Live Oak Bancshares, Inc.
Form 10-Q
November 06, 2017

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2017
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .
Commission file number: 001-37497
LIVE OAK BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

North Carolina	26-4596286
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1741 Tiburon Drive Wilmington, North Carolina	28403
(Address of principal executive offices)	(Zip Code)

(910) 790-5867
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý NO ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES ý NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨		Accelerated filer	x
Non-accelerated filer ¨ (Do not check if smaller reporting company)		Smaller reporting company	¨
		Emerging growth company	x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO ý
APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

As of November 4, 2017, there were 35,233,241 shares of the registrant’s voting common stock outstanding and 4,643,530 shares of the registrant’s non-voting common stock outstanding.

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Live Oak Bancshares, Inc. and Subsidiaries
Form 10-Q
For the Quarterly Period Ended September 30, 2017
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
Live Oak Bancshares, Inc.
Consolidated Balance Sheets
As of September 30, 2017 (unaudited) and December 31, 2016*
(Dollars in thousands)

	September 30, 2017	December 31, 2016*
Assets		
Cash and due from banks	$260,907	$238,008
Certificates of deposit with other banks	3,250	7,250
Investment securities available-for-sale	76,575	71,056
Loans held for sale	692,586	394,278
Loans and leases held for investment	1,169,887	907,566
Allowance for loan and lease losses	(21,027)	(18,209)
Net loans and leases	1,148,860	889,357
Premises and equipment, net	129,233	64,661
Foreclosed assets	2,231	1,648
Servicing assets	53,392	51,994
Other assets	65,155	37,009
Total assets	$2,432,189	$1,755,261
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$55,260	$27,990
Interest-bearing	1,957,631	1,457,086
Total deposits	2,012,891	1,485,076
Long term borrowings	26,872	27,843
Other liabilities	27,835	19,495
Total liabilities	2,067,598	1,532,414
Shareholders' equity		
Preferred stock, no par value, 1,000,000 authorized, none issued or outstanding at September 30, 2017 and December 31, 2016	—	—
Class A common stock, no par value, 100,000,000 shares authorized, 35,218,617 and 29,530,072 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	266,336	149,966
Class B common stock, no par value, 10,000,000 shares authorized, 4,643,530 and 4,723,530 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	49,168	50,015
Retained earnings	49,707	23,518
Accumulated other comprehensive loss	(620)	(652)
Total equity	364,591	222,847
Total liabilities and shareholders' equity	$2,432,189	$1,755,261

* Derived from audited consolidated financial statements.
See Notes to Unaudited Consolidated Financial Statements

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Live Oak Bancshares, Inc.
Consolidated Statements of Income
For the three and nine months ended September 30, 2017 and 2016 (unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income				
Loans and fees on loans	$26,977	$14,961	$70,290	$38,868
Investment securities, taxable	325	337	964	840
Other interest earning assets	870	264	1,682	650
Total interest income	28,172	15,562	72,936	40,358
Interest expense				
Deposits	6,758	3,689	16,893	9,376
Borrowings	389	242	985	725
Total interest expense	7,147	3,931	17,878	10,101
Net interest income	21,025	11,631	55,058	30,257
Provision for loan and lease losses	2,426	3,806	5,481	8,692
Net interest income after provision for loan and lease losses	18,599	7,825	49,577	21,565
Noninterest income				
Loan servicing revenue	6,490	5,860	18,587	15,725
Loan servicing asset revaluation	(3,691)	(3,421)	(6,864)	(5,051)
Net gains on sales of loans	18,148	21,833	55,276	52,813
Gain on sale of investment securities available-for-sale	—	1	—	1
Construction supervision fee income	362	502	1,077	1,799
Title insurance income	1,968	—	5,803	—
Other noninterest income	1,783	657	3,601	1,925
Total noninterest income	25,060	25,432	77,480	67,212
Noninterest expense				
Salaries and employee benefits	19,037	17,471	55,687	45,875
Travel expense	2,289	2,218	6,035	6,394
Professional services expense	1,068	907	4,228	2,345
Advertising and marketing expense	1,516	1,097	4,977	3,425
Occupancy expense	1,473	1,058	4,018	3,306
Data processing expense	1,982	1,252	5,536	3,864
Equipment expense	2,228	611	5,005	1,696
Other loan origination and maintenance expense	1,601	806	3,587	2,001
FDIC insurance	858	210	2,308	507
Title insurance closing services expense	687	—	1,877	—
Other expense	3,117	1,588	8,883	4,648
Total noninterest expense	35,856	27,218	102,141	74,061
Income before taxes	7,803	6,039	24,916	14,716
Income tax (benefit) expense	(5,059)	2,561	(3,853)	6,432
Net income	12,862	3,478	28,769	8,284
Net loss attributable to noncontrolling interest	—	1	—	9
Net income attributable to Live Oak Bancshares, Inc.	$12,862	$3,479	$28,769	$8,293
Basic earnings per share	$0.34	$0.10	$0.81	$0.24

Diluted earnings per share	$0.33	$0.10	$0.78	$0.24

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See Notes to Unaudited Consolidated Financial Statements

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Live Oak Bancshares, Inc.
Consolidated Statements of Comprehensive Income
For the three and nine months ended September 30, 2017 and 2016 (unaudited)
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$12,862	$3,478	$28,769	$8,284
Other comprehensive income before tax:				
Net unrealized (loss) gain on investment securities arising during the period	(168)	(115)	52	525
Reclassification adjustment for (gain) loss on sale of securities available-for-sale included in net income	—	(1)	—	(1)
Other comprehensive income before tax	(168)	(116)	52	524
Income tax benefit (expense)	65	45	(20)	(202)
Other comprehensive (loss) income, net of tax	(103)	(71)	32	322
Total comprehensive income	$12,759	$3,407	$28,801	$8,606

