322	94,891
Total	983,584	1,348,555	916,777	587,279	306,939	329,011	73,486	1,477	4,547,108
Specialty Lending									
Risk Grades 1 - 4	533,884	611,814	217,430	71,633	30,467	28,464	174,482	6,509	1,674,683
Risk Grade 5	—	10,094	28,792	22,034	9,309	5,479	2,196	248	78,152
Risk Grades 6 - 8	—	8,076	3,127	2,989	10,099	—	276	—	24,567
Total	533,884	629,984	249,349	96,656	49,875	33,943	176,954	6,757	1,777,402
Paycheck Protection Program									
Risk Grades 1 - 4	—	15,468	8,899	—	—	—	—	—	24,367
Total	—	15,468	8,899	—	—	—	—	—	24,367
Total	\$ 1,517,468	\$ 1,994,007	\$ 1,175,025	\$ 683,935	\$ 356,814	\$ 362,954	\$ 250,440	\$ 8,234	\$ 6,348,877
	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total ¹
December 31, 2021									
Small Business Banking									
Risk Grades 1 - 4	\$ 1,051,775	\$ 853,250	\$ 522,407	\$ 285,397	\$ 188,858	\$ 116,645	\$ 46,356	\$ 1,771	\$ 3,066,459
Risk Grade 5	7,838	19,651	65,715	60,615	37,661	13,933	5,066	195	210,674
Risk Grades 6 - 8	2,517	8,667	27,696	14,545	14,193	21,239	1,457	774	91,088
Total	1,062,130	881,568	615,818	360,557	240,712	151,817	52,879	2,740	3,368,221
Specialty Lending									
Risk Grades 1 - 4	644,851	238,409	73,978	42,452	38,703	—	133,889	1,816	1,174,098
Risk Grade 5	2,250	17,677	5,497	10,415	17,104	—	2,953	848	56,744
Risk Grades 6 - 8	—	17	3,166	8,654	—	2,315	75	—	14,227
Total	647,101	256,103	82,641	61,521	55,807	2,315	136,917	2,664	1,245,069
Paycheck Protection Program									
Risk Grades 1 - 4	204,803	63,572	—	—	—	—	—	—	268,375
Total	204,803	63,572	—	—	—	—	—	—	268,375
Total	\$ 1,914,034	\$ 1,201,243	\$ 698,459	\$ 422,078	\$ 296,519	\$ 154,132	\$ 189,796	\$ 5,404	\$ 4,881,665

(1) Excludes \$512.2 million and \$645.2 million of loans accounted for under the fair value option as of September 30, 2022 and December 31, 2021, respectively.

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The following tables present guaranteed and unguaranteed loan and lease balances by asset quality indicator:

<u>September 30, 2022</u>	<u>Loan and Lease Balance¹</u>	<u>Guaranteed Balance</u>	<u>Unguaranteed Balance</u>	<u>% Guaranteed</u>
Risk Grades 1 - 4	\$ 5,969,498	\$ 2,403,183	\$ 3,566,315	40.3 %
Risk Grade 5	259,921	112,819	147,102	43.4
Risk Grades 6 - 8	119,458	78,978	40,480	66.1
Total	<u>\$ 6,348,877</u>	<u>\$ 2,594,980</u>	<u>\$ 3,753,897</u>	<u>40.9 %</u>

<u>December 31, 2021</u>	<u>Loan and Lease Balance¹</u>	<u>Guaranteed Balance</u>	<u>Unguaranteed Balance</u>	<u>% Guaranteed</u>
Risk Grades 1 - 4	\$ 4,508,932	\$ 1,875,152	\$ 2,633,780	41.6 %
Risk Grade 5	267,418	134,221	133,197	50.2
Risk Grades 6 - 8	105,315	62,997	42,318	59.8
Total	<u>\$ 4,881,665</u>	<u>\$ 2,072,370</u>	<u>\$ 2,809,295</u>	<u>42.5 %</u>

(1) Excludes \$512.2 million and \$645.2 million of loans accounted for under the fair value option as of September 30, 2022 and December 31, 2021, respectively.

Nonaccrual Loans and Leases

As of September 30, 2022 and December 31, 2021 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 nine months ended September 30, 2022 and 2021. Nonaccrual loans and leases are generally included in the held for investment portfolio. Accrued interest receivable on loans totaled \$36.1 million and \$31.0 million at September 30, 2022 and December 31, 2021, respectively, and is included in other assets in the accompanying Unaudited Condensed Consolidated Balance Sheets.

Nonaccrual loans and leases held for investment as of September 30, 2022 and December 31, 2021 are as follows:

<u>September 30, 2022</u>	<u>Loan and Lease Balance¹</u>	<u>Guaranteed Balance</u>	<u>Unguaranteed Balance</u>	<u>Unguaranteed Exposure with No ACL</u>
Commercial & Industrial				
Small Business Banking	\$ 21,313	\$ 18,397	\$ 2,916	\$ 407
Specialty Lending	266	266	—	—
Total	<u>21,579</u>	<u>18,663</u>	<u>2,916</u>	<u>407</u>
Construction & Development				
Small Business Banking	23	—	23	—
Total	<u>23</u>	<u>—</u>	<u>23</u>	<u>—</u>
Commercial Real Estate				
Small Business Banking	33,375	23,148	10,227	8,600
Total	<u>33,375</u>	<u>23,148</u>	<u>10,227</u>	<u>8,600</u>
Commercial Land				
Small Business Banking	5,087	3,919	1,168	196
Total	<u>5,087</u>	<u>3,919</u>	<u>1,168</u>	<u>196</u>
Total	<u>\$ 60,064</u>	<u>\$ 45,730</u>	<u>\$ 14,334</u>	<u>\$ 9,203</u>

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<u>December 31, 2021</u>	<u>Loan and Lease Balance¹</u>	<u>Guaranteed Balance</u>	<u>Unguaranteed Balance</u>	<u>Unguaranteed Exposure with No ACL</u>
Commercial & Industrial				
Small Business Banking	\$ 16,911	\$ 13,981	\$ 2,930	\$ —
Payroll Protection Program	1,482	1,482	—	—
Total	18,393	15,463	2,930	—
Construction & Development				
Small Business Banking	3,884	1,201	2,683	—
Total	3,884	1,201	2,683	—
Commercial Real Estate				
Small Business Banking	12,410	5,226	7,184	5,169
Specialty Lending	2,315	507	1,808	1,808
Total	14,725	5,733	8,992	6,977
Commercial Land				
Small Business Banking	5,531	4,148	1,383	—
Total	5,531	4,148	1,383	—
Total	<u>\$ 42,533</u>	<u>\$ 26,545</u>	<u>\$ 15,988</u>	<u>\$ 6,977</u>

(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 September 30, 2022 and December 31, 2021:

	Total Collateral Dependent Loans			Unguaranteed Portion			
<u>September 30, 2022</u>	Real Estate	Business Assets	Other	Real Estate	Business Assets	Other	Allowance for Credit Losses
Commercial & Industrial							
Small Business Banking	\$ 2,730	\$ 9,227	\$ 25	\$ 414	\$ 300	\$ 25	\$ 132
Total	2,730	9,227	25	414	300	25	132
Construction & Development							
Small Business Banking	6	—	—	6	—	—	6
Total	6	—	—	6	—	—	6
Commercial Real Estate							
Small Business Banking	5,832	2,210	39	1,019	134	9	73
Total	5,832	2,210	39	1,019	134	9	73
Commercial Land							
Small Business Banking	1,923	—	—	382	—	—	51
Total	1,923	—	—	382	—	—	51
Total	\$ 10,491	\$ 11,437	\$ 64	\$ 1,821	\$ 434	\$ 34	\$ 262

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	Total Collateral Dependent Loans			Unguaranteed Portion			
<u>December 31, 2021</u>	Real Estate	Business Assets	Other	Real Estate	Business Assets	Other	Allowance for Credit Losses
Commercial & Industrial							
Small Business Banking	\$ 698	\$ 7,475	\$ —	\$ 152	\$ 449	\$ —	\$ 235
Total	698	7,475	—	152	449	—	235
Construction & Development							
Specialty Lending	3,858	—	—	2,657	—	—	57
Total	3,858	—	—	2,657	—	—	57
Commercial Real Estate							
Small Business Banking	5,172	700	64	4,038	14	13	65
Specialty Lending	512	—	—	6	—	—	—
Total	5,684	700	64	4,044	14	13	65
Commercial Land							
Small Business Banking	5,541	—	—	1,393	—	—	601
Total	5,541	—	—	1,393	—	—	601
Total	\$ 15,781	\$ 8,175	\$ 64	\$ 8,246	\$ 463	\$ 13	\$ 958

Allowance for Credit Losses - Loans and Leases

See Note 1. Organization and Summary of Significant Accounting Policies of the Notes to the Consolidated Financial Statements in the Company's 2021 Form 10-K for a description of the methodologies used to estimate the allowance for credit losses ("ACL").

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

Three Months Ended	Commercial & Industrial	Construction & Development	Commercial Real Estate	Commercial Land	Total
<u>September 30, 2022</u>					
Beginning Balance	\$ 41,178	\$ 3,504	\$ 17,840	\$ 3,341	\$ 65,863
Charge offs	(1,528)	—	(945)	—	(2,473)
Recoveries	240	—	481	11	732
Provision	9,023	1,982	3,155	9	14,169
Ending Balance	\$ 48,913	\$ 5,486	\$ 20,531	\$ 3,361	\$ 78,291
<u>September 30, 2021</u>					
Beginning Balance	\$ 27,439	\$ 6,232	\$ 22,162	\$ 2,014	\$ 57,847
Charge offs	(2,535)	—	—	—	(2,535)
Recoveries	12	—	38	—	50
Provision	3,883	(1,941)	2,392	(15)	4,319
Ending Balance	\$ 28,799	\$ 4,291	\$ 24,592	\$ 1,999	\$ 59,681

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Nine Months Ended	Commercial & Industrial	Construction & Development	Commercial Real Estate	Commercial Land	Total
<u>September 30, 2022</u>					
Beginning Balance	\$ 37,770	\$ 3,435	\$ 19,068	\$ 3,311	\$ 63,584
Charge offs	(6,163)	—	(1,378)	(652)	(8,193)
Recoveries	420	—	1,197	11	1,628
Provision	16,886	2,051	1,644	691	21,272
Ending Balance	<u>\$ 48,913</u>	<u>\$ 5,486</u>	<u>\$ 20,531</u>	<u>\$ 3,361</u>	<u>\$ 78,291</u>
<u>September 30, 2021</u>					
Beginning Balance	\$ 26,941	\$ 5,663	\$ 18,148	\$ 1,554	\$ 52,306
Charge offs	(2,912)	(262)	(2,691)	(12)	(5,877)
Recoveries	158	—	1,802	—	1,960
Provision	4,612	(1,110)	7,333	457	11,292
Ending Balance	<u>\$ 28,799</u>	<u>\$ 4,291</u>	<u>\$ 24,592</u>	<u>\$ 1,999</u>	<u>\$ 59,681</u>

During the three and nine months ended September 30, 2022, the ACL increased primarily as a result of loan growth, charge-off experience impacts, a transfer of \$729.5 million in loans carried at amortized cost, including \$694.0 million in guaranteed loans, from held for sale to held for investment and changes in the macroeconomic outlook. Loss rates are adjusted for twelve month forecasted unemployment followed by a twelve-month straight-line reversion period.

During the three and nine month periods ended September 30, 2021, increases to the ACL were primarily related to loan growth which has outpaced the improvement in forecasted unemployment rates and other conditions related to 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 net charge-offs during the periods.

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Troubled Debt Restructurings

The following tables present the types of loans modified as troubled debt restructurings (“TDRs”):

Three Months Ended September 30, 2022										
	Interest Only		Payment Deferral		Extend Amortization		Other ⁽¹⁾		Total TDRs ⁽²⁾	
	Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end	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	\$ 7,074	1	\$ 146	—	\$ —	4	\$ 7,220
Total	—	—	3	7,074	1	146	—	—	4	7,220
Construction & Development										
Small Business Banking	—	—	—	—	—	—	2	2,518	2	2,518
Total	—	—	—	—	—	—	2	2,518	2	2,518
Total	—	\$ —	3	\$ 7,074	1	\$ 146	2	\$ 2,518	6	\$ 9,738

(1) Includes two Small Business Banking loans with extended amortization and interest only.

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

Nine Months Ended September 30, 2022										
	Interest Only		Payment Deferral		Extend Amortization		Other ⁽¹⁾		Total TDRs ⁽²⁾	
	Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end	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	—	\$ —	6	\$ 10,192	3	\$ 1,674	1	\$ 527	10	\$ 12,393
Specialty Lending	—	—	1	734	—	—	—	—	1	734
Total	—	—	7	10,926	3	1,674	1	527	11	13,127
Commercial Real Estate										
Small Business Banking	—	—	—	—	1	4,847	—	—	1	4,847
Total	—	—	—	—	1	4,847	—	—	1	4,847
Construction & Development										
Small Business Banking	—	—	—	—	—	—	2	2,518	2	2,518
Total	—	—	—	—	—	—	2	2,518	2	2,518
Total	—	\$ —	7	\$ 10,926	4	\$ 6,521	3	\$ 3,045	14	\$ 20,492

(1) Includes one Small Business Banking loan with extended amortization and a rate concession, two Small Business Banking loans with extended amortization and interest only.

