

SEACOAST BANKING CORP OF FLORIDA
Form 10-K
March 14, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 0-13660

SEACOAST BANKING CORPORATION OF FLORIDA

(Exact Name of Registrant as Specified in Its Charter)

Florida
(State or Other Jurisdiction of
Incorporation or Organization)

59-2260678
(I.R.S. Employer Identification No.)

815 Colorado Avenue, Stuart, FL 34994
(Address of Principal Executive Offices) (Zip Code)

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Registrant's telephone number, including area code (772) 287-4000

Securities registered pursuant to Section 12 (b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, Par Value \$0.10	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically 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 NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer "

Non-accelerated filer "

Accelerated filer x

Smaller reporting company "

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

YES " NO x

The aggregate market value of Seacoast Banking Corporation of Florida common stock, par value \$0.10 per share, held by non-affiliates, computed by reference to the price at which the stock was last sold on June 30, 2015, as reported on the Nasdaq Global Select Market, was \$376,755,361. The number of shares outstanding of Seacoast Banking Corporation of Florida common stock, par value \$0.10 per share, as of February 29, 2016, was 34,628,589.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant’s 2016 Proxy Statement for the Annual Meeting of Shareholders to be held May 24, 2016 (the “2016 Proxy Statement”) are incorporated by reference into Part III, Items 10 through 14 of this report. Other than those portions of the 2016 Proxy Statement specifically incorporated by reference herein pursuant to Items 10 through 14, no other portions of the 2016 Proxy Statement shall be deemed so incorporated.

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SPECIAL CAUTIONARY NOTICE
REGARDING FORWARD-LOOKING STATEMENTS

Certain statements made or incorporated by reference herein which are not statements of historical fact, including those under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere herein, are “forward-looking statements” within the meaning and protections of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause the actual results, performance or achievements of Seacoast Banking Corporation of Florida (“Seacoast” or the “Company”) to be materially different from those set forth in the forward-looking statements.

All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as “may,” “will,” “anticipate,” “assume,” “should,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “estimate,” “continue,” “further,” “plan,” “point to,” “project,” “could” and other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation:

- the effects of current and future economic, business and market conditions in the United States generally or in the communities we serve;

- changes in governmental monetary and fiscal policies, including interest rate policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”);

- legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, including those associated with the Dodd Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and changes in the scope and cost of Federal Deposit Insurance Corporation (“FDIC”) insurance and other coverage;

- changes in accounting policies, rules and practices and applications or determinations made thereunder;

- the risks of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities, and interest sensitive assets and liabilities;

- changes in borrower credit risks and payment behaviors;

·changes in the availability and cost of credit and capital in the financial markets;

·changes in the prices, values and sales volumes of residential and commercial real estate in the United States and in
·the communities we serve, which could impact write-downs of assets, our ability to liquidate non-performing assets,
·realized losses on the disposition of non-performing assets and increased credit losses;

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our ability to comply with any requirements imposed on us or on our banking subsidiary, Seacoast National Bank (“Seacoast National”) by regulators and the potential negative consequences that may result;

our concentration in commercial real estate loans;

the failure of assumptions and estimates, as well as differences in, and changes to, economic, market and credit conditions, including changes in borrowers’ credit risks and payment behaviors from those used in our loan portfolio stress test;

the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;

the failure of assumptions and estimates underlying the establishment of reserves for possible loan losses and other estimates;

the impact on the valuation of our investments due to market volatility or counterparty payment risk;

statutory and regulatory restrictions on our ability to pay dividends to our shareholders;

any applicable regulatory limits on Seacoast National’s ability to pay dividends to us;

increases in regulatory capital requirements for banking organizations generally, which may adversely affect our ability to expand our business or could cause us to shrink our business;

the risks of mergers, acquisitions and divestitures, including, without limitation, the related time and costs of implementing such transactions, integrating operations as part of these transactions and possible failures to achieve expected gains, revenue growth and/or expense savings from such transactions;

changes in technology or products that may be more difficult, costly, or less effective than anticipated;

inability of our risk management framework to manage risks associated with our business such as credit risk and operational risk, including third party vendors and other service providers;

the effects of war or other conflicts, acts of terrorism or other catastrophic events that may affect general economic conditions;

the risks that our deferred tax assets could be reduced if estimates of future taxable income from our operations and tax planning strategies are less than currently estimated, and sales of our capital stock could trigger a reduction in the amount of net operating loss carryforwards that we may be able to utilize for income tax purposes; and

other factors and risks described under “Risk Factors” herein and in any of our subsequent reports filed with the Securities and Exchange Commission (the “Commission” or “SEC”) and available on its website at www.sec.gov.

All written or oral forward-looking statements that are made by us or are attributable to us are expressly qualified in their entirety by this cautionary notice. We assume no obligation to update, revise or correct any forward-looking statements that are made from time to time, either as a result of future developments, new information or otherwise, except as may be required by law.

Part I

Item 1.

Business

General

We are a bank holding company, incorporated in Florida in 1983, and registered under the Bank Holding Company Act of 1956, as amended (the “BHC Act”). Our principal subsidiary is Seacoast National Bank, a national banking association (“Seacoast National”). Seacoast National commenced its operations in 1933, and operated as “First National Bank & Trust Company of the Treasure Coast” prior to 2006 when we changed its name to Seacoast National Bank.

As a bank holding company, we are a legal entity separate and distinct from our subsidiaries, including Seacoast National. We coordinate the financial resources of the consolidated enterprise and maintain financial, operational and administrative systems that allow centralized evaluation of subsidiary operations and coordination of selected policies and activities. Our operating revenues and net income are derived primarily from Seacoast National through dividends and fees for services performed.

As of December 31, 2015, we had total consolidated assets of approximately \$3.535 billion, total deposits of approximately \$2.844 billion, total consolidated liabilities, including deposits, of approximately \$3.181 billion and consolidated shareholders’ equity of approximately \$353.5 million. Our operations are discussed in more detail under “Item 7. Management’s Discussion and Analysis of Consolidated Financial Condition and Results of Operations.”

We and our subsidiaries offer a full array of deposit accounts and retail banking services, engage in consumer and commercial lending and provide a wide variety of trust and asset management services, as well as securities and annuity products to our customers. Seacoast National had 43 traditional banking offices in 14 counties in Florida at year-end 2015. We have 18 branches in the “Treasure Coast of Florida,” including the counties of Martin, St. Lucie and Indian River on Florida’s southeastern coast. During 2013, we expanded our footprint by strategically opening five new commercial lending offices in the larger metropolitan markets we serve, more specifically, three in Orlando, one in Boca Raton, and one in Ft. Lauderdale, Florida. More recently, in October 2014, we acquired 12 branches in Central Florida through our acquisition of The BANKshares, Inc., a Florida corporation (“BANKshares”), and its subsidiary bank, BankFIRST, and in July 2015, we acquired 3 branches in Palm Beach County (closing one branch in close proximity to an existing Seacoast branch) through our acquisition of Grand Bankshares, Inc., a Florida corporation (“Grand Bankshares”), and its subsidiary bank, Grand Bank (“Grand”).

Most of our banking offices have one or more automated teller machines (“ATMs”) providing customers with 24-hour access to their deposit accounts. We are a member of the “NYCE Payments Network,” an electronic funds transfer

organization represented in all fifty states in the United States, which permits banking customers access to their accounts at 2.5 million participating ATMs and retail locations throughout the United States. During 2014, Seacoast National partnered with Publix, a major grocery chain in the state of Florida, to offer free access at over 1,000 Publix ATMs within the state of Florida. Our debit cards are accepted wherever VISA is accepted.

Seacoast National's "MoneyPhone" system allows customers to access information on their loan or deposit account balances, transfer funds between linked accounts, make loan payments, and verify deposits or checks that may have cleared, all over the telephone. This service is available 24 hours a day, seven days a week.

In addition, customers may access banking information via Seacoast National's Customer Service Center ("CSC") 24 hours a day, seven days a week. Our CSC staff is available to open accounts, take applications for certain types of loans, resolve account issues, and offer information on other bank products and services to existing and potential customers.

We also offer Internet and Mobile banking to business and retail customers. These services allow customers to access transactional information on their deposit accounts, review loan and deposit balances, transfer funds between linked accounts and deposit checks to and loan payments from a deposit account, all over the Internet or their Mobile device, 24 hours a day, seven days a week. Seacoast National has significantly expanded its technology platform and the products offered to its customers by introducing digital deposit capture on smart phones, launching new consumer and business tablet and mobile platforms, rebranding its website, and enhancing its automatic teller machine capabilities.

Seacoast National also provides brokerage and annuity services. Seacoast National personnel involved with the sale of these services are dual employees with Invest Financial Corporation, the company through which Seacoast National presently conducts its brokerage and annuity services.

Seacoast National has seven, wholly-owned subsidiaries:

FNB Insurance Services, Inc. ("FNB Insurance"), an inactive subsidiary, which was formed to provide insurance agency services;

South Branch Building, Inc., which is a general partner in a partnership that constructed a branch facility of Seacoast National;

TCOast Holdings, LLC, BR West, LLC, and TC Property Ventures, LLC, each of which was formed to own and operate certain properties acquired through foreclosure. TC Stuart, LLC, similar in operation, was dissolved in the state of Florida on April 26, 2013;

Commercial Business Finance, Inc. ("CBF"), a receivables factoring company, acquired in the BANKshares acquisition, that provides working capital financing for small to medium sized businesses; and

BankFIRST Realty, Inc., acquired in the BANKshares acquisition, which owns and operates certain properties acquired through foreclosure. We anticipate dissolution of this entity during 2016, when remaining foreclosed properties are expected to be sold.

The operations of each of these direct and indirect subsidiaries represented less than 10% of our consolidated assets and contributed less than 10% to our consolidated revenues in 2015.

We directly own all the common equity in six statutory trusts relating to our trust preferred securities:

·SBCF Capital Trust I, formed on March 31, 2005 for the purpose of issuing \$20 million in trust preferred securities;

·SBCF Statutory Trust II, formed on December 16, 2005 for the purpose of issuing \$20 million in trust preferred securities;

·SBCF Statutory Trust III, formed on June 29, 2007 for the purpose of issuing \$12 million in trust preferred securities;

BankFIRST (FL) Statutory Trust I, formed on December 19, 2002 for the purpose of issuing \$5.2 million in trust preferred securities;

BankFIRST (FL) Statutory Trust II, formed on March 5, 2004 for the purpose of issuing \$4.1 million in trust preferred securities;

The BANKshares Capital Trust I, formed on December 15, 2005, for the purpose of issuing \$5.2 million in trust preferred securities; and

Grand Bankshares Capital Trust I, formed on October 29, 2004, also for the purpose of issuing \$7.2 million in trust preferred securities.

We have operated an office of Seacoast Marine Finance Division, a division of Seacoast National, in Ft. Lauderdale, Florida since February 2000. Offices in California that have been in operation since November 2002 were closed at the end of 2014, but Seacoast National continues to have representation in California, Washington and Arizona. Seacoast Marine Finance Division is staffed with experienced marine lending professionals with a marketing emphasis on marine loans of \$200,000 and greater, with the majority of loan production sold to correspondent banks on a non-recourse basis.

During May 2015, Seacoast acquired a second receivables factoring location in Boynton Beach, Florida, and operates this office as Seacoast Business Funding, a division of Seacoast National. We believe cost synergies will be obtained by merging the back room operations of this division with that of CBF's in early 2016, under one division manager.

Our principal offices are located at 815 Colorado Avenue, Stuart, Florida 34994, and the telephone number at that address is (772) 287-4000. We and our subsidiary Seacoast National maintain Internet websites at www.seacoastbanking.com, www.seacoastbank.com, and www.seacoastnational.com, respectively. We are not incorporating the information on our or Seacoast National's website into this report, and none of these websites nor the information appearing on these websites is included or incorporated in, or is a part of, this report.

We make available, free of charge on our corporate website, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC.

Employees

As of December 31, 2015, we and our subsidiaries employed 665 full-time equivalent employees. We consider our employee relations to be good, and we have no collective bargaining agreements with any employees.

Expansion of Business

Over the years, we have expanded our products and services to meet the changing needs of the various segments of our market, and we presently expect to continue this strategy. We have expanded geographically through the addition of de novo branches. We also, from time to time, have acquired banks, bank branches and deposits, and have opened new branches and commercial lending offices.

In October 2014, we acquired BankFIRST, a commercial bank headquartered in Winter Park, Florida, with twelve offices in five counties in Central Florida. BankFIRST was merged with Seacoast National in October 2014.

In July 2015, we acquired Grand, a commercial bank headquartered in West Palm Beach, Florida, with three offices in Palm Beach County. Grand was merged into Seacoast National in July 2015.

In October 2015, Seacoast National entered into a Branch Sale Agreement with BMO Harris Bank N.A. (“BMO”) pursuant to which Seacoast National has agreed to purchase fourteen branches of BMO located in the Orlando MSA, which will add approximately \$355 million of deposits, and approximately \$70 million in loans. This transaction is expected to close in the first half of 2016, subject to regulatory approval or other customary conditions.

In November 2015, we and Seacoast National entered into an Agreement and Plan of Merger with Floridian Financial Group, Inc., a Florida corporation (“Floridian”), and Floridian’s wholly-owned subsidiary, Floridian Bank, a Florida chartered commercial bank. This acquisition will add approximately \$426 million in assets, \$361 million in deposits, and \$289 million in gross loans. This transaction closed March 11, 2016.

Florida law permits statewide branching, and Seacoast National has expanded, and anticipates future expansion, by opening additional bank offices and facilities, as well as by acquisition of other financial institutions and branches. Since 2002, we have opened and acquired 34 new offices in 14 counties of Florida. With technology improvements and changes to our customers’ banking preferences, we have also rationalized our branch footprint by closing and consolidating certain branches. Since 2007, we have closed 19 offices in seven counties of Florida, with three offices consolidated during 2015, five offices consolidated in December 2014, and two offices consolidated in January 2013. During 2013, we opened five new commercial lending offices in our larger metropolitan locations in Florida, with three opened in Orlando, one in Ft. Lauderdale and one in Boca Raton. The Seacoast Marine Finance Division operates a loan production office in Ft. Lauderdale, Florida, and has representation in California, Washington and Arizona. For more information on our branches and offices see “Item 2. Properties”. As part of our overall strategic growth plan, we intend to regularly evaluate possible mergers, acquisitions and other expansion opportunities. We believe that with the current economic environment, there may be additional opportunities for us to acquire and consolidate other financial institutions in the State of Florida.

Seasonality; Cycles

We believe our commercial banking operations are somewhat seasonal in nature. Investment management fees and deposits often peak in the first and second quarters, and often are lowest in the third quarter. Transactional fees from merchants, and ATM and debit card use also typically peak in the first and second quarters. Public deposits tend to

increase with tax collections in the first and fourth quarters and decline as a result of spending thereafter.

Commercial and residential real estate activity, demand, prices and sales volumes are less seasonal and vary based upon various factors, including economic conditions, interest rates and credit availability.

Competition

We and our subsidiaries operate in the highly competitive markets of Martin, St. Lucie, Indian River, Brevard, Palm Beach and Broward Counties, in southeastern Florida and in the Orlando metropolitan statistical area in Orange, Seminole and Lake County, as well as Volusia County. We also operate in five competitive counties in central Florida near Lake Okeechobee. Seacoast National not only competes with other banks of comparable or larger size in its markets, but also competes with various other nonbank financial institutions, including savings and loan associations, credit unions, mortgage companies, personal and commercial financial companies, peer to peer lending businesses, investment brokerage and financial advisory firms and mutual fund companies. We compete for deposits, commercial, fiduciary and investment services and various types of loans and other financial services. Seacoast National also competes for interest-bearing funds with a number of other financial intermediaries and investment alternatives, including mutual funds, brokerage and insurance firms, governmental and corporate bonds, and other securities. Continued consolidation, and rapid technological changes, within the financial services industry will most likely change the nature and intensity of competition that we face, but can also create opportunities for us to demonstrate and exploit what we believe are our competitive advantages.

Our competitors include not only financial institutions based in the State of Florida, but also a number of large out-of-state and foreign banks, bank holding companies and other financial institutions that have an established market presence in the State of Florida, or that offer products by mail, telephone or over the Internet. Many of our competitors are engaged in local, regional, national and international operations and have greater assets, personnel and other resources. Some of these competitors are subject to less regulation and/or more favorable tax treatment than us. Many of these institutions have greater resources, broader geographic markets and higher lending limits than us and may offer services that we do not offer. In addition, these institutions may be able to better afford and make broader use of media advertising, support services, and electronic and other technology than us. To offset these potential competitive disadvantages, we depend on our reputation as an independent, “super” community bank headquartered locally, our personal service, our greater community involvement and our ability to make credit and other business decisions quickly and locally.

Supervision and Regulation

Bank holding companies and banks are extensively regulated under federal and state law. This discussion is qualified in its entirety by reference to the particular statutory and regulatory provisions described below and is not intended to be an exhaustive description of the statutes or regulations applicable to us and Seacoast National’s business. As a bank holding company under federal law, we are subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System (“Federal Reserve”). As a national bank, our primary bank subsidiary, Seacoast National, is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (“OCC”). In addition, as discussed in more detail below, Seacoast National and any other of our subsidiaries that offer consumer financial products could be subject to regulation, supervision, and examination by the Consumer Financial Protection Bureau (“CFPB”). Supervision, regulation, and examination of us, Seacoast National and our

respective subsidiaries by the bank regulatory agencies are intended primarily for the protection of consumers, bank depositors and the Deposit Insurance Fund (“DIF”) of the FDIC, rather than holders of our capital stock. Any change in laws, regulations, or supervisory actions, whether by the OCC, the Federal Reserve, the FDIC, the CFPB, or Congress, could have a material adverse impact on us and Seacoast National.

We are required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as rules and regulations adopted by the SEC, the Public Company Accounting Oversight Board, and Nasdaq. In particular, we are required to include management and independent registered public accounting firm reports on internal controls as part of our Annual Report on Form 10-K in order to comply with Section 404 of the Sarbanes-Oxley Act. We have evaluated our controls, including compliance with the SEC rules on internal controls, and have and expect to continue to spend significant amounts of time and money on compliance with these rules. Our failure to comply with these internal control rules may materially adversely affect our reputation, ability to obtain the necessary certifications to financial statements, and the values of our securities. The assessments of our financial reporting controls as of December 31, 2015 are included in this report under “Section 9A. Controls and Procedures.”

Recent Regulatory Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

On July 21, 2010, President Obama signed into law the Dodd-Frank Act. The Dodd-Frank Act has and will continue to have a broad impact on the financial services industry, imposing significant regulatory and compliance changes, the imposition of increased capital, leverage and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Provisions of the Dodd-Frank Act that have affected or are likely to affect our operations or the operations of Seacoast National include:

Creation of the CFPB with centralized authority, including examination and enforcement authority, for consumer protection in the banking industry.

New limitations on federal preemption.

New prohibitions and restrictions on the ability of a banking entity to engage in proprietary trading for its own account and have certain interests in, or relationships with, certain unregistered hedge funds, private equity funds and commodity pools (together, “covered funds”).

Application of new regulatory capital requirements, including changes to leverage and risk-based capital standards and changes to the components of permissible tiered capital.

Requirement that holding companies and their subsidiary banks be well capitalized and well managed in order to engage in activities permitted for financial holding companies.

Changes to the assessment base for deposit insurance premiums.