See Notes to Unaudited Consolidated Financial Statements

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Live Oak Bancshares, Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the nine months ended September 30, 2017 and 2016 (unaudited)
(Dollars in thousands)

	Common stock Shares Class A	Common stock Shares Class B	Amount	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interest	Total equity
Balance at December 31, 2015	29,449,369	4,723,530	$187,507	$12,140	$ (192)	$ 33	$199,488
Net income (loss)	—	—	—	8,293	—	(9)	8,284
Other comprehensive income	—	—	—	—	322	—	322
Issuance of restricted stock	16,745	—	—	—	—	—	—
Stock option exercises	25,406	—	147	—	—	—	147
Stock option based compensation expense	—	—	1,752	—	—	—	1,752
Restricted stock expense	—	—	5,893	—	—	—	5,893
Acquisition of non-controlling interest	—	—	—	—	—	(24)	(24)
Dividends (distributions to shareholders)	—	—	—	(1,710)	—	—	(1,710)
Balance at September 30, 2016	29,491,520	4,723,530	$195,299	$18,723	$ 130	$ —	$214,152
Balance at December 31, 2016	29,530,072	4,723,530	$199,981	$23,518	$ (652)	$ —	$222,847
Net income	—	—	—	28,769	—	—	28,769
Other comprehensive income	—	—	—	—	32	—	32
Issuance of restricted stock	306,902	—	—	—	—	—	—
Withholding cash issued in lieu of restricted stock issuance	—	—	(4,891)	—	—	—	(4,891)
Employee stock purchase program	22,634	—	445	—	—	—	445
Stock option exercises	76,285	—	602	—	—	—	602
Stock option based compensation expense	—	—	1,496	—	—	—	1,496
Restricted stock expense	—	—	4,210	—	—	—	4,210
Stock issued in acquisition of Reltco, Inc.	27,724	—	565	—	—	—	565
Non-voting common stock converted to voting common stock in private sale	80,000	(80,000)	—	—	—	—	—
Issuance of common stock in connection with secondary offering, net of issue costs	5,175,000	—	113,096	—	—	—	113,096
Dividends (distributions to shareholders)	—	—	—	(2,580)	—	—	(2,580)
Balance at September 30, 2017	35,218,617	4,643,530	$315,504	$49,707	$ (620)	$ —	$364,591

See Notes to Unaudited Consolidated Financial Statements

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Live Oak Bancshares, Inc.
Consolidated Statements of Cash Flows
For the nine months ended September 30, 2017 and 2016 (unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities		
Net income	$28,769	$8,284
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	7,020	3,201
Provision for loan losses	5,481	8,692
Amortization of premium on securities, net of accretion	355	135
Amortization of discount on unguaranteed loans, net	1,263	773
Deferred tax expense (benefit)	413	(510)
Originations of loans held for sale	(884,741)	(701,415)
Proceeds from sales of loans held for sale	648,300	555,192
Net gains on sale of loans held for sale	(55,276)	(52,813)
Net loss on sale of foreclosed assets	30	61
Net increase in servicing assets	(1,398)	(5,499)
Gain on sale of securities available-for-sale	—	(1)
Net loss on disposal of premises and equipment	213	—
Stock option based compensation expense	1,496	1,752
Restricted stock expense	4,210	5,893
Stock based compensation expense excess tax benefits	1,073	—
Business combination contingent consideration fair value adjustment	350	—
Changes in assets and liabilities:		
Other assets	(17,661)	(858)
Other liabilities	3,875	2,652
Net cash used by operating activities	(256,228)	(174,461)
Cash flows from investing activities		
Purchases of securities available-for-sale	(13,009)	(24,946)
Proceeds from sales, maturities, calls, and principal paydowns of securities available-for-sale	7,187	8,764
Proceeds from sale/collection of foreclosed assets	50	680
Business combination, net of cash acquired	(7,696)	—
Maturities of certificates of deposit with other banks	4,000	2,750
Loan and lease originations and principal collections, net	(273,501)	(154,738)
Purchases of premises and equipment, net	(71,420)	(1,194)
Net cash used in investing activities	(354,389)	(168,684)

See Notes to Unaudited Consolidated Financial Statements

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Live Oak Bancshares, Inc.
Consolidated Statements of Cash Flows (Continued)
For the nine months ended September 30, 2017 and 2016 (unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from financing activities		
Net increase in deposits	527,815	598,229
Proceeds from long term borrowings	16,900	—
Repayment of long term borrowings	(25,971)	(301)
Proceeds from short term borrowings	23,100	—
Repayment of short term borrowings	(15,000)	—
Stock option exercises	602	147
Employee stock purchase program	445	—
Withholding cash issued in lieu of restricted stock	(4,891)	—
Sale of common stock, net of issuance costs	113,096	—
Shareholder dividend distributions	(2,580)	(2,052)
Net cash provided by financing activities	633,516	596,023
Net increase in cash and cash equivalents	22,899	252,878
Cash and cash equivalents, beginning	238,008	102,607
Cash and cash equivalents, ending	$260,907	$355,485
Supplemental disclosure of cash flow information		
Interest paid	$17,927	$10,120
Income tax	7,094	5,739
Supplemental disclosures of noncash operating, investing, and financing activities		
Unrealized holding gains on available-for-sale securities, net of taxes	$32	$322
Transfers from loans to foreclosed real estate and other repossessions	663	406
Transfers from foreclosed real estate to SBA receivable	—	96
Transfer of loans held for sale to loans held for investment	5,713	339,322
Transfer of loans held for investment to loans held for sale	18,990	2,296
Contingent consideration in acquisition of controlling interest in equity method investment	—	24
Transfers from short term borrowings to long term borrowings	8,100	—
Business combination:		
Assets acquired (excluding goodwill)	5,766	—
Liabilities assumed	4,681	—
Purchase price	8,363	—
Goodwill recorded	7,278	—