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

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Three Months Ended September 30, 2021									
Interest Only		Payment Deferral		Extend Amortization		Other		Total TDRs ⁽¹⁾	
Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end	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 \$ 2,830	— \$ —	— \$ —	— \$ —	— \$ —	— \$ —	1 \$ 2,830	— \$ —
Total	—	1 2,830	—	—	—	—	—	1 2,830	—
Total	— \$ —	1 \$ 2,830	— \$ —	— \$ —	— \$ —	— \$ —	— \$ —	1 \$ 2,830	— \$ —

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

Nine Months Ended September 30, 2021									
Interest Only		Payment Deferral		Extend Amortization		Other ⁽¹⁾		Total TDRs ⁽²⁾	
Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end	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 \$ 6,097	— \$ —	— \$ —	— \$ —	— \$ —	— \$ —	3 \$ 6,097	— \$ —
Total	—	3 6,097	—	—	—	—	—	3 6,097	—
Commercial Real Estate									
Small Business Banking	—	5 6,613	—	—	—	1 3,124	—	6 9,737	—
Total	—	5 6,613	—	—	—	1 3,124	—	6 9,737	—
Total	— \$ —	8 \$ 12,710	— \$ —	— \$ —	— \$ —	1 \$ 3,124	— \$ —	9 \$ 15,834	— \$ —

(1) Includes one Small Business Banking loan with extended amortization and a rate concession.

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

Restructurings made to improve a loan's performance have varying degrees of success. The following tables present TDRs that were modified within the twelve months ended September 30, 2022 that subsequently defaulted during the period:

Three Months Ended September 30, 2022									
Interest Only		Payment Deferral		Extend Amortization		Other		Total TDRs ⁽¹⁾	
Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end	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	— \$ —	— \$ —	1 \$ 146	— \$ —	— \$ —	— \$ —	— \$ —	1 \$ 146	— \$ —
Total	— \$ —	— \$ —	1 \$ 146	— \$ —	— \$ —	— \$ —	— \$ —	1 \$ 146	— \$ —

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

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Nine Months Ended September 30, 2022										
	Interest Only		Payment Deferral		Extend Amortization		Other		Total TDRs ⁽¹⁾	
	Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end	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	—	\$ —	2	\$ 2,737	2	\$ 496	—	\$ —	4	\$ 3,233
Total	—	\$ —	2	\$ 2,737	2	\$ 496	—	\$ —	4	\$ 3,233

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

No TDRs that were modified within the twelve months ended September 30, 2021 subsequently defaulted during the three months ended September 30, 2021.

The following table presents TDRs that were modified within the twelve months ended September 30, 2021 that subsequently defaulted during the period:

Nine Months Ended September 30, 2021										
	Interest Only		Payment Deferral		Extend Amortization		Other		Total TDRs ⁽¹⁾	
	Number of Loans	Recorded investment at period end	Number of Loans	Recorded investment at period end	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	\$ 50	—	\$ —	—	\$ —	1	\$ 50
Total	—	\$ —	1	\$ 50	—	\$ —	—	\$ —	1	\$ 50

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

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 in the accompanying Unaudited Condensed Consolidated Balance Sheets.

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

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 to 7 years which is consistent with the useful life of the equipment with no residual value. The net investment in direct finance leases included in loans and leases held for investment are as follows:

	September 30, 2022	December 31, 2021
Gross direct finance lease payments receivable	\$ 4,872	\$ 7,333
Less – unearned interest	(565)	(998)
Net investment in direct financing leases	<u>\$ 4,307</u>	<u>\$ 6,335</u>

Future minimum lease payments under finance leases are as follows:

<u>As of September 30, 2022</u>	<u>Amount</u>
2022	\$ 446
2023	1,945
2024	1,374
2025	990
2026	117
Total	<u>\$ 4,872</u>

Interest income of \$101 thousand and \$159 thousand was recognized in the three months ended September 30, 2022 and 2021, respectively. Interest income of \$309 thousand and \$517 thousand was recognized in the nine months ended September 30, 2022 and 2021, 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 equipment expense at the time the costs are incurred.

As of September 30, 2022 and December 31, 2021, the Company had a net investment of \$116.6 million and \$123.9 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 \$163.4 million as of September 30, 2022 and December 31, 2021 and accumulated depreciation was \$46.8 million and \$39.5 million as of September 30, 2022 and December 31, 2021, respectively. Depreciation expense recognized on these assets for the three months ended September 30, 2022 and 2021 was \$2.4 million. Depreciation expense recognized on these assets for the nine months ended September 30, 2022 and 2021 was \$7.3 million.

Lease income of \$2.4 million was recognized in the three months ended September 30, 2022 and 2021. Lease income of \$7.1 million and \$7.2 million was recognized in the nine months ended September 30, 2022 and 2021, respectively.

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

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

<u>As of September 30, 2022</u>	<u>Amount</u>
2022	\$ 1,960
2023	9,075
2024	8,808
2025	8,935
2026	8,923
Thereafter	22,253
Total	<u>\$ 59,954</u>

Note 7. Servicing Assets

Loans serviced for others are not included in the accompanying Unaudited Condensed Consolidated Balance Sheets. The unpaid principal balance of loans serviced for others requiring recognition of a servicing asset was \$2.22 billion and \$2.29 billion at September 30, 2022 and December 31, 2021, respectively. The unpaid principal balance for all loans serviced for others was \$3.35 billion and \$3.30 billion at September 30, 2022 and December 31, 2021, respectively.

The following summarizes the activity pertaining to servicing rights:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Balance at beginning of period	\$ 28,661	\$ 36,966	\$ 33,574	\$ 33,918
Additions, net	1,744	2,880	7,068	7,616
Fair value changes:				
Due to changes in valuation inputs or assumptions	992	(2,768)	(3,056)	119
Decay due to increases in principal paydowns or runoff	(2,316)	(3,110)	(8,505)	(7,685)
Balance at end of period	<u>\$ 29,081</u>	<u>\$ 33,968</u>	<u>\$ 29,081</u>	<u>\$ 33,968</u>

The fair value of servicing rights was determined using a weighted average discount rate of 15.1% on September 30, 2022 and 12.3% on September 30, 2021. The fair value of servicing rights was determined using a weighted average prepayment speed of 16.1% on September 30, 2022 and 16.7% on September 30, 2021, with the actual rate depending on the stratification of the specific right. Changes to fair value are reported in loan servicing asset revaluation within the Unaudited Condensed 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.

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Note 8. Borrowings

Total outstanding borrowings consisted of the following:

	September 30, 2022	December 31, 2021
Borrowings		
In March 2021, the Company entered into a 60-month term loan agreement of \$50.0 million with a third party correspondent bank. The loan accrues interest at a fixed rate of 2.95% with a monthly payment sufficient to fully amortize the loan, with all remaining unpaid principal and interest due at maturity on March 30, 2026. The Company paid the Lender a non-refundable \$325 thousand loan origination fee upon signing of the Note that is presented as a direct deduction from the carrying amount of the loan and will be amortized into interest expense over the life of the loan.	\$ 35,615	\$ 42,734
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 35 basis points and matures at various dates equal to the maturity date of the PPPLF collateral pledged to secure the advance, ranging from February 9, 2026 to April 14, 2026, 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. The remaining \$18.5 million borrowing was paid in full at September 30, 2022.	—	267,550
In September 2020, the Company renewed a \$50.0 million revolving line of credit originally issued in 2017 with a third party correspondent bank. Subsequently on October 20, 2021, the Company renewed and increased the revolving line of credit from \$50.0 million to \$100.0 million and increased the term from 12 months to 36 months. The line of credit is unsecured and accrues interest at 30-day SOFR plus 1.25%, with an interest rate cap of 4.25% and an interest rate floor of 2.75%. The terms of this loan require the Company to maintain minimum capital and debt service coverage ratios. The Company paid the Lender a non-refundable \$750 thousand loan origination fee upon signing of the Note that will be amortized into interest expense over the life of the loan. In September 2022, the Company extended the maturity for an additional 12 months, and paid the Lender an additional \$250 thousand loan origination fee that will be amortized into interest expense over the life of the loan. Payments are interest only with all principal and accrued interest due at maturity on October 10, 2025. The Company took an advance of \$8.0 million on December 20, 2021 and \$12.0 million on March 16, 2022. The Company paid down this balance in full on May 20, 2022 and there is \$100.0 million of available credit remaining at September 30, 2022.	—	8,000
Other short term debt ⁽¹⁾	1	5
Total borrowings	\$ 35,616	\$ 318,289

(1) Includes finance leases.

The Company may purchase federal funds through unsecured federal funds lines of credit with various correspondent banks, which totaled \$167.5 million of available funding as of September 30, 2022 and December 31, 2021. 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 September 30, 2022 and December 31, 2021.

Live Oak Bancshares, Inc.**Notes to Unaudited Condensed Consolidated Financial Statements**

The Company has entered into a repurchase agreement with a third party for an amount up to \$5.0 million as of September 30, 2022 and December 31, 2021. 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 September 30, 2022 and December 31, 2021.

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 September 30, 2022 and December 31, 2021, the Company had approximately \$2.26 billion and \$2.02 billion, respectively, in borrowing capacity available under these agreements. There are no advances outstanding and no collateral pledged as of September 30, 2022 and December 31, 2021.

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 \$2.81 billion and \$2.44 billion as of September 30, 2022 and December 31, 2021, respectively. At September 30, 2022 and December 31, 2021, the Company had approximately \$2.37 billion and \$2.04 billion, respectively, in borrowing capacity available under these arrangements with no outstanding balance as of September 30, 2022 and December 31, 2021.

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 table below provides a rollforward of the Level 3 equity warrant asset fair values.

<u>Equity Warrant Assets</u>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Balance at beginning of period	\$ 2,422	\$ 1,580	\$ 1,672	\$ 908
Issuances	14	135	718	172
Net gains on derivative instruments	121	310	167	1,080
Settlements	—	(353)	—	(488)
Balance at end of period	<u>\$ 2,557</u>	<u>\$ 1,672</u>	<u>\$ 2,557</u>	<u>\$ 1,672</u>

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

<u>September 30, 2022</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment securities available-for-sale				
US government agencies	\$ 20,049	\$ —	\$ 20,049	\$ —
Mortgage-backed securities	981,841	—	981,841	—
Municipal bonds ⁽¹⁾	2,982	—	2,888	94
Other debt securities	500	500	—	—
Loans held for investment	512,183	—	—	512,183
Servicing assets ⁽²⁾	29,081	—	—	29,081
Mutual fund	1,922	—	1,922	—
Equity warrant assets	2,557	—	—	2,557
Total assets at fair value	<u>\$ 1,551,115</u>	<u>\$ 500</u>	<u>\$ 1,006,700</u>	<u>\$ 543,915</u>

<u>December 31, 2021</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment securities available-for-sale				
US government agencies	\$ 10,637	\$ —	\$ 10,637	\$ —
Mortgage-backed securities	889,339	—	889,339	—
Municipal bonds ⁽¹⁾	3,576	—	3,480	96
Other debt securities	2,500	—	2,500	—
Loans held for sale	25,310	—	—	25,310
Loans held for investment	645,201	—	—	645,201
Servicing assets ⁽²⁾	33,574	—	—	33,574
Mutual fund	2,379	—	2,379	—
Equity warrant assets	1,672	—	—	1,672
Total assets at fair value	<u>\$ 1,614,188</u>	<u>\$ —</u>	<u>\$ 908,335</u>	<u>\$ 705,853</u>

(1) During the three and nine months ended September 30, 2022, the Company recorded a fair value adjustment gain of \$1 thousand and a loss of \$2 thousand, respectively. During the three and nine months ended September 30, 2021, the Company recorded a \$1 thousand fair value adjustment gain.

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

For additional information on the valuation techniques and significant inputs for Level 2 and Level 3 assets and liabilities that are measured at fair value on a recurring basis, see Note 10. Fair Value of Financial Instruments in the Company's 2021 Form 10-K.

Fair Value Option

The Company has historically elected to account for retained participating interests of all 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 is recognized in the same manner on loans reported at fair value as on non-fair value loans, except in regard to origination fees and costs which are recognized immediately upon fair value election. Beginning in the first quarter of 2021, the Company chose not to elect fair value for all retained participating interests arising from new government guaranteed loan sales. Not electing fair value generally results in a larger discount being recorded on the date of the sale. This discount is subsequently accreted into interest income over the underlying loan's remaining term using the effective interest method. Management made this change of election in alignment with its ongoing effort to reduce volatility and drive more predictable revenue. In accordance with GAAP, any loans for which fair value was previously elected will continue to be measured as such.

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There were no loans accounted for under the fair value option that were 90 days or more past due and still accruing interest at September 30, 2022 or December 31, 2021. The unpaid principal balance of unguaranteed exposure for nonaccruals was \$3.7 million and \$6.9 million at September 30, 2022 and December 31, 2021, 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 September 30, 2022 and December 31, 2021.