Permanently raising the FDIC’s standard maximum insurance amount to \$250,000.

Repealed the prohibition of the payment of interest on demand deposits.

Restrictions on compensation, including a prohibition on incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions that are deemed to be excessive, or that may lead to material losses.

· Requirement that sponsors of asset-backed securities retain a percentage of the credit risk underlying the securities.

· Requirement that banking regulators remove references to and requirements of reliance upon credit ratings from their regulations and replace them with appropriate alternatives for evaluating creditworthiness.

The following items and information provided in subsequent sections provide a further description of certain relevant provisions of the Dodd-Frank Act and their potential impact on our operations and activities, both currently and prospectively.

Creation of New Governmental Authorities. The Dodd-Frank Act created various new governmental authorities such as the Oversight Council and the CFPB, an independent regulatory authority housed within the Federal Reserve. The CFPB has broad authority to regulate the offering and provision of consumer financial products.. The CFPB's authority to supervise and examine depository institutions with \$10 billion or less in assets for compliance with federal consumer laws remains largely with those institutions' primary regulators. However, the CFPB may participate in examinations of these smaller institutions on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. The CFPB also may participate in examinations of Seacoast National, which currently has assets of less than \$10 billion, and could supervise and examine our other direct or indirect subsidiaries that offer consumer financial products or services. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB, and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against certain institutions.

Limitation on Federal Preemption. The Dodd-Frank Act significantly reduced the ability of national banks to rely upon federal preemption of state consumer financial laws. Although the OCC will have the ability to make preemption determinations where certain conditions are met, the broad rollback of federal preemption has the potential to create a patchwork of federal and state compliance obligations. This could, in turn, result in significant new regulatory requirements applicable to us, with attendant potential significant changes in our operations and increases in our compliance costs. It could also result in uncertainty concerning compliance, with attendant regulatory and litigation risks.

Corporate Governance. The Dodd-Frank Act addresses many investor protection, corporate governance, and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for Compensation Committee members; and (3) requires companies listed on national securities exchanges to adopt incentive-based compensation clawback policies for executive officers.

The Dodd-Frank Act requires the banking agencies and the SEC to establish joint rules or guidelines for financial institutions with more than \$1 billion in assets, such as us and Seacoast National, that prohibit incentive compensation arrangements that the agencies determine encourage inappropriate risks by the institution. The banking agencies issued proposed rules in 2011 and previously issued guidance on sound incentive compensation policies, but have not yet finalized any rules. We and Seacoast National have undertaken efforts to ensure that our incentive compensation plans do not encourage inappropriate risks, consistent with three key principles—that incentive compensation arrangements should appropriately balance risk and financial rewards, be compatible with effective controls and risk management, and be supported by strong corporate governance.

Shareholder Say-On-Pay Votes. The Dodd-Frank Act requires public companies to take shareholders' votes on proposals addressing compensation (known as say-on-pay), the frequency of a say-on-pay vote, and the golden parachutes available to executives in connection with change-in-control transactions. Public companies must give shareholders the opportunity to vote on the compensation at least every three years and the opportunity to vote on frequency at least every six years, indicating whether the say-on-pay vote should be held annually, biennially, or triennially. The first say-on-pay vote occurred at our 2011 annual shareholders meeting. The say-on-pay, the say-on-parachute and the say-on-frequency votes are explicitly nonbinding and cannot override a decision of our board of directors.

Volcker Rule. In December 2013, the Federal Reserve and other regulators jointly issued final rules implementing requirements of a new Section 13 to the Bank Holding Company Act, commonly referred to as the “Volcker Rule.” The Volcker Rule generally prohibits us and our subsidiaries from (i) engaging in proprietary trading for our own account, and (ii) acquiring or retaining an ownership interest in or sponsoring a “covered fund,” all subject to certain exceptions. The Volcker Rule also specifies certain limited activities in which we and our subsidiaries may continue to engage, and required us to implement a compliance program. The regulators provided for a Volcker Rule conformance date of July 21, 2015. The Federal Reserve extended the conformance deadline to July 21, 2016 for certain legacy “covered funds” activities and investments in place before December 31, 2013, and the Federal Reserve expressed its intention to grant the last available statutory extension for such covered funds activities until July 21, 2017.

While many of the requirements called for in the Dodd-Frank Act have been implemented, others will continue to be implemented over time. Given the extent of the changes brought about by the Dodd-Frank Act and the significant discretion afforded to federal regulators to implement those changes, we cannot fully predict the extent of the impact such requirements will have on our operations. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

Basel III

We were required to comply with higher minimum capital requirements as of January 1, 2015. These new rules (“Revised Capital Rules”) implement the Dodd-Frank Act and a separate international regulatory regime known as “Basel III” (which is discussed below). Prior to January 1, 2015, we and Seacoast National were subject to risk-based capital guidelines issued by the Federal Reserve and the OCC for bank holding companies and national banks, respectively. The risk-based capital guidelines that applied to us and Seacoast National through December 31, 2014, were based upon the 1988 capital accord of the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the U.S. federal banking agencies on an interagency basis.

The following is a brief description of the relevant provisions of the Revised Capital Rules and their potential impact on our capital levels. Among other things, the Revised Capital Rules (i) introduce a new capital measure called “Common Equity Tier 1” (“CET1”), (ii) specify that Tier 1 Capital consist of CET1 and “Additional Tier 1 Capital” instruments meeting certain requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and note to the other components of capital and (iv) expand the scope of the deductions/adjustments from capital as compared to existing regulation that apply to us and other banking organizations.

New Minimum Capital Requirements. The Revised Capital Rules required the following initial minimum capital ratios as of January 1, 2015:

- 4.5% CET1 to risk-weighted assets.
- 6.0% Tier 1 capital to risk-weighted assets.
- 8.0% Total capital to risk-weighted assets.

4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

Capital Conservation Buffer. The Revised Capital Rules also introduce a new "capital conservation buffer," composed entirely of CET1, on top of the minimum risk-weighted asset ratios, which is designed to absorb losses during periods of economic stress. Banking organizations with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of this difference.

When fully phased in on January 1, 2019, the Revised Capital Rules will require us and Seacoast National to maintain (i) a minimum ratio of CET1 to risk-weighted assets of 7% (4.5% attributable to CET1 plus the 2.5% capital conservation buffer); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 8.5% (6.0% attributable to Tier 1 capital plus the 2.5% capital conservation buffer), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 10.5% (8.0% attributable to Total capital plus the 2.5% capital conservation buffer) and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets (as compared to a current minimum leverage ratio of 3% for banking organizations that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority's risk-adjusted measure for market risk).

Regulatory Deductions. The Revised Capital Rules provide for a number of deductions from and adjustments to CET1, including the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a three-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter until fully phased-in at January 1, 2018).

Under the Revised Capital Rules, the effects of certain accumulated other comprehensive items (except gains and losses on cash flow hedges where the hedged item is not recognized on a banking organization's balance sheet at fair value) are not excluded; however, certain banking organizations, including us and Seacoast National, may make a one-time permanent election to continue to exclude these items. The Revised Capital Rules also preclude counting certain hybrid securities, such as trust preferred securities, as Tier 1 capital of bank or thrift holding companies. However, for bank or thrift holding companies that had assets of less than \$15 billion as of December 31, 2009 like us, trust preferred securities issued prior to May 19, 2010 can be treated as Tier 1 capital to the extent that they do not exceed 25% of Tier 1 capital after applying all capital deductions and adjustments.

Management believes, at December 31, 2015, that we and Seacoast National meet all capital adequacy requirements under the Revised Capital Rules on a fully phased-in basis if such requirements were currently effective.

Bank Holding Company Regulation

As a bank holding company, we are subject to supervision and regulation by the Federal Reserve under the BHC Act. Bank holding companies generally are limited to the business of banking, managing or controlling banks, and other activities that the Federal Reserve determines to be closely related to banking, or managing or controlling banks as to be a proper incident thereto. We are required to file with the Federal Reserve periodic reports and such other information as the Federal Reserve may request. Ongoing supervision is provided through regular examinations by the Federal Reserve and other means that allow the regulators to gauge management's ability to identify, assess and control risk in all areas of operations in a safe and sound manner and to ensure compliance with laws and regulations. The Federal Reserve may also examine our non-bank subsidiaries.

Expansion and Activity Limitations. Under the BHC Act, a bank holding company is generally permitted to engage in, or acquire direct or indirect control of more than 5 percent of the voting shares of, any company engaged in the following activities:

banking or managing or controlling banks.

furnishing services to or performing services for our subsidiaries; and

any activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking, including:

factoring accounts receivable;

making, acquiring, brokering or servicing loans and usual related activities;

leasing personal or real property;

operating a non-bank depository institution, such as a savings association;

performing trust company functions;

providing financial and investment advisory activities;

conducting discount securities brokerage activities;

underwriting and dealing in government obligations and money market instruments;

providing specified management consulting and counseling activities;

performing selected data processing services and support services;

acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions;

performing selected insurance underwriting activities;

providing certain community development activities (such as making investments in projects designed primarily to promote community welfare); and,

issuing and selling money orders and similar consumer-type payment instruments

With certain exceptions, the BHC Act prohibits a bank holding company from acquiring direct or indirect ownership or control of voting shares of any company which is not a bank or bank holding company, and from engaging directly or indirectly in any activity other than banking or managing or controlling banks or performing services for its authorized subsidiaries. A bank holding company, may, however, engage in or acquire an interest in a company that engages in activities which the Federal Reserve has determined by regulation or order to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

The Gramm-Leach-Bliley Act of 1999 (the “GLB”) substantially revised the statutory restrictions separating banking activities from certain other financial activities. Under the GLB, bank holding companies that are “well-capitalized” and “well-managed”, as defined in Federal Reserve Regulation Y, which have and maintain “satisfactory” ratings under the Community Reinvestment Act of 1977, as amended (the “CRA”), and meet certain other conditions, can elect to become “financial holding companies”. Financial holding companies and their subsidiaries are permitted to acquire or engage in activities such as insurance underwriting, securities underwriting, travel agency activities, a broad range of insurance agency activities, merchant banking, and other activities that the Federal Reserve determines to be financial in nature or complementary thereto. While we have not become a financial holding company, we may elect to do so in the future in order to exercise the broader activity powers provided by the GLB. Banks may also engage in similar “financial activities” through subsidiaries.

The BHC Act permits acquisitions of banks by bank holding companies, such that we and any other bank holding company, whether located in Florida or elsewhere, may acquire a bank located in any other state, subject to certain deposit-percentage, age of bank charter requirements, and other restrictions. Federal law also permits national and state-chartered banks to branch interstate through acquisitions of banks in other states, subject to certain requirements.

Support of Subsidiary Banks by Holding Companies. Federal Reserve policy requires a bank holding company to act as a source of financial and managerial strength and to preserve and protect its bank subsidiaries in situations where additional investments in a troubled bank may not otherwise be warranted. Notably, the Dodd-Frank Act has codified the Federal Reserve’s “source of strength” doctrine. In addition, the Dodd-Frank Act’s new provisions authorize the Federal Reserve to require a company that directly or indirectly controls a bank to submit reports that are designed both to assess the ability of such company to comply with its “source of strength” obligations and to enforce the company’s compliance with these obligations.

FDICIA and Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), among other things, requires the federal bank regulatory agencies to take “prompt corrective action” regarding depository institutions that do not meet minimum capital requirements. FDICIA establishes five regulatory capital tiers: “well capitalized”, “adequately capitalized”, “undercapitalized”, “significantly undercapitalized”, and “critically undercapitalized”. A depository institution’s capital tier will depend upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation. The FDICIA imposes progressively more restrictive restraints on operations, management and capital distributions, depending on the category in which an institution is classified.

All of the federal bank regulatory agencies have adopted regulations establishing relevant capital measures and relevant capital levels for federally insured depository institutions. Notably, the Revised Capital Rule updated the prompt corrective action framework to correspond to the rule’s new minimum capital thresholds, which took effect on

January 1, 2015. Under this new framework, (i) a well-capitalized insured depository institution is one having a total risk-based capital ratio of 10 percent or greater, a Tier 1 risk-based capital ratio of 8 percent or greater, a CET1 capital ratio of 6.5 percent or greater, a leverage capital ratio of 5 percent or greater and that is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure; (ii) an adequately-capitalized depository institution is one having a total risk based capital ratio of 8 percent or more, a Tier 1 capital ratio of 6 percent or more, a CET1 capital ratio of 4.5 percent or more, and a leverage ratio of 4 percent or more; (iii) an undercapitalized depository institution is one having a total capital ratio of less than 8 percent, a Tier 1 capital ratio of less than 6 percent, a CET1 capital ratio of less than 4.5 percent, or a leverage ratio of less than 4 percent; and (iv) a significantly undercapitalized institution is one having a total risk-based capital ratio of less than 6 percent, a Tier 1 capital ratio of less than 4 percent, a CET1 ratio of less than 3 percent or a leverage capital ratio of less than 3 percent. The Revised Capital Rules retain the 2 percent threshold for critically undercapitalized institutions, but make certain changes to the framework for calculating an institution's ratio of tangible equity to total assets.

As of December 31, 2015, the consolidated capital ratios of Seacoast and Seacoast National were as follows:

	Seacoast (Consolidated)		Seacoast National		Minimum to be Well-Capitalized*	
Common equity Tier 1 ratio (CET1)	13.25	%	13.31	%	6.5	%
Tier 1 capital ratio	15.21	%	13.31	%	8.0	%
Total risk-based capital ratio	16.01	%	14.11	%	10.0	%
Leverage ratio	10.70	%	9.36	%	5.0	%

* For subsidiary bank only

FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to growth limitations and are required to submit a capital restoration plan for approval within 90 days of becoming undercapitalized. For a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of 5% of the depository institution's total assets at the time it became undercapitalized and the amount necessary to bring the institution into compliance with applicable capital standards. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. If the controlling holding company fails to fulfill its obligations under FDICIA and files (or has filed against it) a petition under the federal Bankruptcy Code, the claim for such liability would be entitled to a priority in such bankruptcy proceeding over third party creditors of the bank holding company. In addition, an undercapitalized institution is subject to increased monitoring and asset growth restrictions and is required to obtain prior regulatory approval for acquisitions, new lines of business, and branching. Such an institution also is barred from soliciting, taking or rolling over brokered deposits.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator within 90 days of becoming significantly undercapitalized, except under limited circumstances. Because our company and Seacoast National exceed applicable capital requirements, the respective managements of our company and Seacoast National do not believe that the provisions of FDICIA have had any material effect on our company and Seacoast National or our respective operations.

FDICIA also contains a variety of other provisions that may affect the operations of our company and Seacoast National, including reporting requirements, regulatory standards for real estate lending, "truth in savings" provisions, the

requirement that a depository institution give 90 days' prior notice to customers and regulatory authorities before closing any branch, and a prohibition on the acceptance or renewal of brokered deposits by depository institutions that are not well capitalized, or are adequately capitalized and have not received a waiver from the FDIC. Seacoast National was well capitalized at December 31, 2015, and brokered deposits are not restricted.

Payment of Dividends

We are a legal entity separate and distinct from Seacoast National and our other subsidiaries. Our primary source of cash, other than securities offerings, is dividends from Seacoast National. The prior approval of the OCC is required if the total of all dividends declared by a national bank (such as Seacoast National) in any calendar year will exceed the sum of such bank's net profits for that year and its retained net profits for the preceding two calendar years, less any required transfers to surplus. Federal law also prohibits any national bank from paying dividends that would be greater than such bank's undivided profits after deducting statutory bad debts in excess of such bank's allowance for possible loan losses.

In addition, we and Seacoast National are subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal bank regulatory authority may prohibit the payment of dividends where it has determined that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The OCC and the Federal Reserve have indicated that paying dividends that deplete a national or state member bank's capital base to an inadequate level would be an unsound and unsafe banking practice. The OCC and the Federal Reserve have each indicated that depository institutions and their holding companies should generally pay dividends only out of current operating earnings.

Under a Federal Reserve policy adopted in 2009, the board of directors of a bank holding company must consider different factors to ensure that its dividend level is prudent relative to maintaining a strong financial position, and is not based on overly optimistic earnings scenarios, such as potential events that could affect its ability to pay, while still maintaining a strong financial position. As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should consult with the Federal Reserve and eliminate, defer or significantly reduce the bank holding company's dividends if:

its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;

its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or

· it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Seacoast National recorded net income in 2013, 2014 and 2015, but no dividends were paid to us during any of these years. Prior approval by the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the bank's profits, for that year combined with its retained net profits for the preceding two calendar

years. Under this restriction, based on our recent profitability, Seacoast National is eligible to distribute dividends up to \$81.4 million to us, without prior OCC approval, as of December 31, 2015. Seacoast National has not given any consideration to dividends to the extent permitted by regulation.

No dividends on our common stock were declared or paid in 2013, 2014 or 2015.

Enforcement Policies and Actions

The Federal Reserve and the OCC monitor compliance with laws and regulations. Violations of laws and regulations, or other unsafe and unsound practices, may result in these agencies imposing fines or penalties, cease and desist orders, or taking other enforcement actions. Under certain circumstances, these agencies may enforce these remedies directly against officers, directors, employees and other parties participating in the affairs of a bank or bank holding company.

Bank and Bank Subsidiary Regulation

Seacoast National is a national bank subject to supervision, regulation and examination by the OCC, which monitors all areas of operations, including reserves, loans, mortgages, the issuance of securities, payment of dividends, establishing branches, capital adequacy, and compliance with laws. Seacoast National is a member of the FDIC and, as such, its deposits are insured by the FDIC to the maximum extent provided by law. See “FDIC Insurance Assessments”.

Under Florida law, Seacoast National may establish and operate branches throughout the State of Florida, subject to the maintenance of adequate capital and the receipt of OCC approval.

The OCC has adopted the Federal Financial Institutions Examination Council’s (“FFIEC”) rating system and assigns each financial institution a confidential composite rating based on an evaluation and rating of six essential components of an institution’s financial condition and operations, including Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk, as well as the quality of risk management practices.

FNB Insurance, a Seacoast National subsidiary, is authorized by the State of Florida to market insurance products as an agent. FNB Insurance is a separate and distinct entity from Seacoast National and is subject to supervision and regulation by state insurance authorities. It is a financial subsidiary, but is inactive.

Standards for Safety and Soundness

The Federal Deposit Insurance Act requires the federal bank regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to: (1) internal controls; (2) information systems and audit systems; (3) loan documentation; (4) credit underwriting; (5) interest rate risk exposure; and (6) asset quality.

The agencies also must prescribe standards for asset quality, earnings, and stock valuation, as well as standards for compensation, fees and benefits. The federal banking agencies have adopted regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement these required standards. These guidelines set forth the safety and soundness standards used to identify and address problems at insured depository institutions before capital becomes impaired. Under the regulations, if a regulator determines that a bank fails to meet any standards prescribed by the guidelines, the regulator may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans.

FDIC Insurance Assessments

Seacoast National's deposits are insured by the FDIC's DIF, and Seacoast National is subject to FDIC assessments for its deposit insurance, as well as assessments by the FDIC to pay interest on Financing Corporation ("FICO") bonds.

Effective April 1, 2011, the FDIC began calculating assessments based on an institution's average consolidated total assets less its average tangible equity in accordance with changes mandated by the Dodd-Frank Act. The FDIC also established a new assessment rate schedule, as well as alternative rate schedules that become effective when the DIF reserve ratio reaches certain levels. In determining the deposit insurance assessments to be paid by insured depository institutions, the FDIC generally assigns institutions to one of four risk categories based on supervisory ratings and capital ratios.