See Notes to Unaudited Consolidated Financial Statements

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Live Oak Bancshares, Inc.
Notes to Unaudited Consolidated Financial Statements
Note 1. Basis of Presentation
Nature of Operations
Live Oak Bancshares, Inc. (the “Company” or “LOB”) is a bank holding company headquartered in Wilmington, North Carolina incorporated under the laws 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 services to small businesses nationwide in targeted industries, which we refer to as verticals. The Bank identifies and grows within credit-worthy industries through expertise within those industries. A significant portion of the loans originated by the Bank are guaranteed by the Small Business Administration (“SBA”) under the 7(a) Loan Program and to a lesser extent by the U.S. Department of Agriculture ("USDA") Rural Energy for America Program ("REAP") and Business & Industry ("B&I") loan programs. On July 28, 2015 the Company completed its initial public offering with a secondary offering completed in August of 2017. In 2010, the Bank formed Live Oak Number One, Inc., a wholly-owned subsidiary, to hold properties foreclosed on by the Bank.
In addition to the Bank, the Company owns Live Oak Grove, LLC, opened in September 2015 for the purpose of providing Company employees and business visitors an on-site restaurant location; Government Loan Solutions, Inc. (“GLS”), a management and technology consulting firm that specializes in the settlement, accounting, and securitization processes for government guaranteed loans, including loans originated under the SBA 7(a) loan program and USDA-guaranteed loans; and 504 Fund Advisors, LLC (“504FA”), formed to serve as the investment adviser to the 504 Fund, a closed-end mutual fund organized to invest in SBA section 504 loans.
The Company acquired control over 504FA, previously carried as an equity method investment, on February 2, 2015 by increasing its ownership from 50.0% to 91.3%. The acquisition of an additional 41.3% of ownership occurred in exchange for contingent consideration estimated to total $170 thousand. Transactions in the third quarter of 2015 and first quarter of 2016 increased the Company’s ownership to 92.9%. On September 1, 2016, the Company acquired the remaining 7.1% ownership from a third party investor in exchange for contingent consideration estimated to total $24 thousand.
In August 2016, the Company formed Live Oak Ventures, Inc. for the purpose of investing in businesses that align with the Company's strategic initiative to be a leader in financial technology.
In November 2016, the Company formed Live Oak Clean Energy Financing LLC for the purpose of providing financing to entities for renewable energy applications.
On February 1, 2017, the Company completed its acquisition of Reltco Inc. and National Assurance Title, Inc. (collectively referred to as "Reltco"), two nationwide title agencies under common control based in Tampa, Florida. See Note 4. Business Combination for a further discussion of this transaction.
The Company earns revenue primarily from the sale of SBA and USDA-guaranteed loans and net interest income. Income from the sale of loans is comprised of net gains on the sale of loans, revenues on the servicing of sold loans and valuation of loan servicing rights. Offsetting these revenues are the cost of funding sources, provision for loan and lease 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.
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 nine months ended September 30, 2017 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2017. The consolidated balance sheet as of December 31, 2016 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, 2016, filed with the Securities Exchange Commission on March 9, 2017 (SEC File No. 001-37497) (the "2016 Annual Report"). 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 2016 Annual Report. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes in the Company's 2016 Annual Report.

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

The preparation of financial statements in conformity with United States generally accepted accounting principles, or 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 Consolidated Financial Statements have been presented in thousands, except percentage, time period, stock option, share and per share data or where otherwise indicated.

Business Segments

Management has determined that the Company has one significant operating segment, which is providing a lending platform for small businesses nationwide. In determining the appropriateness of segment definition, the Company considers the materiality of a potential segment, the components of the business about which financial information is available, and components for which management regularly evaluates relative to resource allocation and performance assessment.

Equipment Leasing

The Company purchases new equipment for the purpose of leasing such equipment to customers within its verticals. Equipment purchased to fulfill commitments to commercial renewable energy projects is rented out under operating leases while leases of equipment outside of the renewable energy vertical are generally direct financing leases. Accordingly, leased assets under operating leases are included in premises and equipment while leased assets under direct financing leases are included in loans and leases held for investment.

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 4-6 years which is consistent with the useful life of the equipment with no residual value. As of September 30, 2017 the Company had net investments in direct financing lease receivables of $1.1 million.

Operating Leases

The term of each operating lease is generally 10 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 over 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 and residual values are generally 15 years and 30%, respectively; 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 direct operating expenses at the time the costs are incurred.

As of September 30, 2017 the Company had a net investment of $47.5 million in assets included in premises and equipment that are subject to operating leases.

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

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

As of September 30, 2017	Amount
2017	$463
2018	3,204
2019	3,214
2020	3,233
2021	3,254
Thereafter	19,625
Total	$32,993

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

Impairment of Long-Lived Assets
The Company evaluates the carrying value of rental equipment and identifiable definite lived intangible assets for impairment whenever events or circumstances have occurred that would indicate the carrying amount may not be fully recoverable. A key element in determining the recoverability of long-lived assets is the Company’s outlook as to the future market conditions for its rental equipment. If the carrying amount is not fully recoverable, an impairment loss is recognized to reduce the carrying amount to fair value. The Company determines fair value based upon the condition of the rental equipment and the projected net cash flows from its rental and sale considering current market conditions. Goodwill and identifiable indefinite lived assets are evaluated for potential impairment annually or when circumstances indicate potential impairment may have occurred. Impairment losses, if any, are determined based upon the excess of carrying value over the estimated fair value of the asset. There have been no impairments of long-lived assets.
Change in Accounting Estimate
During 2017, the Company assessed its estimate of the useful lives of the Company’s aircraft transportation. The Company revised its original useful life estimate of 20 years and currently estimates that its aircraft transportation will have a useful life of 10 years. The effects of reflecting this change in accounting estimate on the 2017 consolidated financial statements are as follows:

	Three months ended September 30, 2017	Nine months ended September 30, 2017
Decrease in:		
Net income	$ 202	$ 692
Basic EPS	$ 0.01	$ 0.02
Diluted EPS	$ 0.01	$ 0.02

Reclassifications
Certain reclassifications have been made to the prior period’s 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 May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). This standard is intended to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP. The Company's revenue is comprised of loan servicing revenue, net gains on sales of loans and net interest income on financial assets and financial liabilities, all of which are explicitly excluded from the scope of ASU 2014-09, and non-interest income. The Company's revenue streams included in non-interest income that are within the scope of the guidance are primarily related to sales of foreclosed assets, construction supervision fees, title insurance income and trust fiduciary fees. The Company does not expect the adoption of ASU 2014-09 to have a material effect on the consolidated financial statements. The Company expects to adopt the standard in the first quarter of 2018 with a cumulative effect adjustment to opening retained earnings, if such adjustment is deemed to be significant.
In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for the Company on January 1, 2019. The impact of this standard will depend on the Company's lease portfolio at the time of the adoption and the

Company is currently assessing the effect that the adoption of this standard will have on the consolidated financial statements.
In March 2016, the FASB issued ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies the accounting for share-based payment transactions for items including income tax consequences, classification of awards as equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 was effective and adopted by the Company on January 1, 2017. Starting in the first quarter of 2017, stock-based compensation excess tax benefits or deficiencies are reflected in the Consolidated Statements of Income as a component of the income tax expense, where as they previously were recognized in equity. Additionally, the Consolidated Statements of Cash Flows now present excess tax benefits as an operating activity while any cash paid in lieu of shares for tax-withholding being classified as a financing activity. There were no excess tax benefits in the prior period presented for reclassification. Finally, the Company will continue to incorporate actual forfeitures as they occur in the accrual of compensation expense. As a result of the adoption of ASU 2016-09, the Consolidated Statement of Cash Flows for the nine months ended September 30, 2017 was adjusted as follows: a $1.1 million increase to net cash provided by operating activities and a $4.8 million increase to net cash used in financing activities. The adoption of ASU 2016-09 further resulted in a $0.03 increase in basic and diluted EPS for the nine months ended September 30, 2017. See Note 9 for information regarding the additional impact on our consolidated financial statements.
In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This new guidance replaces the incurred loss impairment methodology in current standards with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company on January 1, 2020. The Company is currently evaluating the potential impact of ASU 2016-13 on the financial statements. In that regard, a cross-functional working group has been formed, under the direction of the Company's Chief Financial Officer and Chief Credit Officer. The working group is comprised of individuals from various functional areas including credit, risk management, finance and information technology, among others. The Company is currently developing an implementation plan to include assessment of processes, portfolio segmentation, model development, system requirements and the identification of data and resource needs, among other things. The Company is also currently evaluating selected third-party vendor solutions to assist in the application of the ASU 2016-13. While the Company is currently unable to reasonably estimate the impact of adopting ASU 2016-13, the impact of adoption is expected to be significantly influenced by the composition, characteristics and quality of loan and securities portfolios as well as the prevailing economic conditions and forecasts as of the adoption date.
In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805) - Clarifying the Definition of a Business" ("ASU 2017-01"). ASU 2017-01 clarifies the definition and provides a more robust framework to use in determining when a set of assets and activities constitutes a business. ASU 2017-01 is intended to provide guidance when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 will be effective for the Company on January 1, 2018. The Company does not expect this amendment to have a material effect on its consolidated financial statements.
In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 removes Step 2 from the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 will be effective for the Company on January 1, 2020, with early adoption permitted for interim or annual impairment tests performed after January 1, 2017. ASU 2017-04 is not expected to have a material impact on its consolidated financial statements.
In February 2017, the FASB issued ASU No. 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) - Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets" ("ASU 2017-05"). ASU 2017-05 clarifies the scope of Subtopic 610-20 and adds

guidance on nonfinancial asset derecognition as well as the accounting for partial sales of nonfinancial assets. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. ASU 2017-05 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting" ("ASU 2017-09"). ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award should be accounted for as a modification. This guidance indicates modification accounting is required when the fair value, vesting conditions, or classification of the award changes. ASU 2017-09 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"). ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815 to improve the transparency and understandability of information conveyed to financial statement users about an entity’s risk management activities to better align the entity’s financial reporting for hedging relationships with those risk

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management activities and to reduce the complexity of and simplify the application of hedge accounting. ASU 2017-12 will be effective for the Company on January 1, 2019 and is not expected to have a significant 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 be shared in the net income of the Company.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Basic earnings per share:				
Net income available to common shareholders	$12,862	$ 3,479	$28,769	$ 8,293
Weighted-average basic shares outstanding	37,366,041	34,206,943	35,485,371	34,191,014
Basic earnings per share	$0.34	$ 0.10	$0.81	$ 0.24
Diluted earnings per share:				
Net income available to common shareholders, for diluted earnings per share	$12,862	$ 3,479	$28,769	$ 8,293
Total weighted-average basic shares outstanding	37,366,041	34,206,943	35,485,371	34,191,014
Add effect of dilutive stock options and restricted stock grants	1,278,636	794,874	1,244,683	812,408
Total weighted-average diluted shares outstanding	38,644,677	35,001,817	36,730,054	35,003,422
Diluted earnings per share	$0.33	$ 0.10	$0.78	$ 0.24
Anti-dilutive shares	243,199	1,778,995	250,698	1,778,995