September 30, 2022									
	Total Loans			Nonaccruals			90 Days or More Past Due		
	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference
Fair Value Option Elections									
Loans held for investment	\$ 512,183	\$ 532,264	\$ (20,081)	\$ 27,905	\$ 30,265	\$ (2,360)	\$ 11,757	\$ 13,318	\$ (1,561)
	<u>\$ 512,183</u>	<u>\$ 532,264</u>	<u>\$ (20,081)</u>	<u>\$ 27,905</u>	<u>\$ 30,265</u>	<u>\$ (2,360)</u>	<u>\$ 11,757</u>	<u>\$ 13,318</u>	<u>\$ (1,561)</u>

December 31, 2021									
	Total Loans			Nonaccruals			90 Days or More Past Due		
	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference	Fair Value Carrying Amount	Unpaid Principal Balance	Difference
Fair Value Option Elections									
Loans held for sale	\$ 25,310	\$ 26,831	\$ (1,521)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Loans held for investment	645,201	666,066	(20,865)	38,262	42,841	(4,579)	24,057	25,633	(1,576)
	<u>\$ 670,511</u>	<u>\$ 692,897</u>	<u>\$ (22,386)</u>	<u>\$ 38,262</u>	<u>\$ 42,841</u>	<u>\$ (4,579)</u>	<u>\$ 24,057</u>	<u>\$ 25,633</u>	<u>\$ (1,576)</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Gains (Losses) on Loans Accounted for under the Fair Value Option				
Loans held for sale	\$ 1,748	\$ 85	\$ 1,521	\$ 549
Loans held for investment	2,672	(1,115)	(1,046)	3,774
	<u>\$ 4,420</u>	<u>\$ (1,030)</u>	<u>\$ 475</u>	<u>\$ 4,323</u>

Gains and (losses) related to borrower-specific credit risk were \$451 thousand and \$(2.4) million for the three and nine months ended September 30, 2022, respectively, and \$81 thousand and \$(212) thousand for the three and nine months ended September 30, 2021, respectively.

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Loans held for sale				
Balance at beginning of period	\$ 23,452	\$ 29,048	\$ 25,310	\$ 36,111
Repurchases	—	—	65	—
Fair value changes	1,748	85	1,521	549
Transfers to held for investment, net	(24,768)	—	(26,219)	(6,415)
Settlements	(432)	(1,767)	(677)	(2,879)
Balance at end of period	\$ —	\$ 27,366	\$ —	\$ 27,366

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Loans held for investment				
Balance at beginning of period	\$ 530,644	\$ 743,226	\$ 645,201	\$ 815,374
Repurchases	1,946	10,005	4,851	31,790
Fair value changes	2,672	(1,115)	(1,046)	3,774
Transfers from held for sale, net	24,768	—	26,219	6,415
Settlements	(47,847)	(54,074)	(163,042)	(159,311)
Balance at end of period	\$ 512,183	\$ 698,042	\$ 512,183	\$ 698,042

Non-Recurring Fair Value

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

September 30, 2022	Total	Level 1	Level 2	Level 3
Collateral-dependent loans	\$ 1,264	\$ —	\$ —	\$ 1,264
Foreclosed assets	1,178	—	—	1,178
Total assets at fair value	\$ 2,442	\$ —	\$ —	\$ 2,442

December 31, 2021	Total	Level 1	Level 2	Level 3
Collateral-dependent loans	\$ 1,567	\$ —	\$ —	\$ 1,567
Foreclosed assets	620	—	—	620
Total assets at fair value	\$ 2,187	\$ —	\$ —	\$ 2,187

For additional information on the valuation techniques and significant inputs for Level 2 and Level 3 assets that are measured at fair value on a non-recurring basis, see Note 10. Fair Value of Financial Instruments in the Company's 2021 Form 10-K.

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Level 3 Analysis

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of September 30, 2022 and December 31, 2021 the significant unobservable inputs used in the fair value measurements were as follows:

September 30, 2022

Level 3 Assets with Significant Unobservable Inputs	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
<i>Recurring fair value</i>				
Municipal bond	\$ 94	Discounted expected cash flows	Discount rate Prepayment speed	6.0% 5.0%
Loans held for investment	\$ 512,183	Discounted expected cash flows	Loss rate	0% to 69.4% (WAVG 1.7%)
		Discounted appraisals	Discount rate Prepayment speed Appraisal adjustments	11.1% to 21.0% WAVG 17.4% 10.0% to 100.0%
Equity warrant assets	\$ 2,557	Black-Scholes option pricing model	Volatility Risk-free interest rate Marketability discount Remaining life	26.1% to 81.3% 3.8% to 4.0% 20.0% 3 - 9 Years
<i>Non-recurring fair value</i>				
Collateral-dependent loans	\$ 1,264	Discounted appraisals	Appraisal adjustments ⁽¹⁾	10.0% to 100.0%
Foreclosed assets	\$ 1,178	Discounted appraisals	Appraisal adjustments ⁽¹⁾	10.0%

December 31, 2021

Level 3 Assets with Significant Unobservable Inputs	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
<i>Recurring fair value</i>				
Municipal bond	\$ 96	Discounted expected cash flows	Discount rate Prepayment speed	4.8% 5.0%
Loans held for sale	\$ 25,310	Discounted expected cash flows	Discount rate Prepayment speed	6.2% to 21.9% WAVG 17.4%
Loans held for investment	\$ 645,201	Discounted expected cash flows	Loss rate	0.0% to 70.2% (WAVG 1.5%)
		Discounted appraisals	Discount rate Prepayment speed Appraisal adjustments	6.2% to 21.9% WAVG 17.4% 10.0% to 85.0%
Equity warrant assets	\$ 1,672	Black-Scholes option pricing model	Volatility Risk-free interest rate Marketability discount Remaining life	26.2% to 88.2% 1.3% to 1.5% 20.0% 4 - 10 years
<i>Non-recurring fair value</i>				
Collateral-dependent loans	\$ 1,567	Discounted appraisals	Appraisal adjustments ⁽¹⁾	10.0% to 99.0%
Foreclosed assets	\$ 620	Discounted appraisals	Appraisal adjustments ⁽¹⁾	9.0% to 10.0%

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

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Estimated Fair Value of Other Financial Instruments

GAAP also requires disclosure of the fair value of financial instruments carried at book value on the Unaudited Condensed 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:

	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
<u>September 30, 2022</u>					
<i>Financial assets</i>					
Cash and due from banks	\$ 335,046	\$ 335,046	\$ —	\$ —	\$ 335,046
Federal funds sold	68,324	68,324	—	—	68,324
Certificates of deposit with other banks	4,250	4,393	—	—	4,393
Loans held for sale	537,649	—	—	542,025	542,025
Loans and leases held for investment, net of allowance for credit losses on loans and leases	6,262,908	—	—	6,079,982	6,079,982
<i>Financial liabilities</i>					
Deposits	8,404,909	—	7,898,277	—	7,898,277
Borrowings	35,616	—	—	34,256	34,256
	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
<u>December 31, 2021</u>					
<i>Financial assets</i>					
Cash and due from banks	\$ 187,203	\$ 187,203	\$ —	\$ —	\$ 187,203
Federal funds sold	16,547	16,547	—	—	16,547
Certificates of deposit with other banks	4,750	4,930	—	—	4,930
Loans held for sale	1,091,209	—	—	1,197,307	1,197,307
Loans and leases held for investment, net of allowance for credit losses on loans and leases	4,812,477	—	—	4,958,875	4,958,875
<i>Financial liabilities</i>					
Deposits	7,112,044	—	6,942,512	—	6,942,512
Borrowings	318,289	—	—	312,036	312,036

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.

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

On March 12, 2021, a purported class action was filed against the Company in the United States District Court for the Eastern District of North Carolina, *Joseph McAlear, individually and on behalf of all others similarly situated v. Live Oak Bancshares, Inc. et al.* The complaint alleged the existence of an agreement between the Company, nCino, Inc. and Apiture, LLC in which those companies purportedly sought to restrain the mobility of employees in violation of antitrust laws by agreeing not to solicit or hire each other's employees. The complaint alleged violations of Section 1 of the federal Sherman Act (15 U.S.C. § 1) and violations of Sections 75-1 and 75-2 of the North Carolina General Statutes. The plaintiff sought monetary damages, including treble damages, entitlement to restitution, disgorgement, attorneys' fees, and pre- and post-judgment interest. On October 12, 2021, the Company reached an agreement to settle the case with a proposed class of all persons (with certain exclusions) employed by the Company or its wholly-owned subsidiary, Live Oak Banking Company, Apiture, Inc. or nCino, Inc. in North Carolina at any time from January 27, 2017, through March 31, 2021. In the agreement, the Company agreed to pay \$3.9 million. On October 13, 2021, the plaintiff filed a motion for preliminary approval of the settlement, which the court granted by order entered on November 23, 2021. After class-wide noticing, the plaintiff filed a motion for final approval on March 28, 2022, which the court granted by order entered on April 28, 2022. Pursuant to the terms of the settlement, the settlement became effective on June 11, 2022.

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:

	September 30, 2022	December 31, 2021
Commitments to extend credit	\$ 2,927,606	\$ 2,634,387
Standby letters of credit	25,912	10,753
Airplane purchase agreement commitments	30,000	—
Total unfunded off-balance-sheet credit risk	<u>\$ 2,983,518</u>	<u>\$ 2,645,140</u>

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. Commitment letters are issued after approval of the loan by the Credit Department and 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.

The allowance for off-balance sheet credit exposures was \$1.1 million and \$739 thousand at September 30, 2022 and December 31, 2021, respectively.

As of September 30, 2022 and December 31, 2021, the Company recorded unfunded commitments to provide capital contributions for on-balance-sheet investments in the amount of \$23.9 million and \$10.4 million, respectively.

Live Oak Bancshares, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Concentrations of Credit Risk

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 \$20.0 million, except for twenty-two relationships that have a retained unguaranteed exposure of \$656.3 million of which \$381.8 million of the unguaranteed exposure has been disbursed.

Additionally, the Company has future minimum lease payments receivable under non-cancelable operating leases totaling \$60.0 million, of which no relationships exceed \$20.0 million.

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

Note 11. Segments

The Company's management reporting process measures the performance of its operating segments based on internal operating structure, which is subject to change from time to time. Accordingly, the Company operates two reportable segments for management reporting purposes as discussed below:

Banking - This segment specializes in providing financing services to small businesses nationwide in targeted industries and deposit-related services to small businesses, consumers and other customers nationwide. The primary source of revenue for this segment is net interest income and secondarily the origination and sale of government guaranteed loans.

Fintech - This segment is involved in making strategic investments into emerging financial technology companies. The primary sources of revenue for this segment are principally gains and losses on equity method and equity security investments and management fees. The Fintech segment is comprised of the Company's direct wholly owned subsidiaries Live Oak Ventures and Canapi Advisors, and the investments held by those entities, as well as the Bank's investment in Apiture.

The following tables provide financial information for the Company's segments. The information provided under the caption "Other" represents operations not considered to be reportable segments and/or general operating expenses of the Company, and includes the parent company, other non-bank subsidiaries and elimination adjustments to reconcile the results of the operating segments to the unaudited condensed consolidated financial statements prepared in conformity with GAAP.

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

	Banking	Fintech	Other	Consolidated
As of and for the three months ended September 30, 2022				
Interest income	\$ 115,819	\$ 8	\$ 7	\$ 115,834
Interest expense	31,581	—	367	31,948
Net interest income (loss)	84,238	8	(360)	83,886
Provision for loan and lease credit losses	14,169	—	—	14,169
Noninterest income	27,268	29,980	476	57,724
Noninterest expense	78,474	2,495	2,079	83,048
Income tax expense (benefit)	1,344	416	(235)	1,525
Net income (loss)	\$ 17,519	\$ 27,077	\$ (1,728)	\$ 42,868
Total assets	\$ 9,140,943	\$ 163,304	\$ 10,403	\$ 9,314,650
As of and for the three months ended September 30, 2021				
Interest income	\$ 92,783	\$ —	\$ 3	\$ 92,786
Interest expense	14,667	—	384	15,051
Net interest income (loss)	78,116	—	(381)	77,735
Provision for loan and lease credit losses	4,319	—	—	4,319
Noninterest income	25,125	(283)	434	25,276
Noninterest expense	52,423	1,223	1,813	55,459
Income tax expense (benefit)	9,363	(206)	237	9,394
Net income (loss)	\$ 37,136	\$ (1,300)	\$ (1,997)	\$ 33,839
Total assets	\$ 7,984,677	\$ 113,117	\$ 39,547	\$ 8,137,341

Live Oak Bancshares, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

	Banking	Fintech	Other	Consolidated
As of and for the nine months ended September 30, 2022				
Interest income	\$ 307,780	\$ 80	\$ 3	\$ 307,863
Interest expense	64,961	—	1,303	66,264
Net interest income (loss)	242,819	80	(1,300)	241,599
Provision for loan and lease credit losses	21,272	—	—	21,272
Noninterest income	64,371	152,878	1,672	218,921
Noninterest expense	216,652	6,809	6,180	229,641
Income tax expense (benefit)	10,152	26,138	(1,099)	35,191
Net income (loss)	\$ 59,114	\$ 120,011	\$ (4,709)	\$ 174,416
Total assets	\$ 9,140,943	\$ 163,304	\$ 10,403	\$ 9,314,650
As of and for the nine months ended September 30, 2021				
Interest income	\$ 268,856	\$ 129	\$ 25	\$ 269,010
Interest expense	48,967	—	896	49,863
Net interest income (loss)	219,889	129	(871)	219,147
Provision for loan and lease credit losses	11,292	—	—	11,292
Noninterest income	82,459	42,361	1,624	126,444
Noninterest expense	158,877	3,355	9,057	171,289
Income tax expense (benefit)	19,143	10,008	(2,989)	26,162
Net income (loss)	\$ 113,036	\$ 29,127	\$ (5,315)	\$ 136,848
Total assets	\$ 7,984,677	\$ 113,117	\$ 39,547	\$ 8,137,341

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. (individually, "Bancshares" and collectively with its subsidiaries including Live Oak Banking Company, the "Company"). This discussion should be read in conjunction with the unaudited condensed consolidated 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, 2021 (the "2021 Form 10-K"). 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 financial condition, results of operations, plans, objectives, future performance or business of Live Oak Bancshares, Inc. (the "Company"). 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 Report. 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 Report 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 Small Business Administration ("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 United States Department of Agriculture ("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 continuing 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 service providers operating in the Company's market area and elsewhere, including providers 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;
- adverse results, including related fees and expenses, from pending or future lawsuits, government investigations or private actions;
- other risk factors listed from time to time in reports that the Company files with the SEC, including those described under "Risk Factors" in this 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

Baneshares is a financial holding company and a bank holding company headquartered in Wilmington, North Carolina incorporated under the laws of the state 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 and deposit related services to small businesses nationwide. The Bank identifies and extends lending to credit-worthy borrowers within specified 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 SBA under the 7(a) Loan Program and the U.S. Department of Agriculture’s (“USDA”) Rural Energy for America Program (“REAP”), Water and Environmental Program (“WEP”) and Business & Industry (“B&I”) loan programs.