The Dodd-Frank Act also increased the minimum designated reserve ratio of the DIF from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminated the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. Under proposed rules set forth by the FDIC in October 2015, banks with at least \$10 billion in assets would pay a surcharge to enable the reserve ratio to reach 1.35 percent.

Upon inception of the new schedule in 2011, Seacoast National's overall rate for assessment calculations was 14 basis points. As of September 19, 2013, with the release from its formal agreement with the OCC, Seacoast National's rate was reduced to 8.15 basis points. As of September 30, 2014 and 2015, Seacoast National's rate was further reduced to 6.79 basis points and 6.54 basis points, respectively. For Seacoast National, the new methodology has had a favorable effect. Seacoast National's deposit insurance premiums totaled \$2.6 million for 2013, \$1.6 million for 2014, and \$2.1 million for 2015. The increase in 2015 resulted from total assets increasing due to the full-year impact of the BankFIRST acquisition and Grand acquisition in the third quarter of 2015.

In addition, the FDIC collects FICO deposit assessments, which are calculated off of the assessment base described above. FICO assessments are set quarterly, and our FICO assessment averages 0.59 basis points for all four quarters during 2015. Our FICO assessment rate for the first quarter of 2016 is 0.58 basis points.

Change in Control

Subject to certain exceptions, the BHC Act and the Change in Bank Control Act, together with regulations promulgated thereunder, require Federal Reserve approval prior to any person or company acquiring "control" of a bank or bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25 percent or more of any class of voting securities, and rebuttably presumed to exist if a person acquires 10 percent or more, but less than 25 percent, of any class of voting securities and either the company has registered securities under Section 12 of the Exchange Act or no other person owns a greater percentage of that class of voting securities immediately after the transaction. In certain cases, a company may also be presumed to have control under the BHC Act if it acquires 5 percent or more of any class of voting securities.

Other Regulations

Anti-Money Laundering. The International Money Laundering Abatement and Anti-Terrorism Funding Act of 2001 specifies “know your customer” requirements that obligate financial institutions to take actions to verify the identity of the account holders in connection with opening an account at any U.S. financial institution. Banking regulators will consider compliance with the Act’s money laundering provisions in acting upon acquisition and merger proposals. Sanctions for violations of the Act can be imposed in an amount equal to twice the sum involved in the violating transaction, up to \$1 million.

Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (“USA PATRIOT”) Act of 2001, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and “know your customer” standards in their dealings with foreign financial institutions and foreign customers.

The USA PATRIOT Act requires financial institutions to establish anti-money laundering programs with minimum standards that include:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

Bank regulators routinely examine institutions for compliance with these anti-money laundering obligations and recently have been active in imposing “cease and desist” and other regulatory orders and money penalty sanctions against institutions found to be in violation of these requirements. In addition, the Financial Crimes Enforcement Network has proposed new regulations that would require financial institutions to obtain beneficial ownership information for certain accounts, however, it has yet to establish final regulations on this topic.

Economic Sanctions. The Office of Foreign Assets Control (“OFAC”) is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and acts of Congress. OFAC publishes, and routinely updates, lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, including the Specially Designated Nationals and Blocked Persons List. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must undertake certain specified activities, which could include blocking or freezing the account or transaction requested, and we must notify the appropriate authorities.

Transactions with Related Parties. We are a legal entity separate and distinct from Seacoast National and our other subsidiaries. Various legal limitations restrict our banking subsidiaries from lending or otherwise supplying funds to us or our non-bank subsidiaries. We and our banking subsidiaries are subject to Section 23A of the Federal Reserve Act and the corresponding provisions of Federal Reserve Regulation W thereunder. Section 23A defines “covered transactions” to include, among other types of transactions, extensions of credit, and limits a bank’s covered transactions with any of its “affiliates” to 10% of such bank’s capital and surplus. All covered and exempt transactions between a bank and its affiliates must be on terms and conditions consistent with safe and sound banking practices, and banks and their operating subsidiaries are prohibited from purchasing low-quality assets from the bank’s affiliates. Finally, Section 23A requires that all of a bank’s extensions of credit to its affiliates be appropriately secured by acceptable collateral, generally United States government or agency securities.

We and our bank subsidiaries also are subject to Section 23B of the Federal Reserve Act and the corresponding provisions of Federal Reserve Regulation W thereunder, which generally require covered transactions and certain other transactions between a bank and its affiliates to be on terms, including credit standards, that are substantially the same or at least as favorable to, the bank as those prevailing at the time for similar transactions with unaffiliated companies.

The Dodd-Frank Act generally enhances the restrictions on banks' transactions with affiliates under Sections 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions" and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Specifically, Section 608 of the Dodd-Frank Act broadens the definition of "covered transactions" to include derivative transactions and the borrowing or lending of securities if the transaction will cause a bank to have credit exposure to an affiliate. The revised definition also includes the acceptance of debt obligations of an affiliate as collateral for a loan or extension of credit to a third party. Furthermore, reverse repurchase transactions will be viewed as extensions of credit (instead of asset purchases) and thus become subject to collateral requirements. These expanded definitions took effect on July 21, 2012. The ability of the Federal Reserve to grant exemptions from these restrictions is also narrowed by the Dodd-Frank Act, including with respect to the requirement for the OCC, FDIC and Federal Reserve to coordinate with one another.

Concentrations in Lending. During 2006, the federal bank regulatory agencies released guidance on "Concentrations in Commercial Real Estate Lending" (the "Guidance") and advised financial institutions of the risks posed by commercial real estate ("CRE") lending concentrations.

The Guidance requires that appropriate processes be in place to identify, monitor and control risks associated with real estate lending concentrations. Higher allowances for loan losses and capital levels may also be required. The Guidance is triggered when CRE loan concentrations exceed either:

- Total reported loans for construction, land development, and other land of 100 percent or more of a bank's total risk based capital; or
- Total reported loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land of 300 percent or more of a bank's total risk based capital.

The Guidance also applies when a bank has a sharp increase in CRE loans or has significant concentrations of CRE secured by a particular property type.

We have always had significant exposures to loans secured by commercial real estate due to the nature of our markets and the loan needs of both retail and commercial customers. We believe our long term experience in CRE lending, underwriting policies, internal controls, and other policies currently in place, as well as our loan and credit monitoring and administration procedures, are generally appropriate to managing our concentrations as required under the Guidance. At December 31, 2015, we had outstanding \$63.6 million in commercial construction and residential land development loans and \$45.1 million in residential construction loans to individuals, which represents approximately 31 percent of Seacoast National's total risk based capital at December 31, 2015, well below the Guidance's threshold. At December 31, 2015, the total CRE exposure for Seacoast National represents approximately 196 percent of total risk based capital, below the Guidance's threshold.

Community Reinvestment Act. We and our banking subsidiaries are subject to the provisions of the Community Reinvestment Act (“CRA”) and related federal bank regulatory agencies’ regulations. Under the CRA, all banks and thrifts have a continuing and affirmative obligation, consistent with their safe and sound operation, to help meet the credit needs for their entire communities, including low- and moderate-income neighborhoods. The CRA requires a depository institution’s primary federal regulator, in connection with its examination of the institution, to assess the institution’s record of assessing and meeting the credit needs of the communities served by that institution, including low- and moderate-income neighborhoods. The bank regulatory agency’s assessment of the institution’s record is made available to the public. Further, such assessment is required of any institution which has applied to: (i) charter a national bank; (ii) obtain deposit insurance coverage for a newly-chartered institution; (iii) establish a new branch office that accepts deposits; (iv) relocate an office; (v) merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution, or (vi) expand other activities, including engaging in financial services activities authorized by the GLB. A less than satisfactory CRA rating will slow, if not preclude, expansion of banking activities and prevent a company from becoming or remaining a financial holding company.

Following the enactment of the GLB, CRA agreements with private parties must be disclosed and annual CRA reports must be made to a bank's primary federal regulator. A bank holding company will not be permitted to become or remain a financial holding company and no new activities authorized under GLB may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a "satisfactory" CRA rating in its latest CRA examination. Federal CRA regulations require, among other things, that evidence of discrimination against applicants on a prohibited basis, and illegal or abusive lending practices be considered in the CRA evaluation.

Privacy and Data Security. The GLB generally prohibits disclosure of consumer information to non-affiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to disclose their privacy policies to consumers annually. Financial institutions, however, will be required to comply with state law if it is more protective of consumer privacy than the GLB. The GLB also directed federal regulators, including the FDIC and the OCC, to prescribe standards for the security of consumer information. Seacoast National is subject to such standards, as well as standards for notifying customers in the event of a security breach. Under federal law, Seacoast National must disclose its privacy policy to consumers, permit customers to opt out of having nonpublic customer information disclosed to third parties in certain circumstances, and allow customers to opt out of receiving marketing solicitations based on information about the customer received from another subsidiary. States may adopt more extensive privacy protections. We are similarly required to have an information security program to safeguard the confidentiality and security of customer information and to ensure proper disposal. Customers must be notified when unauthorized disclosure involves sensitive customer information that may be misused.

Consumer Regulation. Activities of Seacoast National are subject to a variety of statutes and regulations designed to protect consumers. These laws and regulations include, among numerous other things, provisions that:

- limit the interest and other charges collected or contracted for by Seacoast National, including new rules respecting the terms of credit cards and of debit card overdrafts;

- govern Seacoast National's disclosures of credit terms to consumer borrowers;

- require Seacoast National to provide information to enable the public and public officials to determine whether it is fulfilling its obligation to help meet the housing needs of the community it serves;

- prohibit Seacoast National from discriminating on the basis of race, creed or other prohibited factors when it makes decisions to extend credit;

- govern the manner in which Seacoast National may collect consumer debts; and

·prohibit unfair, deceptive or abusive acts or practices in the provision of consumer financial products and services.

The CFPB adopted a rule that implements the ability-to-repay and qualified mortgage provisions of the Dodd-Frank Act (the “ATR/QM rule”), which took effect on January 10, 2014, and has impacted our residential mortgage lending practices, and the residential mortgage market generally. The ATR/QM rule requires lenders to consider, among other things, income, employment status, assets, payment amounts, and credit history before approving a mortgage, and provides a compliance “safe harbor” for lenders that issue certain “qualified mortgages.” The ATR/QM rule defines a “qualified mortgage” to have certain specified characteristics, and generally prohibit loans with negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years from being qualified mortgages. The rule also establishes general underwriting criteria for qualified mortgages, including that monthly payments be calculated based on the highest payment that will apply in the first five years of the loan and that the borrower have a total debt-to-income ratio that is less than or equal to 43 percent. While “qualified mortgages” will generally be afforded safe harbor status, a rebuttable presumption of compliance with the ability-to-repay requirements will attach to “qualified mortgages” that are “higher priced mortgages” (which are generally subprime loans). In addition, under rules that became effective December 24, 2015, the securitizer of asset-backed securities must retain not less than 5 percent of the credit risk of the assets collateralizing the asset-backed securities, unless subject to an exemption for asset-backed securities that are collateralized exclusively by residential mortgages that qualify as “qualified residential mortgages.” These definitions are expected to significantly shape the parameters for the majority of consumer mortgage lending in the U.S.

Reflecting the CFPB's focus on the residential mortgage lending market, the CFPB has also issued rules to implement requirements of the Dodd-Frank Act pertaining to mortgage loan origination (including with respect to loan originator compensation and loan originator qualifications) and has finalized integrated mortgage disclosure rules that replace and combine certain requirements under the Truth in Lending Act and the Real Estate Settlement Procedures Act. In addition, the CFPB has issued rules that require servicers to comply with new standards and practices with regard to: error correction; information disclosure; force-placement of insurance; information management policies and procedures; requiring information about mortgage loss mitigation options be provided to delinquent borrowers; providing delinquent borrowers access to servicer personnel with continuity of contact about the borrower's mortgage loan account; and evaluating borrowers' applications for available loss mitigation options. These rules also address initial rate adjustment notices for adjustable-rate mortgages (ARMs), periodic statements for residential mortgage loans, and prompt crediting of mortgage payments and response to requests for payoff amounts. The CFPB has indicated that it expects to issue additional mortgage-related rules in the future.

It is anticipated that the CFPB will engage in numerous other rulemakings in the near term that may impact our business, as the CFPB has indicated that, in addition to specific statutory mandates, it is working on a wide range of initiatives to address issues in markets for consumer financial products and services. The CFPB has also undertaken an effort to “streamline” consumer regulations and has established a database to collect, track and make public consumer complaints, including complaints against individual financial institutions.

The CFPB also has broad authority to prohibit unfair, deceptive and abusive acts and practices (“UDAAP”) and to investigate and penalize financial institutions that violate this prohibition. While the statutory language of the Dodd-Frank Act sets forth the standards for acts and practices that violate this prohibition, certain aspects of these standards are untested, which has created some uncertainty regarding how the CFPB will exercise this authority. The

CFPB has, however, begun to bring enforcement actions against certain financial institutions for UDAAP violations and issued some guidance on the topic, which provides insight into the agency's expectations regarding these standards. Among other things, CFPB guidance and its UDAAP-related enforcement actions have emphasized that management of third-party service providers is essential to effective UDAAP compliance and that the CFPB is particularly focused on marketing and sales practices.

We cannot fully predict the effect that being regulated by a new, additional regulatory authority focused on consumer financial protection, or any new implementing regulations or revisions to existing regulations that may result from the establishment of this new authority, will have on our businesses.

The deposit operations of Seacoast National are also subject to laws and regulations that:

- require Seacoast National to adequately disclose the interest rates and other terms of consumer deposit accounts;

- impose a duty on Seacoast National to maintain the confidentiality of consumer financial records and prescribe procedures for complying with administrative subpoenas of financial records;

- require escheatment of unclaimed funds to the appropriate state agencies after the passage of certain statutory time frames; and,

- govern automatic deposits to and withdrawals from deposit accounts with Seacoast National and the rights and liabilities of customers who use automated teller machines, or ATMs, and other electronic banking services. As described above, beginning in July 2010, new rules took effect that limited Seacoast National's ability to charge fees for the payment of overdrafts for every day debit and ATM card transactions.

As noted above, Seacoast National will likely face a significant increase in its consumer compliance regulatory burden as a result of the combination of the CFPB and the significant roll back of federal preemption of state laws in the area.

Non-Discrimination Policies. Seacoast National is also subject to, among other things, the provisions of the Equal Credit Opportunity Act (the "ECOA") and the Fair Housing Act (the "FHA"), both of which prohibit discrimination based on race or color, religion, national origin, sex, and familial status in any aspect of a consumer or commercial credit or residential real estate transaction. The Department of Justice (the "DOJ"), and the federal bank regulatory agencies have issued an Interagency Policy Statement on Discrimination in Lending that provides guidance to financial institutions in determining whether discrimination exists, how the agencies will respond to lending discrimination, and what steps lenders might take to prevent discriminatory lending practices. The DOJ has increased its efforts to prosecute what it regards as violations of the ECOA and FHA.

Enforcement Authority. Seacoast National and its “institution-affiliated parties,” including management, employees, agents, independent contractors and consultants, such as attorneys and accountants and others who participate in the conduct of the institution’s affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. Violations can include failure to timely file required reports, filing false or misleading information or submitting inaccurate reports. Civil penalties may be as high as \$1,000,000 a day for such violations, and criminal penalties for some financial institution crimes may include imprisonment for 20 years. Regulators have flexibility to commence enforcement actions against institutions and institution-affiliated parties, and the FDIC has the authority to terminate deposit insurance. When issued by a banking agency, cease-and-desist orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions determined to be appropriate by the ordering agency. The federal banking agencies also may remove a director or officer from an insured depository institution (or bar them from the industry) if a violation is willful or reckless.

Other Regulatory Matters. We and our subsidiaries are subject to oversight by the SEC, the Financial Industry Regulatory Authority. (“FINRA”), the Public Company Accounting Oversight Board (“PCAOB”), Nasdaq and various state securities regulators. We and our subsidiaries have from time to time received requests for information from regulatory authorities in various states, including state attorneys general, securities regulators and other regulatory authorities, concerning our business practices. Such requests are considered incidental to the normal conduct of business.

Statistical Information

Certain statistical and financial information (as required by SEC Guide 3) is included in response to Item 7 of this Annual Report on Form 10-K. Certain additional statistical information is also included in response to Item 6 and Item 8 of this Annual Report on Form 10-K.

Item 1A. Risk Factors

In addition to the other information contained in this Form 10-K, you should carefully consider the risks described below, as well as the risk factors and uncertainties discussed in our other public filings with the SEC under the caption “Risk Factors” in evaluating us and our business and making or continuing an investment in our stock. The risks contained in this Form 10-K are not the only risks that we face. Additional risks that are not presently known, or that we presently deem to be immaterial, could also harm our business, results of operations and financial condition and an investment in our stock. The trading price of our securities could decline due to the materialization of any of these risks, and our shareholders may lose all or part of their investment. This Form 10-K also contains forward-looking statements that may not be realized as a result of certain factors, including, but not limited to, the risks described herein and in our other public filings with the SEC. Please refer to the section in this Form 10-K entitled “Special Cautionary Notice Regarding Forward-Looking Statements” for additional information regarding forward-looking statements.

Risks Related to Our Business

Nonperforming assets could result in an increase in our provision for loan losses, which could adversely affect our results of operations and financial condition.

At December 31, 2015 and 2014, our nonperforming loans (which consist of nonaccrual loans) totaled \$17.4 million and \$21.1 million, or 0.8 percent and 1.2 percent of the loan portfolio, respectively. At December 31, 2015 and 2014, our nonperforming assets (which include foreclosed real estate) were \$24.4 million and \$28.6 million, or 0.7 percent and 0.9 percent of assets, respectively. In addition, we had approximately \$2.6 million and \$6.1 million in accruing loans that were 30 days or more delinquent at December 31, 2015 and 2014, respectively. Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or other real estate owned, thereby adversely affecting our income, and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related loan to the then fair market value of the collateral, which may result in a loss. These loans and other real estate owned also increase our risk profile and the capital our regulators believe is appropriate in light of such risks. Until economic and market conditions improve, we may incur additional losses relating to an increase in nonperforming loans. If economic conditions and market factors negatively and/or disproportionately affect some of our larger loans, then we could see a sharp increase in our total net charge-offs and also be required to significantly increase our allowance for loan losses. Any further increase in our nonperforming assets and related increases in our provision for losses on loans could negatively affect our business and could have a material adverse effect on our capital, financial condition and results of operations.

While we have reduced our problem assets significantly, decreases in the value of these remaining assets, or the underlying collateral, or in these borrowers' performance or financial conditions, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of nonperforming assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience further increases in nonperforming loans in the future, or that nonperforming assets will not result in further losses in the future.

Our allowance for loan losses may prove inadequate or we may be adversely affected by credit risk exposures.

Our business depends on the creditworthiness of our customers. We periodically review our allowance for loan losses for adequacy considering economic conditions and trends, collateral values and credit quality indicators, including past charge-off experience and levels of past due loans and nonperforming assets. The determination of the appropriate level of the allowance for loan losses involves a high degree of subjectivity and judgment and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. We cannot be certain that our allowance for loan losses will be adequate over time to cover credit losses in our portfolio because of unanticipated adverse changes in the economy, market conditions or events adversely affecting specific customers, industries or markets, or borrower behaviors towards repaying their loans. Generally speaking, the credit quality of our borrowers has deteriorated as a result of the economic downturn in our markets. Although there are now signs of economic recovery, if the credit quality of our customer base or their debt service behavior materially decreases further, if the risk profile of a market, industry or group of customers declines further or weaknesses in the real estate markets and other economics persist or worsen, or if our allowance for loan losses is not adequate, our business, financial condition, including our liquidity and capital, and results of operations could be materially adversely affected. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. If charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses, which would result in a decrease in net income and capital, and could have a material adverse effect on our financial condition and results of operations.

