UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2024

or

o **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)

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**	**New York Stock Exchange LLC**

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 x No o

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 x No o

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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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. o

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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 May 9, 2024, there were 44,969,300 shares of the registrant's voting common stock outstanding.

Live Oak Bancshares, Inc.

Form 10-Q

For the Quarterly Period Ended March 31, 2024

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Balance Sheets
As of March 31, 2024 (unaudited) and December 31, 2023*
(Dollars in thousands)

	March 31, 2024	December 31, 2023
Assets		
Cash and due from banks	$ 597,394	$ 582,540
Certificates of deposit with other banks	250	250
Investment securities available-for-sale	1,120,622	1,126,160
Loans held for sale	310,749	387,037
Loans and leases held for investment (includes $ 379,222 and $ 388,036 measured at fair value, respectively)	8,912,561	8,633,847
Allowance for credit losses on loans and leases	(139,041)	(125,840)
Net loans and leases	8,773,520	8,508,007
Premises and equipment, net	258,071	257,881
Foreclosed assets	8,561	6,481
Servicing assets (includes $ 48,962 and $ 48,186 measured at fair value, respectively)	49,343	48,591
Other assets	387,059	354,476
Total assets	$ 11,505,569	$ 11,271,423
Liabilities and shareholders' equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 226,668	$ 259,270
Interest-bearing	10,156,693	10,015,749
Total deposits	10,383,361	10,275,019
Borrowings	120,242	23,354
Other liabilities	74,248	70,384
Total liabilities	10,577,851	10,368,757
Shareholders' equity		
Preferred stock, no par value, 1,000,000 shares authorized, none issued or outstanding at March 31, 2024 and December 31, 2023	—	—
Class A common stock, no par value, 100,000,000 shares authorized, 44,938,673 and 44,617,673 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	349,648	344,568
Class B common stock, no par value, 10,000,000 shares authorized, none issued or outstanding at March 31, 2024 and December 31, 2023	—	—
Retained earnings	669,307	642,817
Accumulated other comprehensive loss	(91,237)	(84,719)
Total shareholders' equity	927,718	902,666
Total liabilities and shareholders' equity	$ 11,505,569	$ 11,271,423

* 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 months ended March 31, 2024 and 2023 (unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Interest income		
Loans and fees on loans	$ 176,010	$ 139,052
Investment securities, taxable	8,954	7,547
Other interest earning assets	7,456	4,817
Total interest income	192,420	151,416
Interest expense		
Deposits	101,998	67,595
Borrowings	311	1,804
Total interest expense	102,309	69,399
Net interest income	90,111	82,017
Provision for loan and lease credit losses	16,364	19,021
Net interest income after provision for loan and lease credit losses	73,747	62,996
Noninterest income		
Loan servicing revenue	7,624	6,380
Loan servicing asset revaluation	(2,744)	356
Net gains on sales of loans	11,502	10,175
Net loss on loans accounted for under the fair value option	(219)	(4,529)
Equity method investments (loss) income	(5,022)	(2,952)
Equity security investments (losses) gains, net	(529)	77
Lease income	2,453	2,535
Management fee income	3,271	3,472
Other noninterest income	9,761	4,065
Total noninterest income	26,097	19,579
Noninterest expense		
Salaries and employee benefits	47,275	44,765
Travel expense	2,438	2,411
Professional services expense	1,878	927
Advertising and marketing expense	3,692	3,603
Occupancy expense	2,247	1,925
Technology expense	7,723	7,729
Equipment expense	3,074	3,818
Other loan origination and maintenance expense	3,911	3,927
Renewable energy tax credit investment (recovery) impairment	(927)	69
FDIC insurance	3,200	3,403
Other expense	3,226	6,385
Total noninterest expense	77,737	78,962
Income before taxes	22,107	3,613
Income tax (benefit) expense	(5,479)	3,215
Net income	$ 27,586	$ 398
Basic earnings per share	$ 0.62	$ 0.01
Diluted earnings per share	$ 0.60	$ 0.01

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Comprehensive Income
For the three months ended March 31, 2024 and 2023 (unaudited)
(Dollars in thousands)

	Three Months Ended March 31,	
	2024	2023
Net income	$ 27,586	$ 398
Other comprehensive (loss) income before tax:		
Net unrealized (loss) gain on investment securities available-for-sale during the period	(8,576)	10,432
Reclassification adjustment for gain on sale of securities available-for-sale included in net income	—	—
Other comprehensive (loss) income before tax	(8,576)	10,432
Income tax benefit (expense)	2,058	(2,509)
Other comprehensive (loss) income, net of tax	(6,518)	7,923
Total comprehensive income	$ 21,068	$ 8,321

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31, 2024 and 2023 (unaudited)
(Dollars in thousands)

	Three Months Ended					
	Common stock				Accumulated other comprehensive (loss) income	Total equity
	Shares			Retained earnings		
	Class A	Class B	Amount			
Balance at December 31, 2023	44,617,673	—	$ 344,568	$ 642,817	$ (84,719)	$ 902,666
Net income	—	—	—	27,586	—	27,586
Other comprehensive loss	—	—	—	—	(6,518)	(6,518)
Issuance of restricted stock	123,670	—	—	—	—	—
Tax withholding related to vesting of restricted stock and other	—	—	(3,057)	—	—	(3,057)
Employee stock purchase program	18,485	—	702	—	—	702
Stock option exercises	178,845	—	1,129	—	—	1,129
Restricted stock compensation expense	—	—	6,306	—	—	6,306
Transfer from retained earnings to other assets for pro rata portion of equity method investee stock compensation expense	—	—	—	249	—	249
Cash dividends ($ 0.03 per share)	—	—	—	(1,345)	—	(1,345)
Balance at March 31, 2024	44,938,673	—	$ 349,648	$ 669,307	$ (91,237)	$ 927,718
Balance at December 31, 2022	44,061,244	—	$ 330,854	$ 572,497	$ (92,318)	$ 811,033
Net income	—	—	—	398	—	398
Other comprehensive income	—	—	—	—	7,923	7,923
Issuance of restricted stock	162,874	—	—	—	—	—
Tax withholding related to vesting of restricted stock and other	—	—	(3,353)	—	—	(3,353)
Employee stock purchase program	31,059	—	631	—	—	631
Stock option exercises	35,663	—	367	—	—	367
Stock option compensation expense	—	—	133	—	—	133
Restricted stock compensation expense	—	—	6,040	—	—	6,040
Adoption of ASU 2022-02			—	676	—	676
Transfer from retained earnings to other assets for pro rata portion of equity method investee stock compensation expense	—	—	—	286	—	286
Cash dividends ($ 0.03 per share)	—	—	—	(1,327)	—	(1,327)
Balance at March 31, 2023	44,290,840	—	$ 334,672	$ 572,530	$ (84,395)	$ 822,807

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Cash Flows
For the three months ended March 31, 2024 and 2023 (unaudited)
(Dollars in thousands)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Cash flows from operating activities		
Net income	$ 27,586	$ 398
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,981	5,193
Provision for loan and lease credit losses	16,364	19,021
(Accretion) amortization of (discount) premium on securities, net	(355)	171
Deferred tax benefit	(6,888)	(5,541)
Originations of loans held for sale	(203,956)	(191,466)
Proceeds from sales of loans held for sale	258,708	317,579
Net gains on sale of loans held for sale	(11,502)	(10,175)
Net loss on loans accounted for under fair value option	219	4,529
Net change in servicing assets	(752)	(3,034)
Net (gain) loss on disposal of property and equipment	(4)	402
Equity method investments loss (income)	5,022	2,952
Equity security investments losses (gains), net	529	(77)
(Gain) loss on equity warrant assets	(5,662)	—
Renewable energy tax credit investment (recovery) impairment	(927)	69
Stock option compensation expense	—	133
Restricted stock compensation expense	6,306	6,040
Stock based compensation excess tax benefit (deficiency)	889	(411)
Lease right-of-use assets and liabilities, net	(11)	(17)
Changes in assets and liabilities:		
Other assets	301	6,593
Other liabilities	45	6,097
Net cash provided by operating activities	90,893	158,456
Cash flows from investing activities		
Purchases of investment securities available-for-sale	(46,176)	(146,030)
Proceeds from maturities, calls, and principal paydown of investment securities available-for-sale	43,493	21,319
Loan and lease originations and principal collections, net	(251,138)	(455,742)
Purchases of equity security investments	(3,279)	(875)
Purchases of equity method investments	(1,435)	(1,121)
Proceeds from sale of equity security investment	535	—
Proceeds from sale of premises and equipment	978	—
Purchases of premises and equipment, net	(21,676)	(10,405)
Net cash used by investing activities	(278,698)	(592,854)

See Notes to Unaudited Condensed Consolidated Financial Statements

Live Oak Bancshares, Inc.
Condensed Consolidated Statements of Cash Flows (Continued)
For the three months ended March 31, 2024 and 2023 (unaudited)
(Dollars in thousands)

	Three Months Ended March 31,	
	2024	2023
Cash flows from financing activities		
Net increase in deposits	$ 108,342	$ 537,066
Proceeds from borrowings	99,414	2,156,020
Repayment of borrowings	(2,526)	(2,208,456)
Stock option exercises	1,129	367
Employee stock purchase program	702	631
Withholding cash issued in lieu of restricted stock and other	(3,057)	(3,353)
Shareholder dividend distributions	(1,345)	(1,327)
Net cash provided by financing activities	202,659	480,948
Net increase in cash and cash equivalents	14,854	46,550
Cash and cash equivalents, beginning	582,540	416,636
Cash and cash equivalents, ending	$ 597,394	$ 463,186
Supplemental disclosures of cash flow information		
Interest paid	$ 102,644	$ 69,027
Income tax paid, net	1,928	182
Supplemental disclosures of noncash investing and financing activities		
Unrealized holding (losses) gains on investment securities available-for-sale, net of taxes	$ (6,518)	$ 7,923
Transfers from loans and leases to foreclosed real estate and other repossessions or SBA receivable	2,080	7,115
Transfer from premises and equipment, net to other assets	18,540	—
Transfer of loans held for sale to loans and leases held for investment	94,384	35,742
Transfer of loans and leases held for investment to loans held for sale	63,508	139,883
Transfer from retained earnings to other assets for pro rata portion of equity method investee stock compensation expense	249	286
Accrued premises and equipment additions	2,971	—
Equity method investment commitments	1,008	7,721
Equity security investment commitments	—	500

See 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 providing lending and deposit related services to small businesses nationwide. 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”), Business & Industry (“B&I”) and Community Facilities loan programs. These loans are to small businesses and professionals with what the Bank believes are lower risk characteristics. Industries, or “verticals,” on which the Bank focuses its lending efforts are carefully selected. The Bank also lends more broadly to select borrowers outside of those verticals.

The Company’s wholly owned material subsidiaries are 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”). 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 with on-site dining. 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 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. TLH holds 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.

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 principally of interest income. Income from the sale of loans is comprised of loan servicing revenue and revaluation of related servicing rights along with net gains on sales of loans. 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 has less routinely generated gains and losses arising from its financial technology investments predominantly in its fintech segment.

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 months ended March 31, 2024 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2024. The Condensed Consolidated Balance Sheet as of December 31, 2023 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, 2023, filed with the Securities Exchange Commission ("SEC") on February 22, 2024 (SEC File No. 001-37497) (the "2023 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 2023 Form 10-K. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements and footnotes in the Company's 2023 Form 10-K.

The preparation of financial statements in conformity with United States ("U.S.") 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 12. Segments.

Changes in Accounting Estimates

During the third quarter of 2023, the Company changed the valuation techniques used to estimate the fair value of servicing rights and loans measured at fair value as a result of rising interest rates and their impacts on market conditions. The changes include aligning our net servicing income and loan fair value estimates with changes in forward interest rate curves. Loan fair value estimates were also revised to utilize market participant credit loss information. These revisions provide estimates that the Company believes are more representative of fair value while transitioning from unobservable inputs to those that are more observable. These estimate changes were implemented as of July 1, 2023 and resulted in one-time adjustments to increase the estimated value of the servicing asset by $ 13.7 million and loans measured at fair value by $ 1.3 million. This adjustment also increased noninterest income by a corresponding $ 15.0 million.

These refinements have been accounted for as changes in accounting estimates under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 250, *Accounting Changes and Error Corrections*, with prospective application beginning in the period of change.

Long-Lived Asset Reclassified to Held for Sale

During the first quarter of 2024, the Company determined that retention of an idle building and accompanying land adjacent to its main campus was not best suited to serve future expansion plans. As a result of this determination, the Company entered into a purchase and sale agreement with a third party with expected total proceeds, net of estimated expenses, of $ 20.9 million. Accordingly, the $ 18.5 million carrying amount of the building and land, now considered held for sale, was reclassified from premises and equipment, net to other assets in the March 31, 2024 Unaudited Condensed Consolidated Balance Sheet. Any gain associated with the sale of the building will be recorded at the time of the sale.

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. In December 2022, ASU 2022-06 "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848" was issued deferring the sunset date of Topic 848. As subsequently amended, the guidance in the ASU can be applied by the Company through December 31, 2024. To address the discontinuance of LIBOR, the Company stopped originating variable LIBOR-based loans effective December 31, 2021 and started to negotiate loans using the preferred replacement index, the Secured Overnight Financing Rate ("SOFR") or a relevant duration U.S. Treasury rate. As of March 31, 2024, the Company has transitioned all its LIBOR-based loan exposure to an alternative index. The application of the standard did not have a material effect on the 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 Company adopted the standard on January 1, 2024 with no material effect on its consolidated financial statements.