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

The Bank’s wholly owned subsidiaries are Live Oak Number One, Inc., Live Oak Clean Energy Financing LLC (“LOCEF”), Live Oak Private Wealth, LLC (“Live Oak Private Wealth”) and Tiburon Land Holdings, LLC (“TLH”). Live Oak Number One, Inc. holds properties foreclosed on by the Bank. 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 provides high-net-worth individuals and families with strategic wealth and investment management services. During the first quarter of 2022, Jolley Asset Management, LLC (“JAM”) was merged into Live Oak Private Wealth. JAM was previously a wholly owned subsidiary of Live Oak Private Wealth. TLH was formed in the third quarter of 2022 to hold land adjacent to the Bank's headquarters consisting of wetlands and other protected property for the use and enjoyment of the Bank's employees and customers.

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. Canapi Advisors provides investment advisory services to a series of funds (the “Canapi Funds”) focused on providing venture capital to new and emerging financial technology companies.

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. Income from the sale of loans is comprised of net gains on sales of loans along with loan servicing revenue and revaluation of related servicing assets. 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. The Company also generates gains and losses arising from its financial technology investments in its fintech segment, as discussed more fully later in this section entitled “Results of Segment Operations.”

Results of Operations

Performance Summary

Three months ended September 30, 2022 compared with three months ended September 30, 2021

For the three months ended September 30, 2022, the Company reported net income of \$42.9 million, or \$0.96 per diluted share, compared to net income of \$33.8 million, or \$0.76 per diluted share, for the third quarter of 2021.

The increase in net income was largely due to the following items:

- Increase in equity method investment income of \$30.4 million, largely driven by a \$28.4 million gain related to the Company’s sale of its investment in Payrailz, LLC (“Payrailz”);

- Increase in net interest income of \$6.2 million, or 7.9%, predominately from increases in volume for the total loan and lease portfolio, partially mitigated by a decrease in the net interest margin arising from an increase in interest-bearing liabilities combined with average cost of funds outpacing the average yield on interest earning assets;
- A net loss on loan servicing asset revaluation decreasing by \$4.6 million, or 77.5%;
- The net gain on loans accounted for under the fair value option increasing by \$5.5 million, or 529.1%, from a net loss of \$1.0 million in the third quarter of 2021; and
- Decreased income tax expense of \$7.9 million, or 83.8%, largely due to higher than expected investment tax credits arising from renewable energy investments in the third quarter of 2022.

Key factors partially offsetting the increase in net income for the third quarter of 2022 were:

- Provision for loan and lease credit losses increased \$9.9 million, or 228.1%, compared to \$4.3 million for the third quarter of 2021. The level of provision expense in the third quarter of 2022 was primarily the result of loan growth, charge-off experience impacts, increased levels of loans classified as held for investment and changes in the macroeconomic outlook;
- Decreased net gains on sales of loans of \$9.6 million, or 50.8%, the result of lower volume of loan sales combined with overall weaker market conditions compared to those experienced in the prior year; and
- Increased noninterest expense of \$27.6 million, or 49.7%, principally comprised of salaries and employee benefits up \$15.3 million, or 54.2%, and \$7.7 million in impairment charges related to a renewable energy tax credit investment closed in the third quarter of 2022.

Nine months ended September 30, 2022 compared with nine months ended September 30, 2021

For the nine months ended September 30, 2022, the Company reported a net income of \$174.4 million, or \$3.88 per diluted share, as compared to net income of \$136.8 million, or \$3.05 per diluted share, for the nine months ended September 30, 2021. This increase in net income was largely due to the following items:

- Increase in equity method investment income of \$150.8 million, due to the above mentioned third quarter 2022 Payrailz gain of \$28.4 million combined with the \$120.5 million gain recognized in the second quarter of 2022 related to the sale of its investment in Finxact, Inc. ("Finxact"); and
- Increase in net interest income of \$22.5 million, or 10.2%, predominately from increases in both average yield and volume for the total loan and lease portfolio. The growth in net interest income was mitigated by rising average cost of funds and moderate growth in interest-bearing liabilities.

Key factors partially offsetting the increase in net income for the first nine months of 2022 were:

- Decreased equity security investment gains of \$42.0 million, due to the Company's \$44.1 million second quarter 2021 fair value gain from its investment in Greenlight Financial Technologies, Inc. ("Greenlight");
- Provision for loan and lease credit losses increasing \$10.0 million, or 88.4%, compared to \$11.3 million in the first nine months of 2021. The level of provision expense in the year to date period of 2022 was primarily the result of the above mentioned factors driving the increase for the third quarter of 2022;
- Decreased net gains on sales of loans of \$11.1 million, or 23.7%, combined with an increased loss on loan servicing asset revaluation of \$4.0 million, or 52.8%, and a net gain on loans accounted for under the fair value option decreasing by \$3.8 million, or 89.0%, all principally the result of weaker overall market conditions emerging in 2022 as compared to the first nine months of 2021;

- Increased noninterest expense of \$58.4 million, or 34.1%, principally comprised of salaries and employee benefits up \$35.8 million, or 38.7%, advertising and marketing expense up \$3.5 million, or 110.6%, technology expense up \$3.4 million, or 21.2%, contributions and donations up \$4.4 million, or 221.0%; and increased impairment charges of \$4.6 million related to renewable energy tax credits; and
- Increased income tax expense of \$9.0 million primarily due the above discussed increase in net income.

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 of 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 September 30, 2022 compared with three months ended September 30, 2021

For the three months ended September 30, 2022, net interest income increased \$6.2 million, or 7.9%, to \$83.9 million compared to \$77.7 million for the three months ended September 30, 2021. This increase was principally due to growth in the volume for the total loan and lease portfolio outpacing moderate growth in interest-bearing liabilities combined with an increase in average cost of funds which exceeded the increase in average yield on interest-earning assets. This increase in net interest income over the prior year was significantly higher when excluding the effects of declining levels of Paycheck Protection Program ("PPP") loan net interest income for the compared period, which has been declining over time as PPP loans are paid down. Excluding PPP loan impacts of \$1.2 million, comprised of amortization of net deferred fees combined with a 1% annualized interest rate less the related interest expense from funding activity, net interest income increased by \$17.2 million. Average interest-earning assets increased by \$926.6 million, or 12.0%, to \$8.66 billion for the three months ended September 30, 2022, compared to \$7.74 billion for the three months ended September 30, 2021, while the yield on average interest-earning assets increased fifty-five basis points to 5.31%. The cost of funds on interest-bearing liabilities for the three months ended September 30, 2022, increased seventy-five basis points to 1.55% while the average balance of interest-bearing liabilities increased by \$704.9 million, or 9.5%, over the three months ended September 30, 2021. The increase in average interest-bearing liabilities was largely driven by funding for significant loan originations and growth. This increase was muted by a \$755.3 million reduction in average borrowings largely related to the Federal Reserve Bank's Paycheck Protection Program Liquidity Facility ("PPPLF") repayments since September 30, 2021. As indicated in the rate/volume table below, the overall increase discussed above is reflected in increased interest income of \$23.0 million outpacing growth in interest expense of \$16.9 million for the third quarter of 2022 compared to the third quarter of 2021. For the three months ended September 30, 2021, compared to the three months ended September 30, 2022, net interest margin decreased from 3.99% to 3.84%. As of September 30, 2022, the Company had \$23.9 million in PPP loan balances on its books which includes \$490 thousand in net deferred fees remaining to be recognized into future interest income. The Company expects to recognize most of the remaining net deferred fees for PPP loans in 2022.

Nine months ended September 30, 2022 compared with nine months ended September 30, 2021

For the nine months ended September 30, 2022, net interest income increased \$22.5 million, or 10.2%, to \$241.6 million compared to \$219.1 million for the nine months ended September 30, 2021. This increase was principally due to growth in both average yield and volume for the total loan and lease portfolio outpacing growth in both interest-bearing liabilities and average cost of funds. This increase in net interest income over the prior year was significantly higher when excluding the effects of declining levels of PPP loan net interest income for the compared period. Excluding PPP loan impacts of \$6.5 million as defined above, net interest income increased by \$59.9 million. Average interest-earning assets increased by \$566.9 million, or 7.4%, to \$8.26 billion for the nine months ended September 30, 2022, compared to \$7.69 billion for the nine months ended September 30, 2021, while the yield on average interest-earning assets increased thirty-one basis points to 4.99%. The cost of funds on interest-bearing liabilities for the nine months ended September 30, 2022, increased twenty-four basis points to 1.13% while the average balance of interest-bearing liabilities increased by \$349.6 million, or 4.7%, over the nine months ended September 30, 2021. The increase in average interest-bearing liabilities was also largely driven by funding for significant loan originations and growth. This increase was muted by a \$1.05 billion reduction in average borrowings largely related to PPPLF repayments since September 30, 2021. As indicated in the rate/volume table below, the overall increase discussed above is reflected in increased interest income of \$38.9 million as compared to an increase in interest expense of \$16.4 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. For the nine months ended September 30, 2021 compared to the nine months ended September 30, 2022, net interest margin increased from 3.81% to 3.91%.

During the first nine months of 2022, the Federal Reserve increased the federal funds target rate by 300 basis points. In September 2022, the Federal Reserve released federal funds target rate midpoint projections which implied an additional increase of approximately 125 basis points in the remainder of 2022 and an increase of approximately 30 basis points by the end of 2023. Of the additional increases anticipated in 2022, a 75 basis point increase is currently expected to occur in November 2022. There can be no assurance that any further increases in the federal funds rate will occur, and if they do, the amount and timing of actual increases are subject to change. See Item 3. Quantitative and Qualitative Disclosures About Market Risk for information about the Company's sensitivity to interest rates.

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 September 30,					
	2022			2021		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Interest-earning assets:						
Interest-earning balances in other banks	\$ 225,959	\$ 1,375	2.41 %	\$ 452,830	\$ 221	0.19 %
Federal funds sold	187,014	1,073	2.28	9,260	3	0.13
Investment securities	1,040,076	5,506	2.10	808,697	3,174	1.56
Loans held for sale	1,000,912	16,156	6.40	1,098,940	15,090	5.45
Loans and leases held for investment ⁽¹⁾	6,208,447	91,724	5.86	5,366,088	74,298	5.49
Total interest-earning assets	8,662,408	115,834	5.31	7,735,815	92,786	4.76
Less: Allowance for credit losses on loans and leases	(65,511)			(56,411)		
Noninterest-earning assets	598,220			581,771		
Total assets	\$ 9,195,117			\$ 8,261,175		
Interest-bearing liabilities:						
Savings	\$ 4,009,928	\$ 16,775	1.66 %	\$ 3,367,168	\$ 4,359	0.51 %
Money market accounts	100,074	72	0.29	104,576	74	0.28
Certificates of deposit	3,978,793	14,706	1.47	3,156,834	9,726	1.22
Total deposits	8,088,795	31,553	1.55	6,628,578	14,159	0.85
Borrowings	63,207	395	2.48	818,511	892	0.43
Total interest-bearing liabilities	8,152,002	31,948	1.55	7,447,089	15,051	0.80
Noninterest-bearing deposits	133,676			79,006		
Noninterest-bearing liabilities	84,597			46,907		
Shareholders' equity	824,842			688,173		
Total liabilities and shareholders' equity	\$ 9,195,117			\$ 8,261,175		
Net interest income and interest rate spread		\$ 83,886	3.76 %		\$ 77,735	3.96 %
Net interest margin			3.84 %			3.99 %
Ratio of average interest-earning assets to average interest-bearing liabilities			106.26 %			103.88 %

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

Nine Months Ended September 30,						
	2022			2021		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Interest-earning assets:						
Interest-earning balances in other banks	\$ 259,212	\$ 2,402	1.24 %	\$ 433,219	\$ 752	0.23 %
Federal funds sold	92,127	1,275	1.85	22,151	19	0.11
Investment securities	950,787	12,951	1.82	769,890	9,078	1.58
Loans held for sale	1,078,743	47,308	5.86	1,127,924	45,383	5.38
Loans and leases held for investment ⁽¹⁾	5,876,078	243,927	5.55	5,336,824	213,778	5.36
Total interest-earning assets	8,256,947	307,863	4.99	7,690,008	269,010	4.68
Less: Allowance for credit losses on loans and leases	(63,613)			(53,589)		
Noninterest-earning assets	610,330			599,902		
Total assets	\$ 8,803,664			\$ 8,236,321		
Interest-bearing liabilities:						
Interest-bearing checking	\$ —	\$ —	— %	\$ 102,566	\$ 442	0.58 %
Savings	3,838,150	29,153	1.02	2,945,535	12,180	0.55
Money market accounts	94,901	182	0.26	105,048	239	0.30
Certificates of deposit	3,749,894	35,343	1.26	3,129,084	33,062	1.41
Total deposits	7,682,945	64,678	1.13	6,282,233	45,923	0.98
Borrowings	152,157	1,586	1.39	1,203,240	3,940	0.44
Total interest-bearing liabilities	7,835,102	66,264	1.13	7,485,473	49,863	0.89
Noninterest-bearing deposits	105,629			76,304		
Noninterest-bearing liabilities	64,205			43,819		
Shareholders' equity	798,728			630,725		
Total liabilities and shareholders' equity	\$ 8,803,664			\$ 8,236,321		
Net interest income and interest rate spread		\$ 241,599	3.86 %		\$ 219,147	3.79 %
Net interest margin			3.91 %			3.81 %
Ratio of average interest-earning assets to average interest-bearing liabilities			105.38 %			102.73 %