Our ability to realize our deferred tax assets may be further reduced in the future if our estimates of future taxable income from our operations and tax planning strategies do not support our deferred tax amount. Additionally, the amount of net operating loss carry-forwards and certain other tax attributes realizable for income tax purposes may be reduced under Section 382 of the Internal Revenue Code (“Section 382”) by issuance of our capital securities or purchase of concentrations by investors..

As of December 31, 2015, we had deferred tax assets of \$60.2 million, based on management’s estimation of the likelihood of those deferred tax assets being realized. These and future deferred tax assets may be reduced in the future if our estimates of future taxable income from our operations and tax planning strategies do not support the amount of the deferred tax asset.

The Company recorded income for 2013, 2014 and 2015. Management expects to realize the \$60.2 million in deferred tax assets well in advance of the statutory carryforward period, based on its forecast of future taxable income. We consider positive and negative evidence, including the impact of reversals of existing taxable temporary differences, tax planning strategies and projected earnings within the statutory tax loss carryover period. This process requires significant judgment by management about matters that are by nature uncertain. If we were to conclude that significant portions of our deferred tax assets were not more likely than not to be realized (due to operating results or other factors), a requirement to establish a valuation allowance could adversely affect our financial position and results of operation, thereby negatively affecting our stock price.

The amount of net operating loss carry-forwards and certain other tax attributes realizable annually for income tax purposes may be reduced by an offering and/or other sales of our capital securities, including transactions in the open market by 5% or greater shareholders, if an ownership change is deemed to occur under Section 382. The determination of whether an ownership change has occurred under Section 382 is highly fact specific and can occur through one or more acquisitions of capital stock (including open market trading) if the result of such acquisitions is that the percentage of our outstanding common stock held by shareholders or groups of shareholders owning at least 5% of our common stock at the time of such acquisition, as determined under Section 382, is more than 50 percentage points higher than the lowest percentage of our outstanding common stock owned by such shareholders or groups of shareholders within the prior three-year period. The sale of common stock in August 2009 is no longer within the prior three-year look back period as required by Section 382 and reduced, but did not eliminate the possible negative effects of a change in ownership. As previously disclosed on May 27, 2011, we adopted an amendment to our Amended and Restated Articles of Incorporation, as amended (“Articles of Incorporation”) that is intended to help preserve our net operating losses (the “Protective Amendment”), however, such amendment may not be effective. Based upon independent analysis, management does not believe the common stock offering in November 2013, subsequent reverse stock split in December 2013, and common stock issued in regards to the BANKshares and Grand acquisitions in October 2014 and July 2015, respectively, have any negative implications for the Company under Section 382. Deferred taxes for Section 382 events netting to \$1.4 million were recorded by BANKshares for acquisition activity prior to our merger on October 1, 2014, and were migrated and recorded to the Company’s financial statements.

Future acquisition and expansion activities may disrupt our business, dilute existing shareholders and adversely affect our operating results.

We periodically evaluate potential acquisitions and expansion opportunities. To the extent we grow through acquisition, we cannot assure you that we will be able to adequately or profitably manage this growth. Acquiring other banks, branches or businesses, as well as other geographic and product expansion activities, involve various risks including:

risks of unknown or contingent liabilities;

unanticipated costs and delays;

risks that acquired new businesses do not perform consistent with our growth and profitability expectations;

risks of entering new market or product areas where we have limited experience;

risks that growth will strain out infrastructure, staff, internal controls and management, which may require additional personnel, time and expenditures;

exposure to potential asset quality issues with acquired institutions;

difficulties, expenses and delays of integrating the operations and personnel of acquired institutions, and start-up delays and costs of other expansion activities;

potential disruptions to our business;

possible loss of key employees and customers of acquired institutions;

potential short-term decrease in profitability; and

diversion of our management's time and attention from our existing operations and businesses.

Attractive acquisition opportunities may not be available to us in the future, and failure to effectively integrate acquisition targets or our inability to achieve expected benefits from an acquisition may adversely impact our results.

While we seek continued organic growth, as our earnings and capital position continue to improve, we will likely consider the acquisition of other banking businesses. We expect that other banking and financial companies, many of which have significantly greater resources, will compete with us to acquire financial services businesses. This competition could increase prices for potential acquisitions that we believe are attractive. Also, acquisitions are subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals, we may not be able to consummate an acquisition that we believe is in our best interests, or we could endure regulatory delays or conditions that would prevent us from obtaining all of the expected benefits of a transaction. Among other things, our

regulators consider our capital, liquidity, profitability, regulatory compliance and levels of goodwill and intangibles when considering acquisition and expansion proposals. Any acquisition could be dilutive to our earnings and shareholders' equity per share of our common stock.

Deterioration in the real estate markets, including the secondary market for residential mortgage loans, can adversely affect us.

The effects of ongoing mortgage market challenges, combined with the correction in residential real estate market prices and reduced levels of home sales, could result in price reductions in single family home values, adversely affecting the liquidity and value of collateral securing commercial loans for residential land acquisition, construction and development, as well as residential mortgage loans and residential property collateral securing loans that we hold, mortgage loan originations and gains on the sale of mortgage loans. Declining real estate prices cause higher delinquencies and losses on certain mortgage loans, generally, particularly second lien mortgages and home equity lines of credit. Significant ongoing disruptions in the secondary market for residential mortgage loans can limit the market for and liquidity of most residential mortgage loans other than conforming Fannie Mae and Freddie Mac loans. Deteriorating trends could occur, as various government programs to boost the residential mortgage markets and stabilize the housing markets wind down or are discontinued. Declines in real estate values, home sales volumes and financial stress on borrowers as a result of job losses, interest rate resets on adjustable rate mortgage loans or other factors could have adverse effects on borrowers that result in higher delinquencies and greater charge-offs in future periods, which would adversely affect our financial condition, including capital and liquidity, or results of operations. In the event our allowance for loan losses is insufficient to cover such losses, our earnings, capital and liquidity could be adversely affected.

Although the Florida housing market appears to be strengthening, our real estate portfolios are exposed to weakness in the Florida housing market and the overall state of the economy.

Florida has experienced a deeper recession and more dramatic slowdown in economic activity than other states and the decline in real estate values in Florida has been significantly larger than the national average. The declines in home prices and the volume of home sales in Florida, along with the reduced availability of certain types of mortgage credit, have resulted in increases in delinquencies and losses in our portfolios of home equity lines and loans, and commercial loans related to residential real estate acquisition, construction and development. While home prices have stabilized, further declines in home prices coupled with continued high or increased unemployment levels could cause additional losses which could adversely affect our earnings and financial condition, including our capital and liquidity.

Our concentration in commercial real estate loans could result in increased loan losses.

Commercial real estate (“CRE”) is cyclical and poses risks of loss to us due to our concentration levels and risks of the asset, especially during a difficult economy. As of December 31, 2015 and 2014, 49.8 percent and 48.9 percent of our loan portfolio were comprised of CRE loans, respectively. The banking regulators continue to give CRE lending greater scrutiny, and banks with higher levels of CRE loans are expected to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as higher levels of allowances for possible losses and capital levels as a result of CRE lending growth and exposures. During 2015, we recorded a \$2.6 million provision for loan losses, compared to a \$3.5 million recapture of provisioning for losses during 2014, and compared to an addition of \$3.2 million in 2013.

Seacoast National has a written CRE concentration risk management program and monitors its exposure to CRE; however, there is no guarantee that the program will be effective in managing our concentration in CRE. Seacoast National’s CRE concentrations as of December 31, 2015 were favorably below regulatory guidance.

Liquidity risks could affect operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our non-core funding sources include federal funds purchases, securities sold under repurchase agreements, non-core deposits, and short- and long-term debt. We are also members of the Federal Home Loan Bank of Atlanta (the “FHLB”) and the Federal Reserve Bank of Atlanta, where we can obtain advances collateralized with eligible assets. We maintain a portfolio of securities that can be used as a secondary source of liquidity. There are also other sources of liquidity available to us or Seacoast National should they be needed, including our ability to acquire additional non-core deposits, the issuance and sale of debt securities,

and the issuance and sale of preferred or common securities in public or private transactions.

We consider our liquidity to be very strong at year-end 2015 and we anticipate no difficulty in financing or capitalizing our activities. However, our access to funding sources in amounts adequate or on terms which are acceptable to us could be impaired by other factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a downturn in the markets in which our loans are concentrated or adverse regulatory action against us. In addition, our access to deposits may be affected by the liquidity and/or cash flow needs of depositors. Although we have historically been able to replace maturing deposits and FHLB advances as necessary, we might not be able to replace such funds in the future and can lose a relatively inexpensive source of funds and increase our funding costs if, among other things, customers move funds out of bank deposits and into alternative investments, such as the stock market, that may be perceived as providing superior expected returns. We may be required to seek additional regulatory capital through capital raises at terms that may be very dilutive to existing shareholders.

Our ability to borrow could also be impaired by factors that are not specific to us, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry in light of recent turmoil faced by banking organizations and deterioration in credit markets.

Our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay interest on our trust preferred securities or reinstate dividends.

We are a legal entity separate and distinct from Seacoast National and our other subsidiaries. Our primary source of revenue consists of dividends from Seacoast National. These dividends are the principal source of funds to pay dividends on our common stock, interest on our trust preferred securities and interest and principal on our debt. Various laws and regulations limit the amount of dividends that Seacoast National may pay us. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. Limitations on our ability to receive dividends from our subsidiaries could have a material adverse effect on our liquidity and on our ability to pay dividends on common stock. Additionally, if our subsidiaries' earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, we may not be able to make payments on our trust preferred securities or reinstate dividend payments to our common shareholders. We do not expect to pay dividends on our common stock to shareholders in the foreseeable future and expect to retain all earnings, if any, to support our growth.

We must effectively manage our interest rate risk. The impact of changing interest rates on our results is difficult to predict and changes in interest rates may impact our performance in ways we cannot predict.

Our profitability is dependent to a large extent on our net interest income, which is the difference between the interest income paid to us on our loans and investments and the interest we pay to third parties such as our depositors, lenders and debt holders. Changes in interest rates can impact our profits and the fair values of certain of our assets and

liabilities. Prolonged periods of unusually low interest rates may have an incrementally adverse effect on our earnings by reducing yields on loans and other earning assets over time. Increases in market interest rates may reduce our customers' desire to borrow money from us or adversely affect their ability to repay their outstanding loans by increasing their debt service obligations through the periodic reset of adjustable interest rate loans. If our borrowers' ability to pay their loans is impaired by increasing interest payment obligations, our level of nonperforming assets would increase, producing an adverse effect on operating results. Increases in interest rates can have a material impact on the volume of mortgage originations and re-financings, adversely affecting the profitability of our mortgage finance business. Interest rate risk can also result from mismatches between the dollar amounts of re-pricing or maturing assets and liabilities and from mismatches in the timing and rates at which our assets and liabilities re-price. We actively monitor and manage the balances of our maturing and re-pricing assets and liabilities to reduce the adverse impact of changes in interest rates, but there can be no assurance that we will be able to avoid material adverse effects on our net interest margin in all market conditions.

Federal prohibitions on the ability of financial institutions to pay interest on commercial demand deposit accounts were repealed in 2011 by the Dodd-Frank Act. This change has had limited impact to date due to the excess of commercial liquidity and the very low rate environment in recent years. There can be no assurance that we will not be materially adversely affected in the future if economic activity increases and interest rates rise, which may result in our interest expense increasing, and our net interest margin decreasing, if we must offer interest on demand deposits to attract or retain customer deposits.

Our customers may pursue alternatives to bank deposits, causing us to lose a relatively inexpensive source of funding.

We may experience a decrease in customer deposits if customers perceive alternative investments, such as the stock market, as providing superior expected returns. When customers move money out of bank deposits in favor of alternative investments, we may lose a relatively inexpensive source of funds, and be forced to rely more heavily on borrowings and other sources of funding to fund our business and meet withdrawal demands, thereby increasing our funding costs and adversely affecting our net interest margin.

Consumers may decide not to use banks to complete their financial transactions, which could affect our net income.

Technology and other changes now allow parties to complete financial transactions without banks. For example, consumers can pay bills, transfer funds directly and even obtain loans without banks. This process could result in the loss of interest and fee income, as well as the loss of customer deposits and the income generated from those deposits. The impact to our loan growth may be more significant prospectively.

Regulatory compliance burdens and associated costs have increased and adversely affect our business.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry.

The Dodd-Frank Act directs applicable regulatory authorities to promulgate regulations implementing its provisions, and its effect on the Company and on the financial services industry as a whole will be clarified as those regulations are issued. Certain provisions of the Act have been implemented by regulation, while others are expected to be implemented in the coming years. The Dodd-Frank Act addresses a number of issues, including capital requirements, compliance and risk management, debit card overdraft fees, healthcare, incentive compensation, expanded disclosures and corporate governance. The Dodd-Frank Act established a new, independent CFPB, which has broad rulemaking,

supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home equity loans and credit cards. States will be permitted to adopt stricter consumer protection laws and can enforce consumer protection rules issued by the CFPB. The CFPB is working on a wide range of consumer protection initiatives, including revisions to existing regulations, many of which will likely impact our business.

The Dodd-Frank Act will increase our regulatory compliance burden and may have a material adverse effect on us, including increasing the costs associated with our regulatory examinations and compliance measures. The changes resulting from the Dodd-Frank Act, as well as the resulting regulations promulgated by federal agencies, may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes to comply with new laws and regulations. For a more detailed description of the Dodd-Frank Act, see “Item 1. Business—Supervision and Regulation” of this Form 10-K.

Higher FDIC deposit insurance premiums and assessments could adversely affect our financial condition.

FDIC insurance premiums we pay may change and be significantly higher in the future. Market developments may significantly deplete the insurance fund of the FDIC and further reduce the ratio of reserves to insured deposits, thereby making it requisite upon the FDIC to charge higher premiums prospectively.

We are required to maintain capital to meet regulatory requirements, and if we fail to maintain sufficient capital, whether due to losses, growth opportunities, or an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our compliance with regulatory requirements, would be adversely affected.

Both we and Seacoast National must meet regulatory capital requirements and maintain sufficient liquidity and our regulators may modify and adjust such requirements in the future. We were capable of raising additional capital for the redemption of our Series A Preferred Stock; however, our ability to raise additional capital, when and if needed in the future, will depend on conditions in the capital markets, general economic conditions and a number of other factors, including investor perceptions regarding the banking industry and the market, governmental activities, many of which are outside our control, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to meet these capital and other regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

Although we currently comply with all capital requirements, we will be subject to more stringent regulatory capital ratio requirements in the future and we may need additional capital in order to meet those requirements. Our failure to remain “well capitalized” for bank regulatory purposes could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common stock, make distributions on our trust preferred securities, our ability to make acquisitions, and our business, results of operations and financial condition, generally. Under FDIC rules, if Seacoast National ceases to be a “well capitalized” institution for bank regulatory purposes, its ability to accept brokered deposits and the interest rates that it pays may both be restricted.

As of April 1, 2011, the FDIC implemented its new calculation methodology for insurance assessments, applying revised risk category ratings for calculating assessments to total assets less Tier 1 risk-based capital. Deposits are no longer utilized as the primary base and the base assessment rates vary depending on the DIF reserve ratio. We have not experienced any negative impact to our consolidated financial statements as a result of the new method as of December 31, 2015.

Changes in accounting and tax rules applicable to banks could adversely affect our financial condition and results of operations.

From time to time, the Financial Accounting Standards Board (the “FASB”) and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in us restating prior period financial statements.

Our cost of funds may increase as a result of general economic conditions, FDIC insurance assessments, interest rates and competitive pressures.

We have traditionally obtained funds through local deposits and thus we have a base of lower cost transaction deposits. Generally, we believe local deposits are a cheaper and more stable source of funds than other borrowings because interest rates paid for local deposits are typically lower than interest rates charged for borrowings from other institutional lenders and reflect a mix of transaction and time deposits, whereas brokered deposits typically are higher cost time deposits. Our costs of funds and our profitability and liquidity are likely to be adversely affected if, and to the extent, we have to rely upon higher cost borrowings from other institutional lenders or brokers to fund loan demand or liquidity needs, and changes in our deposit mix and growth could adversely affect our profitability and the ability to expand our loan portfolio.

Lending goals may not be attainable.

It may not be possible to safely, soundly and profitably make sufficient loans to creditworthy persons in the current economy to satisfy our prospective goals for commercial, residential and consumer lending volumes. Future demand for additional lending is unclear and uncertain, and opportunities to make loans may be more limited and/or involve risks or terms that we likely would not find acceptable or in our shareholders' best interest. A failure to meet our lending goals could adversely affect our results of operation and financial condition, liquidity and capital. Also, the profitability of funding such loans using deposits may be adversely affected by increased FDIC insurance premiums.

Federal banking agencies periodically conduct examinations of our business, including for compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations may adversely affect us.

The Federal Reserve and the OCC periodically conduct examinations of our business and Seacoast National's business, including for compliance with laws and regulations, and Seacoast National also may be subject to participation by the CFPB in its future regulatory examinations as discussed in the "Supervision and Regulation" section above. If, as a result of an examination, the Federal Reserve, the OCC and/or the CFPB were to determine that the financial condition, capital resources, asset quality, asset concentrations, earnings prospects, management, liquidity, sensitivity to market risk, or other aspects of any of our or Seacoast National's operations had become unsatisfactory, or that we or our management were in violation of any law, regulation or guideline in effect from time to time, the regulators may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to change the composition of our concentrations in portfolio or balance sheet assets, to assess civil monetary penalties against our officers or directors or to remove officers and directors.

Our future success is dependent on our ability to compete effectively in highly competitive markets.

We operate in the highly competitive markets of Martin, St. Lucie, Brevard, Indian River and Palm Beach and Broward Counties in southeastern Florida, the Orlando, Florida metropolitan statistical area in Orange, Seminole and Lake County, as well as in Volusia County, and more rural competitive counties in the Lake Okeechobee, Florida region. Our future growth and success will depend on our ability to compete effectively in these and other potential markets. We compete for loans, deposits and other financial services in geographic markets with other local, regional and national commercial banks, thrifts, credit unions, mortgage lenders, and securities and insurance brokerage firms. Many of our competitors offer products and services different from us, and have substantially greater resources, name recognition and market presence than we do, which benefits them in attracting business. Larger competitors may be able to price loans and deposits more aggressively than we can, and have broader customer and geographic bases to draw upon.

We are dependent on key personnel and the loss of one or more of those key personnel could harm our business.

Our future success significantly depends on the continued services and performance of our key management personnel. We believe our management team's depth and breadth of experience in the banking industry is integral to executing our business plan. We also will need to continue to attract, motivate and retain other key personnel. The loss of the services of members of our senior management team or other key employees or the inability to attract additional qualified personnel as needed could have a material adverse effect on our business, financial position, results of operations and cash flows.

We are subject to losses due to fraudulent and negligent acts on the part of loan applicants, mortgage brokers, other vendors and our employees.