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Note 4. Business Combination
On February 1, 2017, the Company completed its acquisition of Reltco Inc. and National Assurance Title, Inc. (collectively referred to as "Reltco"), two nationwide title agencies under common control based in Tampa, Florida. The acquisition continues the Company's growth strategy, including vertically integrating with complementary services to deliver a high-quality customer experience with speed.
On the acquisition date, the fair value of Reltco included $5.8 million in assets and $4.7 million in liabilities. The total acquisition gross consideration at the time of the transaction, including earn-out contingent consideration was approximately $15.8 million. The acquisition was valued at $12.7 million after consideration of the applicable fair value adjustments to the earn-out, resulting in the Company paying $7.8 million in cash and issuing 27,724 shares of its common stock at closing in addition to an earn-out of up to 184,012 shares of its stock and $3.8 million in cash, in exchange for all of the outstanding shares of Reltco. The earn-out was recorded as a $4.3 million contingent liability on the acquisition date and is earned proportionally based on the ratio of the new subsidiary's actual future aggregate net income after tax divided by a target net income after tax of approximately $6.0 million over the four year earn-out period. Fair value measurement of the earn-out was calculated using the Monte Carlo Simulation. The Monte Carlo Simulation simulates 100,000 trials to assess the expected market price as of the earn-out measurement date at the end of each of the next four years based on the Cox, Ross & Rubinstein option pricing methodology. The Monte Carlo Simulation utilized various assumptions that include a risk free rate of return through the end of each measurement period equivalent to that of a U.S. Treasury, expected volatility of 30.00% over four years and a dividend yield of 0.40%.
The merger was accounted for in accordance with the acquisition method of accounting, and the identifiable assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date separately from goodwill. The estimated fair values of assets acquired and liabilities assumed are based on the information available at the date of the acquisition. Management continues to evaluate these fair values, which are subject to revision as additional information becomes available. During the one year measurement period, contingent consideration is recorded at fair value based on the terms of the purchase agreement with subsequent quarterly changes in fair value recorded through earnings. For the nine months ended September 30, 2017 the Company recorded expense of $350 thousand, related to the increased fair value of contingent consideration using the Monte Carlo Simulation. There was no expense recorded for this contingent consideration during the three months ended September 30, 2017. The assumptions utilized include a risk free rate of return through the end of each measurement period equivalent to that of a U.S. Treasury, expected volatility of 30.00% over the remaining 3.25 years and a dividend yield of 0.51%.

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The following table summarizes the allocation of the purchase price on the date of acquisition to assets acquired and the liabilities assumed based on their estimated fair values:

Fair value of assets acquired	
Cash	$102
Accounts receivable	159
Intangible assets	5,505
Total assets acquired	5,766
Fair value of liabilities assumed	
Contingent consideration	4,300
Accounts payable and other liabilities	381
Total liabilities assumed	4,681
Net assets acquired	$1,085
Purchase price	
Common shares issued	27,724
Purchase price per share of the Company’s common stock	$20.38
Company common stock issued	565
Cash	7,798
Total purchase price	8,363
Goodwill	$7,278

Goodwill recorded represents future revenues and efficiencies gained through the Reltco acquisition. Goodwill in this transaction is expected to be deductible for income tax purposes. Intangible assets consist of trade names of $1.2 million, customer relationships of $3.9 million, and non-compete agreements of $405 thousand. The trade names have indefinite lives and the customer relationships and non-compete agreements range from five to eight years.

The Company recorded merger expenses of $766 thousand during the nine month period ended September 30, 2017. No merger expenses were recorded during the three month period ended September 30, 2017. The company recorded $52 thousand and $62 thousand in merger expenses during the three and nine months period ended September 30, 2016.

The following pro forma financial information for the quarters ended September 30, 2017 and 2016 reflects the Company's estimated consolidated pro forma results of operations as if the Reltco acquisition occurred on January 1, 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue (net interest income and noninterest income)	$46,085	$40,627	$133,306	$106,960
Net income available to common stockholders	12,862	4,183	28,807	9,952
Basic earnings per share	0.34	0.12	0.81	0.29
Diluted earnings per share	0.33	0.12	0.78	0.28

Note 5. Investment Securities

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

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	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2017				
US government agencies	$ 17,829	$ 11	$ 35	$17,805
Residential mortgage-backed securities	57,685	—	936	56,749
Mutual fund	2,070	—	49	2,021
Total	$ 77,584	$ 11	$ 1,020	$76,575
December 31, 2016				
US government agencies	$ 17,803	$ 52	$ 32	$17,823
Residential mortgage-backed securities	52,301	3	1,031	51,273
Mutual fund	2,012	—	52	1,960
Total	$ 72,116	$ 55	$ 1,115	$71,056

There were no sales of securities during the three and nine months ended September 30, 2017.The following tables show gross unrealized losses and fair value, 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	
September 30, 2017	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US government agencies	$4,996	$ 16	$1,496	$ 19	$6,492	$ 35
Residential mortgage-backed securities	28,397	461	21,767	475	50,164	936
Mutual fund	2,021	49	—	—	2,021	49
Total	$35,414	$ 526	$23,263	$ 494	$58,677	$ 1,020

	Less Than 12 Months		12 Months or More		Total	
December 31, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US government agencies	$6,508	$ 32	$—	$ —	$6,508	$ 32
Residential mortgage-backed securities	49,109	1,017	1,635	14	50,744	1,031
Mutual fund	1,960	52	—	—	1,960	52
Total	$57,577	$ 1,101	$1,635	$ 14	$59,212	$ 1,115

At September 30, 2017, there were twelve residential mortgage-backed securities and one US government agency security in unrealized loss positions for greater than 12 months and fourteen residential mortgage-backed securities, two US government agency securities and the 504 Fund mutual fund investment in an unrealized loss position for less than 12 months. Unrealized losses at December 31, 2016 were comprised of two residential mortgage-backed securities in unrealized loss positions for greater than 12 months and three US government agency securities, twenty-two residential mortgage-backed securities and the 504 Fund mutual fund investment in an unrealized loss position for less than 12 months.