In March 2023, the FASB issued ASU No. 2023-02 "Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method" ("ASU 2023-02"). ASU 2023-02 permits companies to account for tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. The Company adopted the standard on January 1, 2024 with no material effect on its consolidated financial statements.

In October 2023, the FASB issued ASU No. 2023-06 "Disclosure Improvements - Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative" ("ASU 2023-06"). ASU 2023-06 amends the ASC to incorporate certain disclosure requirements from SEC Release No. 33-10532 - Disclosure Update and Simplification that was issued in 2018. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The Company does not believe this standard will have a material impact on its consolidated financial statements.

In November 2023, the FASB issued ASU No. 2023-07 "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07"). ASU 2023-07 improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments in this standard will be effective for the Company for the fiscal year ended December 31, 2024 and subsequent interim periods. The amendments will be applied retrospectively to all prior periods in the consolidated financial statements. The Company is currently evaluating the impact the amendments will have on the consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU No. 2023-09 "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" ("ASU 2023-09"). ASU 2023-09 requires enhanced income tax disclosures primarily related to the rate reconciliation and income taxes paid information to provide more transparency by requiring (i) consistent categories and greater disaggregation of information in the rate reconciliation table and (ii) income taxes paid, net of refunds, to be disaggregated by jurisdiction based on an established threshold. The amendments in this standard will be effective for the Company on January 1, 2025. The Company is currently evaluating the impact the amendments will have the consolidated financial statements and related disclosures.

In March 2024, the FASB issued ASU 2024-01 "Compensation - Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards" ("ASU 2024-01"). ASU 2024-01 adds an illustrative example to clarify how an entity should determine whether a profits interest or similar award is within the scope of ASC 718. The amendments in this standard will be effective for the Company on January 1, 2025. The Company does not believe this standard will have a material impact on its consolidated financial statements.

In March 2024, the FASB issued ASU 2024-02 “Codification Improvements - Amendments to Remove References to the Concepts Statements” (“ASU 2024-02”). ASU 2024-02 removes references to various Concepts Statements in the Codification. The amendments in this standard will be effective for the Company on January 1, 2025. 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 March 31,	
	2024	2023
Basic earnings per share:		
Net income	$ 27,586	$ 398
Weighted-average basic shares outstanding	44,762,308	44,157,156
Basic earnings per share	$ 0.62	$ 0.01
Diluted earnings per share:		
Net income, for diluted earnings per share	$ 27,586	$ 398
Total weighted-average basic shares outstanding	44,762,308	44,157,156
Add effect of dilutive stock options and restricted stock grants	878,902	807,460
Total weighted-average diluted shares outstanding	45,641,210	44,964,616
Diluted earnings per share	$ 0.60	$ 0.01
Anti-dilutive stock options and restricted shares	459,599	1,436,771

Note 4. Securities

Available-for-Sale

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

March 31, 2024	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agencies	$ 15,081	$ —	$ 340	$ 14,741
Mortgage-backed securities	1,222,395	428	119,947	1,102,876
Municipal bonds	3,195	—	190	3,005
Total	$ 1,240,671	$ 428	$ 120,477	$ 1,120,622
December 31, 2023				
U.S. government agencies	$ 17,809	$ 2	$ 282	$ 17,529
Mortgage-backed securities	1,216,624	466	111,498	1,105,592
Municipal bonds	3,200	—	161	3,039
Total	$ 1,237,633	$ 468	$ 111,941	$ 1,126,160

During the three months ended March 31, 2024, one security totaling $ 14.7 million was settled and one security totaling $ 2.5 million was called. During the three months ended March 31, 2023, no securities were sold or settled.

Accrued interest receivable on available-for-sale securities totaled $ 3.4 million and $ 3.3 million at March 31, 2024 and December 31, 2023, 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	
March 31, 2024	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	$ —	$ —	$ 14,741	$ 340	$ 14,741	$ 340
Mortgage-backed securities	122,441	1,588	936,335	118,359	1,058,776	119,947
Municipal bonds	—	—	3,005	190	3,005	190
Total	$ 122,441	$ 1,588	$ 954,081	$ 118,889	$ 1,076,522	$ 120,477

	Less Than 12 Months		12 Months or More		Total	
December 31, 2023	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	$ —	$ —	$ 15,057	$ 282	$ 15,057	$ 282
Mortgage-backed securities	138,823	3,431	886,699	108,067	1,025,522	111,498
Municipal bonds	—	—	3,039	161	3,039	161
Total	$ 138,823	$ 3,431	$ 904,795	$ 108,510	$ 1,043,618	$ 111,941

At March 31, 2024, there were 416 mortgage-backed securities, five U.S. government agencies and two municipal bonds in unrealized loss positions for greater than 12 months. There were 3 5 mortgage-backed securities in unrealized loss positions for less than 12 months. Unrealized losses at December 31, 2023 were comprised of 409 mortgage-backed securities, five U.S. government agencies and two municipal bond in unrealized loss positions for greater than 12 months and 27 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 the issuers' ability to honor redemption obligations, and the Company does not intend to sell the related securities and does not believe it is more likely than not that it will be required to sell the securities before recovery of amortized cost, 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 March 31, 2024 and December 31, 2023 were backed by U.S. government sponsored enterprises ("GSEs").

The following is a summary of investment securities by maturity:

	March 31, 2024	
	Available-for-Sale	
	Amortized Cost	Fair Value
U.S. government agencies		
Within one year	$ 3,000	$ 2,986
One to five years	12,081	11,755
Total	15,081	14,741
Mortgage-backed securities		
Within one year	14,210	14,138
One to five years	182,341	171,971
Five to ten years	230,064	202,872
After 10 years	795,780	713,895
Total	1,222,395	1,102,876
Municipal bonds		
Five to ten years	3,098	2,920
After 10 years	97	85
Total	3,195	3,005
Total	$ 1,240,671	$ 1,120,622

The table above reflects contractual maturities. Actual results will differ as the loans underlying the mortgage-backed securities may prepay sooner than scheduled.

There were no investment securities pledged at March 31, 2024 or December 31, 2023.

Equity Investments

Equity investments, largely comprised of non-marketable equity investments, are generally accounted for under either 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 method investment at March 31, 2024 and December 31, 2023 is reflected in the following table:

	March 31, 2024		December 31, 2023	
	Amount	**Ownership %**	**Amount**	**Ownership %**
Apiture, Inc.	$ 58,714	40.4 %	$ 60,682	40.4 %
Canapi Ventures SBIC Fund, LP (1) (5)	16,522	2.9	18,190	2.9
Canapi Ventures Fund, LP (2) (5)	1,998	1.5	2,267	1.5
Canapi Ventures Fund II, LP (3) (5)	7,214	1.6	7,232	1.6
Canapi Ventures SBIC Fund II, LP (4) (5)	7,591	2.9	7,611	2.9
Other (6)	23,821	Various	22,932	Various
Total	$ 115,860		$ 118,914	

(1) Includes unfunded commitments of $ 5.0 million as of March 31, 2024 and December 31, 2023.

(2) Includes unfunded commitments of $ 559 thousand as of March 31, 2024 and December 31, 2023.

(3) Includes unfunded commitments of $ 6.2 million and $ 6.3 million as of March 31, 2024 and December 31, 2023, respectively.

(4) Includes unfunded commitments of $ 7.1 million as of March 31, 2024 and December 31, 2023.

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

(6) As of March 31, 2024, and December 31, 2023 Other investments include low income housing tax credit (“LIHTC”) in Estrella Landing Apartments LLC (“Estrella Landing”), in which the Company holds a 99.9 % limited member interest. As of March 31, 2024, and December 31, 2023, there was an unfunded commitment of $ 6.4 million and $ 7.7 million, respectively, for Estrella Landing. Also included in Other investments are solar income tax credit investments in Green Sun Tenant LLC (“Green Sun”), SVA 2021-2 TE Holdco LLC (“Sun Vest”), EG5 CSP1 Holding LLC (“HEP”) and HRE MM I LLC ("Heelstone"), which the Company holds a 99.0 % limited member interest in all investments. As of March 31, 2024, there was an unfunded commitment of $ 1.0 million for Heelstone, while there was no unfunded commitment as of December 31, 2023. Also included are Cape Fear Collective Impact Opportunity 1 LLC (“Cape Fear Collective”), Cape Fear Collective Impact Opportunity 2 LLC (“Cape Fear Collective 2”) and OTR Fund I, LLC ("OTR") which the Company holds 91.0 %, 32.3 %, and 11.5 % of limited member interests, respectively.

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 March 31, 2024 and as of and for the three months ended March 31, 2024 and 2023 is reflected in the following table:

			As of and for the three month period ended			
	Cumulative Adjustments		March 31, 2024		March 31, 2023	
Carrying value [(1)]			$	80,005	$	77,585
Carrying value adjustments:						
Impairment	$	—		—		—
Upward changes for observable prices [(2)]		50,548		56		—
Downward changes for observable prices		(1,980)		(369)		—
Net upward (downward) change	$	48,568	$	(313)	$	—

(1) Includes $ 2.3 million and $ 3.3 million in unfunded commitments as of March 31, 2024, and March 31, 2023, 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 months ended March 31, 2024 and 2023 the Company recognized unrealized gains (losses) on all equity securities held at the reporting date of $(490) thousand and $ 16 thousand, respectively.

Variable Interest Entities

Variable interests are defined as contractual ownership or other interests in an entity that change with fluctuations in the fair value of an entity's net asset value (a "VIE"). The primary beneficiary consolidates the VIE. The primary beneficiary is defined as the enterprise that has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE.

Solar Renewable Energy Tax Credit Investments

The Company has equity interests in several limited liability companies that own and operate solar renewable energy projects which are accounted for as equity method investments. Over the course of the investments, the Company will receive federal and state tax credits, tax-related benefits, and excess cash available for distribution, if any. The Company may be called to sell its interest in the limited partnerships through a call option once all investment tax credits have been recognized.

Affordable Housing

The Company has an equity investment in a limited liability company LIHTC that qualifies as an affordable housing project, managed by an unrelated general partner. The Company accounts for the investment under the proportional amortization method. Under this method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance as a component of income tax expense. The Company also has equity interests in two limited liability companies that invest in the acquisition, rehabilitation, or new construction of local qualified housing projects which are accounted for as equity method investments.

Canapi Funds

The Company’s limited partnership investments in the Canapi Funds focus on providing venture capital to new and emerging financial technology companies. After the initial commitment and over the course of the investment period, the Company will make capital contributions and receive profit and return of capital distributions as a result of fund performance until the funds wind down.

Non-marketable and Other Equity Investments

The Company also has limited interests in several non-marketable funds, including Small Business Investment Company (“SBIC”) and venture capital funds, which are accounted for as equity security investments. After the initial commitment and over the course of the investment period, the Company will make capital contributions and receive profit and return of capital distributions as a result of fund performance until the funds wind down. While the partnership agreements allow the Company to remove the general partner, this right is not deemed to be substantive as the general partner can only be removed for cause. All investments are generally non-redeemable and distributions are expected to be received through the liquidation of the underlying investments throughout the life of the investment fund. Investments may only be sold or transferred subject to the notice and approval provisions of the underlying investment agreement.

All above investments meet the criteria of a VIE, however, the Company is not the primary beneficiary of the entities, as it does not have the power to direct the activities that most significantly impact the economic performance of the entities.

The Company’s investment in the unconsolidated VIEs are carried in other assets and the Company’s unfunded capital and other commitments related to the unconsolidated VIEs are carried in other liabilities on the Unaudited Condensed Consolidated Balance Sheets.

The Company’s maximum exposure to loss from unconsolidated VIEs includes the investment recorded on the Company’s Unaudited Condensed Consolidated Balance Sheets. For solar tax credit investments, the balance sheet figures are net of any impairment recognized, and includes previously recorded tax credits which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level. While the Company believes the potential for loss from these investments is remote, the maximum exposure for solar tax credit investments was determined by assuming a scenario where related tax credits were recaptured.

The following table provides a summary of the VIEs that the Company has not consolidated as of March 31, 2024 and December 31, 2023:

March 31, 2024	Investment Carrying Amount	Maximum Exposure to Loss	Liability Recognized	Classification
Solar tax credit investments	$ 7,638	$ 40,437	$ 1,008	Other assets [1]
Affordable housing	15,580	15,580	6,444	Other assets & other liabilities [2]
Canapi Funds	33,326	33,326	18,765	Other assets & other liabilities
Non-marketable and other equity investments	8,445	8,445	2,292	Other assets & other liabilities

December 31, 2023	Investment Carrying Amount	Maximum Exposure to Loss	Liability Recognized	Classification
Solar tax credit investments	$ 6,714	$ 48,869	$ —	Other assets [3]
Affordable housing	15,611	15,611	7,715	Other assets & other liabilities [4]
Canapi Funds	35,300	35,300	18,930	Other assets & other liabilities
Non-marketable and other equity investments	8,840	8,840	2,321	Other assets & other liabilities

(1) Maximum exposure to loss represents $ 7.6 million of current investments and a scenario in which related tax credits are recaptured, collectively totaling $ 32.8 million.