When we originate mortgage loans, we rely heavily upon information supplied by loan applicants and third parties, including the information contained in the loan application, property appraisal, title information and employment and income documentation provided by third parties. If any of this information is misrepresented and such misrepresentation is not detected prior to loan funding, we generally bear the risk of loss associated with the misrepresentation.

We operate in a heavily regulated environment.

We and our subsidiaries are regulated by several regulators, including the Federal Reserve, the OCC, the SEC, the FDIC, Nasdaq, and the CFPB. Our success is affected by state and federal regulations affecting banks and bank holding companies, the securities markets and banking, securities and insurance regulators. Banking regulations are primarily intended to protect consumers and depositors, not shareholders. The financial services industry also is subject to frequent legislative and regulatory changes and proposed changes, the effects of which cannot be predicted. These changes, if adopted, could require us to maintain more capital, liquidity and risk controls which could adversely affect our growth, profitability and financial condition.

We are subject to internal control reporting requirements that increase compliance costs and failure to comply with such requirements could adversely affect our reputation and the value of our securities.

We are required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as rules and regulations adopted by the SEC, the Public Company Accounting

Oversight Board and Nasdaq. In particular, we are required to include management and independent registered public accounting firm reports on internal controls as part of our Annual Report on Form 10-K pursuant to Section 404 of the Sarbanes-Oxley Act. The SEC also has proposed a number of new rules or regulations requiring additional disclosure, such as lower-level employee compensation. We expect to continue to spend significant amounts of time and money on compliance with these rules. Our failure to track and comply with the various rules may materially adversely affect our reputation, ability to obtain the necessary certifications to financial statements, and the value of our securities.

Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

Our operations rely on external vendors.

We rely on certain external vendors to provide products and services necessary to maintain our day-to-day operations, particularly in the areas of operations, treasury management systems, information technology and security, exposing us to the risk that these vendors will not perform as required by our agreements. An external vendor's failure to perform in accordance with our agreement could be disruptive to our operations, which could have a material adverse impact on our business, financial condition and results of operations.

We must effectively manage our information systems risk.

We rely heavily on our communications and information systems to conduct our business. The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. Our ability to compete successfully depends in part upon our ability to use technology to provide products and services that will satisfy customer demands. Many of the Company's competitors invest substantially greater resources in technological improvements than we do. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers, which may negatively affect our business, results of operations or financial condition.

Our communications and information systems remain vulnerable to unexpected disruptions and failures. Any failure or interruption of these systems could impair our ability to serve our customers and to operate our business and could damage our reputation, result in a loss of business, subject us to additional regulatory scrutiny or enforcement or expose us to civil litigation and possible financial liability. While we have developed extensive recovery plans, we cannot assure that those plans will be effective to prevent adverse effects upon us and our customers resulting from system failures. While we maintain an insurance policy which we believe provides sufficient coverage at a manageable expense for an institution of our size and scope with similar technological systems, we cannot assure that this policy would be sufficient to cover all related financial losses and damages should we experience any one or more

of our or a third party's systems failing or experiencing a cyber-attack.

We collect and store sensitive data, including personally identifiable information of our customers and employees. Computer break-ins of our systems or our customers' systems, thefts of data and other breaches and criminal activity may result in significant costs to respond, liability for customer losses if we are at fault, damage to our customer relationships, regulatory scrutiny and enforcement and loss of future business opportunities due to reputational damage. Although we, with the help of third-party service providers, will continue to implement security technology and establish operational procedures to protect sensitive data, there can be no assurance that these measures will be effective. We advise and provide training to our customers regarding protection of their systems, but there is no assurance that our advice and training will be appropriately acted upon by our customers or effective to prevent losses. In some cases we may elect to contribute to the cost of responding to cybercrime against our customers, even when we are not at fault, in order to maintain valuable customer relationships.

Disruptions to our information systems and security breaches could adversely affect our business and reputation.

In our ordinary course of business, we rely on electronic communications and information systems to conduct our businesses and to store sensitive data, including financial information regarding our customers. The integrity of information systems of financial institutions are under significant threat from cyber-attacks by third parties, including through coordinated attacks sponsored by foreign nations and criminal organizations to disrupt business operations and other compromises to data and systems for political or criminal purposes. We employ an in-depth, layered, defense approach that leverages people, processes and technology to manage and maintain cyber security controls.

Notwithstanding the strength of our defensive measures, the threat from cyber attacks is severe, attacks are sophisticated and attackers respond rapidly to changes in defensive measures. Cyber security risks may also occur with our third-party service providers, and may interfere with their ability to fulfill their contractual obligations to us, with attendant potential for financial loss or liability that could adversely affect our financial condition or results of operations. We offer our clients the ability to bank remotely and provide other technology based products and services, which services include the secure transmission of confidential information over the Internet and other remote channels. To the extent that our client's systems are not secure or are otherwise compromised, our network could be vulnerable to unauthorized access, malicious software, phishing schemes and other security breaches. To the extent that our activities or the activities of our clients or third-party service providers involve the storage and transmission of confidential information, security breaches and malicious software could expose us to claims, regulatory scrutiny, litigation and other possible liabilities. While to date we have not experienced a significant compromise, significant data loss or material financial losses related to cyber security attacks, our systems and those of our clients and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. We may suffer material financial losses related to these risks in the future or we may be subject to liability for compromises to our client or third-party service provider systems. Any such losses or liabilities could adversely affect our financial condition or results of operations, and could expose us to reputation risk, the loss of client business, increased operational costs, as well as additional regulatory scrutiny, possible litigation, and related financial liability. These risks also include possible business interruption, including the inability to access critical information and systems.

The anti-takeover provisions in our Articles of Incorporation and under Florida law may make it more difficult for takeover attempts that have not been approved by our board of directors.

Florida law and our Articles of Incorporation include anti-takeover provisions, such as provisions that encourage persons seeking to acquire control of us to consult with our board, and which enable the board to negotiate and give consideration on behalf of us and our shareholders and other constituencies to the merits of any offer made. Such provisions, as well as supermajority voting and quorum requirements, a staggered board of directors and the Protective Amendment, may make any takeover attempts and other acquisitions of interests in us, by means of a tender offer, open market purchase, a proxy fight or otherwise, that have not been approved by our board of directors more difficult and more expensive. These provisions may discourage possible business combinations that a majority

of our shareholders may believe to be desirable and beneficial. As a result, our board of directors may decide not to pursue transactions that would otherwise be in the best interests of holders of our common stock.

Hurricanes or other adverse weather events could negatively affect our local economies or disrupt our operations, which would have an adverse effect on our business and results of operations.

Our market areas in Florida are susceptible to hurricanes, tropical storms and related flooding and wind damage. Such weather events can disrupt operations, result in damage to properties and negatively affect the local economies in the markets where we operate. We cannot predict whether or to what extent damage that may be caused by future hurricanes will affect our operations or the economies in our current or future market areas, but such weather events could result in a decline in loan originations, a decline in the value or destruction of properties securing our loans and an increase in the delinquencies, foreclosures or loan losses. Our business and results of operations may be adversely affected by these and other negative effects of future hurricanes, tropical storms, related flooding and wind damage and other similar weather events. As a result of the potential for such weather events, many of our customers have incurred significantly higher property and casualty insurance premiums on their properties located in our markets, which may adversely affect real estate sales and values in our markets.

The CFPB's issued rules may have a negative impact on our loan origination process, and compliance and collection costs, which could adversely affect our mortgage lending operations and operating results.

The CFPB issued rules that are likely to impact our residential mortgage lending practices, and the residential mortgage market generally, including rules that implement the "ability-to-repay" requirement and provide protection from liability for "qualified mortgages," as required by the Dodd-Frank Act, which took effect on January 10, 2014. The CFPB has also issued a number of other mortgage-related rules, including new rules pertaining to loan originator compensation, and that establish qualification, registration and licensing requirements for loan originators. These and other changes are likely to impose restrictions on future mortgage loan originations, diminish lenders' rights against delinquent borrowers or otherwise change the ways in which lenders make and administer residential mortgage loans. These rules could have a negative effect on the financial performance of Seacoast National's mortgage lending operations, by, among other things, reducing the volume of mortgage loans that Seacoast National can originate and sell into the secondary market, increasing its compliance burden and impairing Seacoast National's ability to proceed against certain delinquent borrowers with timely and effective collection efforts.

Risks Related to our Common Stock

We may issue additional shares of common or preferred stock, which may dilute the interests of our shareholders and may adversely affect the market price of our common stock.

We are currently authorized to issue up to 60 million shares of common stock, of which 34,351,409 shares were outstanding as of December 31, 2015, and up to 4 million shares of preferred stock, of which no shares are outstanding. Subject to certain NASDAQ requirements, our board of directors has authority, without action or vote of the shareholders, to issue all or part of the remaining authorized but unissued shares and to establish the terms of any series of preferred stock. These authorized but unissued shares could be issued on terms or in circumstances that could dilute the interests of other shareholders.

Our stock price is subject to fluctuations, and the value of your investment may decline.

The trading price of our common stock is subject to wide fluctuations. The stock market in general, and the market for the stocks of commercial banks and other financial services companies in particular, has experienced significant price and volume fluctuations that sometimes have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance, and the value of your investment may decline.

Ownership concentrations of our common stock and actions by large shareholders may affect the market price of our common stock.

A substantial number of shares of our common stock are owned by a small number of large institutional investors, and those shares could be sold into the public market pursuant to the registration rights of such institutional investors. In the event of these large shareholders elect to sell their shares, such sales or attempted sales could result in significant downward pressure on the market price of our common stock and actual price declines.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We and Seacoast National's main office occupies approximately 66,000 square feet of a 68,000 square foot building in Stuart, Florida. This building, together with an adjacent 10-lane drive-through banking facility and an additional 27,000-square foot office building, are situated on approximately eight acres of land in the center of Stuart that is zoned for commercial use. The building and land are owned by Seacoast National, which leases out portions of the building not utilized by us and Seacoast National to unaffiliated third parties.

Adjacent to the main office, Seacoast National leases approximately 21,400 square feet of office space from third parties to house operational departments, consisting primarily of information systems and retail support. Seacoast National owns its equipment, which is used for servicing bank deposits and loan accounts as well as on-line banking services, and providing tellers and other customer service personnel with access to customers' records. In addition, Seacoast National owns an operations center consisting of a 4,939 square foot building situated on 1.44 acres in Okeechobee, Florida. Our PGA Blvd. branch is utilized as a disaster recovery site should natural disasters or other events preclude the use of Seacoast National's primary operations center.

Seacoast currently operates its Seacoast Marine Finance Division in a 2,009 square foot leased facility in Ft. Lauderdale, Florida, and has representation in California, Washington and Arizona. The 1,200 square foot leased space in Newport Beach, California was closed at December 31, 2014.

CBF, our receivables factoring company occupies 1,511 square feet of leased space on the first floor of the Winter Park branch in Orlando, Florida. Seacoast Business Finance, a receivables factoring division of Seacoast National added in May 2015, occupies 6,000 square feet of leased space in Boynton Beach, Florida.

Seacoast National owns or leases all of the real property and/or buildings in which we operate our business. As of December 31, 2015, we and our subsidiaries had 42 branch offices, five commercial lending offices and its main office in Florida at December 31, 2015. As of December 31, 2015, the net carrying value of these offices (excluding the main office) was approximately \$41.1 million. Seacoast National's branch and commercial lending offices in 2015 are generally described as follows:

Branch Office	Year Opened/Acquired	Square Feet	Owned/Leased
Jensen Beach			
1000 N.E. Jensen Beach Blvd.	1977	1,920	Owned
Jensen Beach, FL 34957			
East Ocean			
2081 East Ocean Blvd	1978 (relocated in 1995)	2,300	Owned; closed in February 2015; moved to OREO to sell
Stuart, FL 34996			
Cove Road			
5755 S.E. U.S. Highway 1	1983	3,450	Leased
Stuart, FL 34997			
Westmoreland			
1108 S.E. Port St. Lucie Blvd.	1985 (relocated in 2008)	4,468 (with 1,179 leased to tenants)	Owned building located on leased land
Port St. Lucie, FL 34952			
Wedgewood Commons			
3200 U.S. Highway 1	1988 (relocated in 2009)	5,477 (with 2,641 available to be leased to tenants)	Owned building located on leased land.
Stuart, FL 34997			
Bayshore			
247 S.W. Port St. Lucie Blvd.	1990	3,520	Leased; expected to close in 2016
Port St. Lucie, FL 34984			
Hobe Sound	1991		Owned

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11711 S.E. U.S. Highway 1		8,000 (with 1,225 available to be leased to tenants)	
Hobe Sound, FL 33455			
Fort Pierce			
1901 South U.S. Highway 1	1991 (relocated in 2008)	5,477 (with 2,641 available to be leased to tenants)	Owned building located on leased land
Fort Pierce, FL 34950			
Martin Downs			
2601 S.W. High Meadow Ave.	1992	3,960	Owned
Palm City, FL 34990			
Tiffany			
9698 U.S. Highway 1	1992	8,250	Owned
Port St. Lucie, FL 34952			
Vero Beach			
1206 U.S. Highway 1	1993	3,300	Owned
Vero Beach, FL 32960			
Cardinal			
2940 Cardinal Dr.	1993 (relocated in 2008)	5,435	Leased
Vero Beach, FL 32963			

St. Lucie West

1100 S.W. St. Lucie West Blvd. 1994 (relocated in 1997) 4,320 Leased

Port St. Lucie, FL 34986

South Vero Square

752 U.S. Highway 1 1997 3,150 Owned; closed in December 2015 and moved to OREO to sell

Vero Beach, FL 32962

Sebastian West

1110 Roseland Rd. 1998 3,150 Owned

Sebastian, FL 32958

Tequesta

710 N. U.S. Highway 1 2003 3,500 Owned

Tequesta, FL 33469

Jupiter

585 W. Indiantown Rd. 2004 2,881 Owned building located on leased land

Jupiter, FL 33458

Vero 60 West

6030 20th Street 2005 2,500 Owned

Vero Beach, FL 32966

Maitland

541 S. Orlando Ave. 2005 4,536 Leased

Maitland, FL 32751

PGA Blvd. 2006 13,454 Leased

3001 PGA Blvd.

Palm Beach Gardens, FL
33410

South Parrott

1409 S. Parrott Ave. 2006 8,232 Owned

Okeechobee, FL 34974

North Parrott

500 N. Parrott Ave. 2006 3,920 Owned

Okeechobee, FL 34974

Arcadia

1601 E. Oak St. 2006 (expanded in 2008) 3,256 Owned

Arcadia, FL 34266

Moore Haven

501 U.S. Highway 27 2006 (relocated from leased premises in 2012) 4,415 Owned; expected to close in 2016

Moore Haven, FL 33471

Clewiston			
300 S. Berner Rd.	2006	5,661	Owned
Clewiston, FL 33440			
LaBelle			
17 N. Lee St.	2006	2,361	Owned; expected to close in 2016
LaBelle, FL 33935			
Lake Placid			
199 U.S. Highway 27 North	2006	2,125	Owned; expected to close in 2016
Lake Placid, FL 33852			
Viera – The Avenues			
6711 Lake Andrew Dr.	2007	5,999	Leased; closed in December 2014
Viera, FL 32940			
Murrell Road			
5500 Murrell Rd.	2008	9,041 (with 2,408 leased to tenants and 1,856 available to be leased)	Leased; closed in December 2014
Viera, FL 32940			
Gatlin Boulevard			
1790 S.W. Gatlin Blvd.	2008	5,300 (with 2,518 available for leasing)	Owned
Port St. Lucie, FL 34953			
Winter Park	2014 (acquired through BankFIRST merger; opened 1989)	18,135 (with 9,069 occupied by Seacoast, 1,511 by CBF, and 7,555 available to be leased)	Leased
1031 West Morse Blvd			

Winter Park, FL
32789

Winter Garden

13207 West Colonial Dr.	2014 (acquired through BankFIRST merger; opened 1989)	8,081	Owned
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Winter Garden,
FL 34787

Eustis

15119 Highway 441	2014 (acquired through BankFIRST merger; opened 1991)	4,699	Owned
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Eustis, FL 32726

Melbourne

300 South Harbor City Blvd.	2014 (acquired through BankFIRST merger; opened 1996)	4,558	Owned
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Melbourne, FL
32901

Ormond Beach

1240 W. Granada Blvd.	2014 (acquired through BankFIRST merger; opened 1997)	8,810	Owned
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Ormond Beach,
FL 32174

Oviedo			
2839 Clayton Crossing Way	2014 (acquired through BankFIRST merger; opened 2000)	4,482	Owned
Oviedo, FL 32765			
Viera			
105 Capron Trail	2014 (acquired through BankFIRST merger; opened 2000)	3,426	Owned
Viera, FL 32940			
Apopka			
345 East Main St.	2014 (acquired through BankFIRST merger; opened 2001)	4,984	Owned
Apopka, FL 32703			
Port Orange			
405 Dunlawton Ave.	2014 (acquired through BankFIRST merger; opened 2001)	3,120	Owned
Port Orange, FL 32127			
Sanford			
3791 West 1 st St.	2014 (acquired through BankFIRST merger; opened 2003)	3,191	Owned
Sanford, FL 32771			
Titusville			
4250 South Washington Ave.	2014 (acquired through BankFIRST merger; opened 2003)	2,050	Owned
Titusville, FL 32780			
Clermont			
1000 East Highway 50	2014 (acquired through BankFIRST merger; opened 2005)	7,354 (with 3,582 leased to tenants)	Owned
Clermont, FL 34711			
Sebastian	2014	1,190	Leased
1627 U.S. Highway 1, Suite 107			

Sebastian, FL 32958

Sewall's Point

3727 S. East Ocean Blvd, #102	2014	3,522	Leased
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Stuart, FL 34996

Palm Beach Lakes

2055 Palm Beach Lakes Blvd	2015 (acquired through Grand Bank merger; opened in 1999)	6,496	Owned
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West Palm Beach, FL
33409

Lantana

2000 Lantana Road	2015 (acquired through Grand Bank merger; opened in 2000)	2,777	Owned
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Lake Worth, FL 33462

Commercial lending offices	Opened In	Square Feet	Owned/Leased
Hannibal Square			
444 W. New England Avenue, Suite 117	2013	2,000	Leased
Winter Park, FL 32789			
Rialto			
7335 W. Sand Lake Road,	2013	1,489	Leased
Suite 137			
Orlando, FL 32819			
Park Place			
7025 County Road 46A,	2013	1,979	Leased
Suite 1091			
Heathrow, FL 32746			
Victoria Park Shoppes			
622 North Federal Highway	2013	1,800	Leased
Ft. Lauderdale, FL 33304			
Town Center			
5250 Town Center Circle,	2013	1,495	Leased
Suite 109			
Boca Raton, FL 34486			

For additional information regarding our properties, please refer to Notes G and K of the Notes to Consolidated Financial Statements.

We and our subsidiaries are subject, in the ordinary course, to litigation incident to the businesses in which we are engaged. Management presently believes that none of the legal proceedings to which we are a party are likely to have a material effect on our consolidated financial position, operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

Item 4.

Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Holders of our common stock are entitled to one vote per share on all matters presented to shareholders as provided in our Articles of Incorporation.

Our common stock is traded under the symbol “SBCF” on the Nasdaq Global Select Market, which is a national securities exchange (“Nasdaq”). As of February 29, 2016 there were 34,628,589 shares of our common stock outstanding, held by approximately 2,059 record holders.