These unrealized losses are primarily the result of volatility in the market and are related to market interest rates. Since none of the unrealized losses relate to marketability of the securities or the issuer’s ability to honor redemption obligations and the Company has the intent and ability to hold the securities for a sufficient period of time to recover unrealized losses, none of the securities are deemed to be other than temporarily impaired.

All residential mortgage-backed securities in the Company’s portfolio at September 30, 2017 and December 31, 2016 were backed by US government sponsored enterprises (“GSEs”).

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The following is a summary of investment securities by maturity:

	September 30, 2017	
	Available-for-Sale	
	Amortized cost	Fair value
US government agencies		
Within one year	$11,302	$11,312
One to five years	6,527	6,492
Total	17,829	17,804
Residential mortgage-backed securities		
Five to ten years	7,264	7,200
After 10 years	50,421	49,550
Total	57,685	56,750
Total	$75,514	$74,554

The table above reflects contractual maturities. Actual results will differ as the loans underlying the mortgage-backed securities may repay sooner than scheduled. This table excludes the 504 Fund mutual fund investment.

At December 31, 2016, an investment security with a fair market value of $1.5 million was pledged to secure a line of credit with the Company’s correspondent bank. At September 30, 2017, the security pledged to secure a line of credit with the Company's correspondent bank was released. At September 30, 2017 and December 31, 2016, an investment security with a fair market value of $100 thousand was pledged to the Ohio State Treasurer to allow the Company's trust department to conduct business in the state of Ohio and investment securities with a fair market value of $2.5 million and $1.2 million, respectively, were pledged to the Company's trust department for uninsured trust assets held by the trust department.

Note 6. Loans and Leases Held for Investment and Allowance for Loan and Lease Losses

Loan and Lease Portfolio Segments

The following describes the risk characteristics relevant to each of the portfolio segments. Each loan and lease category is assigned a risk grade during the origination and closing process based on criteria described later in this section.

Commercial and Industrial

Commercial and industrial loans (C&I) receive similar underwriting treatment as commercial real estate loans in that the repayment source is analyzed to determine its ability to meet cash flow coverage requirements as set forth by Bank policies. Repayment of the Bank’s C&I loans generally comes from the generation of cash flow as the result of the borrower’s business operations. This business cycle itself brings a certain level of risk to the portfolio. In some instances, these loans may carry a higher degree of risk due to a variety of reasons – illiquid collateral, specialized equipment, highly depreciable assets, uncollectable accounts receivable, revolving balances, or simply being unsecured. As a result of these characteristics, the SBA guarantee on these loans is an important factor in mitigating risk.

Construction and Development

Construction and development loans are for the purpose of acquisition and development of land to be improved through the construction of commercial buildings. Such loans are usually paid off through the conversion to permanent financing for the long-term benefit of the borrower’s ongoing operations. At the completion of the project, if the loan is converted to permanent financing or if scheduled loan amortization begins, it is then reclassified to the

“Commercial Real Estate” segment. Underwriting of construction and development loans typically includes analysis of not only the borrower’s financial condition and ability to meet the required debt obligations, but also the general market conditions associated with the area and type of project being funded.

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Commercial Real Estate
Commercial real estate loans are extensions of credit secured by owner occupied and non-owner occupied collateral. Underwriting generally involves intensive analysis of the financial strength of the borrower and guarantor, liquidation value of the subject collateral, the associated unguaranteed exposure, and any available secondary sources of repayment, with the greatest emphasis given to a borrower's capacity to meet cash flow coverage requirements as set forth by Bank policies. Such repayment of commercial real estate loans is commonly derived from the successful ongoing operations of the business occupying the property. These typically include small businesses and professional practices.
Commercial Land
Commercial land loans are extensions of credit secured by farmland. Such loans are often for land improvements related to agricultural endeavors that may include construction of new specialized facilities. These loans are usually repaid through the conversion to permanent financing, or if scheduled loans amortization begins, for the long-term benefit of the borrower's ongoing operations. Underwriting generally involves intensive analysis of the financial strength of the borrower and guarantor, liquidation value of the subject collateral, the associated unguaranteed exposure, and any available secondary sources of repayment, with the greatest emphasis given to a borrower's capacity to meet cash flow coverage requirements as set forth by Bank policies.
Each of the loan types referenced in the sections above is further segmented into verticals in which the Bank chooses to operate. The Bank chooses to finance businesses operating in specific industries because of certain similarities. The similarities range from historical default and loss characteristics to business operations. However, there are differences that create the necessity to underwrite these loans according to varying criteria and guidelines. When underwriting a loan, the Bank considers numerous factors such as cash flow coverage, the credit scores of the guarantors, revenue growth, practice ownership experience and debt service capacity. Minimum guidelines have been set with regard to these various factors and deviations from those guidelines require compensating strengths when considering a proposed loan.