(2) Maximum exposure to loss represents $ 15.6 million of investments. As there are no tax credits allocated in the current year, there is no increase to the maximum exposure to loss related to recaptured tax credits on the $ 8.8 million LIHTC investment as of March 31, 2024.

(3) Maximum exposure to loss represents $ 6.7 million of current investments and a scenario in which related tax credits are recaptured, collectively totaling $ 42.2 million.

(4) Maximum exposure to loss represents $ 15.6 million of investments. As there are no tax credits allocated in the current year, there is no increase to the maximum exposure to loss related to recaptured tax credits on the $ 8.8 million LIHTC investment.

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
March 31, 2024							
Commercial & Industrial							
Small Business Banking	$ 2,103,152	$ 15,173	$ 58,311	$ 73,484	$ 2,176,636	$ 146,894	$ 2,323,530
Specialty Lending	1,154,578	—	—	—	1,154,578	6,331	1,160,909
Energy & Infrastructure	870,896	264	6,717	6,981	877,877	45,829	923,706
Paycheck Protection Program	4,884	—	4	4	4,888	—	4,888
Total	4,133,510	15,437	65,032	80,469	4,213,979	199,054	4,413,033
Construction & Development							
Small Business Banking	424,547	1,061	1,442	2,503	427,050	—	427,050
Specialty Lending	40,624	—	—	—	40,624	—	40,624
Energy & Infrastructure	7,541	—	—	—	7,541	—	7,541
Total	472,712	1,061	1,442	2,503	475,215	—	475,215
Commercial Real Estate							
Small Business Banking	2,517,563	10,833	30,604	41,437	2,559,000	123,582	2,682,582
Specialty Lending	542,235	—	12,032	12,032	554,267	—	554,267
Energy & Infrastructure	184,173	10,110	3,072	13,182	197,355	20,505	217,860
Total	3,243,971	20,943	45,708	66,651	3,310,622	144,087	3,454,709
Commercial Land							
Small Business Banking	553,978	—	1,887	1,887	555,865	36,081	591,946
Total	553,978	—	1,887	1,887	555,865	36,081	591,946
Total	$ 8,404,171	$ 37,441	$ 114,069	$ 151,510	$ 8,555,681	$ 379,222	$ 8,934,903
Retained Loan Discount and Net Deferred Costs							$ (22,342)
Loans and Leases, Net							$ 8,912,561
Guaranteed Balance	$ 2,969,226	$ 24,868	$ 81,309	$ 106,177	$ 3,075,403	$ 73,564	$ 3,148,967
% Guaranteed	35.3 %	66.4 %	71.3 %	70.1 %	35.9 %	19.4 %	35.2 %

	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, 2023							
Commercial & Industrial							
Small Business Banking	$ 2,075,227	$ 16,570	$ 33,366	$ 49,936	$ 2,125,163	$ 151,887	$ 2,277,050
Specialty Lending	1,131,493	—	—	—	1,131,493	7,829	1,139,322
Energy & Infrastructure	842,907	2,806	4,044	6,850	849,757	46,185	895,942
Paycheck Protection Program	5,595	—	—	—	5,595	—	5,595
Total	4,055,222	19,376	37,410	56,786	4,112,008	205,901	4,317,909
Construction & Development							
Small Business Banking	413,349	1,745	—	1,745	415,094	—	415,094
Specialty Lending	47,419	—	—	—	47,419	—	47,419
Energy & Infrastructure	7,541	—	—	—	7,541	—	7,541
Total	468,309	1,745	—	1,745	470,054	—	470,054
Commercial Real Estate							
Small Business Banking	2,414,677	18,589	32,310	50,899	2,465,576	127,358	2,592,934
Specialty Lending	511,712	—	12,032	12,032	523,744	—	523,744
Energy & Infrastructure	158,613	—	3,072	3,072	161,685	17,751	179,436
Total	3,085,002	18,589	47,414	66,003	3,151,005	145,109	3,296,114
Commercial Land							
Small Business Banking	531,331	1,521	1,910	3,431	534,762	37,026	571,788
Total	531,331	1,521	1,910	3,431	534,762	37,026	571,788
Total	$ 8,139,864	$ 41,231	$ 86,734	$ 127,965	$ 8,267,829	$ 388,036	$ 8,655,865
Retained Loan Discount and Net Deferred Costs							$ (22,018)
Loans and Leases, Net							$ 8,633,847
Guaranteed Balance	$ 2,877,105	$ 29,183	$ 61,107	$ 90,290	$ 2,967,395	$ 66,299	$ 3,033,694
% Guaranteed	35.3 %	70.8 %	70.5 %	70.6 %	35.9 %	17.1 %	35.0 %

(1) Retained portions of government guaranteed loans sold prior to January 1, 2021 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.

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 2023 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								
	2024	2023	2022	2021	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total [1]
March 31, 2024									
Small Business Banking									
Risk Grades 1 - 4	$ 200,724	$ 1,035,360	$ 1,464,196	$ 1,190,897	$ 647,745	$ 601,161	$ 67,873	$ 11,534	$ 5,219,490
Risk Grade 5	—	15,695	60,480	87,655	35,792	103,824	8,818	1,029	313,293
Risk Grades 6 - 8	—	5,741	52,218	45,972	29,365	48,165	3,966	341	185,768
Total	200,724	1,056,796	1,576,894	1,324,524	712,902	753,150	80,657	12,904	5,718,551
Specialty Lending									
Risk Grades 1 - 4	58,113	576,945	307,885	218,049	20,072	2,617	224,327	119,519	1,527,527
Risk Grade 5	—	18,271	62,688	38,742	42,882	7,936	20,159	2,167	192,845
Risk Grades 6 - 8	—	1,250	—	12,786	—	—	8,101	6,960	29,097
Total	58,113	596,466	370,573	269,577	62,954	10,553	252,587	128,646	1,749,469
Energy & Infrastructure									
Risk Grades 1-4	45,149	410,802	211,656	95,341	42,659	73,130	16,805	—	895,542
Risk Grade 5	—	—	10,866	112,133	13,690	26,356	—	—	163,045
Risk Grades 6 - 8	—	—	4,024	7,475	12,687	—	—	—	24,186
Total	45,149	410,802	226,546	214,949	69,036	99,486	16,805	—	1,082,773
Paycheck Protection Program									
Risk Grades 1 - 4	—	—	—	2,570	2,318	—	—	—	4,888
Total	—	—	—	2,570	2,318	—	—	—	4,888
Total	$ 303,986	$ 2,064,064	$ 2,174,013	$ 1,811,620	$ 847,210	$ 863,189	$ 350,049	$ 141,550	$ 8,555,681
Year-To-Date Gross Charge-offs									
Small Business Banking	$ —	$ 837	$ 2,487	$ 158	$ —	$ —	$ 150	$ —	$ 3,632
Total	$ —	$ 837	$ 2,487	$ 158	$ —	$ —	$ 150	$ —	$ 3,632

	Term Loans and Leases Amortized Cost Basis by Origination Year								
	2023	2022	2021	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total (1)
December 31, 2023									
Small Business Banking									
Risk Grades 1 - 4	$ 990,349	$ 1,470,824	$ 1,255,664	$ 660,926	$ 363,377	$ 296,132	$ 63,963	$ 11,047	$ 5,112,282
Risk Grade 5	7,744	72,913	60,115	37,390	42,095	50,705	7,174	1,407	279,543
Risk Grades 6 - 8	2,286	31,487	29,636	35,611	18,429	28,700	2,621	—	148,770
Total	1,000,379	1,575,224	1,345,415	733,927	423,901	375,537	73,758	12,454	5,540,595
Specialty Lending									
Risk Grades 1 - 4	640,596	337,880	226,170	21,286	9,103	112	210,460	58,441	1,504,048
Risk Grade 5	8,858	52,767	35,453	43,080	9,223	—	20,547	5,417	175,345
Risk Grades 6 - 8	—	—	12,032	—	—	—	7,203	4,028	23,263
Total	649,454	390,647	273,655	64,366	18,326	112	238,210	67,886	1,702,656
Energy & Infrastructure									
Risk Grades 1 - 4	386,421	223,309	120,917	41,919	50,035	23,308	14,818	—	860,727
Risk Grade 5	—	—	104,371	13,485	7,827	18,627	—	—	144,310
Risk Grades 6 - 8	—	4,024	6,303	3,619	—	—	—	—	13,946
Total	386,421	227,333	231,591	59,023	57,862	41,935	14,818	—	1,018,983
Paycheck Protection Program									
Risk Grades 1 - 4	—	—	2,831	2,764	—	—	—	—	5,595
Total	—	—	2,831	2,764	—	—	—	—	5,595
Total	$ 2,036,254	$ 2,193,204	$ 1,853,492	$ 860,080	$ 500,089	$ 417,584	$ 326,786	$ 80,340	$ 8,267,829
Current Period Gross Charge-offs									
Small Business Banking	$ —	$ 5,621	$ 6,435	$ 1,058	$ 1,225	$ 525	$ 1,097	$ —	$ 15,961
Specialty Lending	—	—	—	—	—	—	7,966	—	7,966
Total	$ —	$ 5,621	$ 6,435	$ 1,058	$ 1,225	$ 525	$ 9,063	$ —	$ 23,927

(1) Excludes $ 379.2 million and $ 388.0 million of loans accounted for under the fair value option as of March 31, 2024 and December 31, 2023, respectively.

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

March 31, 2024	Loan and Lease Balance (1)	Guaranteed Balance	Unguaranteed Balance	% Guaranteed
Risk Grades 1 - 4	$ 7,647,447	$ 2,683,736	$ 4,963,711	35.1 %
Risk Grade 5	669,183	249,064	420,119	37.2
Risk Grades 6 - 8	239,051	142,603	96,448	59.7
Total	$ 8,555,681	$ 3,075,403	$ 5,480,278	35.9 %

December 31, 2023	Loan and Lease Balance (1)	Guaranteed Balance	Unguaranteed Balance	% Guaranteed
Risk Grades 1 - 4	$ 7,482,652	$ 2,622,558	$ 4,860,094	35.0 %
Risk Grade 5	599,198	234,845	364,353	39.2
Risk Grades 6 - 8	185,979	109,992	75,987	59.1
Total	$ 8,267,829	$ 2,967,395	$ 5,300,434	35.9 %

(1) Excludes $ 379.2 million and $ 388.0 million of loans accounted for under the fair value option as of March 31, 2024 and December 31, 2023, respectively.

Nonaccrual Loans and Leases

As of March 31, 2024 and December 31, 2023 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 months ended March 31, 2024 and 2023. Accrued interest receivable on loans totaled $ 67.6 million and $ 63.5 million at March 31, 2024 and December 31, 2023 , respectively, and is included in other assets in the accompanying Unaudited Condensed Consolidated Balance Sheets.

Nonaccrual loans and leases held for investment as of March 31, 2024 and December 31, 2023 are as follows:

March 31, 2024	Loan and Lease Balance (1)	Guaranteed Balance	Unguaranteed Balance	Unguaranteed Exposure with No ACL
Commercial & Industrial				
Small Business Banking	$ 64,543	$ 53,725	$ 10,818	$ 407
Payroll Protection Program	4	4	—	—
Energy & Infrastructure	6,716	2,794	3,922	2,178
Total	71,263	56,523	14,740	2,585
Construction & Development				
Small Business Banking	2,502	2,263	239	—
Total	2,502	2,263	239	—
Commercial Real Estate				
Small Business Banking	47,147	32,666	14,481	6,664
Specialty Lending	12,032	—	12,032	12,032
Energy & Infrastructure	12,171	10,988	1,183	910
Total	71,350	43,654	27,696	19,606
Commercial Land				
Small Business Banking	3,353	2,911	442	188
Total	3,353	2,911	442	188
Total	$ 148,468	$ 105,351	$ 43,117	$ 22,379

December 31, 2023	Loan and Lease Balance (1)	Guaranteed Balance	Unguaranteed Balance	Unguaranteed Exposure with No ACL
Commercial & Industrial				
Small Business Banking	$ 47,558	$ 39,018	$ 8,540	$ 407
Energy & Infrastructure	6,850	2,794	4,056	2,546
Total	54,408	41,812	12,596	2,953
Construction & Development				
Small Business Banking	1,745	1,309	436	—
Total	1,745	1,309	436	—
Commercial Real Estate				
Small Business Banking	57,140	44,426	12,714	8,199
Specialty Lending	12,032	—	12,032	12,032
Energy & Infrastructure	3,072	2,799	273	—
Total	72,244	47,225	25,019	20,231
Commercial Land				
Small Business Banking	6,566	5,332	1,234	194
Total	6,566	5,332	1,234	194
Total	$ 134,963	$ 95,678	$ 39,285	$ 23,378

(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

When a loan or lease is placed on nonaccrual status, any accrued interest is reversed from loan interest income. The following table summarizes the amount of accrued interest reversed during the periods presented:

	Three Months Ended March 31,	
	2024	2023
Commercial & Industrial	$ 610	$ 211
Commercial Real Estate	119	58
Construction & Development	30	—
Total	$ 759	$ 269

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 March 31, 2024 and December 31, 2023:

	Total Collateral-Dependent Loans			Unguaranteed Portion			
March 31, 2024	Real Estate	Business Assets	Other	Real Estate	Business Assets	Other	Allowance for Credit Losses
Commercial & Industrial							
Small Business Banking	$ 2,737	$ 8,969	$ —	$ 421	$ 1,924	$ —	$ 1,623
Specialty Lending	—	4,711	—	—	4,711	—	—
Energy & Infrastructure	—	3,022	—	—	227	—	62
Total	2,737	16,702	—	421	6,862	—	1,685
Commercial Real Estate							
Small Business Banking	29,248	—	—	10,135	—	—	256
Total	29,248	—	—	10,135	—	—	256
Commercial Land							
Small Business Banking	1,713	—	—	194	—	—	—
Total	1,713	—	—	194	—	—	—
Total	$ 33,698	$ 16,702	$ —	$ 10,750	$ 6,862	$ —	$ 1,941

	Total Collateral-Dependent Loans			Unguaranteed Portion			
December 31, 2023	Real Estate	Business Assets	Other	Real Estate	Business Assets	Other	Allowance for Credit Losses
Commercial & Industrial							
Small Business Banking	$ 2,737	$ 2,426	$ —	$ 421	$ 547	$ —	$ 277
Specialty Lending	—	4,711	—	—	4,711	—	—
Energy & Infrastructure	—	3,022	—	—	227	—	—
Total	2,737	10,159	—	421	5,485	—	277
Commercial Real Estate							
Small Business Banking	21,211	—	—	6,298	—	—	—
Total	21,211	—	—	6,298	—	—	—
Commercial Land							
Small Business Banking	1,735	—	—	200	—	—	—
Total	1,735	—	—	200	—	—	—
Total	$ 25,683	$ 10,159	$ —	$ 6,919	$ 5,485	$ —	$ 277

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 2023 Form 10-K for a description of the methodologies used to estimate the 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
March 31, 2024					
Beginning Balance	$ 87,581	$ 4,717	$ 28,864	$ 4,678	$ 125,840
Charge offs	(3,329)	(303)	—	—	(3,632)
Recoveries	455	—	14	—	469
Provision (Recovery)	13,845	(122)	2,491	150	16,364
Ending Balance	$ 98,552	$ 4,292	$ 31,369	$ 4,828	$ 139,041
March 31, 2023					
Beginning Balance	$ 64,995	$ 5,101	$ 22,901	$ 3,569	$ 96,566
Adoption of ASU 2022-02	(25)	(166)	(83)	(402)	(676)
Charge offs	(6,278)	—	(414)	—	(6,692)
Recoveries	23	—	—	—	23
Provision	13,343	2,019	2,658	1,001	19,021
Ending Balance	$ 72,058	$ 6,954	$ 25,062	$ 4,168	$ 108,242

During the three months ended March 31, 2024, the ACL increased as a result of specific reserve changes on individually evaluated loans and to a lesser extent continued growth of the loan and lease portfolio combined with charge-off related impacts. Loss rates are adjusted for twelve month forecasted unemployment followed by a twelve-month straight-line reversion period.

During the three months ended March 31, 2023, the ACL increased as a result of continued loan growth, combined with portfolio trends and changes in the macroeconomic outlook. Additionally, during the first quarter of 2023, certain assumptions were refined, drawing more heavily on internal data, in the calculations of PD, LGD, and prepayment rates. These refinements increased the ACL by $ 1.5 million during the three months ended March 31, 2023. Loss rates are adjusted for twelve month forecasted unemployment followed by a twelve-month straight-line reversion period.

Loan Modifications for Borrowers Experiencing Financial Difficulty

The Company may agree to modify the contractual terms of a loan to a borrower experiencing financial difficulty as a part of ongoing loss mitigation strategies. These modifications may result in an interest rate reduction, term extension, an other-than-insignificant payment delay, or a combination thereof. The Company typically does not offer principal forgiveness.

During the three months ended March 31, 2024, there were no loan modifications to borrowers experiencing financial difficulty. The following table summarizes the amortized cost basis of loans that were modified during the three months ended March 31, 2023:

Three Months Ended March 31, 2023	Other-Than-Insignificant Payment Delay	Term Extension	Interest Rate Reduction	% of Total Class of Financing Receivable
Small Business Banking	$ —	$ —	$ 3,436	0.07 %
Specialty Lending	4,183	—	—	0.25
Energy & Infrastructure	—	13,517	—	2.35
Total	$ 4,183	$ 13,517	$ 3,436	2.67 %

As of March 31, 2024, the Company had no commitments to lend additional funds to these borrowers.

The following table presents an aging analysis of loans that were modified within the twelve months ended March 31, 2024:

	Current	30-89 Days Past Due	90 Days or More Past Due	Total Past Due
Small Business Banking	$ 15,286	$ —	$ —	$ —
Specialty Lending	4,001	—	—	—
Energy & Infrastructure	13,690	—	—	—
Total	$ 32,977	$ —	$ —	$ —

The following table summarizes the financial impacts of loan modifications made to borrowers experiencing financial difficulty during the prior period:

	Three Months Ended March 31, 2023	
	Weighted Average Interest Rate Reduction	Weighted Average Term Extension (in Months)
Small Business Banking	1.45 %	0
Energy & Infrastructure	— %	12

Additionally, there were no loans that were modified within the twelve months ended March 31, 2024 that subsequently defaulted during the periods presented.

The Company's ACL is estimated using lifetime historical loan performance adjusted to reflect current conditions and reasonable and supportable forecasts. Upon determination that a modified loan, or portion of a modified loan, has subsequently been deemed uncollectible, the uncollectible portion is written off. The amortized cost basis is reduced by the uncollectible amount and the ACL is adjusted by the same amount. As a result, the impact of loss mitigation strategies is captured in the estimates of PD and LGD.

Note 6. Leases

Lessor Equipment Leasing

The Company may purchase 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.

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:

	March 31, 2024	December 31, 2023
Gross direct finance lease payments receivable	$ 1,938	$ 2,335
Less – unearned interest	(178)	(218)
Net investment in direct financing leases	$ 1,760	$ 2,117

Future minimum lease payments under finance leases are as follows:

As of March 31, 2024	Amount
2024	$ 853
2025	968
2026	117
Total	$ 1,938

Interest income of $ 18 thousand and $ 73 thousand was recognized in the three months ended March 31, 2024 and 2023, 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 March 31, 2024 and December 31, 2023, the Company had a net investment of $ 100.7 million and $ 104.0 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 $ 160.7 million and $ 162.3 million as of March 31, 2024 and December 31, 2023, respectively. Accumulated depreciation was $ 60.0 million and $ 58.3 million as of March 31, 2024 and December 31, 2023, respectively. Depreciation expense recognized on these assets was $ 2.4 million for the three months ended March 31, 2024 and 2023.

Lease income of $ 2.4 million was recognized in the three months ended March 31, 2024 and 2023.

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

As of March 31, 2024	Amount
2024	$ 7,991
2025	8,738
2026	8,721
2027	8,483
2028	3,837
Thereafter	9,708
Total	$ 47,478

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 $ 3.15 billion and $ 3.09 billion at March 31, 2024 and December 31, 2023, respectively. The unpaid principal balance for all loans serviced for others was $ 4.33 billion and $ 4.24 billion at March 31, 2024 and December 31, 2023, respectively.

The following table summarizes the activity pertaining to servicing rights measured at fair value:

	Three Months Ended March 31,	
	2024	2023
Balance at beginning of period	$ 48,186	$ 26,323
Additions, net	3,520	2,678
Fair value changes:		
Due to changes in valuation inputs or assumptions	221	2,624
Decay due to increases in principal paydowns or runoff	(2,965)	(2,268)
Balance at end of period	$ 48,962	$ 29,357

See Note 9. Fair Value of Financial Instruments for further details about servicing assets measured at fair value.

The fair value of servicing rights was determined using a weighted average discount rate of 14.5 % on March 31, 2024 and 17.7 % on March 31, 2023. The fair value of servicing rights was determined using a weighted average prepayment speed of 15.7 % on March 31, 2024 and 15.3 % on March 31, 2023, 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.

As of March 31, 2024, the Company had servicing assets related to conventional commercial loans carried at amortized cost of $ 381 thousand .

Note 8. Borrowings

Total outstanding borrowings consisted of the following:

Borrowings	March 31, 2024	December 31, 2023
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.	$ 20,842	$ 23,354
In March 2024, the Company entered into a 60 -month term loan agreement of $ 100.0 million with a third party correspondent bank. The loan accrues interest at a fixed rate of 5.95 % with monthly interest payments until maturity on March 28, 2029 , and $ 33.0 million of principal to be paid in year 4, and $ 67.0 million of principal to be paid in year 5. The Company paid the Lender a non-refundable $ 600 thousand loan origination fee upon signing of the Note that is represented as a direct deduction from the carrying amount of the loan and will be amortized into interest expense over the life of the loan.	99,400	—
Total borrowings	$ 120,242	$ 23,354

As of March 31, 2024 and December 31, 2023, the Company's unused borrowing capacity was $ 3.51 billion and $ 3.68 billion, respectively, based upon securities and loans identified as available for collateral. Unused borrowing capacity consists of access through the Federal Reserve Bank's discount window, available lines of credit with the Federal Home Loan Bank and other correspondent banks, access to a repurchase agreement, and the Federal Reserve Bank's Bank Term Funding Program which ended March 11, 2024. If additional collateral is available, the Company's aggregate borrowing capacity with all of the above sources is $ 6.19 billion and $ 6.28 billion as of March 31, 2024 and December 31, 2023, respectively.

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:

	Three Months Ended March 31,	
Equity Warrant Assets	2024	2023
Balance at beginning of period	$ 2,874	$ 2,210
New equity warrant assets	370	153
Changes in fair value, net	5,661	(176)
Settlements	(205)	—
Balance at end of period	$ 8,700	$ 2,187

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

March 31, 2024	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
US government agencies	$ 14,741	$ —	$ 14,741	$ —
Mortgage-backed securities	1,102,876	—	1,102,876	—
Municipal bonds (1)	3,005	—	2,920	85
Loans held for investment	379,222	—	—	379,222
Servicing assets (2)	48,962	—	—	48,962
Mutual fund	1,324	—	1,324	—
Equity warrant assets	8,700	—	—	8,700
Total assets at fair value	$ 1,558,830	$ —	$ 1,121,861	$ 436,969

December 31, 2023	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale				
US government agencies	$ 17,529	$ —	$ 17,529	$ —
Mortgage-backed securities	1,105,592	—	1,105,592	—
Municipal bonds (1)	3,039	—	2,954	85
Loans held for investment	388,036	—	—	388,036
Servicing assets (2)	48,186	—	—	48,186
Mutual fund	1,645	—	1,645	—
Equity warrant assets	2,874	—	—	2,874
Total assets at fair value	$ 1,566,901	$ —	$ 1,127,720	$ 439,181

(1) During the three months ended March 31, 2024 there was no level 3 fair value adjustment gain or loss. During the three months ended March 31, 2023, the Company recorded a level 3 fair value adjustment loss of $ 10 thousand.

(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 2023 Form 10-K. Additionally, see Note 1. Basis of Presentation of the accompanying Notes to the Unaudited Condensed Consolidated Financial Statements for information related to changes in valuation techniques for the Company's loan servicing assets and loans accounted for under the fair value option.

Fair Value Option

Until the first quarter of 2021, the Company had 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. 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 continue to be measured as such.

There were no loans accounted for under the fair value option that were 90 days or more past due and still accruing interest at March 31, 2024 or December 31, 2023. The unpaid principal balance of unguaranteed exposure for nonaccruals was $ 10.2 million and $ 9.1 million at March 31, 2024 and December 31, 2023, 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 March 31, 2024 and December 31, 2023.

	March 31, 2024								
	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	$ 379,222	$ 397,990	$ (18,768)	$ 55,562	$ 58,280	$ (2,718)	$ 43,502	$ 45,252	$ (1,750)

	December 31, 2023								
	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	$ 388,036	$ 407,544	$ (19,508)	$ 48,474	$ 50,749	$ (2,275)	$ 36,490	$ 37,939	$ (1,449)

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

	Three Months Ended March 31,	
Gains (Losses) on Loans Accounted for under the Fair Value Option	2024	2023
Loans held for investment	$ (219)	$ (4,529)

Losses related to borrower-specific credit risk were $ 0 and $ 3.2 million for the three months ended March 31, 2024 and 2023, respectively.

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

	Three Months Ended March 31,	
Loans held for investment	2024	2023
Balance at beginning of period	$ 388,036	$ 494,458
Repurchases	8,565	11,834
Fair value changes	(219)	(4,529)
Settlements	(17,160)	(34,813)
Balance at end of period	$ 379,222	$ 466,950

Non-Recurring Fair Value

The tables below present the recorded amount of assets measured at fair value on a non-recurring basis. The Company has no liabilities recorded at fair value on a non-recurring basis.

March 31, 2024	Total	Level 1	Level 2	Level 3
Collateral-dependent loans	$ 5,425	$ —	$ —	$ 5,425
Foreclosed assets	2,080	—	—	2,080
Total assets at fair value	$ 7,505	$ —	$ —	$ 7,505

December 31, 2023	Total	Level 1	Level 2	Level 3
Collateral-dependent loans	$ 4,503	$ —	$ —	$ 4,503
Foreclosed assets	6,481	—	—	6,481
Total assets at fair value	$ 10,984	$ —	$ —	$ 10,984

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 2023 Form 10-K.