The table below sets forth the high and low sale prices per share of our common stock on Nasdaq and the dividends paid per share of our common stock for the indicated periods.

	Sales Price per Share of Seacoast Common Stock		Quarterly Dividends Declared Per Share of Seacoast Common Stock
	High	Low	
2014			
First Quarter	\$12.51	\$10.55	\$ 0.00
Second Quarter	11.28	10.00	0.00
Third Quarter	11.27	10.03	0.00
Fourth Quarter	14.24	10.80	0.00
2015			
First Quarter	\$14.46	\$12.02	\$ 0.00
Second Quarter	16.09	13.81	0.00
Third Quarter	16.26	14.11	0.00
Fourth Quarter	16.95	14.10	0.00

Dividends from Seacoast National are our primary source of funds to pay dividends on our common stock. Under the National Bank Act, national banks may in any calendar year, without the approval of the OCC, pay dividends to the extent of net profits for that year, plus retained net profits for the preceding two years (less any required transfers to surplus). The need to maintain adequate capital in Seacoast National also limits dividends that may be paid to us. We have not paid dividends since 2009.

Any dividends paid on our common stock would be declared and paid at the discretion of our board of directors and would be dependent upon our liquidity, financial condition, results of operations, capital requirements and such other factors as our board of directors may deem relevant. We do not expect to pay dividends on our common stock in the immediate future and expect to retain any earnings to support our growth.

Additional information regarding restrictions on the ability of Seacoast National to pay dividends to us is contained in Note C of the Notes to Consolidated Financial Statements. See “Item 1. Business- Payment of Dividends” of this Form 10-K for information with respect to the regulatory restrictions on dividends.

Securities Authorized for Issuance Under Equity Compensation Plans

See the information included under Part III, Item 12, which is incorporated in response to this item by reference.

Item 6. Selected Financial Data

For five years selected financial data of the Company is set forth under the caption “Financial Highlights” on page 108.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Management’s Discussion and Analysis of Financial Condition and Results of Operations appears under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on pages 56-89.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For discussion of the quantitative and qualitative disclosures about market risk, see “Interest Rate Sensitivity”, “Securities”, and “Market Risk” sections of Management’s Discussion and Analysis of Financial Condition and Results of Operations on page 84, 66 and pages 84-85, respectively.

Item 8. Financial Statements and Supplementary Data

The reports of Crowe Horwath LLP and KPMG LLP (KPMG), independent registered public accounting firms, and the Consolidated Financial Statements and Notes appear on pages 109-111. Quarterly Consolidated Income Statements are included on page 107 entitled “Selected Quarterly Financial Information”.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, as defined in SEC Rule 13a-15 under the Exchange Act, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

In connection with the preparation of this Annual Report on Form 10-K, as of the end of the period covered by this report, an evaluation was performed, with the participation of the CEO and CFO, of the effectiveness of our disclosure controls and procedures, as required by Rule 13a-15 of the Exchange Act. Based upon that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) *Management's Report on Internal Control over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2015. This assessment was based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework 2013*. Based on this assessment, management believes that, as of December 31, 2015, our internal control over financial reporting was effective. As permitted, the Company has excluded the current year acquisition of Grand Bankshares (that represents approximately 6% of total consolidated assets at December 31, 2015) from the scope of management's report on internal control over financial reporting.

Our independent registered public accounting firm, Crowe Horwath LLP, has issued an attestation report on our internal control over financial reporting which is included herein.

(c) *Change in Internal Control Over Financial Reporting*

As reported in our 2013 Annual Report on Form 10-K as of December 31, 2013, our management concluded that our internal control over financial reporting was not effective as a result of a material weakness related to ineffective review of the accounting for previously recorded charge-offs, a non-routine matter, related to a matured troubled debt restructured loan.

During 2014, management took steps to remediate the material weakness, including implementing controls to ensure that the Company's financial department provides for additional management review, and consulting, as needed, with outside independent consultants and accounting experts when faced with non-routine accounting matters. As a result of the successful implementation of the remediation activities noted, as well as subsequent successful testing of the design and operation of the enhanced control procedure, management concluded that its material weakness as disclosed in the Company's 2013 Annual Report on Form 10-K was remediated as of December 31, 2014.

During 2015, there were no changes in our internal control over financial reporting that occurred or that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B.

Other Information.

None.

Part III

Item 10.

Directors, Executive Officers and Corporate Governance

Information concerning our directors and executive officers is set forth under the headings “Proposal 1 - Election of Directors,” “Corporate Governance,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Certain Transactions and Business Relationships” in the 2016 Proxy Statement, incorporated herein by reference.

Item 11.

Executive Compensation

Information regarding the compensation paid by us to our directors and executive officers is set forth under the headings “Executive Compensation,” “Compensation Discussion & Analysis,” “Compensation and Governance Committee Report” and “2015 Director Compensation” in the 2016 Proxy Statement which are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information about our common stock that may be issued under all of our existing compensation plans as of December 31, 2015.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstand- ing options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities represented in column (a))
Equity compensation plans approved by shareholders:			
2000 Plan (1)	37,397	\$ 116.43	0
2008 Plan (2)	0	0.00	0
2013 Plan (3)	519,250	10.93	1,721,849
Employee Stock Purchase Plan (4)	0	0.00	107,557
TOTAL	556,647	\$ 18.02	1,829,406

(1) Seacoast Banking Corporation of Florida 2000 Long-Term Incentive Plan. Shares reserved under this plan are available for issuance pursuant to the exercise of stock options and stock appreciation rights granted under the plan, as well as, vesting of performance award shares, and awards of restricted stock or stock-based awards, previously issued.

(2) Seacoast Banking Corporation of Florida 2008 Long-Term Incentive Plan. Shares reserved under this plan are available for issuance pursuant to the exercise of stock options and stock appreciation rights granted under the plan, as well as, vesting of performance award shares, and awards of restricted stock or stock-based awards, previously issued.

(3) Seacoast Banking Corporation of Florida 2013 Long-Term Incentive Plan. Shares reserved under this plan are available for issuance pursuant to the exercise of stock options and stock appreciation rights granted under the plan, and may be granted as awards of restricted stock, performance shares, or other stock-based awards, prospectively.

(4) Seacoast Banking Corporation of Florida Employee Stock Purchase Plan, as amended.

Additional information regarding the ownership of our common stock is set forth under the headings “Proposal 1 - Election of Directors” and “Security Ownership of Management and Certain Beneficial Holders” in the 2016 Proxy Statement, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and transactions between us and our officers, directors and significant shareholders is set forth under the heading “Compensation and Governance Committee Interlocks and Insider Participation” and “Certain Transactions and Business Relationships” and “Corporate Governance” in the 2016 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information concerning our principal accounting fees and services is set forth under the heading “Relationship with Independent Registered Public Accounting Firm; Audit and Non- Audit Fees” in the 2016 Proxy Statement, and is incorporated herein by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) The Consolidated Financial Statements, the Notes thereto and the report of the Independent Registered Public Accounting Firm thereon listed in Item 8 are set forth commencing on page 109.

(a)(2) List of financial statement schedules

All schedules normally required by Form 10-K are omitted, since either they are not applicable or the required information is shown in the financial statements or the notes thereto.

(a)(3) Listing of Exhibits

PLEASE NOTE: It is inappropriate for readers to assume the accuracy of, or rely upon any covenants, representations or warranties that may be contained in agreements or other documents filed as Exhibits to, or incorporated by reference in, this report. Any such covenants, representations or warranties may have been qualified or superseded by

disclosures contained in separate schedules or exhibits not filed with or incorporated by reference in this report, may reflect the parties' negotiated risk allocation in the particular transaction, may be qualified by materiality standards that differ from those applicable for securities law purposes, may not be true as of the date of this report or any other date, and may be subject to waivers by any or all of the parties. Where exhibits and schedules to agreements filed or incorporated by reference as Exhibits hereto are not included in these Exhibits, such exhibits and schedules to agreements are not included or incorporated by reference herein.

The following Exhibits are attached hereto or incorporated by reference herein (unless indicated otherwise, all documents referenced below were filed pursuant to the Exchange Act by Seacoast Banking Corporation of Florida, Commission File No. 0-13660):

Exhibit 3.1.1 Amended and Restated Articles of Incorporation

Incorporated herein by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, filed May 10, 2006.

Exhibit 3.1.2 Articles of Amendment to the Amended and Restated Articles of Incorporation

Incorporated herein by reference from Exhibit 3.1 to the Company's Form 8-K, filed December 23, 2008.

Exhibit 3.1.3 Articles of Amendment to the Amended and Restated Articles of Incorporation

Incorporated herein by reference from Exhibit 3.4 to the Company's Form S-1, filed June 22, 2009.

Exhibit 3.1.4 Articles of Amendment to the Amended and Restated Articles of Incorporation

Incorporated herein by reference from Exhibit 3.1 to the Company's Form 8-K, filed July 20, 2009.

Exhibit 3.1.5 Articles of Amendment to the Amended and Restated Articles of Incorporation

Incorporated herein by reference from Exhibit 3.1 to the Company's Form 8-K, filed December 3, 2009.

Exhibit 3.1.6 Articles of Amendment to the Amended and Restated Articles of Incorporation

Incorporated herein by reference from Exhibit 3.1 to the Company's Form 8-K/A, filed July 14, 2010.

Exhibit 3.1.7 Articles of Amendment to the Amended and Restated Articles of Incorporation

Incorporated herein by reference from Exhibit 3.1 to the Company's Form 8-K, filed June 25, 2010.

Exhibit 3.1.8 Articles of Amendment to the Amended and Restated Articles of Incorporation

Incorporated herein by reference from Exhibit 3.1 to the Company's Form 8-K, filed June 1, 2011.

Exhibit 3.1.9 Articles of Amendment to the Amended and Restated Articles of Incorporation

Incorporated herein by reference from Exhibit 3.1 to the Company's Form 8-K, filed December 13, 2013.

Exhibit 3.2 Amended and Restated By-laws of the Company

Incorporated herein by reference from Exhibit 3.2 to the Company's Form 8-K, filed December 21, 2007.

Exhibit 4.1 Specimen Common Stock Certificate

Incorporated herein by reference from Exhibit 4.1 to the Company's Form 10-K, filed on March 17, 2014.

Exhibit 4.2 Junior Subordinated Indenture

Dated as of March 31, 2005, between the Company and Wilmington Trust Company, as Trustee (including the form of the Floating Rate Junior Subordinated Note, which appears in Section 2.1 thereof), incorporated herein by reference from Exhibit 10.1 to the Company's Form 8-K filed April 5, 2005.

Exhibit 4.3 Guarantee Agreement

Dated as of March 31, 2005 between the Company, as Guarantor, and Wilmington Trust Company, as Guarantee Trustee, incorporated herein by reference from Exhibit 10.2 to the Company's Form 8-K filed April 5, 2005.

Exhibit 4.4 Amended and Restated Trust Agreement

Dated as of March 31, 2005, among the Company, as Depositor, Wilmington Trust Company, as Property Trustee, Wilmington Trust Company, as Delaware Trustee and the Administrative Trustees named therein, as Administrative Trustees (including exhibits containing the related forms of the SBCF Capital Trust I Common Securities Certificate and the Preferred Securities Certificate), incorporated herein by reference from Exhibit 10.3 to the Company's Form 8-K filed April 5, 2005.

Exhibit 4.5 Indenture

Dated as of December 16, 2005, between the Company and U.S. Bank National Association, as Trustee (including the form of the Junior Subordinated Debt Security, which appears as Exhibit A to the Indenture), incorporated herein by reference from Exhibit 10.1 to the Company's Form 8-K filed December 21, 2005.

Exhibit 4.6 Guarantee Agreement

Dated as of December 16, 2005, between the Company, as Guarantor, and U.S. Bank National Association, as Guarantee Trustee, incorporated herein by reference from Exhibit 10.2 to the Company's Form 8-K filed December 21, 2005.

Exhibit 4.7 Amended and Restated Declaration of Trust

Dated as of December 16, 2005, among the Company, as Sponsor, Dennis S. Hudson, III and William R. Hahl, as Administrators, and U.S. Bank National Association, as Institutional Trustee (including exhibits containing the related forms of the SBCF Statutory Trust II Common Securities Certificate and the Capital Securities Certificate), incorporated herein by reference from Exhibit 10.3 to the Company's Form 8-K filed December 21, 2005.

Exhibit 4.8 Indenture

Dated June 29, 2007, between the Company and LaSalle Bank, as Trustee (including the form of the Junior Subordinated Debt Security, which appears as Exhibit A to the Indenture), incorporated herein by reference from Exhibit 10.1 to the Company's Form 8-K filed July 3, 2007.

Exhibit 4.9 Guarantee Agreement

Dated June 29, 2007, between the Company, as Guarantor, and LaSalle Bank, as Guarantee Trustee, incorporated herein by reference from Exhibit 10.2 to the Company's Form 8-K filed July 3, 2007.

Exhibit 4.10 Amended and Restated Declaration of Trust

Dated June 29, 2007, among the Company, as Sponsor, Dennis S. Hudson, III and William R. Hahl, as Administrators, and LaSalle Bank, as Institutional Trustee (including exhibits containing the related forms of the SBCF Statutory Trust III Common Securities Certificate and the Capital Securities Certificate), incorporated herein by reference from Exhibit 10.3 to the Company's Form 8-K filed July 3, 2007.

Exhibit 4.11 Registration Rights Agreement

Dated January 13, 2014, between the Company and CapGen Capital Group III, L.P., incorporated herein by reference from Exhibit 10.1 to the Company's Form 8-K, filed January 14, 2014.

Exhibit 10.1 Amended and Restated Retirement Savings Plan*

Incorporated herein by reference from Exhibit 10.1 to the Company's Annual Report on Form 10-K, filed March 15, 2011.

Exhibit 10.2 Amended and Restated Employee Stock Purchase Plan*

Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on DEF 14A, filed with the Commission on April 27, 2009.

Exhibit 10.3 Dividend Reinvestment and Stock Purchase Plan

Incorporated by reference to the Company's Form S-3 filed on November 12, 2014.

Exhibit 10.4 2000 Long Term Incentive Plan as Amended*

Incorporated herein by reference from the Company's Registration Statement on Form S-8 File No. 333-49972, filed November 15, 2000, and Proxy Statement on Form DEF 14A, filed on March 13, 2000.

Exhibit 10.5 Executive Deferred Compensation Plan*

Incorporated herein by reference from Exhibit 10.12 to the Company's Annual Report on Form 10-K, filed March 30, 2001.

Exhibit 10.6 Change of Control Employment Agreement*

Dated December 24, 2003 between William R. Hahl and the Company, incorporated herein by reference from Exhibit 10.17 to the Company's Form 8-K, filed December 29, 2003.

Exhibit 10.7 Amended and Restated Directors Deferred Compensation Plan*

Incorporated herein to the Company's Form 10-K, filed March 14, 2016.

Exhibit 10.8 2008 Long-Term Incentive Plan*

Incorporated herein by reference from Exhibit A to the Company's Proxy Statement on Form DEF 14A, filed March 18, 2008.

Exhibit 10.9 Form of 409A Amendment to Employment Agreement with William R. Hahl*

Incorporated herein by reference from Exhibit 10.1 to the Company's Form 8-K, filed January 5, 2009.

Exhibit 10.10 2013 Incentive Plan

Incorporated herein by reference from Appendix A to the Company's Proxy Statement on Form DEF 14A, filed April 9, 2013.

Exhibit 10.11 Letter Agreement Regarding Lead Director Position*

Dated March 1, 2014 between Roger O. Goldman and the Company, incorporated herein by reference from Exhibit 10.1 to the Company's Form 8-K, filed March 6, 2014.

Exhibit 10.12 Form of Change of Control Employment Agreement with Daniel Chappell, Charles Cross, David Houdeshell, Jeffery D. Lee and Charles Shaffer*

Incorporated herein by reference from Exhibit 10.1 to the Company's Form 8-K, filed November 3, 2014.

Exhibit 10.13 Employment Agreement*

Dated December 18, 2014 between Dennis S. Hudson, III and the Company, incorporated herein by reference from Exhibit 10.1 to the Company's Form 8-K, filed December 19, 2014.

Exhibit 10.14 Agreement and Plan of Merger

Dated March 25, 2015, by and among the Company, Seacoast National, Grand Bankshares, Inc. and Grand Bank & Trust of Florida, incorporated herein by reference from Exhibit 2.1 to the Company's Form 8-K, filed March 31, 2015.

Exhibit 10.15 Branch Sale Agreement

Dated October 14, 2015, by and between Seacoast National and BMO Harris Bank N.A., incorporated herein by reference from Exhibit 2.1 to the Company's Form 8-K, filed October 19, 2015.

Exhibit 10.16 Agreement and Plan of Merger

Dated November 2, 2015, by and among the Company, Seacoast National, Floridian Financial Group, Inc. and Floridian Bank, incorporated herein by reference from Exhibit 2.1 to the Company's Form 8-K, filed November 4, 2015.

Exhibit 10.17 Change of Control Employment Agreement*

Dated August 6, 2015 between Stephen Fowle and the Company, incorporated herein by reference from Exhibit 10.1 to the Company's Form 8-K, filed August 10, 2015.

Exhibit 10.18 Executive Transition Agreement*

Dated April 30, 2015 between William R. Hahl and the Company, incorporated herein to the Company's Form 10-K, filed March 14, 2016.

Exhibit 21 Subsidiaries of Registrant

Exhibit 23.1 Consent of Independent Registered Public Accounting Firm

Exhibit 23.2 Consent of Independent Registered Public Accounting Firm

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1** Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 111 the Emergency Economic Stability Act, as amended

Exhibit 32.2** Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 111 the Emergency Economic Stability Act, as amended

Exhibit 101 Interactive Data File

* Management contract or compensatory plan or arrangement.

The certifications attached as Exhibits 32.1 and 32.2 accompany this Annual Report on Form 10-K and are **“furnished” to the Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed “filed” by the Company for purposes of Section 18 of the Exchange Act.

(b) Exhibits

The response to this portion of Item 15 is submitted under item (a)(3) above.

(c) Financial Statement Schedules

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SEACOAST BANKING CORPORATION OF
FLORIDA
(Registrant)

By: /s/ Dennis S. Hudson, III
Dennis S. Hudson, III
Chairman of the Board and Chief Executive Officer

Date: March 14, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

	Date
/s/ Dennis S. Hudson, III Dennis S. Hudson, III, Chairman of the Board, Chief Executive Officer and Director (principal executive officer)	March 14, 2016
/s/ Stephen A. Fowle Stephen A. Fowle, Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	March 14, 2016
/s/ Dennis J. Arczynski Dennis J. Arczynski, Director	March 14, 2016
/s/ Stephen E. Bohner Stephen E. Bohner, Director	March 14, 2016
/s/ T. Michael Crook T. Michael Crook, Director	March 14, 2016

Date

/s/ H. Gilbert Culbreth, Jr. March 14, 2016
H. Gilbert Culbreth, Jr, Director

/s/ Julie H. Daum March 14, 2016
Julie H. Daum, Director

/s/ Christopher E. Fogal March 14, 2016
Christopher E. Fogal, Director

/s/ Dennis S. Hudson, Jr. March 14, 2016
Dennis S. Hudson, Jr., Director

/s/ Thomas E. Rossin March 14, 2016
Thomas E. Rossin, Director

Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion and analysis is to aid in understanding significant changes in the financial condition of Seacoast Banking Corporation of Florida and its subsidiaries (the “Company”) and their results of operations during 2015, 2014 and 2013. Nearly all of the Company’s operations are contained in its banking subsidiary, Seacoast Bank (“Seacoast Bank” or the “Bank”). This discussion and analysis is intended to highlight and supplement information presented elsewhere in the annual report on Form 10-K, particularly the consolidated financial statements and related notes appearing in Item 8. For purposes of the following discussion, the words the “Company,” “we,” “us,” and “our” refer to the combined entities of Seacoast Banking Corporation of Florida and its direct and indirect wholly owned subsidiaries.