(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 September 30,			Nine Months Ended September 30,		
	2022 vs. 2021			2022 vs. 2021		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Rate	Volume	Total	Rate	Volume	Total
Interest income:						
Interest-earning balances in other banks	\$ 1,900	\$ (746)	\$ 1,154	\$ 2,607	\$ (957)	\$ 1,650
Federal funds sold	531	539	1,070	742	514	1,256
Investment securities	1,265	1,067	2,332	1,574	2,299	3,873
Loans held for sale	2,530	(1,464)	1,066	3,993	(2,068)	1,925
Loans and leases held for investment	5,372	12,054	17,426	8,156	21,993	30,149
Total interest income	11,598	11,450	23,048	17,072	21,781	38,853
Interest expense:						
Interest-bearing checking	—	—	—	—	(442)	(442)
Savings	10,656	1,760	12,416	11,738	5,235	16,973
Money market accounts	1	(3)	(2)	(36)	(21)	(57)
Certificates of deposit	2,195	2,785	4,980	(3,924)	6,205	2,281
Borrowings	2,275	(2,772)	(497)	4,845	(7,199)	(2,354)
Total interest expense	15,127	1,770	16,897	12,623	3,778	16,401
Net interest income	\$ (3,529)	\$ 9,680	\$ 6,151	\$ 4,449	\$ 18,003	\$ 22,452

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 ACL on loans and leases at a level that the Company believes 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. Typical SBA 7(a) and USDA guarantees range from 50% to 90% depending on loan size and type, 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 third quarter of 2022, there was a provision for loan and lease credit losses of \$14.2 million compared to \$4.3 million for the same period in 2021, an increase of \$9.9 million. For the first nine months of 2022, there was a provision for loan and lease credit losses of \$21.3 million compared to \$11.3 million for the same period in 2021, an increase of \$10.0 million. The increase in provision expense as compared to the third quarter of 2021 and the first nine months of 2021 was primarily the result of loan growth, charge-off experience impacts, a transfer of \$729.5 million in loans carried at amortized cost, including \$694.0 million in guaranteed loans, from held for sale to held for investment and changes in the macroeconomic outlook. See "Results of Operations" discussion of "Net Gains on Sales of Loans" for additional information influencing management's intent to hold more loans for investment.

Loans and leases held for investment at historical cost were \$6.35 billion as of September 30, 2022, increasing by \$1.6 billion, or 34.3%, compared to September 30, 2021. Excluding PPP loans and net unearned fees on those loans, the balance in loans and leases held for investment at historical cost was \$6.32 billion at September 30, 2022, an increase of \$2.09 billion, or 49.3%, over September 30, 2021.

Net charge-offs for loans and leases carried at historical cost were \$1.7 million, or 0.12% of average quarterly loans and leases held for investment, carried at historical cost, on an annualized basis, for the three months ended September 30, 2022, compared to net charge-offs of \$2.5 million, or 0.21%, for the three months ended September 30, 2021. For the nine months ended September 30, 2022, net charge-offs totaled \$6.6 million compared to \$3.9 million for the nine months ended September 30, 2021, an increase of \$2.6 million, or 67.6%. The increase in net charge-offs for the first nine months of 2022 was anticipated following the expiration of government subsidies and the return to expected losses consistent with pre-Covid historical experience. 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 \$2.7 million and \$6.3 million accounted for under the fair value option at September 30, 2022 and 2021, respectively, totaled \$14.3 million, which was 0.23% of the held for investment loan and lease portfolio carried at historical cost at September 30, 2022, compared to \$20.5 million, or 0.43% of loans and leases held for investment carried at historical cost at September 30, 2021. Nonperforming loans and leases carried at historical cost which are not guaranteed by the SBA or USDA were 0.23% and 0.48% of the historical cost portion of the held for investment loan and lease portfolio, excluding PPP loans, at September 30, 2022 and 2021, respectively.

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 gain (loss) 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 consistent elements of noninterest income include 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 September 30,		2022/2021 Increase (Decrease)	
	2022	2021	Amount	Percent
<i>Noninterest income</i>				
Loan servicing revenue	\$ 6,230	\$ 6,278	\$ (48)	(0.8) %
Loan servicing asset revaluation	(1,324)	(5,878)	4,554	77.5
Net gains on sales of loans	9,275	18,860	(9,585)	(50.8)
Net gain (loss) on loans accounted for under the fair value option	4,420	(1,030)	5,450	529.1
Equity method investments income (loss)	29,136	(1,250)	30,386	2,430.9
Equity security investments gains (losses), net	876	176	700	397.7
Lease income	2,516	2,527	(11)	(0.4)
Management fee income	2,844	1,489	1,355	91.0
Other noninterest income	3,751	4,104	(353)	(8.6)
Total noninterest income	<u>\$ 57,724</u>	<u>\$ 25,276</u>	<u>\$ 32,448</u>	<u>128.4 %</u>

	Nine Months Ended September 30,		2022/2021 Increase (Decrease)	
	2022	2021	Amount	Percent
Noninterest income				
Loan servicing revenue	\$ 19,063	\$ 18,930	\$ 133	0.7 %
Loan servicing asset revaluation	(11,561)	(7,566)	(3,995)	(52.8)
Net gains on sales of loans	35,882	47,023	(11,141)	(23.7)
Net gain (loss) on loans accounted for under the fair value option	475	4,323	(3,848)	(89.0)
Equity method investments income (loss)	146,068	(4,685)	150,753	3,217.8
Equity security investments gains (losses), net	2,487	44,534	(42,047)	(94.4)
Lease income	7,529	7,742	(213)	(2.8)
Management fee income	6,890	4,896	1,994	40.7
Other noninterest income	12,088	11,247	841	7.5
Total noninterest income	\$ 218,921	\$ 126,444	\$ 92,477	73.1 %

For the three months ended September 30, 2022, noninterest income increased by \$32.4 million, or 128.4%, compared to the three months ended September 30, 2021. The increase over the prior year is the result of the \$28.4 million Payrailz gain included in equity method investment income, combined with a decrease in the net loss on servicing asset revaluation of \$4.6 million and a \$5.5 million increase in net gains on loans accounted for under the fair value option. Partially offsetting the increase over the prior year was decreased net gains on sales of loans of \$9.6 million.

For the nine months ended September 30, 2022, noninterest income increased by \$92.5 million, or 73.1%, compared to the nine months ended September 30, 2021. The increase over the prior year is also the result of the above mentioned Payrailz gain combined with the \$120.5 million Finxact gain recognized in the second quarter of 2022. Partially offsetting the increase over the prior year was a decrease in equity security investment gains of \$42.0 million, related to the 2021 Greenlight gain. Also partially offsetting the increase over the first nine months of 2021 was decreased net gains on sales of loans of \$11.1 million, an increased loss on loan servicing asset revaluation of \$4.0 million, and a decreased net gain on loans accounted for under the fair value option of \$3.8 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 September 30,		Three Months Ended June 30,		Three Months Ended March 31,	
	2022	2021	2022	2021	2022	2021
Amount of loans and leases originated	\$ 1,005,235	\$ 1,063,190	\$ 959,635	\$ 1,153,693	\$ 865,063	\$ 1,180,219
Guaranteed portions of loans sold	148,110	201,903	68,818	130,858	219,703	136,747
Outstanding balance of guaranteed loans sold ⁽¹⁾	2,671,705	2,731,031	2,681,079	2,694,931	2,786,403	2,843,963

	Nine Months Ended September 30,		For years ended December 31,			
	2022	2021	2021	2020	2019	2018
Amount of loans and leases originated	\$ 2,829,933	\$ 3,397,102	\$ 4,480,725	\$ 4,450,198	\$ 2,001,886	\$ 1,765,680
Guaranteed portions of loans sold	436,631	469,508	668,462	542,596	340,374	945,178
Outstanding balance of guaranteed loans sold ⁽¹⁾	2,671,705	2,731,031	2,756,915	2,819,625	2,746,480	3,045,460

(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 Asset Revaluation: The Company revalues its serviced loan portfolio at least quarterly. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as adequate compensation for servicing, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses, with the prepayment speed being one of the most sensitive assumptions. For the three months ended September 30, 2022, there was a negative loan servicing revaluation adjustment of \$1.3 million, compared to \$5.9 million for the three months ended September 30, 2021, a decrease in expense of \$4.6 million, or 77.5%. For the nine months ended September 30, 2022 there was negative loan servicing revaluation adjustment of \$11.6 million compared to \$7.6 million for the nine months ended September 30, 2021, an increase in expense of \$4.0 million, or 52.8%. The decrease in the loss on valuation of the servicing asset compared to the third quarter of 2021 was principally the result of positive movements in market pricing, particularly as it relates to variable products, during the third quarter of 2022. The increase in the loss on loan servicing valuation when comparing to the first nine months of 2021 is principally the result of the emergence of weaker market conditions in 2022 than those experienced in the first nine months of the prior year.

Net Gains on Sales of Loans: For the three months ended September 30, 2022, net gains on sales of loans decreased \$9.6 million, or 50.8%, compared to the three months ended September 30, 2021. The volume of guaranteed loans sold decreased \$53.8 million, or 26.6%, for the three months ended September 30, 2022 to \$148.1 million from \$201.9 million in the three months ended September 30, 2021. For the nine months ended September 30, 2022, net gains on sales of loans decreased \$11.1 million, or 23.7%, compared to the nine months ended September 30, 2021. For the nine months ended September 30, 2022, the volume of guaranteed loans sold decreased \$32.9 million, or 7.0%, to \$436.6 million from \$469.5 million for the nine months ended September 30, 2021. The average net gain on loan sale premium decreased from 110% to 108% in the third quarters of 2021 and 2022, respectively, and decreased from 110% to 109% in the first nine months of 2021 and 2022, respectively. The decrease in net gains on sales of loans for both periods was principally the result of lower loan sales volume combined with negative market conditions beginning to materialize in 2022, as discussed above. Accordingly, these market trends influenced the Company's appetite for loan sales during periods of weaker premiums in the current year.

Net Gain (Loss) on Loans Accounted for Under the Fair Value Option: For the three months ended September 30, 2022, the Company had a net gain on loans accounted for under the fair value option of \$4.4 million compared to a net loss of \$1.0 million for the third quarter of 2021, a positive change of \$5.5 million, or 529.1%. For the nine months ended September 30, 2022, the Company had a net gain on loans accounted for under the fair value option of \$475 thousand compared to a net gain of \$4.3 million for the same period of 2021, a negative change of \$3.8 million, or 89.0%. The carrying amount of loans accounted for under the fair value option at September 30, 2022 and 2021 was \$512.2 million (all classified as held for investment) and \$725.4 million (\$27.4 million classified as held for sale and \$698.0 million classified as held for investment), respectively, a decrease of \$213.2 million, or 29.4%. The increased net gain on loans accounted for under the fair value option during third quarter of 2022 compared to the third quarter of 2021 was largely the result of positive movements in market pricing, as discussed above relative to loan servicing, in combination with continued amortization of the underlying loan portfolio. The decreased net gain on loans accounted for under the fair value option during the first nine months of 2022 as compared to the prior comparative period is principally the result of the emergence of weaker market conditions than those experienced in the first nine months of 2021.

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 September 30,		2022/2021 Increase (Decrease)	
	2022	2021	Amount	Percent
Noninterest expense				
Salaries and employee benefits	\$ 43,479	\$ 28,202	\$ 15,277	54.2 %
Non-employee expenses:				
Travel expense	2,372	1,819	553	30.4 %
Professional services expense	2,505	4,251	(1,746)	(41.1)
Advertising and marketing expense	2,621	1,631	990	60.7
Occupancy expense	2,519	2,042	477	23.4
Technology expense	7,770	6,150	1,620	26.3
Equipment expense	3,761	3,706	55	1.5
Other loan origination and maintenance expense	3,376	3,489	(113)	(3.2)
Renewable energy tax credit investment impairment	7,721	60	7,661	12,768.3
FDIC insurance	2,697	1,670	1,027	61.5
Contributions and donations	191	523	(332)	(63.5)
Other expense	4,036	1,916	2,120	110.6
Total non-employee expenses	39,569	27,257	12,312	45.2 %
Total noninterest expense	\$ 83,048	\$ 55,459	\$ 27,589	49.7 %

	Nine Months Ended September 30,		2022/2021 Increase (Decrease)	
	2022	2021	Amount	Percent
Noninterest expense				
Salaries and employee benefits	\$ 128,262	\$ 92,468	\$ 35,794	38.7 %
Non-employee expenses:				
Travel expense	6,627	4,027	2,600	64.6
Professional services expense	9,284	11,411	(2,127)	(18.6)
Advertising and marketing expense	6,651	3,158	3,493	110.6
Occupancy expense	7,619	6,378	1,241	19.5
Technology expense	19,585	16,159	3,426	21.2
Equipment expense	11,361	11,128	233	2.1
Other loan origination and maintenance expense	9,511	10,123	(612)	(6.0)
Renewable energy tax credit investment impairment	7,771	3,187	4,584	143.8
FDIC insurance	6,833	5,139	1,694	33.0
Contributions and donations	6,429	2,003	4,426	221.0
Other expense	9,708	6,108	3,600	58.9
Total non-employee expenses	101,379	78,821	22,558	28.6 %
Total noninterest expense	\$ 229,641	\$ 171,289	\$ 58,352	34.1 %

Total noninterest expense for the three and nine months ended September 30, 2022, increased \$27.6 million, or 49.7%, and \$58.4 million, or 34.1%, respectively, compared to the same periods in 2021. The increase in noninterest expense for the comparable three and nine month periods was largely driven by various components, as discussed below.