Level 3 Analysis

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of March 31, 2024 and December 31, 2023, the significant unobservable inputs used in the fair value measurements were as follows:

March 31, 2024

Level 3 Assets with Significant Unobservable Inputs	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range	Weighted Average [1]
Recurring fair value					
Municipal bond	$ 85	Discounted expected cash flows	Discount rate	7.0 %	N/A
			Prepayment speed	5.0 %	N/A
Loans held for investment	$ 379,222	Discounted expected cash flows	Loss rate	0.0 % - 7.1 %	1.1 %
			Discount rate	7.3 % - 18.0 %	10.0 %
			Prepayment speed	14.3 % - 30.6 %	16.5 %
Servicing assets	$ 48,962	Discounted expected cash flows	Discount rate	14.5 %	14.5 %
			Prepayment speed	12.0 % - 18.2 %	15.7 %
Equity warrant assets	$ 8,700	Black-Scholes option pricing model	Volatility	26.5 % - 90.0 %	30.1 %
			Risk-free interest rate	4.2 %	4.2 %
			Marketability discount	5.0 % - 25.0 %	15.1 %
			Remaining life	3.6 - 10 years	5.4 years
Non-recurring fair value					
Collateral-dependent loans	$ 5,425	Discounted appraisals	Appraisal adjustments [2]	10.0 % - 97.3 %	41.9 %
Foreclosed assets	$ 2,080	Discounted appraisals	Appraisal adjustments [2]	10.0 %	10.0 %

December 31, 2023

Level 3 Assets with Significant Unobservable Inputs	Fair Value		Valuation Technique	Significant Unobservable Inputs	Range	Weighted Average (1)
Recurring fair value						
Municipal bond	$	85	Discounted expected cash flows	Discount rate	7.0 %	N/A
				Prepayment speed	5.0 %	N/A
Loans held for investment	$	388,036	Discounted expected cash flows	Loss rate	0.0 % - 7.4 %	1.2 %
				Discount rate	6.7 % - 18.0 %	9.6 %
				Prepayment speed	14.0 % - 30.3 %	16.0 %
Servicing assets	$	48,186	Discounted expected cash flows	Discount rate	14.5 %	14.5 %
				Prepayment speed	11.8 % - 17.8 %	15.3 %
Equity warrant assets	$	2,874	Black-Scholes option pricing model	Volatility	26.9 % - 90.0 %	35.8 %
				Risk-free interest rate	3.8 % - 3.9 %	3.9 %
				Marketability discount	20.0 % - 25.0 %	22.7 %
				Remaining life	3.9 - 10 years	7.6 years
Non-recurring fair value						
Collateral-dependent loans	$	4,503	Discounted appraisals	Appraisal adjustments (2)	10.0 % - 70.0 %	38.7 %
Foreclosed assets	$	6,481	Discounted appraisals	Appraisal adjustments (2)	10.0 % - 17.4 %	10.4 %

(1) Weighted averages are determined by the relative fair value of the instruments or the relative contribution to the instruments fair value.

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

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:

March 31, 2024	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
Financial assets					
Cash and due from banks	$ 597,394	$ 597,394	$ —	$ —	$ 597,394
Certificates of deposit with other banks	250	250	—	—	250
Loans held for sale	310,749	—	—	329,849	329,849
Loans and leases held for investment, net of allowance for credit losses on loans and leases	8,394,298	—	—	8,884,123	8,884,123
Financial liabilities					
Deposits	10,383,361	—	10,140,423	—	10,140,423
Borrowings	120,242	—	—	128,153	128,153

December 31, 2023	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
Financial assets					
Cash and due from banks	$ 582,540	$ 582,540	$ —	$ —	$ 582,540
Certificates of deposit with other banks	250	250	—	—	250
Loans held for sale	387,037	—	—	402,096	402,096
Loans and leases held for investment, net of allowance for credit losses on loans and leases	8,119,971	—	—	8,600,046	8,600,046
Financial liabilities					
Deposits	10,275,019	—	10,080,182	—	10,080,182
Borrowings	23,354	—	—	22,844	22,844

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.

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:

	March 31, 2024	December 31, 2023
Commitments to extend credit [(1)]	$ 3,055,978	$ 2,921,978
Standby letters of credit	7,092	20,487
Airplane purchase agreement commitments	—	9,000
Total unfunded off-balance-sheet credit risk	$ 3,063,070	$ 2,951,465

(1) Includes unfunded overdraft protection.

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 $ 5.8 million and $ 4.8 million at March 31, 2024 and December 31, 2023, respectively.

Other Commitments

The Company is in the final phase of constructing a new facility to accommodate expansion of its main campus. The total estimated cost to complete the construction program is approximately $ 37.4 million. At March 31, 2024, the Company has paid and was committed to approximately $ 30.7 million of the total estimated amount.

As of March 31, 2024 and December 31, 2023, the Company recorded unfunded commitments to provide capital contributions for on-balance-sheet investments in the amount of $ 27.5 million and $ 29.0 million, respectively.

Concentrations of Credit Risk

The distribution of commitments to extend credit approximates the distribution of loans outstanding. The Company generally 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-eight relationships that have a retained unguaranteed exposure of $ 1.12 billion of which $ 694.6 million of the unguaranteed exposure has been disbursed.

Additionally, the Company has future minimum lease payments receivable under non-cancelable operating leases totaling $ 47.5 million, of which no relationships exceed $ 20.0 million.

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

Geographic Concentrations

The following table presents the geographic concentration of the Company's loan and lease portfolio at March 31, 2024:

	% of Total
Geographic Regions (1)	
Midwest	12.8 %
Northeast	18.2
Southeast	30.9
Southwest	12.1
West	26.0
Total	100.0 %

(1) Concentrations are stated as a percentage of total unguaranteed loans held for investment. Midwest consists of ND, SD, NE, KS, MN, IA,WI, MO, IL, IN, MI and OH. Northeast consists of MD, DE, PA, NJ, NY, CT, RI, MA, VT, ME and NH. Southeast consists of AR, LA, MS, TN, AL, GA, FL, SC, KY, NC, VA, WV, DC, PR and VI. Southwest consists of AZ, NM, TX and OK. West consists of WA, OR, CA, NV, ID, MT, WY, CO, UT, AK and HI.

Note 11. Stock Plans

On March 20, 2015, the Company adopted the 2015 Omnibus Stock Incentive Plan (as amended and currently in effect, the “2015 Omnibus Stock Incentive Plan”) which replaced the previously existing Amended Incentive Stock Option Plan and Nonstatutory Stock Option Plan. Subsequently on May 24, 2016, the 2015 Omnibus Stock Incentive Plan was amended and restated, and on May 15, 2018, the 2015 Omnibus Stock Incentive Plan was amended, to authorize awards covering a maximum of 7,000,000 and 8,750,000 common voting shares, respectively. On May 11, 2021, the Amended and Restated 2015 Omnibus Stock Incentive Plan was amended to authorize awards covering a maximum of 10,750,000 common voting shares. Subsequently on May 16, 2023, the 2015 Omnibus Stock Incentive Plan was amended to authorize awards covering a maximum of 13,750,000 common voting shares. Options or restricted shares granted under the 2015 Omnibus Stock Incentive Plan expire no more than 10 years from date of grant. Exercise prices under the 2015 Omnibus Stock Incentive Plan are set by the Board of Directors at the date of grant but shall not be less than 100 % of fair market value of the related stock at the date of the grant. Forfeitures are recognized as they occur.

Restricted Stock

Restricted stock awards are authorized in the form of restricted stock awards or units (“RSU”s). RSUs have a restriction based on the passage of time and may also have a restriction based on a non-market-related performance criteria. The fair value of the RSUs is based on the closing price on the date of the grant.

For the three months ended March 31, 2024, 457,167 RSUs were granted with a weighted average grant date fair value of $ 39.40 .

At March 31, 2024, unrecognized compensation costs relating to RSUs amounted to $ 88.0 million which will be recognized over a weighted average period of 3.82 years.

Note 12. 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.

	Banking	Fintech	Other	Consolidated
As of and for the three months ended March 31, 2024				
Interest income	$ 192,269	$ 23	$ 128	$ 192,420
Interest expense	101,998	—	311	102,309
Net interest income (loss)	90,271	23	(183)	90,111
Provision for loan and lease credit losses	16,364	—	—	16,364
Noninterest income	25,151	461	485	26,097
Noninterest expense	73,085	2,350	2,302	77,737
Income tax expense (benefit)	(3,734)	(494)	(1,251)	(5,479)
Net income (loss)	$ 29,707	$ (1,372)	$ (749)	$ 27,586
Total assets	$ 11,362,230	$ 138,444	$ 4,895	$ 11,505,569
As of and for the three months ended March 31, 2023				
Interest income	$ 151,269	$ 12	$ 135	$ 151,416
Interest expense	69,077	—	322	69,399
Net interest income (loss)	82,192	12	(187)	82,017
Provision for loan and lease credit losses	19,021	—	—	19,021
Noninterest income	16,997	2,039	543	19,579
Noninterest expense	74,483	2,256	2,223	78,962
Income tax expense (benefit)	3,297	156	(238)	3,215
Net income (loss)	$ 2,388	$ (361)	$ (1,629)	$ 398
Total assets	$ 10,181,253	$ 124,450	$ 58,594	$ 10,364,297

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, 2023 (the “2023 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 provision for credit 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 credit losses;
- changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments;
- adverse developments in the banking industry highlighted by high-profile bank failures and the potential impact of such developments on customer confidence, liquidity, and regulatory responses to these developments;
- the impacts of global health crises and pandemics, such as 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;

- technological risks and developments, including cyber threats, attacks, or events;

- 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 institutions operating in the Company's market area and elsewhere, including institutions operating regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone and the Internet;

- 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;

- a deterioration of the credit rating for U.S. long-term sovereign debt, actions that the U.S. government may take to avoid exceeding the debt ceiling, and uncertainties surrounding the debt ceiling and the federal budget;

- changes in political and economic conditions, including any prolonged U.S. government shutdown;

- 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

Bancshares 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. 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"), Business & Industry ("B&I") and Community Facilities loan programs. These loans are to small businesses and professionals with what the Bank believes are lower risk characteristics. Industries, or "verticals," on which the Bank focuses its lending efforts are carefully selected. The Bank also lends more broadly to select borrowers outside of those verticals.

The Company's wholly owned material subsidiaries are the Bank, Government Loan Solutions ("GLS"), Live Oak Grove, LLC ("Grove"), Live Oak Ventures, Inc. ("Live Oak Ventures") and Canapi Advisors, LLC ("Canapi Advisors"). 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 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.

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 loan servicing revenue and revaluation of related servicing assets along with net gains on sales of loans. 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 has less routinely generated gains and losses arising from its financial technology investments predominantly in its fintech segment, as discussed more fully later in this section under the caption "Results of Segment Operations."

Results of Operations

Performance Summary

Three months ended March 31, 2024 compared with three months ended March 31, 2023

For the three months ended March 31, 2024, the Company reported net income of $27.6 million, or $0.60 per diluted share, compared to net income of $398 thousand, or $0.01 per diluted share, for the first quarter of 2023.

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

- Increase in net interest income of $8.1 million, or 9.9%, driven by increases in loan volumes, partially mitigated by a decrease in net interest margin arising from an increase in interest-bearing deposits combined with the increase in average cost of funds outpacing the average yield on interest-earning assets;

- Provision for loan and lease credit losses decreased by $2.7 million to $16.4 million, compared to $19.0 million for the first quarter of 2023;

- A $4.3 million decrease in the net loss on loans accounted for under the fair value option;

- Increased other noninterest income of $5.7 million, or 140.1%, largely related to a gain arising from increased fair value of equity warrant assets associated with the Company's wine & craft beverage vertical.

- Decrease in income tax expense of $8.7 million, from $3.2 million in the first quarter of 2023, to an income tax benefit of $5.5 million for the first quarter of 2024. This decrease was largely the result of an additional $10.6 million in investment tax credits related to the Company's fourth quarter of 2023 renewable energy investment that became eligible for an extra 10% in tax credits in the first quarter of 2024.

Key factors partially offsetting the increase in net income for the first quarter of 2024 were decreased loan servicing asset revaluation income of $3.1 million, increased equity method investment losses of $2.1 million and increased salaries and employee benefits of $2.5 million.

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 March 31, 2024 compared with three months ended March 31, 2023

For the three months ended March 31, 2024, net interest income increased $8.1 million, or 9.9%, to $90.1 million compared to $82.0 million for the three months ended March 31, 2023. This increase was principally due to the growth in the held for investment loan and lease portfolio outpacing growth in interest-bearing liabilities offset by an increase in average cost of funds which exceeded the increase in average yield on interest-earning assets. Average interest-earning assets increased by $1.28 billion, or 13.4%, to $10.89 billion for the first quarter of 2024, compared to $9.61 billion for the first quarter of 2023, while the yield on average interest-earning assets increased 72 basis points to 7.11%. The cost of funds on interest-bearing liabilities for the first quarter of 2024 increased 96 basis points to 4.07% and the average balance of interest-bearing liabilities increased by $1.06 billion, or 11.8%, over the first quarter of 2023.