Overview – Strategy and Results

Seacoast continues to execute on its plan to grow our core business organically, innovate to build franchise and increase efficiency, and grow through mergers and acquisitions. We believe that these investments better position us to increase net income to common shareholders today and prospectively. These included:

continued investments in digital technology and improved processes providing significant cross sell to legacy customers and opportunities to reduce overhead;

consolidation of branch locations, totaling more than 25% of total branch locations over the past five years, with four more legacy Seacoast branches to consolidate in the first half of 2016;

Investment in the Accelerate lending model, expanding geographically with low cost, high service community banking offices; and

completion of our acquisitions of The BANKshares, Inc. (“BANKshares”) on October 1, 2014, and Grand Bankshares, Inc. (“Grand”) on July 17, 2015, and prospective purchase from BMO Harris Bank, N.A. (“BMO”) and Floridian Financial Group, Inc. (“Floridian”) in 2016.

We introduced Seacoast’s Accelerate commercial banking model in 2011, and in 2013 began to invest in analytics, digital servicing capabilities and digital marketing talent and technology. Through these investments, the Company

continues to focus on reaching customers in unique ways, creating a path to achieve higher customer satisfaction. The commercial lending offices provide our customers with talented, results-oriented staff, specializing in loans to the smaller business market segment. From their tenure and market experience, our bankers are familiar with the multitude of challenges the small business customer faces.

In addition, Seacoast is building a fully integrated distribution platform across all channels to provide our customers with the ability to choose their path of convenience to satisfy their banking needs. In 2015, we rolled out our integrated digital marketing, automated cross-sell, and deeper customer analytics which are building value as we move forward. In 2015, we also absorbed incremental costs to support better channel integration including the expansion of our 24/7 call center, that now originates over 10% of our deposit relationships and nearly 30% of our consumer loan production and expansion plans for this group in 2016 should provide ever greater lift. We have proactively positioned our business for growth. Excluding the acquisitions, loan growth for 2015 of \$218 million or 12% above prior year and core customer funding of \$286 million or 13% above a year ago was recorded. We believe our targeted plan to grow our customer and commercial franchise is the best way to build shareholder value.

While our focus is organic growth, we have periodically supplemented this growth through strategic acquisition opportunities. Nearly a year after completing our BANKshares acquisition, customer metrics for Winter Park, Florida based BankFIRST are strong, with household growth in the former BankFIRST Orlando market of 7% annualized. Recently, we completed an enhancement to our footprint in the Palm Beach County, Florida market. On July 17, 2015, the acquisition of Grand, and its subsidiary, Grand Bank & Trust of Florida, was completed, further solidifying our market share in the Palm Beach county market, expanding our customer base further, providing service fee income opportunities, and leveraging operating costs through economies of scale. The Grand acquisition was completed with no tangible book value dilution and is immediately accretive to our earnings per share. In fact, we recorded a bargain purchase gain (net) of \$416,000 in 2015 from the acquisition of Grand. Our acquisitions increased the number of households we serve in two of Florida's fastest growing markets, boosting our growth trajectory.

The Company continues to focus on reaching customers in unique ways, focusing on convenience and service, building higher customer satisfaction. The acquisition of a receivables factoring subsidiary in the BANKshares merger was further enhanced by the addition of a receivables funding team from First Capital Growth (FGC) in the Palm Beach County market in the second quarter of 2015, providing an additional product vehicle to better serve customers..

We believe digital delivery and products have contributed to growing our franchise. As of December 31, 2015, approximately 64 percent of our online customers have adopted mobile product offerings and the total number of services utilized by our retail customers increased to an average of 4.3 per household, primarily due to an increase in debit card activation, direct deposit and mobile banking users. Personal and business mobile banking has grown from 13,659 users at December 31, 2013 to 21,587 users at December 31, 2014, to 32,305 users at December 31, 2015. The growth in new households, a deepening of relationships with current households, and better retention overall is creating stronger value in our core customer franchise.

We also refreshed and reintroduced our brand in 2014, retooling our logo and associated signage throughout our branch network and digital platforms in the fourth quarter of 2014. Our new brand reflects our forward-looking strategy and we are reaping the benefits from continued investments in analytics, digital servicing capabilities and technology, and reducing future overhead, with households (excluding acquisitions) growing 5% year-over-year and for the fourth quarter of 2015.

Our shift to an upgraded technology platform has enabled us to effectively adapt to changes in consumer behavior. Embracing technology, especially electronic delivery channels, has helped us improve efficiency. Over the past five years we have been successful in closing more than 25% of our branches. This has allowed us to improve our deposit to facilities square footage from between \$9,000 and \$10,000 of deposits per square foot to approximately \$13,000 of deposits per square foot, a more than 35% improvement. During 2014 and 2015, we consolidated several branch locations, with the closure of seven legacy branch offices and addition of two new offices, and we recently announced four additional branch consolidations to occur in the first six months of 2016 (see "Part I, Item 2 – Properties" for more detail). Prospectively, a reduction of more expensive, traditional banking facilities, and related personnel costs, by

Seacoast is likely, as digital and phone based channels expand dramatically.

The combination of the above actions resulted in revenue (aggregate net interest income and noninterest income) increasing significantly for 2015, higher by \$42.0 million or 41.9% compared to results for 2014. We coupled this growth with managed expenses, while investing significantly for our future. Combined operating leverage drove improve net income available to common shareholders (on a GAAP basis) totaled \$22.1 million or \$0.66 per diluted share for 2015, compared to \$5.7 million or \$0.21 per diluted share for 2014, and \$47.9 million or \$2.44 per diluted share for 2013. Net income for 2013 benefited from the recapture of \$44.8 million of deferred tax allowance in the third quarter of that year.

Acquisitions – Enhancing Our Success in 2015 and an Update for 2016

Enhancing our footprint were the acquisitions of Grand in 2015 and BANKshares late in 2014 (see “Note T – Business Combinations”). The Company’s primary reasons for these transactions were to further solidify its market share in the attractive Palm Beach and Central Florida markets, expand its customer base and leverage operating cost through economies of scale. These acquisitions not only increased our households, but opened markets and customer bases where our convenience offering resonates. Our model drove net household growth in both markets by the third month following acquisition as opposed to net attrition typical for acquisitions. And, both acquisitions were accretive in the first year (excluding merger charges). Merger related charges during 2015 and 2014 summed to \$4.3 million in each year, respectively, primarily impacting salaries and wages, outsourced data processing costs, and legal and professional fees. The Grand acquisition contributed \$188.5 million in total deposits and \$110.0 million in loans to our balance sheet, and the BANKshares acquisition added \$516.3 million in total deposits and \$365.4 million in loans.

We are encouraged by the results from our recent acquisitions and we look forward to greeting more than 5,000 customers of Floridian Bankshares, Inc. (“Floridian”) and nearly 9,000 customers from BMO Harris’s Central Florida banking operations. Regulatory approval for both of transactions has been received and we expect to close the Floridian acquisition late in the first quarter of 2016 and the BMO Harris branch purchase late in the second quarter of 2016, subject in both instances to customary closing conditions (see “Note T – Business Combinations”).

The Company will likely continue to consider strategic acquisitions as part of the Company’s overall future growth plans.

The Florida Economy

Florida’s economic recovery is now well established, with solid job growth, declining unemployment, and higher consumer confidence fueling improvements in our markets. We believe the Florida economy will further strengthen in 2016, as we continue to attract population inflows. Our housing markets, manufacturing base, tourism and services industries are building on current momentum, and provide a diversified base for our economy. The residential real estate market is becoming stronger as pricing continues to firm and sales volumes continue to increase. Many seasonal businesses are now reporting improving trends. Our primary competitors now are the mega-banks, and many of these large institutions are struggling with higher capital requirements and new restrictions and regulations that are requiring difficult choices regarding their business models. We continue to believe we have entered a period of opportunity to achieve meaningful market share gains.

The Florida economy continues to amplify our success and the state of Florida remains an attractive market in which to live and work. Also, there are many positive indications that Florida's economy will continue to improve. Wells Fargo Securities Group's December 18, 2015 report titled, "Florida Employment Update: November 2015" stated, "Florida's economy is firing on all cylinders...Florida added a nation-leading 32,500 jobs in November, which marks the largest monthly job gain for the Sunshine State since May 2010. On a year-to-date basis, nonfarm employment has risen 3.0 percent, resulting in a net gain of 239,600 jobs."

In addition, Comerica Bank's Comerica Economic Insights report dated January 5, 2016 stated, "Our Florida Economic Activity Index increased again in October, for the 19th consecutive month. Most components of the index were positive in October. Only state exports and housing starts were negative for the month. The Florida economy is firmly re-established as a growth leader for the U.S....we see no reason for the positive trend to change in the near term.

Our Business

The Company is a single-bank holding company with operations on Florida's southeast coast (ranging from Broward and Palm Beach County in the south to Brevard and Volusia County in the north) as well as Florida's interior around Lake Okeechobee and up through Orlando (including Orange, Seminole and Lake County). The Company had 43 full service offices at December 31, 2015, the same count as at December 31, 2014.

The Company operates both a full retail banking strategy in its core markets, which are some of Florida's wealthiest, as well as a complete commercial banking strategy. The Company, through its bank subsidiary, provides a broad range of community banking services to commercial, small business and retail customers, offering a variety of transaction and savings deposit products, treasury management services, brokerage, and secured and unsecured loan products, including revolving credit facilities, letters of credit and similar financial guarantees, and asset based financing. Seacoast also provides trust and investment management services to retirement plans, corporations and individuals.

Loan Growth and Lending Policies

For 2015, balances in the loan portfolio increased 18.4%, compared with an increase of 39.7% for 2014 and an increase of 6.4% for 2013, reflecting strong business production, the acquisitions of Grand and BANKshares and a significant improvement from the recessionary climate impacting prior years. Adjusting for the loans acquired from Grand and BANKshares, the loan portfolio grew 12.0% and 11.8% during 2015 and 2014, respectively. Additional commercial relationship managers hired during 2013 at our new Accelerate commercial lending offices increased loan growth in 2014.

Loan production improved during 2015, 2014 and 2013 and growth continued across all business lines. For 2015, almost \$299 million in commercial/commercial real estate loans were originated, compared to \$258 million and \$200 million for 2014 and 2013, respectively. Our loan pipeline for commercial/ commercial real estate loans totaled \$106 million at December 31, 2015, versus \$60 million at December 31, 2014. The Company also closed \$272 million in residential loans during 2015, compared to \$225 million in 2014 and \$251 million in 2013. The residential loan pipeline at December 31, 2015 totaled \$30 million, versus \$20 million a year ago. Stabilizing home values and lower interest rates have renewed the consumer's interest in borrowing.

The Company expects to have more loan growth opportunities for all types of lending in 2016, including commercial lending to targeted customer segments and 1-4 family agency conforming residential mortgages. We will continue to expand our business banking teams, adding new, seasoned, commercial loan officers where market opportunities arise, and improve service through electronic and digital means. In addition, the addition of receivables factoring

provides another vehicle to better serve customers. We believe that achieving our loan growth objectives, together with the management of credit costs and problem loan related expenses will provide us with the potential to make further, meaningful improvements to our earnings in 2016.

Our lending policies contain numerous guardrails that pertain to lending by type of collateral and purpose, along with limits regarding loan concentrations and the dollar amount (size) of loans. With a disciplined approach, we have benefited from having loan production and loan pipelines that are diverse, de-risking our loan portfolio as a whole. For example, in recent years the Company increased its focus and monitoring of its exposure to residential land, acquisition and development loans. Overall, the Company has reduced its exposure to commercial developers of residential land, acquisition and development loans from its peak of \$352 million or 20.2% of total loans in early 2007 to \$32 million or 2.4% at December 31, 2015.

Deposit Growth, Mix and Costs

The Company's focus on convenience, with high quality customer service, expanded digital offerings and distribution channels, and convenient branch locations provides stable, low cost core deposit funding for the company. Over the past several years, the Company has strengthened its retail deposit franchise using new strategies and product offerings, while maintaining a focus on growing customer relationships. We believe that digital product offerings are central to core deposit growth as access via these distribution channels is required by customers. During the last two years, we have significantly grown our average transaction deposits (noninterest and interest bearing demand), with significant increases of \$375.8 million or 34.9% in 2015 and \$157.8 million or 17.2% in 2014. Along with new relationships, our deposit programs and digital sales have improved our market share, increased average services per household, and decreased customer attrition.

Our growth in core deposits has also provided decreased funding costs. Declines in the average balance for certificates of deposit ("CDs"), which are a higher cost of funds, continued in 2015, 2014 and 2013, but growth in core deposit relationships more than offset such declines. The Company's deposit mix remains favorable, with 89 percent of average deposit balances comprised of savings, money market, as well as, interest bearing and noninterest bearing demand deposits in the fourth quarter of 2015. The Company's average cost of deposits, including noninterest bearing demand deposits, was 0.12% for each 2014 and 2015, decreasing 4 basis points from 0.16% for 2013. The Company believes its cost of deposits ranks among the lowest when compared to other banks operating in the Company's market.

During 2015, total deposits increased \$428 million or 17.7% and sweep repurchase agreements \$18 million or 12.0%, versus 2014. In comparison, total deposits increased \$610 million or 33.8% and sweep repurchase agreements increased \$2 million or 1.5% during 2014, versus 2013. Deposits for 2015 include acquired deposits of nearly \$189 million from Grand and deposits for 2014 include acquired balances from BANKshares of approximately \$516 million. Most of the increase in sweep repurchase agreements during 2015 and 2014 was in public funds, principally from higher seasonal tax collector receipts.

Our successful retail and business deposit growth initiatives continue to be emphasized and we expect further increases in households served for 2016.

Financial Condition

Total assets increased \$441.4 million or 14.3 percent to \$3,534.8 million at December 31, 2015, after increasing \$824.4 million or 36.3% to \$3,093.3 million in 2014. The highlights of 2015 and 2014 were our acquisitions, Grand closing on July 17, 2015 and BANKshares which closed on October 1, 2014, and expanding our presence in Palm

Beach and Central Florida (particularly in the greater Orlando market), and increased total assets by approximately \$215 million and \$627 million, respectively. The Company is the fifth largest Florida-based bank.

Loan Portfolio

Table 9 shows total loans (net of unearned income) for commercial and residential real estate, commercial and financial and consumer loans outstanding.

Total loans (net of unearned income and excluding the allowance for loan losses) were \$2,156.3 million at December 31, 2015, \$334.4 million or 18.4% more than at December 31, 2014, and were \$1,821.9 million at December 31, 2014, \$517.7 million or 39.7% more than at December 31, 2013. The Grand acquisition in 2015 and BANKshares acquisition in 2014 contributed \$110.0 million and \$365.4 million in loans, respectively.

Success in commercial lending through our legacy franchise and through our Accelerate banking model has increased loan growth. Analytics and digital marketing have further fueled loan growth in the consumer and small business channels. Loan production of \$688 million, \$424 million and \$354 million was retained in the loan portfolio during the twelve months ended December 31, 2015, 2014 and 2013, respectively. Successful acquisition activity has further supplemented our growth.

The following table details loan portfolio composition at December 31, 2015 and 2014 for portfolio loans, purchase credit impaired loans (“PCI”), and purchase unimpaired loans (“PUL”) as defined in Note E-Loans.

December 31, 2015	Portfolio Loans (Dollars in thousands)	PCI Loans	PUL's	Total
Construction and land development	\$97,629	\$ 114	\$ 11,044	\$ 108,787
Commercial real estate	776,875	9,990	222,513	1,009,378
Residential real estate	678,131	922	44,732	723,785
Commercial and financial	188,013	1,083	39,421	228,517
Consumer	82,717	0	2,639	85,356
Other loans	507	0	0	507
NET LOAN BALANCES (1)	\$ 1,823,872	\$ 12,109	\$ 320,349	\$ 2,156,330

December 31, 2014	Portfolio Loans (Dollars in thousands)	PCI Loans	PUL's	Total
Construction and land development	\$65,896	\$ 1,557	\$ 19,583	\$ 87,036
Commercial real estate	610,863	4,092	222,192	837,147
Residential real estate	639,428	851	46,618	686,897
Commercial and financial	120,763	1,312	35,321	157,396
Consumer	50,543	2	2,352	52,897
Other loans	512	0	0	512
NET LOAN BALANCES (1)	\$ 1,488,005	\$ 7,814	\$ 326,066	\$ 1,821,885

(1) Net loan balances at December 31, 2015 and 2014 are net of deferred costs of \$6,542,000 and \$3,645,000.

Commercial real estate mortgages were higher by \$172.2 million or 20.6% to \$1,009.4 million at December 31, 2015, compared to December 31, 2014, a result of improving loan production and loans acquired in the mergers. Granularity of commercial real estate lending is an aim, with office buildings of \$256.2 million or 25.4% of commercial real estate mortgages, comprising the largest concentration with a substantial portion owner-occupied. Portfolio composition also includes lending for retail trade, industrial, healthcare, churches and educational facilities, recreation, multifamily,

mobile home parks, lodging, restaurants, agriculture, convenience stores, marinas, and other types of real estate.

Over the past five years, the Company has been pursuing an aggressive program to reduce exposure to loan types that have been most impacted by stressed market conditions in order to achieve lower levels of credit loss volatility in the future. Commercial and commercial real estate loan relationships greater than \$10 million were reduced by \$51.7 million to \$110.0 million (or 5.1% of the total loan portfolio) at December 31, 2015, compared with \$161.7 million (or 13.0% of the total portfolio) at year-end 2010.

The Company's ten largest commercial real estate funded and unfunded loan relationships at December 31, 2015 aggregated to \$119.8 million (versus \$114.6 million a year ago) and for the 47 commercial real estate relationships in excess of \$5 million the aggregate funded and unfunded totaled \$370.9 million, of which \$322.6 million was funded (compared to 37 relationships of \$283.2 million a year ago, of which \$241.3 million was funded).

The Company defines commercial real estate in accordance with the guidance on “Concentrations in Commercial Real Estate Lending” (the “Guidance”) issued by the federal bank regulatory agencies in 2006, which defines commercial real estate (“CRE”) loans as exposures secured by land development and construction, including 1-4 family residential construction, multi-family property, and non-farm nonresidential property where the primary or a significant source of repayment is derived from rental income associated with the property (i.e. loans for which 50 percent or more of the source of repayment comes from third party, non-affiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. Loans to real estate investment trusts, or “REITs”, and unsecured loans to developers that closely correlate to the inherent risks in CRE markets would also be considered CRE loans under the Guidance. Loans on owner occupied CRE are generally excluded.

Concentrations in total construction and land development loans and total CRE loans have been reduced. Construction and land development and commercial real estate loan concentrations as a percentage of total risk based capital, have decreased from 39% and 218%, respectively, at December 31, 2010, to 31% and 197%, respectively, as of December 31, 2015.

The mix of fixed rate and adjustable rate loans secured by commercial real estate, excluding construction loans, was \$743 million and \$266 million, respectively, at December 31, 2015, compared to \$596 million and \$241 million, respectively, a year ago.