Salaries and employee benefits: Total personnel expense for the three and nine months ended September 30, 2022 increased by \$15.3 million, or 54.2%, and \$35.8 million, or 38.7%, respectively, compared to the same periods in 2021. The increase in salaries and employee benefits was principally related to continued investment in human resources to support strategic and growth initiatives. Additional bonus accruals of \$7.5 million and \$3.0 million were included in both the second and third quarters of 2022 related to the earlier discussed Finxact and Payrailz gains, respectively, while the second quarter of 2021 included an additional \$4.0 million bonus accrual, related to earlier mentioned Greenlight gain. Total full-time equivalent employees increased from 755 at September 30, 2021, to 940 at September 30, 2022. Salaries and employee benefits expense included \$5.0 million and \$15.1 million of stock-based compensation for the three and nine months ended September 30, 2022, respectively, compared to \$3.7 million and \$12.8 million for the three and nine months ended September 30, 2021, respectively. Expenses related to the employee stock purchase program, stock grants, stock option compensation and restricted stock expense are all considered stock-based compensation.

Travel expense: For the nine months ended September 30, 2022, travel expenses increased \$2.6 million, or 64.6%, compared to the same period in 2021. Travel expenses increased primarily in relation to supporting both loan origination volume and the customer base as travel restrictions have eased combined with inflationary impacts on travel related costs.

Professional service expense: For the three and nine months ended September 30, 2022, professional service expenses decreased \$1.7 million, or 41.1%, and \$2.1 million, or 18.6%, respectively, compared to the same periods in 2021. The decrease compared to the prior periods was largely driven by lower legal fees.

Advertising and marketing expense: For the three and nine months ended September 30, 2022, advertising and marketing expense increased \$990 thousand, or 60.7%, and \$3.5 million, or 110.6%, respectively, compared to the same periods in 2021. Increases were largely driven by a continuation of renewed marketing events.

Technology expense: For the three and nine months ended September 30, 2022, technology expense increased \$1.6 million, or 26.3%, and \$3.4 million, or 21.2%, respectively, compared to the same periods in 2021. This increase was primarily related to enhanced investments in the Company's technology resources.

Renewable energy tax credit investment impairment: During the third quarter of 2022, the Company recognized \$7.7 million in impairment charges related to a new renewable energy tax credit investment that was fully funded. Investments of this type generate a return primarily through the realization of income tax credits and other benefits; accordingly, impairment of the investment amount is recognized in conjunction with the realization of related tax benefits. Partially offsetting this increase over the first nine months of 2021 was \$3.1 million in impairment charges for a first quarter 2021 renewable energy tax credit investment.

Contributions and donations: For the nine months ended September 30, 2022, contributions and donations expense increased \$4.4 million, or 221.0%, compared to the same period in 2021. This increase was related to a special charitable donation during the second quarter of 2022 of \$5.0 million made in connection with the earlier discussed Finxact gain.

Income Tax Expense

For the three months ended September 30, 2022, income tax expense was \$1.5 million compared to \$9.4 million for the third quarter of 2021, and the Company's effective tax rates were 3.4% and 21.7%, respectively. For the nine months ended September 30, 2022, income tax expense was \$35.2 million compared to \$26.2 million for the first nine months of 2021, and the Company's effective tax rates were 16.8% and 16.0%, respectively. The lower level of income tax expense and effective tax rate for the third quarter of 2022 as compared to the same period in 2021 was principally the result of higher than anticipated investment tax credits related to renewable energy investments, arising from impacts of the passage of the Inflation Reduction Act of 2022 combined with higher than expected costs, as a result of the ongoing inflationary environment. The increase in income tax expense for first nine months of 2022 compared to the comparative period of 2021 was primarily from increased pretax income during the current period, largely a product of the earlier discussed Finxact and Payrailz gains.

Results of Segment Operations

The Company's operations are managed along two primary operating segments Banking and Fintech. A description of each segment and the methodologies used to measure financial performance is described in Note 11. Segments in the accompanying Notes to the Unaudited Condensed Consolidated Financial Statements. Net income (loss) by operating segment is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Banking	\$ 17,519	\$ 37,136	\$ 59,114	\$ 113,036
Fintech	27,077	(1,300)	120,011	29,127
Other	(1,728)	(1,997)	(4,709)	(5,315)
Consolidated net income	\$ 42,868	\$ 33,839	\$ 174,416	\$ 136,848

Banking

For the three and nine months ended September 30, 2022, net income decreased \$19.6 million, or 52.8%, and \$53.9 million, or 47.7%, respectively, compared to the same periods of 2021. Key factors influencing this decrease are discussed below.

The provision for loan and lease credit losses for the three and nine months ended September 30, 2022, increased \$9.9 million, or 228.1%, and \$10.0 million, or 88.4%, respectively. See the analysis of provision for loan and lease credit losses included in the above section captioned "Provision for Loan and Lease Credit Losses" as it is entirely related to the Banking segment.

For the three and nine months ended September 30, 2022, noninterest income increased \$2.1 million, or 8.5%, and decreased \$18.1 million, or 21.9%, respectively, compared to the same periods of 2021. The decrease for the nine month comparative periods was principally driven by a decrease in net gains on sales of loans combined with an increase of losses in loan servicing asset revaluation and decrease in net gain arising from loans accounted for under the fair value option. See the analysis of these categories of noninterest income included in the above section captioned "Noninterest Income" for additional discussion.

For the three and nine months ended September 30, 2022, noninterest expense increased \$26.1 million, or 49.7%, and \$57.8 million, or 36.4%, respectively, compared to same periods of 2021. See the analysis of these categories of noninterest expense included in the above section captioned "Noninterest Expense" for additional discussion.

For the three and nine months ended September 30, 2022, income tax expense decreased \$8.0 million, or 85.6%, and \$9.0 million, or 47.0%, respectively, compared to the same periods of 2021. This decrease relative to the Bank for both comparative periods is discussed in the above section captioned "Income Tax Expense" in regard to impacts of changes in anticipated investment tax credits related to renewable energy investments.

Fintech

For the three and nine months ended September 30, 2022, net income increased by \$28.4 million, and \$90.9 million, respectively, compared to same periods of 2021. The increase was principally due to the third and second quarters of 2022 equity method investment gains of \$28.4 million and \$120.5 million from the sale of Payrailz and Finxact, respectively. This increase for the comparative nine month periods was partially offset by the equity security investment gains arising from the second quarter of 2021 gain of \$44.1 million arising from the Company's investment in Greenlight.

For the three and nine months ended September 30, 2022, noninterest expense increased \$1.3 million and \$3.5 million, respectively, compared to the same period of 2021. This increase was largely due increased levels of salaries and benefits.

For the three and nine months ended September 30, 2022, income tax expense increased \$622 thousand, or 301.9%, and \$16.1 million, or 161.2%, respectively, compared to the same periods of 2021. This increase is a product of the above discussed increase in Fintech segment income for comparative periods. See the above section captioned "Income Tax Expense."

Discussion and Analysis of Financial Condition

September 30, 2022 vs. December 31, 2021

Total assets at September 30, 2022 were \$9.31 billion, an increase of \$1.10 billion, or 13.4%, compared to total assets of \$8.21 billion at December 31, 2021. 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 was \$403.4 million at September 30, 2022, an increase of \$199.6 million, or 98.0%, compared to \$203.8 million at December 31, 2021. This change reflects increased liquidity planning levels in the current rising rate environment and proceeds arising from the Payrailz and Finxact sales combined with growing deposit levels.
- Growth in total loans and leases held for investment and held for sale of \$753.3 million resulting from strong origination activity in the first nine months of 2022 and holding loans available for sale for longer periods of time before sale, as discussed more fully below. Total originations during the first nine months of 2022 were \$2.83 billion.

Loans held for sale decreased \$578.9 million, or 51.8%, during the first nine months of 2022, from \$1.12 billion at December 31, 2021, to \$537.6 million at September 30, 2022. The decrease was primarily the result of a \$754.7 million transfer of loans, including \$696.6 million in guaranteed loans, from held for sale to held for investment in the third quarter of 2022. This transfer was largely due to the impact of recent and anticipated future market conditions in a rising rate environment influencing management's intent and ability to hold these loans for the foreseeable future. See "Results of Operations" discussion of "Net Gains on Sales of Loans" for additional information influencing management's intent to hold more loans for investment.

Loans and leases held for investment increased \$1.33 billion, or 24.1%, during the first nine months of 2022, from \$5.52 billion at December 31, 2021, to \$6.85 billion at September 30, 2022. The increase was primarily the result of the above-mentioned loan originations in 2022 combined with increased levels of loans retained as held for investment. Excluding PPP loans, total loans and leases held for investment increased \$1.57 billion, or 29.9%, during the first nine months of 2022. All PPP loans are classified as held for investment.

Other assets increased \$48.1 million, or 19.2%, during the first nine months of 2022, from \$250.3 million at December 31, 2021 to \$298.4 million at September 30, 2022. This increase was principally comprised of full and partially funded commitments to equity method and equity security investments.

Total deposits were \$8.40 billion at September 30, 2022, an increase of \$1.29 billion, or 18.2%, from \$7.11 billion at December 31, 2021. The increase in deposits is largely driven by significant loan origination efforts.

Borrowings decreased to \$35.6 million at September 30, 2022 from \$318.3 million at December 31, 2021. This decrease was related principally to net curtailments of borrowings through the PPPLF which was paid off by September 30, 2022 from \$267.6 million at December 31, 2021. These PPPLF borrowings were used to help fund PPP loans.

Shareholders' equity at September 30, 2022 was \$802.2 million as compared to \$715.1 million at December 31, 2021. The book value per share was \$18.24 at September 30, 2022 compared to \$16.39 at December 31, 2021. Average equity to average assets was 9.1% for the nine months ended September 30, 2022 compared to 8.8% for the year ended December 31, 2021. The increase in shareholders' equity for the first nine months of 2022 was principally the result of \$174.4 million in net income and stock-based compensation expense of \$15.1 million, partially offset by other comprehensive loss associated with negative market impacts on the Company's available-for-sale investment portfolio of \$97.2 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).

Nonperforming assets and TDRs, excluding loans measured at fair value, at September 30, 2022 were \$108.0 million, which represented a \$27.8 million, or 34.7%, increase from December 31, 2021. These nonperforming assets at September 30, 2022 included \$60.1 million in nonaccrual loans and leases and \$1.2 million in foreclosed assets. Of the \$108.0 million of nonperforming assets and TDRs, \$65.3 million carried a government guarantee, leaving an unguaranteed exposure of \$42.7 million in total nonperforming assets and TDRs at September 30, 2022. This represents an increase of \$5.7 million, or 15.5%, from an unguaranteed exposure of \$37.0 million at December 31, 2021.

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

	September 30, 2022 ⁽¹⁾	December 31, 2021 ⁽¹⁾
Nonaccrual loans and leases:		
Total nonperforming loans and leases (all on nonaccrual)	\$ 60,064	\$ 42,533
Total accruing loans and leases past due 90 days or more	—	—
Foreclosed assets	1,178	620
Total troubled debt restructurings	66,404	55,273
Less nonaccrual troubled debt restructurings	(19,600)	(18,210)
Total performing troubled debt restructurings	46,804	37,063
Total nonperforming assets and troubled debt restructurings	\$ 108,046	\$ 80,216
Allowance for credit losses on loans and leases	\$ 78,291	\$ 63,584
Total nonperforming loans and leases to total loans and leases held for investment	0.95 %	0.87 %
Total nonperforming loans and leases to total assets	0.68 %	0.56 %
Total nonperforming assets and troubled debt restructurings to total assets	1.23 %	1.06 %
Allowance for credit losses on loans and leases to loans and leases held for investment	1.23 %	1.30 %
Allowance for credit losses on loans and leases to total nonperforming loans and leases	130.35 %	149.49 %

(1) Excludes loans measured at fair value.

	September 30, 2022 ⁽¹⁾	December 31, 2021 ⁽¹⁾
Nonaccrual loans and leases guaranteed by U.S. government:		
Total nonperforming loans and leases guaranteed by the U.S government (all on nonaccrual)	\$ 45,730	\$ 26,546
Total accruing loans and leases past due 90 days or more guaranteed by the U.S government	—	—
Foreclosed assets guaranteed by the U.S. government	900	490
Total troubled debt restructurings guaranteed by the U.S. government	34,160	26,954
Less nonaccrual troubled debt restructurings guaranteed by the U.S. government	(15,471)	(10,770)
Total performing troubled debt restructurings guaranteed by U.S. government	18,689	16,184
Total nonperforming assets and troubled debt restructurings guaranteed by the U.S. government	\$ 65,319	\$ 43,220
Allowance for credit losses on loans and leases	\$ 78,291	\$ 63,584
Total nonperforming loans and leases not guaranteed by the U.S. government to total held for investment loans and leases	0.23 %	0.33 %
Total nonperforming loans and leases not guaranteed by the U.S. government to total assets	0.16 %	0.21 %
Total nonperforming assets and troubled debt restructurings not guaranteed by the U.S. government to total assets	0.49 %	0.49 %
Allowance for credit losses on loans and leases to total nonperforming loans and leases not guaranteed by the U.S. government	546.19 %	397.73 %

(1) Excludes loans measured at fair value.