As indicated in the rate/volume table below, the overall increase discussed above is reflected in increased interest income of $41.0 million outpacing growth in interest expense of $32.9 million for the first quarter of 2024 compared to the first quarter of 2023. The net interest margin decreased from 3.46% for the first quarter of 2023 to 3.33% for the first quarter of 2024.

During the three months ended March 31, 2024, the Federal Reserve decided to maintain the federal funds upper target rate at 5.5%. In March 2024, the Federal Reserve released its most current federal funds target rate midpoint projections which maintained a median Federal Funds rate of 4.6% by the end of 2024 and a decrease of approximately 70 basis points to 3.9% by the end of 2025. There can be no assurance that any further increases or decreases in the Federal Funds rate will occur, and if they do, the amount and timing of actual adjustments are subject to change. See Item 3. Quantitative and Qualitative Disclosures About Market Risk for information about the Company’s sensitivity to interest rates.

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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 March 31,					
	2024			2023		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Interest-earning assets:						
Interest-earning balances in other banks	$ 542,243	$ 7,456	5.53 %	$ 220,114	$ 3,193	5.88 %
Federal funds sold	—	—	—	140,033	1,624	4.70
Investment securities	1,240,861	8,954	2.90	1,187,377	7,547	2.58
Loans held for sale	353,476	8,354	9.51	560,155	11,986	8.68
Loans and leases held for investment [(1)]	8,753,232	167,656	7.70	7,497,824	127,066	6.87
Total interest-earning assets	10,889,812	192,420	7.11	9,605,503	151,416	6.39
Less: Allowance for credit losses on loans and leases	(125,447)			(94,283)		
Noninterest-earning assets	550,839			600,471		
Total assets	$ 11,315,204			$ 10,111,691		
Interest-bearing liabilities:						
Interest-bearing checking	$ 300,067	$ 4,183	5.61 %	$ 21,668	$ 271	5.07 %
Savings	4,552,390	46,171	4.08	4,207,286	36,251	3.49
Money market accounts	125,317	187	0.60	114,084	137	0.49
Certificates of deposit	5,094,553	51,457	4.06	4,535,363	30,936	2.77
Total deposits	10,072,327	101,998	4.07	8,878,401	67,595	3.09
Borrowings	26,772	311	4.67	158,508	1,804	4.62
Total interest-bearing liabilities	10,099,099	102,309	4.07	9,036,909	69,399	3.11
Noninterest-bearing deposits	213,571			177,078		
Noninterest-bearing liabilities	77,942			64,409		
Shareholders' equity	924,592			833,295		
Total liabilities and shareholders' equity	$ 11,315,204			$ 10,111,691		
Net interest income and interest rate spread		$ 90,111	3.04 %		$ 82,017	3.28 %
Net interest margin			3.33 %			3.46 %
Ratio of average interest-earning assets to average interest-bearing liabilities			107.83 %			106.29 %

(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 March 31, 2024 vs. 2023 Increase (Decrease) Due to		
	Rate	Volume	Total
Interest income:			
Interest-earning balances in other banks	$ (288)	$ 4,551	$ 4,263
Federal funds sold	—	(1,624)	(1,624)
Investment securities	1,044	363	1,407
Loans held for sale	1,022	(4,654)	(3,632)
Loans and leases held for investment	17,929	22,661	40,590
Total interest income	19,707	21,297	41,004
Interest expense:			
Interest-bearing checking	231	3,681	3,912
Savings	6,683	3,237	9,920
Money market accounts	35	15	50
Certificates of deposit	15,790	4,731	20,521
Borrowings	22	(1,515)	(1,493)
Total interest expense	22,761	10,149	32,910
Net interest income	$ (3,054)	$ 11,148	$ 8,094

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 allowance for credit losses ("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 first quarter of 2024, there was a provision for loan and lease credit losses of $16.4 million compared to $19.0 million for the same period in 2023, a decrease of $2.7 million. The decrease in provision expense as compared to the first quarter of 2023 was primarily the result of moderating effects arising from the combination of lower comparative levels of loan growth and charge-off impacts.

Loans and leases held for investment at historical cost were $8.53 billion as of March 31, 2024, increasing by $1.31 billion, or 18.2%, compared to March 31, 2023.

Net charge-offs for loans and leases carried at historical cost were $3.2 million, or 0.15% of average quarterly loans and leases held for investment, carried at historical cost, on an annualized basis, for the three months ended March 31, 2024, compared to net charge-offs of $6.7 million, or 0.38%, for the three months ended March 31, 2023. 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 $7.9 million and $8.2 million accounted for under the fair value option at March 31, 2024 and 2023, respectively, totaled $43.1 million, which was 0.51% of the held for investment loan and lease portfolio carried at historical cost at March 31, 2024, compared to $22.0 million, or 0.30% of loans and leases held for investment carried at historical cost at March 31, 2023.

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 (loss) gain 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 March 31,		2024/2023 Increase (Decrease)	
	2024	**2023**	**Amount**	**Percent**
Noninterest income				
Loan servicing revenue	$ 7,624	$ 6,380	$ 1,244	19.5 %
Loan servicing asset revaluation	(2,744)	356	(3,100)	(870.8)
Net gains on sales of loans	11,502	10,175	1,327	13.0
Net loss on loans accounted for under the fair value option	(219)	(4,529)	4,310	95.2
Equity method investments (loss) income	(5,022)	(2,952)	(2,070)	(70.1)
Equity security investments (losses) gains, net	(529)	77	(606)	(787.0)
Lease income	2,453	2,535	(82)	(3.2)
Management fee income	3,271	3,472	(201)	(5.8)
Other noninterest income	9,761	4,065	5,696	140.1
Total noninterest income	$ 26,097	$ 19,579	$ 6,518	33.3 %

For the three months ended March 31, 2024, noninterest income increased by $6.5 million, or 33.3%, compared to the three months ended March 31, 2023. The increase over the prior year is primarily a result of a $4.3 million decrease in the net loss on loans accounted for under the fair value option combined with increased other noninterest income of $5.7 million, largely related to a gain arising from increased fair value of equity warrant assets associated with the Company’s wine & craft beverage vertical. Partially offsetting the increase over the first quarter of 2023 was a $3.1 million incremental net loss related to the loan servicing asset revaluation combined with increased equity method investment losses of $2.1 million, principally related to heightened levels of underlying losses in several of the Company’s equity method investees.

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 March 31,		For years ended December 31,			
	2024	2023	2023	2022	2021	2020
Amount of loans and leases originated	$ 805,129	$ 1,030,882	$ 3,946,873	$ 4,007,621	$ 4,480,725	$ 4,450,198
Guaranteed portions of loans sold	186,654	167,826	877,551	580,889	668,462	542,596
Outstanding balance of guaranteed loans sold (1)	3,057,641	2,695,757	2,986,959	2,668,110	2,756,915	2,819,625

(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, ancillary income, prepayment speeds and default rates and losses, with the prepayment speeds and default rates and losses, with prepayment speed and discount rate being the most sensitive assumptions. For the three months ended March 31, 2024, there was a net loss on loan servicing asset revaluation of $2.7 million, compared to a net gain of $356 thousand for the three months ended March 31, 2023, resulting in a negative comparative quarter change of $3.1 million. The decrease in the valuation of the servicing asset compared to the three months ended March 31, 2023 was principally the result of increasing market prepayment speeds in the first quarter of 2024 while the net gain in the first quarter of 2023 was the result of positive movements in market premiums. In the third-quarter of 2023, the Company changed its valuation techniques in the estimation of fair value for servicing assets and loans accounted for under the fair value option.

Net Loss on Loans Accounted for Under the Fair Value Option: For the three months ended March 31, 2024, the Company had a net loss on loans accounted for under the fair value option of $219 thousand compared to a net loss of $4.5 million for the first quarter of 2023, a positive change of $4.3 million, or 95.2%. The carrying amount of loans accounted for under the fair value option at March 31, 2024 and 2023 was $379.2 million (all classified as held for investment) and $467.0 million (all classified as held for investment), respectively, a decrease of $87.7 million, or 18.8%. The net loss in the valuation of loans accounted for under the fair value option in the first quarter of 2024 was largely the result of the above discussed increased levels of market prepayment speeds while the net loss in the first quarter of 2023 was the result of negative market impacts related to rising interest rates.

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 March 31,		2024/2023 Increase (Decrease)	
	2024	2023	Amount	Percent
Noninterest expense				
Salaries and employee benefits	$ 47,275	$ 44,765	$ 2,510	5.6 %
Non-employee expenses:				
Travel expense	2,438	2,411	27	1.1
Professional services expense	1,878	927	951	102.6
Advertising and marketing expense	3,692	3,603	89	2.5
Occupancy expense	2,247	1,925	322	16.7
Technology expense	7,723	7,729	(6)	(0.1)
Equipment expense	3,074	3,818	(744)	(19.5)
Other loan origination and maintenance expense	3,911	3,927	(16)	(0.4)
Renewable energy tax credit investment (recovery) impairment	(927)	69	(996)	(1,443.5)
FDIC insurance	3,200	3,403	(203)	(6.0)
Other expense	3,226	6,385	(3,159)	(49.5)
Total non-employee expenses	30,462	34,197	(3,735)	(10.9)
Total noninterest expense	$ 77,737	$ 78,962	$ (1,225)	(1.6)%

Total noninterest expense for the three months ended March 31, 2024, decreased $1.2 million, or 1.6%, compared to the three months ended March 31, 2023. The decrease in noninterest expense for the comparable three month period was largely driven by various components, as discussed below.

Salaries and employee benefits: Total personnel expense for the three months ended March 31, 2024 increased $2.5 million, or 5.6%, compared to the same period in 2023. The increase over the first three months of 2023 is principally related to continued investment in human resources to support strategic and growth initiatives. Total full-time equivalent employees decreased from 968 at March 31, 2023, to 962 at March 31, 2024. Salaries and employee benefits expense included $6.4 million of stock-based compensation for the three months ended March 31, 2024, compared to $6.2 million for the three months ended March 31, 2023. Expenses related to the employee stock purchase program, stock grants, stock option compensation and restricted stock expense are all considered stock-based compensation.

Other expense: For the three months ended March 31, 2024, other expense decreased $3.2 million, or 49.5%, compared to the same period in 2023, largely related to $1.8 million in higher levels of reserves on unfunded commitments in the three months ended March 31, 2023. This increase in the reserve for unfunded commitments in the first quarter of 2023 was largely a result of refinements to the estimation assumptions.

Income Tax Expense

For the three months ended March 31, 2024, income tax benefit was $5.5 million compared to income tax expense of $3.2 million in the first quarter of 2023, and the Company's effective tax rates were (24.8%) and 89.0%, respectively. The lower level of income tax expense for the first quarter of 2024 as compared to the first quarter of 2023 was largely the result of an additional $10.6 million in investment tax credits related to the Company's fourth quarter of 2023 renewable energy investment that became eligible for an extra 10% in tax credits in the first quarter of 2024. The trigger for this first quarter 2024 additional eligibility was the result of the March 22, 2024 Internal Revenue Service ("IRS") Notice 2024-30, which expanded the list of geographic areas which qualify for increased investment tax credit levels. The location of the underlying renewable energy project was an addition to the recent IRS Notice. Partially offsetting this decrease was increased pretax income during the current period.

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 12. Segments in the accompanying Notes to the Unaudited Condensed Consolidated Financial Statements. Net income (loss) by operating segment is presented below:

	Three Months Ended March 31,	
	2024	**2023**
Banking	$ 29,707	$ 2,388
Fintech	(1,372)	(361)
Other	(749)	(1,629)
Consolidated net income	$ 27,586	$ 398

Banking

For the three months ended March 31, 2024, net income increased $27.3 million compared to the same period of 2023. Key factors influencing these changes are discussed below.

For the three months ended March 31, 2024, net interest income increased $8.1 million, or 9.8% compared to the same period of 2023. See above section captioned "Net Interest Income and Margin" as it is principally related to the Banking segment.

The provision for loan and lease credit losses for the three months ended March 31, 2024, decreased $2.7 million. 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 months ended March 31, 2024, noninterest income increased $8.2 million, or 48.0%, compared to the same period of 2023. The increase for the three month comparative period was principally driven by an incremental decline in the net loss on loans accounted for at fair value of $4.3 million combined with the previously discussed gain of $5.7 million included in other noninterest income arising from increased fair value of equity warrant assets. Partially offsetting these three month contributors to increased noninterest income was incremental net losses on the loan servicing asset revaluation of $3.1 million. See the analysis of these categories of noninterest income included in the above section captioned "Noninterest Income" for additional discussion.

For the three months ended March 31, 2024, income tax expense decreased $7.0 million compared to the same period of 2023. The decrease compared to the first quarter of 2023 was largely the result of an additional $10.6 million in investment tax credits related to the Company's fourth quarter of 2023 renewable energy investment that became eligible for increased tax credits in the first quarter of 2024. See the above section captioned "Income Tax Expense" for further discussion around the increased investment tax credits.

Fintech

For the three months ended March 31, 2024, net income decreased by $1.0 million compared to same period of 2023. This decrease was largely related to increased equity method and equity security investment losses.

Discussion and Analysis of Financial Condition

March 31, 2024 vs. December 31, 2023

Total assets at March 31, 2024 were $11.51 billion, an increase of $234.1 million, or 2.1%, compared to total assets of $11.27 billion at December 31, 2023. The growth in total assets was principally driven by the growth in total loans and leases held for investment and held for sale of $202.4 million, or 2.2%, during the first three months of 2024, from $9.02 billion at December 31, 2023, to $9.22 billion at March 31, 2024. This growth was a result of strong origination activity during the first three months of 2024 of $805.1 million.