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Loans and leases consist of the following:

	September 30, 2017	December 31, 2016
Commercial & Industrial		
Agriculture	$2,698	$1,714
Death Care Management	12,101	9,684
Healthcare	41,454	37,270
Independent Pharmacies	97,171	83,677
Registered Investment Advisors	91,241	68,335
Veterinary Industry	45,570	38,930
Other Industries	142,115	94,836
Total	432,350	334,446
Construction & Development		
Agriculture	34,636	32,372
Death Care Management	4,744	3,956
Healthcare	46,814	30,467
Independent Pharmacies	1,696	2,013
Registered Investment Advisors	329	294
Veterinary Industry	13,265	11,514
Other Industries	45,052	31,715
Total	146,536	112,331
Commercial Real Estate		
Agriculture	14,689	5,591
Death Care Management	61,462	52,510
Healthcare	121,331	114,281
Independent Pharmacies	18,508	15,151
Registered Investment Advisors	13,550	11,462
Veterinary Industry	110,028	102,906
Other Industries	106,418	46,245
Total	445,986	348,146
Commercial Land		
Agriculture	146,814	113,569
Total	146,814	113,569
Total Loans and Leases[1]	1,171,686	908,492
Net Deferred Costs	8,038	7,648
Discount on SBA 7(a) and USDA Unguaranteed[2]	(9,837)	(8,574)
Loans and Leases, Net of Unearned	$1,169,887	$907,566

1 Total loans and leases include $40.4 million and $37.7 million of U.S. government guaranteed loans as of September 30, 2017 and December 31, 2016, respectively.

2 The Company measures the carrying value of the retained portion of loans sold at fair value under ASC Subtopic 825-10. The value of these retained loan balances is discounted based on the estimates derived from comparable unguaranteed loan sales.

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Credit Risk Profile

The Bank uses internal loan and lease reviews to assess the performance of individual loans and leases by industry segment. An independent review of the loan and lease portfolio is performed annually by an external firm. The goal of the Bank's annual review of select borrowers' financial performance is to validate the adequacy of the risk grade assigned.

The Bank uses a grading system to rank the quality of each loan and lease. The grade is periodically evaluated and adjusted as performance dictates. Loan and lease grades 1 through 4 are passing grades and grade 5 is special mention. Collectively, grades 6 through 8 represent classified loans and leases in the Bank's portfolio. The following guidelines govern the assignment of these risk grades:

Exceptional (1 Rated): These loans and leases are of the highest quality, with strong, well-documented sources of repayment. Debt service coverage ("DSC") is over 1.75X based on historical results. Secondary source of repayment is strong, with a loan to value ("LTV") of 65% or less if secured solely by commercial real estate ("CRE"). Discounted collateral coverage from all sources should exceed 125%. Guarantors have credit scores above 740.

Quality (2 Rated): These loans and leases are of good quality, with good, well-documented sources of repayment. DSC is over 1.25X based on historical or pro-forma results. Secondary source of repayment is good, with a LTV of 75% or less if secured solely by CRE. Discounted collateral coverage should exceed 100%. Guarantors have credit scores above 700.

Acceptable (3 rated): These loans and leases are of acceptable quality, with acceptable sources of repayment. DSC of over 1.00X based on historical or pro-forma results. Companies that do not meet these credit metrics must be evaluated to determine if they should be graded below this level.

Acceptable (4 rated): These loans and leases are considered very weak pass. These loans and leases are riskier than a 3-rated credit, but due to various mitigating factors are not considered a Special mention or worse. The mitigating factors must clearly be identified to offset further downgrade. Examples of loans and leases that may be put in this category include start-up loans and leases and loans and leases with less than 1:1 cash flow coverage with other sources of repayment.

Special mention (5 rated): These loans and leases are considered as emerging problems, with potentially unsatisfactory characteristics. These loans and leases require greater management attention. A loan or lease may be put into this category if the Bank is unable to obtain financial reporting from a company to fully evaluate its position.

Substandard (6 rated): Loans and leases graded Substandard are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral. They typically have unsatisfactory characteristics causing more than acceptable levels of risk, and have one or more well-defined weaknesses that could jeopardize the repayment of the debt.

Doubtful (7 rated): Loans and leases graded Doubtful have inherent weaknesses that make collection or liquidation in full questionable. Loans and leases graded Doubtful must be placed on non-accrual status.

Loss (8 rated): Loss rated loans and leases are considered uncollectible and of such little value that their continuance as an active Bank asset is not warranted. The asset should be charged off, even though partial recovery may be possible in the future.

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The following tables summarize the risk grades of each category:

	Risk Grades 1 - 4	Risk Grade 5	Risk Grades 6 - 8	Total
September 30, 2017				
Commercial & Industrial				
Agriculture	$2,470	$ 228	$ —	$2,698
Death Care Management	11,976	118	7	12,101
Healthcare	32,350	1,716	7,388	41,454
Independent Pharmacies	87,173	6,523	3,475	97,171
Registered Investment Advisors	87,940	2,566	735	91,241
Veterinary Industry	41,738	1,833	1,999	45,570
Other Industries	142,096	19	—	142,115
Total	405,743	13,003	13,604	432,350
Construction & Development				
Agriculture	34,636	—	—	34,636
Death Care Management	4,744	—	—	4,744
Healthcare	44,937	704	1,173	46,814
Independent Pharmacies	1,696	—	—	1,696
Registered Investment Advisors	329	—	—	329
Veterinary Industry	13,265	—	—	13,265
Other Industries	45,052	—	—	45,052
Total	144,659	704	1,173	146,536
Commercial Real Estate				
Agriculture	14,689	—	—	14,689
Death Care Management	54,684	4,288	2,490	61,462
Healthcare	111,943	5,050	4,338	121,331
Independent Pharmacies	15,043	1,843	1,622	18,508
Registered Investment Advisors	13,406	144	—	13,550
Veterinary Industry	95,055	2,680	12,293	110,028
Other Industries	105,738	680	—	106,418
Total	410,558	14,685	20,743	445,986
Commercial Land				
Agriculture	144,687	2,104	23	146,814
Total	144,687	2,104	23	146,814
Total[1]	$1,105,647	$ 30,496	$ 35,543	$1,171,686