Total nonperforming assets and TDRs, including loans measured at fair value, at September 30, 2022 were \$164.0 million, which represented a \$10.4 million, or 6.8%, increase from December 31, 2021. These nonperforming assets at September 30, 2022 included \$90.3 million in nonaccrual loans and leases and \$1.2 million in foreclosed assets. Of the \$164.0 million of nonperforming assets and TDRs, \$110.4 million carried a government guarantee, leaving an unguaranteed exposure of \$53.6 million in total nonperforming assets and TDRs at September 30, 2022. This represents an increase of \$1.1 million, or 2.1%, from an unguaranteed exposure of \$52.5 million at December 31, 2021.

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 7.6% at September 30, 2022, compared to 6.0% at December 31, 2021. 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 both September 30, 2022 and December 31, 2021 were 1.8% and 2.3%, respectively.

As of September 30, 2022, and December 31, 2021, potential problem (also referred to as criticized) and classified loans and leases, excluding loans measured at fair value, totaled \$379.4 million and \$372.7 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. For a complete description of the risk grading system, see Note 3. Loans and Leases Held for Investment and Credit Quality in the Company's 2021 Form 10-K. At September 30, 2022, the portion of criticized and classified loans and leases guaranteed by the SBA or USDA totaled \$191.8 million and total portfolio unguaranteed exposure risk was \$187.6 million, or 5.0% of total held for investment unguaranteed exposure carried at historical cost. This compares to the December 31, 2021 portion of criticized and classified loans and leases guaranteed by the SBA or USDA which totaled \$197.2 million and total portfolio unguaranteed exposure risk was \$175.5 million, or 6.3% of total held for investment unguaranteed exposure carried at historical cost. As of September 30, 2022, 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: Wine and Craft Beverage at 11.7%, General Lending at 9.5%, Senior Care at 9.4%, Hotels at 8.5%, Healthcare at 8.2%, Educational Services at 8.0%, Fitness Centers at 5.2%, Sponsor Finance at 4.6%, Entertainment Centers at 4.5%, Agriculture at 4.5%, and Veterinary at 4.0%. As of December 31, 2021, 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: Educational Services at 16.1%, Wine and Craft Beverage at 13.7%, Hotels at 11.8%, Entertainment Centers at 10.4%, Healthcare at 9.0%, Fitness Centers at 5.3%, Self-Storage at 4.8%, Agriculture at 4.5% and Veterinary at 4.4%. Other than Hotels and Sponsor Finance 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 majority of the \$6.7 million increase in potential problem and classified loans and leases in the first nine months of 2022 was comprised of several relationships that did not have a government guarantee, largely related to some of the more recently matured verticals. The Company believes that its underwriting and credit quality standards have remained high and continues to consider changing economic conditions in a rising interest rate environment.

Loans and leases that experience insignificant payment delays and payment shortfalls are generally not individually evaluated for the purpose of estimating the allowance for credit losses. The Bank generally considers an "insignificant period of time" from payment delays to be a period of 90 days 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. 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. At September 30, 2022, the Company had a total of \$10.7 million in modified unguaranteed loans and leases on payment deferral with \$362 thousand in accrued interest.

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 September 30, 2022, and December 31, 2021, Risk Grade 5 loans and leases, excluding loans measured at fair value, totaled \$259.9 million and \$267.4 million, respectively. The decrease in Risk Grade 5 loans and leases, exclusive of loans measured at fair value, during the first nine months of 2022 was principally confined to three verticals: Educational Services (\$27.1 million or 361.6%), Entertainment Centers (\$13.9 million or 185.6%) and Hotels (\$9.2 million or 122.9%). Partially offsetting the above decreases were increases in Risk Grade 5 loans principally concentrated in four verticals: Senior Care (\$15.4 million or 205.3%), General Lending (\$12.7 million or 168.8%), Sponsor Finance (\$6.9 million or 92.4%) and Bioenergy (\$4.1 million or 54.8%). The decrease in criticized loans in the first nine months of 2022 was due to principal paydowns and positive risk grade migration. Hotels, Sponsor Finance and Bioenergy are a part of the Company's Specialty Lending division with the remaining above listed verticals within the Company's Small Business Banking division.

At September 30, 2022, approximately 100.0% of loans and leases classified as Risk Grade 5 are performing with no relationships having 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. As government payment assistance began to expire toward the end of 2020, borrowers with continuing difficulties arising from the pandemic were provided additional relief through payment deferrals. At September 30, 2022, the Company had \$16.6 million in unguaranteed loans on SBA payment assistance. Management monitors these borrowers closely and has observed financial conditions continuing to improve. Management has also noted that most loans with expired government assistance have been able to resume making regular payments.

Allowance for Credit Losses on Loans and Leases

The ACL of \$63.6 million at December 31, 2021, increased by \$14.7 million, or 23.1%, to \$78.3 million at September 30, 2022. The ACL as a percentage of loans and leases held for investment at historical cost amounted to 1.3% and 1.2% at December 31, 2021 and September 30, 2022, respectively. The increase in the ACL during the first nine months of 2022 was primarily due to loan growth, charge-off experience impacts, the previously discussed loan reclassification from held for sale to held for investment and changes in the macroeconomic outlook. See also the above section captioned “Provision for Loan and Lease Credit Losses” in “Results of Operations” for related information. The ACL for PPP loans and leases was \$2.4 million and \$37 thousand at December 31, 2021 and September 30, 2022, respectively.

Actual past due held for investment loans and leases, inclusive of loans measured at fair value, have decreased by \$23.1 million since December 31, 2021. Total loans and leases 90 or more days past due decreased \$14.7 million, or 29.9%, compared to December 31, 2021. This decrease was comprised of a \$8.3 million decrease in unguaranteed exposure combined with a \$6.4 million decrease in the guaranteed portion of past due loans compared to December 31, 2021. At September 30, 2022 and December 31, 2021, 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 0.2% and 0.6%, respectively. Total unguaranteed loans and leases past due were comprised of \$6.5 million carried at historical cost, a decrease of \$10.1 million, and \$3.8 million measured at fair value, a decrease of \$1.3 million, as of September 30, 2022 compared to December 31, 2021. Management continues to actively monitor and work to improve asset quality. Management believes the ACL of \$78.3 million at September 30, 2022 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. 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 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 September 30, 2022, the total amount of these four items was \$4.06 billion, or 43.6% of total assets, an increase of \$644.1 million from \$3.42 billion, or 41.6% of total assets, at December 31, 2021.

Loans and other assets are funded by loan sales, wholesale deposits and core deposits. To date, an increasing retail deposit base and a stable amount of brokered deposits have been adequate to meet loan obligations, while maintaining the desired level of immediate liquidity. The Company maintains an investment securities portfolio that is available for both immediate and secondary contingent liquidity purposes, whether via pledging to the Federal Home Loan Bank or through liquidation. Additionally, the Company maintains a guaranteed loan portfolio that is also a contingent liquidity source, whether via pledging to the Federal Reserve Discount Window or through liquidation.

At September 30, 2022, none of the investment securities portfolio was pledged to secure public deposits or pledged to retail repurchase agreements, leaving \$1.00 billion available to pledge as collateral.

Contractual Obligations

The Company has entered into significant fixed and determinable contractual obligations for future payments. Other than normal changes in the ordinary course of the Company’s operations, there have been no significant changes in the types of contractual obligations or amounts due since December 31, 2021. See the section titled “Liquidity Management” in Part II, Item 7 of the Company’s 2021 Form 10-K for additional discussion of contractual obligations.

Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with GAAP, are not recorded in the consolidated financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of commitments to extend credit and standby letters of credit. For more information, see Note 10. Commitments and Contingencies in the accompanying notes to unaudited condensed consolidated financial statements.

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 September 30, 2022, the balance sheet's total cumulative gap position was asset-sensitive at 5.2%.

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 also uses an earnings simulation model to prepare, on a regular basis, earnings projections based on a range of instantaneous parallel interest rate shocks applied to a static balance sheet to measure interest rate risk. As of September 30, 2022, the Company's interest rate risk profile under the instantaneous parallel interest rate shock scenarios remained asset-sensitive. For more information, see Item 3. Quantitative and Qualitative Disclosures About Market Risk. 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. Asset/liability sensitivity is primarily derived from the prime-based loans that adjust as the prime interest rate changes, rates on cash accounts that adjust as the federal funds rate changes and the longer duration of indeterminate term deposits. Note that the Company regularly models various forecasted rate projections with non-parallel shifts that are reflective of potential current rate environment outcomes. Under these scenarios, the Company's interest rate risk profile may increase in asset sensitivity, decrease in asset sensitivity, or depending on the scenario and timing of anticipated rate changes, may transition to a liability sensitive interest rate risk profile. Regular, robust modeling of various interest rate outcomes allows the Company to properly assess and manage potential risks from various rate shifts.

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 the following: to provide adequate capital to support the Company's risk profile consistent with the risk appetite approved by the Board of Directors; to provide financial flexibility to support future growth and client needs; comply with relevant laws, regulations, and supervisory guidance; to achieve optimal ratings for the Company and its subsidiaries; and to 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 September 30, 2022 and December 31, 2021, 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 - September 30, 2022						
Common Equity Tier 1 (to Risk-Weighted Assets)	\$ 875,137	13.16 %	\$ 299,202	4.50 %	N/A	N/A
Total Capital (to Risk-Weighted Assets)	954,555	14.36	531,915	8.00	N/A	N/A
Tier 1 Capital (to Risk-Weighted Assets)	875,137	13.16	398,937	6.00	N/A	N/A
Tier 1 Capital (to Average Assets)	875,137	9.49	368,924	4.00	N/A	N/A
Bank - September 30, 2022						
Common Equity Tier 1 (to Risk-Weighted Assets)	\$ 707,007	11.08 %	\$ 287,034	4.50 %	\$ 414,605	6.50 %
Total Capital (to Risk-Weighted Assets)	786,427	12.33	510,283	8.00	637,854	10.00
Tier 1 Capital (to Risk-Weighted Assets)	707,007	11.08	382,712	6.00	510,283	8.00
Tier 1 Capital (to Average Assets)	707,007	7.74	365,261	4.00	456,576	5.00
Consolidated - December 31, 2021						
Common Equity Tier 1 (to Risk-Weighted Assets)	\$ 689,367	12.38 %	\$ 250,619	4.50 %	N/A	N/A
Total Capital (to Risk-Weighted Assets)	753,691	13.53	445,544	8.00	N/A	N/A
Tier 1 Capital (to Risk-Weighted Assets)	689,367	12.38	334,158	6.00	N/A	N/A
Tier 1 Capital (to Average Assets)	689,367	8.87	310,902	4.00	N/A	N/A
Bank - December 31, 2021						
Common Equity Tier 1 (to Risk-Weighted Assets)	\$ 640,652	12.05 %	\$ 239,201	4.50 %	\$ 345,512	6.50 %
Total Capital (to Risk-Weighted Assets)	704,976	13.26	425,246	8.00	531,557	10.00
Tier 1 Capital (to Risk-Weighted Assets)	640,652	12.05	318,934	6.00	425,246	8.00
Tier 1 Capital (to Average Assets)	640,652	8.32	307,931	4.00	384,914	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, 2021, 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. The Company's most critical accounting policies and estimates are listed below. These estimates require the Company to make difficult, subjective or complex judgments about matters that are inherently uncertain.

- Allowance for credit losses;
- Valuation of loans accounted for under the fair value option; and
- Valuation of servicing assets.

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

Interest rate risk is a significant market risk and can result from timing and volume differences in the repricing of rate-sensitive assets and liabilities, widening or tightening of credit spreads, changes in the general level of market interest rates and changes in the shape and level of market yield curves. The Company manages the interest rate sensitivity of interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Management of interest rate risk is carried out primarily through strategies involving available-for-sale securities, loan and lease portfolio, and available funding sources.

The Company has an Asset/Liability Committee to communicate, coordinate and control all aspects involving interest rate risk management. The Asset/Liability Committee, which includes three members of our board of directors, establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals. Adherence to relevant policies is monitored on an ongoing basis by the Asset/Liability Committee.

The Company has a total cumulative gap in interest-earning assets and interest-bearing liabilities of 5.2% as of September 30, 2022, indicating that, overall, assets will reprice before liabilities during the expected life of the instruments. Cumulative gap is a useful measure to monitor balance sheet match-funding, yet economic value of equity and net interest income simulations, discussed below, are more useful in understanding potential impacts to earnings from a change in interest rates.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The Company analyzes interest rate sensitivity position to manage the risk associated with interest rate movements through the use of two simulation models: economic value of equity ("EVE") and net interest income ("NII") simulations. These simulations project both short-term and long-term interest rate risk under a variety of instantaneous parallel rate shocks applied to a static balance sheet. The EVE simulation provides a long-term view of interest rate risk because it analyzes all of the Company's future cash flows. EVE is defined as the present value of the Company's assets, less the present value of its liabilities, adjusted for any off-balance sheet items. The results show a theoretical change in the economic value of shareholders' equity as interest rates change.