Total deposits were $10.38 billion at March 31, 2024, an increase of $108.3 million, or 1.1%, from $10.28 billion at December 31, 2023. The increase in total deposits from the prior period was to support growth in the loan and lease portfolio as well as the Company's targeted liquidity levels. At March 31, 2024, the Bank’s total uninsured deposits were approximately $1.47 billion, or 14.0%, of total deposits.

Borrowings increased to $120.2 million at March 31, 2024, from $23.4 million at December 31, 2023. This increase was principally due to entering into a new loan agreement in the first quarter of 2024 to strategically enhance Bank capital levels in order to accommodate future growth expectations. See Note 8. Borrowings in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements for a discussion of current sources of available debt capacity.

Regulatory Impact of Asset Growth

General. In the first quarter of 2023, the Company and the Bank each first exceeded $10 billion in total assets. As of March 31, 2024, the Company and the Bank each had total assets of $11.51 billion and $11.42 billion, respectively. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and its implementing regulations impose various additional requirements on bank holding companies and banks with $10 billion or more in total consolidated assets. As a general matter, the Company and the Bank are not immediately subject to these additional requirements when they exceed $10 billion in assets; instead, the Company and the Bank will be subject to these various requirements over various dates, as described below.

Consumer Financial Laws. Under the Dodd-Frank Act, the Consumer Financial Protection Bureau (CFPB) has near-exclusive supervision authority, including examination authority, to assess compliance with federal consumer financial laws for a bank and its affiliates if the bank has total assets of more than $10 billion. This provision becomes applicable to a bank following the fourth consecutive quarter where the total assets of the bank, as reported in its quarterly Call Report, exceed $10 billion and afterwards remains applicable to the bank unless the bank has reported total assets of $10 billion or less in its quarterly Call Report for four consecutive quarters. This provision is became applicable to the Bank in the first quarter of 2024.

Deposit Insurance Assessments. Also under the Dodd-Frank Act, the minimum ratio of net worth to insured deposits of the Deposit Insurance Fund administered by the FDIC was increased from 1.15 percent to 1.35 percent and the FDIC is required, in setting deposit insurance assessments, to offset the effect of the increase on institutions with assets of less than $10 billion, which results in institutions with assets greater than $10 billion paying higher assessments. In addition, following the fourth consecutive quarter where the total assets of a bank exceeds $10 billion, as reported in its quarterly Call Report, the FDIC utilizes a different method for determining deposit insurance assessments. This large bank method is based on a bank’s ability to withstand asset- and funding-related stress, its regulatory ratings, and potential losses to the FDIC in the event of the bank’s failure, subject to discretionary adjustments by the FDIC. Additionally, the large bank method captures risk mitigants such as the Bank's unique concentration of government guaranteed loans and its impact on our perceived loss severity measure which is generally favorable to the Bank's deposit insurance assessments. The Bank became subject to the large bank method for determining its deposit insurance assessments in the first quarter of 2024.

Volcker Rule. Under provisions of the Dodd-Frank Act referred to as the “Volcker Rule,” certain limitations are placed on the ability of insured depository institutions and their affiliates to engage in sponsoring, investing in and transacting with certain investment funds, known as “covered funds” under the rule. There are a number of exclusions from the definition of “covered funds,” including for investments in Small Business Investment Companies, or SBICs, and certain qualifying venture capital funds. The Volcker Rule also places restrictions on proprietary trading, which could impact certain hedging activities.

Limits on Interchange Fees. The Durbin Amendment to the Dodd-Frank Act gave the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by a payment card issuer that, together with its affiliates, has assets of $10 billion or more, as of December 31 of the preceding calendar year, and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. The Federal Reserve Board has adopted rules under this provision that limit the swipe fees that a debit card issuer can charge a merchant for a transaction to the sum of 21 cents and five basis points times the value of the transaction, plus up to one cent for fraud prevention costs. The Bank exceeded $10 billion in assets at December 31, 2023. This will trigger a reduction of annual pre-tax income from debit card interchange fees beginning July 1, 2024.

Commercial Real Estate

Commercial real estate loans as indicated by the FDIC include loans secured by the following: construction, land development, multifamily property and nonfarm, nonresidential real property. The following table provides information with respect to commercial real estate loans as of March 31, 2024.

	Guaranteed	Unguaranteed	Total [1]
Held for Investment Loans:			
Owner Occupied			
Small Business Banking	$ 1,175,122	$ 1,010,572	$ 2,185,694
Specialty Lending	—	94,390	94,390
Energy & Infrastructure	17,706	21,391	39,097
Total	**1,192,828**	**1,126,353**	**2,319,181**
Non-Owner Occupied			
Small Business Banking	379,172	417,139	796,311
Specialty Lending	—	499,435	499,435
Energy & Infrastructure	39,022	148,876	187,898
Total	**418,194**	**1,065,450**	**1,483,644**
Total Held for Investment Commercial Real Estate	**$ 1,611,022**	**$ 2,191,803**	**$ 3,802,825**
Held for Sale Loans:			
Owner Occupied			
Small Business Banking	$ 58,385	$ —	$ 58,385
Total	**58,385**	**—**	**58,385**
Non-Owner Occupied			
Small Business Banking	122,390	—	122,390
Total	**122,390**	**—**	**122,390**
Total Held for Sale Commercial Real Estate	**$ 180,775**	**$ —**	**$ 180,775**
Total Commercial Real Estate Loans	**$ 1,791,797**	**$ 2,191,803**	**$ 3,983,600**
% of Total Commercial Real Estate Loans	**45.0 %**	**55.0 %**	**100.0 %**

(1) Excludes retained loan discount and net deferred costs.

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 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.

Nonperforming assets, including loans measured at fair value, at March 31, 2024 were $215.3 million, which represented a $23.1 million, or 12.0%, increase from December 31, 2023. These nonperforming assets at March 31, 2024 were comprised of $206.7 million in nonaccrual loans and leases and $8.6 million in foreclosed assets. Of the $206.7 million of nonperforming assets, $158.7 million carried a government guarantee, leaving an unguaranteed exposure of $56.6 million in total nonperforming assets at March 31, 2024. This represents an increase of $5.4 million, or 10.5%, from an unguaranteed exposure of $51.2 million at December 31, 2023.

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

	March 31, 2024 (1)	December 31, 2023 (1)
Nonaccrual loans and leases:		
Total nonperforming loans and leases (all on nonaccrual)	$ 148,468	$ 134,963
Foreclosed assets	8,561	6,481
Total nonperforming assets	**$ 157,029**	**$ 141,444**
Allowance for credit losses on loans and leases	**$ 139,041**	**$ 125,840**
Total nonperforming loans and leases to total loans and leases held for investment	1.74 %	1.64 %
Total nonperforming loans and leases to total assets	1.33 %	1.24 %
Allowance for credit losses on loans and leases to loans and leases held for investment	1.63 %	1.53 %
Allowance for credit losses on loans and leases to total nonperforming loans and leases	93.65 %	93.24 %

(1) Excludes loans measured at fair value.

	March 31, 2024 (1)	December 31, 2023 (1)
Nonaccrual loans and leases guaranteed by U.S. government:		
Total nonperforming loans and leases guaranteed by the U.S government (all on nonaccrual)	$ 105,351	$ 95,678
Foreclosed assets guaranteed by the U.S. government	5,332	3,670
Total nonperforming assets guaranteed by the U.S. government	**$ 110,683**	**$ 99,348**
Allowance for credit losses on loans and leases	**$ 139,041**	**$ 125,840**
Total nonperforming loans and leases not guaranteed by the U.S. government to total held for investment loans and leases	0.51 %	0.48 %
Total nonperforming loans and leases not guaranteed by the U.S. government to total assets	0.39 %	0.36 %
Allowance for credit losses on loans and leases to total nonperforming loans and leases not guaranteed by the U.S. government	322.47 %	320.33 %

(1) Excludes loans measured at fair value.

Nonperforming assets, excluding loans measured at fair value, at March 31, 2024 were $157.0 million, which represented a $15.6 million, or 11.0%, increase from December 31, 2023. These nonperforming assets at March 31, 2024 were comprised of $148.5 million in nonaccrual loans and leases and $8.6 million in foreclosed assets. Of the $157.0 million of nonperforming assets, $110.7 million carried a government guarantee, leaving an unguaranteed exposure of $46.3 million in total nonperforming assets at March 31, 2024. This represents an increase of $4.3 million, or 10.1%, from an unguaranteed exposure of $42.1 million at December 31, 2023.

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 14.1% at March 31, 2024, compared to 14.6% at December 31, 2023. 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 March 31, 2024 and December 31, 2023 were 4.1% and 4.3%, respectively.

As of March 31, 2024, and December 31, 2023, potential problem (also referred to as criticized) and classified loans and leases, excluding loans measured at fair value, totaled $908.2 million and $785.2 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 2023 Form 10-K. At March 31, 2024, the portion of criticized and classified loans and leases guaranteed by the SBA or USDA totaled $391.7 million and total portfolio unguaranteed exposure risk was $516.6 million, or 9.4% of total held for investment unguaranteed exposure carried at historical cost. This compares to the December 31, 2023 portion of criticized and classified loans and leases guaranteed by the SBA or USDA which totaled $344.8 million and total portfolio unguaranteed exposure risk was $440.3 million, or 8.3% of total held for investment unguaranteed exposure carried at historical cost.

As of March 31, 2024 and December 31, 2023 , 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:

As of March 31, 2024		**As of December 31, 2023**	
Vertical	**% of Criticized and Classified Loans and Leases**	**Vertical**	**% of Criticized and Classified Loans and Leases**
Bioenergy	14.7%	Senior Housing	16.5%
Senior Housing	14.0%	Bioenergy	14.4%
General Lending	11.6%	General Lending	12.2%
Search Fund Lending	7.2%	Search Fund Lending	8.6%
Wine & Craft Beverage	5.0%	Wine & Craft Beverage	5.6%
Healthcare	4.2%	Healthcare	3.9%
Self Storage	4.1%	Hotels	3.3%
Senior Care	4.0%	Self Storage	3.3%
Sponsor Finance	3.7%	Senior Care	3.2%
% of Total Criticized and Classified Loans	68.5%	% of Total Criticized and Classified Loans	71.0%

Of the above listed verticals, Senior Housing and Sponsor Finance are within the Company's Specialty Lending division while Bioenergy and Hot els are within the Energy & Infrastructure division, the remainder of the above listed verticals are within the Small Business Banking division. The majority of the $123.0 million increase in potential problem and classified loans and leases in the first three months of 2024 was comprised of increased levels of Risk Grade 5 loans and leases, as discussed below. 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. During the three months ended March 31, 2024, there were no loan modifications made for borrowers experiencing financial difficult on loans held at amortized cost.

Management endeavors to be proactive in its approach to identify and resolve p roblem 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 March 31, 2024, and December 31, 2023, Risk Grade 5 loans and leases, excluding loans measured at fair value, totaled $669.2 million and $599.2 million, respectively, for a three month increase of $70.0 million. Relative to total held for investment unguaranteed exposure carried at historical cost at March 31, 2024 and December 31, 2023, unguaranteed Risk Grade 5 loans and leases increased from 6.9% to 7.7%, respectively.

The largest year-to-date changes in Risk Grade 5 loans and leases carried at historical cost were within the foll owing verticals:

	March 31, 2024 vs. December 31, 2023 Increase (Decrease)	
Vertical	**$**	**%**
Bioenergy	$ 19,694	28.1 %
Government Contracting	14,909	21.3
Sponsor Finance	12,016	17.2
Self Storage	11,412	16.3
Healthcare	8,012	11.4
Vet	7,464	10.7
Senior Care	6,224	8.9
Agriculture	5,239	7.5
Restoration	4,771	6.8
Professional Services	4,575	6.5
General Lending	(3,317)	(4.7)
Asset-Based Lending	(5,191)	(7.4)
Fitness Centers	(5,814)	(8.3)
Total of largest changes in RG 5 loans and leases	$ 79,994	114.3%

The increase in Risk Grade 5 loans and leases, exclusive of loans measured at fair value, during the first three months of 2024 was principally confined to 13 verticals, as reflected above. The underlying factor in this increase in Risk Grade 5 loans in 2024 was largely a result of softer than expected starts for new projects in certain verticals due to delays in both construction completion and ramp up time, stemming from downstream effects of pandemic-related impacts. Of the above listed verticals, Sponsor Finance, Senior Housing, Asset-Based Lending and Government Contracting are within the Company's Specialty Lending division, Bioenergy is within the Energy & Infrastructure division and the remainder of the above listed verticals are within the Small Business Banking division.

At March 31, 2024, approximately 99.1% 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 March 31, 2024, the Company had $6.3 million in unguaranteed loans on SBA payment assistance.

Allowance for Credit Losses on Loans and Leases

The ACL of $125.8 million at December 31, 2023, increased by $13.2 million, or 10.5%, to $139.0 million at March 31, 2024. The ACL as a percentage of loans and leases held for investment at historical cost amounted to 1.5% and 1.6% at December 31, 2023 and March 31, 2024, respectively. The increase in the ACL during the first three months of 2024 was primarily the result of specific reserve changes on individually evaluated loans. See also the above section captioned "Provision for Loan and Lease Credit Losses" in "Results of Operations" for related information.