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	Risk Grades 1 - 4	Risk Grade 5	Risk Grades 6 - 8	Total
December 31, 2016				
Commercial & Industrial				
Agriculture	$ 1,656	$ 58	$ —	$1,714
Death Care Management	9,452	121	111	9,684
Healthcare	28,723	681	7,866	37,270
Independent Pharmacies	73,948	6,542	3,187	83,677
Registered Investment Advisors	65,297	2,246	792	68,335
Veterinary Industry	34,407	1,967	2,556	38,930
Other Industries	94,736	100	—	94,836
Total	308,219	11,715	14,512	334,446
Construction & Development				
Agriculture	32,061	—	311	32,372
Death Care Management	3,956	—	—	3,956
Healthcare	30,467	—	—	30,467
Independent Pharmacies	2,013	—	—	2,013
Registered Investment Advisors	294	—	—	294
Veterinary Industry	9,725	1,789	—	11,514
Other Industries	31,715	—	—	31,715
Total	110,231	1,789	311	112,331
Commercial Real Estate				
Agriculture	5,591	—	—	5,591
Death Care Management	46,427	4,314	1,769	52,510
Healthcare	103,097	7,142	4,042	114,281
Independent Pharmacies	12,654	1,968	529	15,151
Registered Investment Advisors	11,462	—	—	11,462
Veterinary Industry	88,168	3,995	10,743	102,906
Other Industries	46,245	—	—	46,245
Total	313,644	17,419	17,083	348,146
Commercial Land				
Agriculture	112,333	1,138	98	113,569
Total	112,333	1,138	98	113,569
Total[1]	$ 844,427	$ 32,061	$ 32,004	$908,492

1 Total loans and leases include $40.4 million of U.S. government guaranteed loans as of September 30, 2017, segregated by risk grade as follows: Risk Grades 1 – 4 = $12.1 million, Risk Grade 5 = $3.7 million, Risk Grades 6 – 8 = $24.6 million. As of December 31, 2016, total loans and leases include $37.7 million of U.S. government guaranteed loans, segregated by risk grade as follows: Risk Grades 1 – 4 = $8.7 million, Risk Grade 5 = $7.7 million, Risk Grades 6 – 8 = $21.3 million.

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Past Due Loans and Leases
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. Loans and leases less than 30 days past due and accruing are included within current loans and leases shown below. The following tables show an age analysis of past due loans and leases as of the dates presented.

	Less Than 30 Days Past Due & Not Accruing	30-89 Days Past Due & Accruing	30-89 Days Past Due & Not Accruing	Greater Than 90 Days Past Due	Total Not Accruing & Past Due	Current	Total Loans and Leases	90 Days or More Past Due & Still Accruing
September 30, 2017								
Commercial & Industrial								
Agriculture	$ —	$ —	$ —	$ —	$ —	$ 2,698	$ 2,698	$ —
Death Care Management	—	—	—	—	—	12,101	12,101	—
Healthcare	535	76	16	6,152	6,779	34,675	41,454	—
Independent Pharmacies	331	44	—	2,274	2,649	94,522	97,171	—
Registered Investment Advisors	—	—	—	—	—	91,241	91,241	—
Veterinary Industry	224	29	536	796	1,585	43,985	45,570	—
Other Industries	—	—	—	—	—	142,115	142,115	—
Total	1,090	149	552	9,222	11,013	421,337	432,350	—
Construction & Development								
Agriculture	—	—	—	—	—	34,636	34,636	—
Death Care Management	—	—	—	—	—	4,744	4,744	—
Healthcare	—	—	—	—	—	46,814	46,814	—
Independent Pharmacies	—	—	—	—	—	1,696	1,696	—
Registered Investment Advisors	—	—	—	—	—	329	329	—
Veterinary Industry	—	—	—	—	—	13,265	13,265	—
Other Industries	—	—	—	—	—	45,052	45,052	—
Total	—	—	—	—	—	146,536	146,536	—
Commercial Real Estate								
Agriculture	—	—	—	—	—	14,689	14,689	—
Death Care Management	—	298	174	1,402	1,874	59,588	61,462	—
Healthcare	40	—	2,679	829	3,548	117,783	121,331	—
Independent Pharmacies	—	—	—	1,622	1,622	16,886	18,508	—
Registered Investment Advisors	—	—	—	—	—	13,550	13,550	—
Veterinary Industry	1,906	3,915	132	2,749	8,702	101,326	110,028	—
Other Industries	—	7,750	—	—	7,750	98,668	106,418	—
Total	1,946	11,963	2,985	6,602	23,496	422,490	445,986	—
Commercial Land								
Agriculture	23	—	—	—	23	146,791	146,814	—
Total	23	—	—	—	23	146,791	146,814	—

Total[1]	$ 3,059	$ 12,112	$ 3,537	$ 15,824	$ 34,532	$ 1,137,154	$ 1,171,686	$ —

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

	Less Than 30 Days Past Due & Not Accruing	30-89 Days Past Due & Accruing	30-89 Days Past Due & Not Accruing	Greater Than 90 Days Past Due	Total Not Accruing & Past Due	Current	Total Loans and Leases	90 Days or More Past Due & Still Accruing
December 31, 2016								
Commercial & Industrial								
Agriculture	$ —	$ —	$ —	$ —	$ —	$ 1,714	$ 1,714	$ —
Death Care Management	—	—	—	—	—	9,684	9,684	—
Healthcare	—	272	496	5,920	6,688	30,582	37,270	—
Independent Pharmacies	42	293	408	2,349	3,092	80,585	83,677	—
Registered Investment Advisors	—	—	—	—	—	68,335	68,335	—
Veterinary Industry	32	151	646	1,441	2,270	36,660	38,930	—
Other Industries	—	—	—	—	—	94,836	94,836	—
Total	74	716	1,550	9,710	12,050	322,396	334,446	—
Construction & Development								