EVE and NII simulations are completed routinely and presented to the Asset/Liability Committee. The simulations provide an estimate of the impact of changes in interest rates on equity and net interest income under a range of assumptions. The numerous assumptions used in the simulation process are provided to the Asset/Liability Committee on at least an annual basis. Changes to these assumptions can significantly affect the results of the simulation. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates. The simulation analysis incorporates management's current assessment of the risk that pricing margins will change adversely over time due to competition or other factors.

Simulation analysis is only an estimate of interest rate risk exposure at a particular point in time. The Company regularly models various forecasted rate projections with non-parallel shifts that are reflective of potential current rate environment outcomes. Under these scenarios, the Company's interest rate risk profile may increase in asset sensitivity, decrease in asset sensitivity, or depending on the scenario and timing of anticipated rate changes, may transition to a liability sensitive interest rate risk profile. Regular, robust modeling of various interest rate outcomes allows the Company to properly assess and manage potential risks from various rate shifts.

The table below sets forth an approximation of the Company's NII sensitivity exposure for the 12-month periods ending September 30, 2023 and 2024 and the Company's EVE sensitivity at September 30, 2022. The simulation uses projected repricing of assets and liabilities at September 30, 2022 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Critical model assumptions such as loan and investment prepayment rates, deposit decay rates, changes in deposit pricing, both in amount and timing, relative to changes in market rates (commonly referred to as deposit betas and lags, respectively) and assumed replacement pricing can have a significant impact on interest income simulation. A static balance sheet is maintained to remove volume considerations and to place the focal point on the rate sensitivity of the Company's balance sheet. While management believes such assumptions to be reasonable, approximate actual future activity may differ from the results shown below as it will include growth considerations, non-parallel rate movements, and management actions to mitigate the impacts of changing interest rates on the balance sheet's earnings profile.

Basis Point ("bp") Change in Interest Rates	Estimated Increase/Decrease in Net Interest Income		Estimated Percentage Change in EVE
	12 Months Ending September 30, 2023	12 Months Ending September 30, 2024	As of September 30, 2022
+400	9.8%	10.8%	(23.7)%
+300	7.2	7.9	(17.8)
+200	4.8	5.3	(11.6)
+100	2.4	2.6	(5.6)
-100	(2.4)	(2.6)	5.2
-200	(4.9)	(5.3)	9.4
-300	(6.5)	(7.2)	12.7

Rates are increased instantaneously at the beginning of the projection. The Company is slightly asset sensitive in the initial year, as the Company's variable rate loan portfolio reprices the full amount of the assumed change in interest rates, while the retail savings and short-term retail certificates of deposits portfolio will reprice with an assumed beta. The Company is asset sensitive in the second year of the projection due to interest rates increasing or decreasing for the full year, the Company's loan portfolio continuing to reprice, and also due to the other assumptions used in the analysis as noted previously. Interest rates do not normally move all at once or evenly over time, but management believes that the analysis is useful to understanding the potential direction and magnitude of net interest income changes due to changing interest rates.

The EVE analysis shows that the Company would theoretically lose market value in a rising rate environment. The favorable EVE change resulting from the loan and lease portfolio in a rising rate analysis is more than offset by the devaluation of the interest-bearing liabilities. This is largely driven by the Company's longer asset duration, primarily consisting of investments and loans, versus the shorter duration of its funding portfolio, primarily consisting of retail savings and short-term retail certificates of deposits. Increased fixed rate loan production since 2020, given the historical low market rate environment, has also been a significant driver in the model results.

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 September 30, 2022, 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 September 30, 2022, 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

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2022, 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 at times involved in legal proceedings. In the opinion of management, as of September 30, 2022, there are no material pending legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is the subject. See our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022, for information on legal proceedings relating to prior periods. In addition, the Company is not aware of any threatened litigation, unasserted claims or assessments that could have a material adverse effect on its business, operating results or financial condition.

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, 2021.

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

On May 17, 2022, the Board of Directors of the Company authorized the repurchase of up to \$50,000,000 in shares of the Company's voting common stock from time to time through December 31, 2023 (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 September 30, 2022, 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	RSU Award Agreement for non-employee director Casey S. Crawford * #
10.2	Member Interest Letter, dated September 6, 2022, from Canapi Ventures LOB SLP II, LLC, to the Neil L. Underwood Revocable Trust * #
10.3.1	Amendment to Software Service Agreement dated October 4, 2022, between Live Oak Banking Company and nCino, Inc. *
10.3.2	Amendment to Software Service Agreement dated October 16, 2022, 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 September 30, 2022 and December 31, 2021; (ii) Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2022 and 2021; (iii) Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2022 and 2021; (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity for the Three and Nine Months Ended September 30, 2022 and 2021; (v) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2022 and 2021; 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: November 2, 2022

By: /s/ William C. Losch III
William C. Losch III
Chief Financial Officer

**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 August 22, 2022 (the “**Date of Grant**”), by and between LIVE OAK BANCSHARES, INC., a North Carolina corporation (the “**Company**”), and CASEY S. CRAWFORD (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 1,881 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. Condition to Grant of Units. This award of Units is conditioned upon Grantee’s electronic acceptance of this Agreement through the online portal established by the Company’s equity plan administrator (i.e., Fidelity) within thirty (30) days of the Date of Grant (the “**Acceptance Period**”). In the event Grantee fails to accept this Agreement through such online portal within the Acceptance Period, then this Agreement is void and the Units will not be issued.

3. Vesting. The Units are unvested when granted and will vest August 21, 2023, 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.

4. Effect of Termination of Continuous Service. Except as provided in Section 3 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.

5. 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.

6. 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 5. 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.

7. 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.

8. 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).

9. 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. 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.

10. 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. Counterparts; Electronic Signatures. 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. Each party agrees that this Agreement may be executed

by means of electronic signatures, and that electronic signatures (whether digital or encrypted) of the parties included in this Agreement are intended to authenticate this writing and to have the same force and effect as manual signatures. For this purpose, electronic signature means any electronic sound, symbol, or process attached to or logically associated with a record and executed and adopted by a party with the intent to sign such record, including facsimile, signatures on scanned documents or email electronic signatures.

16. 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.

17. 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.

18. 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.

19. 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.

20. 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.

21. 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: Courtney C. Spencer

Title: Chief Administrative Officer

Address: 1741 Tiburon Drive
Wilmington, NC 28403

GRANTEE:

[ELECTRONIC ACCEPTANCE]

MEMBER INTEREST LETTER

Canapi Ventures LOB SLP II, LLC
1741 Tiburon Drive
Wilmington, NC 28403

September 6, 2022

Neil L Underwood Revocable Trust dated 5/4/2016
Attn: Neil Underwood

Dear Mr. Underwood:

Reference is made to the Amended and Restated Limited Liability Company Agreement of Canapi Ventures LOB SLP II, LLC (the “Special Limited Partner”) dated as of May 5, 2022, by and among Canapi LOB MM, LLC (the “Managing Member”) and the other Members set forth in the books and records of the Special Limited Partner (the “SLP Agreement”). All capitalized terms not otherwise defined herein shall have the meanings assigned to them in the SLP Agreement. This letter agreement (this “Interest Letter”) shall constitute your Interest Letter for purposes of the SLP Agreement.

Pursuant to this Interest Letter, you hereby agree as follows:

1. Your Capital Commitment in respect of Canapi Ventures SBIC Fund II, L.P. (the “Fund”) associated with your Class A Interest and your Profit Sharing Points in respect of the Fund associated with your Class B Interest are set forth on Annex A hereto. Such Class A Interest and Class B Interest are subject to adjustment as set forth in the SLP Agreement.
2. Your Profit Sharing Points in respect of the Fund shall vest in accordance with Annex B.
3. Any adjustment of the amounts or percentage referred to in paragraphs 1 and 2 above, after the date hereof, will be reflected only in the books and records of the Special Limited Partner, and this Interest Letter will not be restated to reflect such changes. Upon your request, the Managing Member will provide you with your current Capital Commitment, Unpaid Capital Commitment and Profit Sharing Points in respect of the Fund at such time.
4. Your social security number or tax identification number, email notification information for purposes of Section 10.5 of the SLP Agreement and your Family Related Members, if any, are set forth on Annex C hereto.
5. The foregoing represents your entire interest in the Special Limited Partner with respect to the Fund as of the date hereof.
6. This Interest Letter may be amended only by mutual written consent and any such amendment is subject to the prior written consent of the U.S. Small Business Administration (the “SBA”).

7. This Interest Letter represents a confidential arrangement between you and the Managing Member and you hereby agree not to disclose its specific terms to anyone. Your agreement to keep this Interest Letter confidential will not preclude disclosure to your attorney or tax or financial advisor, if any, or such other disclosure that may be required by law or judicial process. However, if you disclose this Interest Letter or its terms to such parties, you agree to instruct them not to disclose this Interest Letter or its terms to anyone else. Nothing herein shall prohibit disclosure of this Interest Letter to SBA.

8. This Interest Letter shall terminate, replace and supersede all prior oral and written agreements on the subject matter hereof, except any other Interest Letter received by you from the Managing Member, if applicable.

9. This Interest Letter shall be governed and construed in accordance with the laws of the State of Delaware.

10. By executing this Interest Letter you hereby appoint the Managing Member, with full power of substitution, as your true and lawful representative and attorney-in-fact, and agent, to execute, acknowledge, verify, swear to, deliver, record and file, in your name, place and stead, the SLP Agreement, any amendments to the SLP Agreement (approved in accordance therewith), or any other agreement or instrument which the Managing Member deems appropriate solely to admit you as a Member of the Special Limited Partner. To the fullest extent permitted by law, this power of attorney is intended to secure an interest in property and your obligations under this Interest Letter and the SLP Agreement, is irrevocable and shall survive, and shall not be affected by, your subsequent death, disability, incapacity, incompetency, termination, bankruptcy, insolvency or dissolution. This power of attorney will terminate upon your complete withdrawal from the Special Limited Partner. You acknowledge and agree that under the terms of the SLP Agreement you grant a further power of attorney to the Managing Member as provided for therein.

[Rest of page left blank intentionally]

Kindly acknowledge your agreement by signing and returning a copy of this Interest Letter whereupon it shall be a binding agreement between us. Your signature page hereto shall also serve as a counterpart signature page to the SLP Agreement, and you are hereby admitted as a Member of the Special Limited Partner with respect to the Fund.

SPECIAL LIMITED PARTNER:

Canapi Ventures LOB SLP II, LLC

By: Canapi LOB MM, LLC, its Managing Member

By: /s/ William C. Losch III
Name: William C. Losch III
Title: Chief Financial Officer

MEMBER:

Neil L Underwood Revocable Trust dated 5/4/2016

/s/ Neil Underwood
Neil Underwood, Trustee

Annex A

Fund	Class A Interest (Capital Commitment)	Class B Interest (Profit Sharing Points)
Canapi Ventures SBIC Fund II, L.P.	\$1,000,000	3.25

Annex B

Date	Fund Vested Percentage
Initial Closing Date of the Fund	33%
1-year anniversary of Initial Closing Date of the Fund	43%
2-year anniversary of Initial Closing Date of the Fund	52%
3-year anniversary of Initial Closing Date of the Fund	62%
4-year anniversary of Initial Closing Date of the Fund	71%
5-year anniversary of Initial Closing Date of the Fund	81%
6-year anniversary of Initial Closing Date of the Fund	90%
7-year anniversary of Initial Closing Date of the Fund	100%

Annex C

Social Security Number or taxpayer identification number: XXX-XX-XXXX

Email Notification Address:

Family Related Limited Partners: None

Exhibit 10.3.1**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 OpCo, 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 Subscriber’s Org ID 00D3k000000uAXY. Any Fees in Subscriber’s Org ID 00D3k000000uAXY 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.

Exhibit A

Product(s)*	Features	Quantity	Price	Annual Subscription Fees
nCino Standard Seat	• Loan Origination • Portfolio Management • Dashboards & Reports • Workflow • Document Generation Engine (Forms) • Document Management	150 Operator(s)	\$132/Operator /Month	\$237,600
nCino Partner Community (20 Members)	• nCino Partner Community in the block of 20 Members/Operators	2 Blocks of 20 Members	\$480/Block/Month	\$11,520

*The specific features, functionality and limitations of the Products 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.

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.

[Signatures appear on following page.]

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/Renato Derraik
Name: David Rudow	Name: Renato Derraik
Title: Chief Financial Officer	Title: Chief Information & Digital Officer
Date: 10/04/2022	Date: 10/04/2022

Exhibit 10.3.2**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 OpCo, Inc. (f/k/a 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 00DG0000000h5Do 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 Subscriber’s Org ID 00DG0000000h5Do. Any Fees in Subscriber’s Org ID 00DG0000000h5Do 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.

Exhibit A

Product(s)*	Features	Quantity	Price	Annual Subscription Fees
nCino Premium Admin Seat FSC	• 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 • Salesforce Financial Services Cloud	20 Operator(s)	\$145 /Operator /Month	\$34,800

*The specific features, functionality and limitations of the Products 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.

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/ Kyle Gower-Winter
Name: Charles Ragland	Name: Kyle Gower-Winter
Title: Global Sales Operations	Title: Software Engineering Manager
Date: 10/16/2022	Date: 10/15/2022

**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: November 2, 2022

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

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

I, William C. Losch 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: November 2, 2022

/s/ William C. Losch III

William C. Losch III
Chief Financial Officer
(principal financial officer)

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 September 30, 2022 (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: November 2, 2022

/s/ James S. Mahan III

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

Date: November 2, 2022

/s/ William C. Losch III

William C. Losch III
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.