Actual past due held for investment loans and leases, inclusive of loans measured at fair value, have increased by $28.7 million since December 31, 2023. Total loans and leases 90 or more days past due increased $34.8 million, or 27.9%, compared to December 31, 2023. This increase was comprised of a $8.0 million increase in unguaranteed exposure combined with a $26.8 million increase in the guaranteed portion of past due loans compared to December 31, 2023. At March 31, 2024 and December 31, 2023, 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 1.0% and 0.8%, respectively. Total unguaranteed loans and leases past due were comprised of $45.3 million carried at historical cost, an increase of $7.7 million, and $10.2 million measured at fair value, an increase of $345 thousand, as of March 31, 2024 compared to December 31, 2023. Management continues to actively monitor and work to improve asset quality. Management believes the ACL of $139.0 million at March 31, 2024 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 Unaudited 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, FHLB advances and Federal Reserve Discount Window. A primary tool in the Company's liquidity management process is the utilization of an Outflow Coverage Ratio ("OCR") model to stress outflows in various scenarios with targeted days of liquidity coverage. At March 31, 2024, the total amount of these four liquidity source items was $4.11 billion, or 35.7% of total assets, a decrease of 2.1% of total assets from $4.26 billion, or 37.8% of total assets, at December 31, 2023.

Loans and other assets are funded primarily 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, Federal Reserve 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 March 31, 2024, none of the investment securities portfolio was pledged to secure public deposits or pledged to retail repurchase agreements, leaving $1.12 billion available to be pledged as collateral.

Contractual Obligations

The Company has entered into significant fixed and determinable contractual obligations for future payments. In March 2024, the Company entered into a $100.0 million term loan agreement with a third party correspondent bank. See Note 8. Borrowings in the accompanying notes to Unaudited Condensed Consolidated Financial Statements for more details. Other than the new borrowing previously mentioned and 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, 2023. See the section titled "Liquidity Management" in Part II, Item 7 of the Company's 2023 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. As of December 31, 2023, there was one airplane purchase agreement commitment outstanding and during 2024 the airplane was placed in service. The Company is also in the process of constructing a new facility to accommodate expansion of its main campus. 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 the repricing differences, or interest rate gaps, between interest-earning assets and interest-bearing liabilities, across various time periods. As of March 31, 2024, the balance sheet's total cumulative gap position was 4.6%, meaning that over the entire life of the Company's assets and liabilities, more assets will reprice than liabilities. For further information, see Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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, or 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 and non-parallel interest rate shocks applied to a dynamic balance sheet to measure interest rate risk. As of March 31, 2024, the Company's interest rate risk profile under the instantaneous parallel interest rate shock scenarios applied to a static balance sheet is slightly 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. The Company believes that regular modeling of various interest rate outcomes allows it to 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; to 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 March 31, 2024, and December 31, 2023, 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 - March 31, 2024						
Common Equity Tier 1 (to Risk-Weighted Assets)	$ 991,314	11.89 %	$ 375,207	4.50 %	N/A	N/A
Total Capital (to Risk-Weighted Assets)	1,096,039	13.15	667,035	8.00	N/A	N/A
Tier 1 Capital (to Risk-Weighted Assets)	991,314	11.89	500,276	6.00	N/A	N/A
Tier 1 Capital (to Average Assets)	991,314	8.69	456,405	4.00	N/A	N/A
Bank - March 31, 2024						
Common Equity Tier 1 (to Risk-Weighted Assets)	$ 954,351	11.86 %	$ 362,054	4.50 %	$ 522,967	6.50 %
Total Capital (to Risk-Weighted Assets)	1,055,468	13.12	643,651	8.00	804,564	10.00
Tier 1 Capital (to Risk-Weighted Assets)	954,351	11.86	482,738	6.00	643,651	8.00
Tier 1 Capital (to Average Assets)	954,351	8.42	453,363	4.00	566,704	5.00
Consolidated - December 31, 2023						
Common Equity Tier 1 (to Risk-Weighted Assets)	$ 960,433	11.73 %	$ 368,549	4.50 %	N/A	N/A
Total Capital (to Risk-Weighted Assets)	1,063,157	12.98	655,198	8.00	N/A	N/A
Tier 1 Capital (to Risk-Weighted Assets)	960,433	11.73	491,399	6.00	N/A	N/A
Tier 1 Capital (to Average Assets)	960,433	8.58	447,561	4.00	N/A	N/A
Bank - December 31, 2023						
Common Equity Tier 1 (to Risk-Weighted Assets)	$ 823,478	10.40 %	$ 356,426	4.50 %	$ 514,837	6.50 %
Total Capital (to Risk-Weighted Assets)	922,876	11.65	633,646	8.00	792,057	10.00
Tier 1 Capital (to Risk-Weighted Assets)	823,478	10.40	475,234	6.00	633,646	8.00
Tier 1 Capital (to Average Assets)	823,478	7.41	444,480	4.00	555,600	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, including those for the Company's critical 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, 2023, 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;

- Valuation of servicing assets; and
- Income taxes

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, could 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 support prudent oversight of interest rate risk management. The Asset/Liability Committee 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 4.6% as of March 31, 2024, indicating that, overall, over the expected life of the instruments, assets will reprice before liabilities.

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. The NII simulation provides a short-term view of interest rate risk as it analyzes impact on net interest income over the next 12 and 24 months from instantaneous parallel rate shocks on a static balance sheet.

EVE and NII simulations are completed regularly 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. The Company believes that regular modeling of various interest rate outcomes allows it to 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 March 31, 2025 and 2026, and the Company's EVE sensitivity at March 31, 2024. The simulation uses projected repricing of assets and liabilities at March 31, 2024, 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, 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.

	Estimated Increase/Decrease in Net Interest Income		Estimated Percentage Change in EVE
Basis Point ("bp") Change in Interest Rates	12 Months Ending March 31, 2025	12 Months Ending March 31, 2026	As of March 31, 2024
+400	8.1 %	4.7 %	(21.3 %)
+300	6.1	3.5	(16.2)
+200	4.2	2.5	(10.8)
+100	2.1	1.3	(5.4)
-100	(2.2)	(1.3)	5.3
-200	(4.4)	(2.8)	10.6
-300	(6.5)	(4.2)	16.2

Rates are increased instantaneously at the beginning of the projection. The Company's asset/liability profile is slightly asset sensitive in both years one and two from a net interest income perspective. 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. 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 March 31, 2024, 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 March 31, 2024, 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 March 31, 2024, 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 March 31, 2024, 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.

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, 2023.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Subsequent to the Company's earnings release on April 24, 2024, the Company identified that a renewable energy tax credit investment made in the fourth quarter of 2023 became eligible for increased levels of tax credits in the first quarter of 2024. Under the Inflation Reduction Act of 2022, certain circumstances allow for enhanced investment tax credits, if requirements, including locations within an energy community, are satisfied. At the time of the investment in 2023, the location of the investee was not within a previously declared energy community. On March 22, 2024, the Internal Revenue Service released Notice 2024-30 which expanded the qualifying list of energy communities. This expanded list included the Company's 2023 investment. The Company became eligible for incremental federal investment tax credits of $10.6 million and, combined with other related impacts, resulted in increased net income of $11.0 million, or $0.24 per diluted share, in the first quarter of 2024.

As a result of the items described above, certain of the GAAP financial results for the three months ended March 31, 2024 furnished in Exhibit 99.1 to the Current Report on Form 8-K filed on April 24, 2024 (the "Form 8-K"), differ from the financial results disclosed in this Quarterly Report on Form 10-Q. The Company's Unaudited Condensed Consolidated Statement of Income for the three months ended March 31, 2024 and the Unaudited Condensed Consolidated Balance Sheet as of March 31, 2024 furnished in Exhibit 99.1 to the Form 8-K did not reflect the additional investment tax credit and related impacts due to the timing of this new information. The Unaudited Condensed Consolidated Financial Statements and the accompanying disclosures presented in this Quarterly Report on Form 10-Q reflect these adjustments.

The following tables present the Company's Unaudited Condensed Consolidated Statement of Income for the three months ended March 31, 2024 and the Unaudited Condensed Consolidated Balance Sheet as of March 31, 2024 as adjusted for the additional tax credits and related impacts discussed above.

Live Oak Bancshares, Inc.
Quarterly Statements of Income (unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended March 31, 2024		
	As Furnished	Adjustments	As Adjusted
Interest income			
Loans and fees on loans	$ 176,010	$ —	$ 176,010
Investment securities, taxable	8,954	—	8,954
Other interest earning assets	7,456	—	7,456
Total interest income	192,420	—	192,420
Interest expense			
Deposits	101,998	—	101,998
Borrowings	311	—	311
Total interest expense	102,309	—	102,309
Net interest income	90,111	—	90,111
Provision for loan and lease credit losses	16,364	—	16,364
Net interest income after provision for loan and lease credit losses	73,747	—	73,747
Noninterest income			
Loan servicing revenue	7,624	—	7,624
Loan servicing asset revaluation	(2,744)	—	(2,744)
Net gains on sales of loans	11,502	—	11,502
Net loss on loans accounted for under the fair value option	(219)	—	(219)
Equity method investments (loss) income	(5,022)	—	(5,022)
Equity security investments (losses) gains, net	(529)	—	(529)
Lease income	2,453	—	2,453
Management fee income	3,271	—	3,271
Other noninterest income	9,761	—	9,761
Total noninterest income	26,097	—	26,097
Noninterest expense			
Salaries and employee benefits	47,275	—	47,275
Travel expense	2,438	—	2,438
Professional services expense	1,878	—	1,878
Advertising and marketing expense	3,692	—	3,692
Occupancy expense	2,247	—	2,247
Technology expense	7,723	—	7,723
Equipment expense	3,074	—	3,074
Other loan origination and maintenance expense	3,911	—	3,911
Renewable energy tax credit investment impairment (recovery)	15	(942)	(927)
FDIC insurance	3,200	—	3,200
Other expense	3,226	—	3,226
Total noninterest expense	78,679	(942)	77,737
Income before taxes	21,165	942	22,107
Income tax (benefit) expense	4,617	(10,096)	(5,479)
Net income	$ 16,548	$ 11,038	$ 27,586
Earnings per share			
Basic	$ 0.37	$ 0.25	$ 0.62
Diluted	$ 0.36	$ 0.24	$ 0.60
Weighted average shares outstanding			
Basic	44,762,308	—	44,762,308
Diluted	45,641,210	—	45,641,210

Live Oak Bancshares, Inc.
Quarterly Balance Sheets (unaudited)
(Dollars in thousands)

	As of the quarter ended March 31, 2024		
	As Furnished	Adjustments	As Adjusted
Assets			
Cash and due from banks	$ 597,394	$ —	$ 597,394
Certificates of deposit with other banks	250	—	250
Investment securities available-for-sale	1,120,622	—	1,120,622
Loans held for sale	310,749	—	310,749
Loans and leases held for investment [1]	8,912,561	—	8,912,561
Allowance for credit losses on loans and leases	(139,041)	—	(139,041)
Net loans and leases	8,773,520	—	8,773,520
Premises and equipment, net	258,071	—	258,071
Foreclosed assets	8,561	—	8,561
Servicing assets	49,343	—	49,343
Other assets	384,790	2,269	387,059
Total assets	$ 11,503,300	$ 2,269	$ 11,505,569
Liabilities and shareholders' equity			
Liabilities			
Deposits:			
Noninterest-bearing	$ 226,668	$ —	$ 226,668
Interest-bearing	10,156,693	—	10,156,693
Total deposits	10,383,361	—	10,383,361
Borrowings	120,242	—	120,242
Other liabilities	83,017	(8,769)	74,248
Total liabilities	10,586,620	(8,769)	10,577,851
Shareholders' equity			
Preferred stock, no par value, 1,000,000 shares authorized, none issued or outstanding	—	—	—
Class A common stock (voting)	349,648	—	349,648
Class B common stock (non-voting)	—	—	—
Retained earnings	658,269	11,038	669,307
Accumulated other comprehensive loss	(91,237)	—	(91,237)
Total shareholders' equity	916,680	11,038	927,718
Total liabilities and shareholders' equity	$ 11,503,300	$ 2,269	$ 11,505,569

(1) Includes $379.2 million, $388.0 million, $410.1 million, $441.8 million and $467.0 million measured at fair value for the quarters ended March 31, 2024, December 31, 2023, September 30, 2023, June 30, 2023, and March 31, 2023, respectively.

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)
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 March 31, 2024 and December 31, 2023; (ii) Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2024 and 2023; (iii) Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2024 and 2023; (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity for the Three Months Ended March 31, 2024 and 2023; (v) Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2024 and 2023; 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.

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: May 10, 2024	By:	/s/ Walter J. Phifer
		Walter J. Phifer
		Chief Financial Officer

Exhibit 31.1

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: May 10, 2024

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

Exhibit 31.2

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

I, Walter J. Phifer, 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: May 10, 2024

/s/ Walter J. Phifer
Walter J. Phifer
Chief Financial Officer
(principal financial officer)

Exhibit 32

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 March 31, 2024 (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: May 10, 2024

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

Date: May 10, 2024

/s/ Walter J. Phifer
Walter J. Phifer
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.