Residential mortgage loans increased \$36.9 million or 5.4% to \$724 million as of December 31, 2015. Substantially all residential originations have been underwritten to conventional loan agency standards, including loans having balances that exceed agency value limitations. The Company selectively adds residential mortgage loans to its portfolio, primarily loans with adjustable rates. Exposure to market interest rate volatility with respect to long-term fixed rate mortgage loans held for investment is managed through loan sales of most fixed rate product.

At December 31, 2015, approximately \$430 million or 59% of the Company’s residential mortgage balances were adjustable 1-4 family mortgage loans (including hybrid adjustable rate mortgages). Fixed rate mortgages totaled approximately \$110 million (15% of the residential mortgage portfolio) at December 31, 2015, of which 15- and 30-year mortgages totaled approximately \$25 million and \$85 million, respectively. Remaining fixed rate balances were comprised of home improvement loans totaling \$69 million, most with maturities of 10 years or less and home equity lines of credit, primarily floating rates, totaling approximately \$114 million at December 31, 2015. In comparison, loans secured by residential properties having fixed rates totaled approximately \$94 million at December 31, 2014, with 15- and 30-year fixed rate residential mortgages totaling approximately \$23 million and \$71 million, respectively, and home equity mortgages and lines of credit totaled \$72 million and \$80 million, respectively.

Reflecting the impact of improved economic conditions and the Grand acquisitions, commercial loans outstanding at year-end 2015 increased to \$228.5 million, up substantially from \$157.4 million a year ago. Commercial lending

activities are directed principally towards businesses whose demand for funds are within the Company's lending limits, such as small- to medium-sized professional firms, retail and wholesale outlets, and light industrial and manufacturing concerns. Such businesses are smaller and subject to the risks of lending to small to medium sized businesses, including, but not limited to, the effects of a downturn in the local economy, possible business failure, and insufficient cash flows.

The Company also provides consumer loans (including installment loans, loans for automobiles, boats, and other personal, family and household purposes) which increased \$32.5 million or 61.4% year over year and totaled \$85.4 million (versus \$52.9 million a year ago). Of the \$32.5 million increase, \$20.3 million was in marine loans and \$7.1 million was for automobile and truck loans.

At December 31, 2015, the Company had unfunded commitments to make loans of \$343.2 million, compared to \$238.1 million at December 31, 2014 (see “Note P - Contingent Liabilities and Commitments with Off-Balance Sheet Risk” to the Company’s consolidated financial statements).

Nonperforming Loans, Troubled Debt Restructurings, Other Real Estate Owned, and Credit Quality

Table 12 provides certain information concerning nonperforming assets for the years indicated.

Nonperforming assets (“NPAs”) at December 31, 2015 totaled \$24.4 million, and were comprised of \$12.8 million of nonaccrual portfolio loans, \$4.6 million of nonaccrual purchased loans, \$3.7 million of non-acquired other real estate owned (“OREO”) and \$3.3 million of acquired OREO. NPAs decreased from \$28.6 million as of December 31, 2014 (comprised of \$18.5 million of nonaccrual portfolio loans, \$2.6 million of nonaccrual purchased loans, \$5.6 million of non-acquired OREO and \$1.9 million of acquired OREO). At December 31, 2015, approximately 97.8% of nonaccrual loans were secured with real estate. See the tables below for details about nonaccrual loans. At December 31, 2015, nonaccrual loans have been written down by approximately \$3.6 million or 18.6% of the original loan balance (including specific impairment reserves). During the year, total OREO decreased \$0.4 million or 5.7%.

The Company’s asset mitigation staff handles all foreclosure actions together with outside legal counsel.

The Company pursues loan restructurings in selected cases where it expects to realize better values than may be expected through traditional collection activities. The Company has worked with retail mortgage customers, when possible, to achieve lower payment structures in an effort to avoid foreclosure. TDRs have been a part of the Company’s loss mitigation activities and can include rate reductions, payment extensions and principal deferrals. Company policy requires TDRs that are classified as nonaccrual loans after restructuring remain on nonaccrual until performance can be verified, which usually requires six months of performance under the restructured loan terms. We are optimistic that some credits will rehabilitate and be upgraded versus migrating to nonperforming or OREO prospectively. Accruing restructured loans totaled \$20.0 million at December 31, 2015 compared to \$25.0 million at December 31, 2014. Accruing TDRs are excluded from our nonperforming asset ratios. The tables below set forth details related to nonaccrual and restructured loans.

December 31, 2015 (In thousands)	Nonaccrual Loans			Accruing Restructured Loans
	Non-Current	Performing	Total	
Construction & land development				
Residential	\$0	\$0	\$0	\$ 282

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Commercial	0	40	40	58
Individuals	0	269	269	333
	0	309	309	673
Residential real estate mortgages	938	9,352	10,290	11,762
Commercial real estate mortgages	2,908	3,502	6,410	7,149
Real estate loans	3,846	13,163	17,009	19,584
Commercial and financial	130	0	130	17
Consumer	67	180	247	369
	\$4,043	\$ 13,343	\$17,386	\$ 19,970

At December 31, 2015 and 2014, total TDRs (performing and nonperforming) were comprised of the following loans by type of modification:

(Dollars in thousands)	2015		2014	
	Number	Amount	Number	Amount
Rate reduction	91	\$15,776	106	\$18,906
Maturity extended with change in terms	56	7,143	71	8,891
Forgiveness of principal	0	0	1	1,588
Chapter 7 bankruptcies	44	2,693	54	3,348
Not elsewhere classified	14	1,808	11	1,786
	205	\$27,420	243	\$34,519

During the twelve months ended December 31, 2015, newly identified TDRs totaled \$2.6 million, compared to \$5.5 million for all of 2014. Loan modifications are not reported in calendar years after modification if the loans were modified at an interest rate equal to the yields of new loan originations with comparable risk and the loans are performing based on the terms of the restructuring agreements. No accruing loans that were restructured within the twelve months preceding December 31, 2015 defaulted during the twelve months ended December 31, 2015, the same as for 2014. A restructured loan is considered in default when it becomes 60 days or more past due under the modified terms, has been transferred to nonaccrual status, or has been transferred to OREO.

At December 31, 2015, loans totaling \$32.7 million were considered impaired (comprised of total nonaccrual, loans 90 days or more past due, and TDRs) and \$2.5 million of the allowance for loan losses was allocated for potential losses on these loans, compared to \$43.6 million and \$3.5 million, respectively, at December 31, 2014.

In accordance with regulatory reporting requirements, loans are placed on nonaccrual following the Retail Classification of Loan interagency guidance. Typically loans 90 days or more past due are reviewed for impairment, and if deemed impaired, are placed on nonaccrual. Once impaired, the current fair market value of the collateral is assessed and a specific reserve and/or charge-off taken. Quarterly thereafter, the loan carrying value is analyzed and any changes are appropriately made as described above.

Cash and Cash Equivalents, Liquidity Risk Management and Contractual Commitments

Cash and cash equivalents (including interest bearing deposits), totaled \$136.1 million on a consolidated basis at December 31, 2015, compared to \$100.5 million at December 31, 2014. Interest bearing deposits are maintained in Seacoast Bank's account at the Federal Reserve Bank of Atlanta. Cash and cash equivalents vary with seasonal deposit

movements and are generally higher in the winter than in the summer, and vary with the level of principal repayments and investment activity occurring in Seacoast Bank's securities and loan portfolios.

Liquidity risk involves the risk of being unable to fund assets with the appropriate duration and rate-based liability, as well as the risk of not being able to meet unexpected cash needs. Liquidity planning and management are necessary to ensure the ability to fund operations cost effectively and to meet current and future potential obligations such as loan commitments and unexpected deposit outflows.

In the table that follows, all deposits with indeterminate maturities such as interest bearing and noninterest bearing demand deposits, savings accounts and money market accounts are presented as having a maturity of one year or less. We consider these low cost, no-cost deposits to be our largest, most stable funding source, despite no contracted maturity.

Contractual Obligations

(In thousands)	December 31, 2015				
	Total	One Year or Less	Over One Year Through Three Years	Over Three Years Through Five Years	Over five Years
Deposit maturities	\$2,844,387	\$2,749,316	\$ 62,708	\$ 31,341	\$ 1,022
Short-term borrowings	172,005	172,005	0	0	0
Borrowed funds	50,000	0	50,000	0	0
Subordinated debt	69,961	0	0	0	69,961
Operating leases	23,642	4,736	5,979	3,246	9,681
TOTAL	\$3,159,995	\$2,926,057	\$ 118,687	\$ 34,587	\$ 80,664

Funding sources primarily include customer-based core deposits, collateral-backed borrowings, cash flows from operations, and asset sales (primarily secondary marketing for residential real estate mortgages and marine financings).

Cash flows from operations are a significant component of liquidity risk management and we consider both deposit maturities and the scheduled cash flows from loan and investment maturities and payments. Deposits are also a primary source of liquidity. The stability of this funding source is affected by numerous factors, including returns available to customers on alternative investments, the quality of customer service levels, safety and competitive forces. We routinely use securities and loans as collateral for secured borrowings. In the event of severe market disruptions, we have access to secured borrowings through the FHLB and the Federal Reserve Bank of Atlanta under its borrower-in-custody.

Contractual maturities for assets and liabilities are reviewed to meet current and expected future liquidity requirements. Sources of liquidity, both anticipated and unanticipated, are maintained through a portfolio of high quality marketable assets, such as residential mortgage loans, securities held for sale and interest-bearing deposits. The Company is also able to provide short term financing of its activities by selling, under an agreement to repurchase, United States Treasury and Government agency securities not pledged to secure public deposits or trust funds. At December 31, 2015, Seacoast National had available unsecured lines of \$40 million and lines of credit under current lendable collateral value, which are subject to change, of \$886 million. Seacoast Bank had \$510 million of United States Treasury and Government agency securities and mortgage backed securities not pledged and available for use under repurchase agreements, and had an additional \$277 million in residential and commercial real estate loans available as collateral. In comparison, at December 31, 2014, the Company had available unsecured lines of \$45 million and lines of credit of \$671 million, and had \$588 million of Treasury and Government agency securities and mortgage backed securities not pledged and available for use under repurchase agreements, as well as an additional \$235 million in residential and commercial real estate loans available as collateral.

The Company does not rely on and is not dependent on off-balance sheet financing or significant amounts of wholesale funding.

The Company has traditionally relied upon dividends from Seacoast Bank and securities offerings to provide funds to pay the Company's expenses, to service the Company's debt and to pay dividends upon Company common stock and preferred stock. At December 31, 2015, Seacoast Bank can distribute dividends to the Company of approximately \$81.4 million. At December 31, 2015, the Company had cash and cash equivalents at the parent of approximately \$43.7 million, compared to \$38.3 million at December 31, 2014, with the increase related to the acquisition of Grand.

Securities

Information related to yields, maturities, carrying values and fair value of the Company's securities is set forth in Tables 13-16 and "Note D – Securities" of the Company's consolidated financial statements.

At December 31, 2015, the Company had no trading securities, \$790.8 million in securities available for sale, with the remainder of \$203.5 million in securities held for investment. The Company's total securities portfolio increased \$45.0 million or 4.7% from December 31, 2014, a more modest increase than during 2014, when the Company's total securities portfolio increased \$307.7 million or 48.0% from December 31, 2013. Efforts to invest excess liquidity and short-term borrowings, and the addition of securities from the mergers with Grand in 2015 and BANKshares in 2014 were primary contributors. For 2015, securities totaling \$46.4 million were added from Grand during the third quarter. For 2014, during the third and fourth quarters of 2014, average investment securities increased \$234.9 million, or \$149.5 million excluding securities acquired from the BANKshares acquisition. Funding for the increase in 2014 in investments was derived from liquidity, both legacy and that acquired in the merger, and an increase in seasonal funding from our core customer deposit base, with the investments added primarily uncapped, floating rate, senior collateralized loan obligation (CLO) securities with credit support ranging from 17% to 36%.

Securities are generally acquired which return principal monthly that can be reinvested. The effective duration of the investment portfolio at December 31, 2015 was 2.9 years, compared to 3.2 years at December 31, 2014. The Company's investments do not extend beyond an average effective duration of 3.8 years if interest rates were to increase 300 basis points in the future.

At December 31, 2015, available for sale securities had gross unrealized losses of \$10.8 million and gross unrealized gains of \$3.0 million, compared to gross unrealized losses of \$9.4 million and gross unrealized gains of \$4.4 million at December 31, 2014. All of the securities with unrealized losses are reviewed for other-than-temporary impairment at least quarterly. As a result of these reviews it was determined that the unrealized losses were not other than temporarily impaired and the Company has the intent and ability to retain these securities until recovery over the periods presented (see additional discussion under "Other Fair Value Measurements" and "Other than Temporary Impairment of Securities" in "Critical Accounting Policies and Estimates").

Company management considers the overall quality of the securities portfolio to be high. The Company has no exposure to securities with subprime collateral. The Company holds no interests in trust preferred securities.

Deposits and Borrowings

The Company's balance sheet continues to be primarily core funded.

Total deposits increased \$427.9 million or 17.7% to \$2.844 billion at December 31, 2015, compared to one year earlier, and increased \$610.5 million or 33.8% to \$2.417 billion at December 31, 2014 when compared to December 31, 2013. Since December 31, 2014, interest bearing deposits (interest bearing demand, savings and money markets deposits) increased \$328.7 million or 24.0% to \$1,696.0 million, noninterest bearing demand deposits increased \$129.2 million or 17.8% to \$854.4 million, and CDs decreased \$30.0 million or 9.3% to \$294.0 million. Deposit growth reflected our success in growing households both organically and through acquisitions. During 2015 we grew households a strong 5% by delivering a convenience based community bank service offering.

Excluding the Grand acquisition, total deposits increased \$239.5 million since December 31, 2014, reflecting strong household growth and included \$127.8 million growth in public funds. Also contributing was an increased focus on small business relationships in the more populated metropolitan areas of Palm Beach County and Central Florida. The acquisition of BANKshares in October 2014 contributed approximately \$516.3 million in deposits.

An intentional decrease in higher cost time deposits over the past two years has been more than offset by increasing low cost or no cost deposits.

Customer repurchase agreements totaled \$172.0 million at December 31, 2015, increasing \$18.4 million or 12.0% from December 31, 2014. The repurchase agreements are offered by Seacoast to select customers who wish to sweep excess balances on a daily basis for investment purposes. Public funds comprise a significant amount of the outstanding balance.

At September 30, 2014, the Company utilized \$80 million in term federal funds purchased from the Federal Home Loan Bank ("FHLB") at 0.16 percent (maturing in 30 days) to invest in adjustable rate securities, pending seasonal funding expected prospectively. These funds remained outstanding at December 31, 2014, and for the year averaged \$19.9 million. No federal funds purchased were outstanding at December 31, 2015.

At December 31, 2015, other borrowings were comprised of subordinated debt of \$70.0 million related to trust preferred securities issued by trusts organized or acquired by the Company, and advances from the FHLB of \$50.0 million. The FHLB advances mature in 2017. For 2015 and 2014, the weighted average cost of these FHLB advances was 3.22%.

The Company has two wholly owned trust subsidiaries, SBCF Capital Trust I and SBCF Statutory Trust II that were both formed in 2005. In 2007, the Company formed an additional wholly owned trust subsidiary, SBCF Statutory Trust III. The 2005 trusts each issued \$20.0 million (totaling \$40.0 million) of trust preferred securities and the 2007 trust issued an additional \$12.0 million in trust preferred securities. As part of the October 1, 2014 BANKshares acquisition the Company inherited three junior subordinated debentures totaling \$5.2 million, \$4.1 million, and \$5.2 million, respectively. Also, as part of the Grand acquisition, the Company inherited an additional junior subordinated debenture totaling \$7.2 million. The acquired junior subordinated debentures (in accordance with ASU 805 Business Combinations) were recorded at fair value, which collectively is \$5.4 million lower than face value and amortizing into interest expense over their remaining term to maturity. All trust preferred securities are guaranteed by the Company on a junior subordinated basis.

Under Basel III and Federal Reserve rules, qualified trust preferred securities and other restricted capital elements can be included as Tier 1 capital, within limitations. The Company believes that its trust preferred securities qualify under these capital rules. The weighted average interest rate of our outstanding subordinated debt related to trust preferred securities was 2.43% for the twelve month period ended December 31, 2015, compared to 1.87% and 1.74% for all of 2014 and 2013, respectively.

Go to “Note I – Borrowings” of our consolidated financial statements for more detailed information pertaining to borrowings.

Off-Balance Sheet Transactions

In the normal course of business, we may engage in a variety of financial transactions that, under generally accepted accounting principles, either are not recorded on the balance sheet or are recorded on the balance sheet in amounts that differ from the full contract or notional amounts. These transactions involve varying elements of market, credit and liquidity risk.

Lending commitments include unfunded loan commitments and standby and commercial letters of credit. A large majority of loan commitments and standby letters of credit expire without being funded, and accordingly, total contractual amounts are not representative of our actual future credit exposure or liquidity requirements. Loan commitments and letters of credit expose the Company to credit risk in the event that the customer draws on the commitment and subsequently fails to perform under the terms of the lending agreement.

Loan commitments to customers are made in the normal course of our commercial and retail lending businesses. For commercial customers, loan commitments generally take the form of revolving credit arrangements. For retail customers, loan commitments generally are lines of credit secured by residential property. These instruments are not recorded on the balance sheet until funds are advanced under the commitment. For loan commitments, the contractual amount of a commitment represents the maximum potential credit risk that could result if the entire commitment had been funded, the borrower had not performed according to the terms of the contract, and no collateral had been provided. Loan commitments were \$343 million at December 31, 2015, and \$238 million at December 31, 2014 (see “Note P-Contingent Liabilities and Commitments with Off-Balance Sheet Risk” to the Company’s consolidated financial statements).

Capital Resources

Table 6 summarizes the Company’s capital position and selected ratios.

The Company’s equity capital at December 31, 2015 increased \$40.8 million to \$353.5 million since December 31, 2014, and the ratio of shareholders’ equity to period end total assets was 10.00% at December 31, 2015, 11 basis points lower than at December 31, 2014. During the third quarter of 2015, the Grand transaction increased shareholder’s equity \$17.2 million and during the fourth quarter of 2014, the BANKshares transaction increased shareholders’ equity \$76.8 million as we issued shares of common stock as consideration for each merger.

Activity in shareholders’ equity for the twelve months ended December 31, 2015 and 2014 follows:

(Dollars in thousands)	2015	2014
Beginning balance at December 31, 2014 and 2013	\$312,651	\$198,604
Net income	22,141	5,696
Issuance of stock pursuant to acquisition of Grand and BANKshares	17,172	76,787
Issuance of stock, net of related expense	0	24,637
Stock compensation (net of Treasury shares acquired)	2,875	1,410
Change in other comprehensive income	(1,386)	5,517
Ending balance at December 31, 2015 and 2014	\$353,453	\$312,651

On January 13, 2014, the Company received \$24.6 million (net of costs) in proceeds remitted from CapGen Capital (following regulatory approval by the Federal Reserve of CapGen Capital’s investment) from the \$75 million common stock issuance on November 12, 2013. All other proceeds were received in December 2013. The proceeds from the capital raise were used to redeem 2,000 shares of outstanding Series A Preferred Stock (at par) totaling \$50 million

originally issued to the U.S. Department of Treasury under the Troubled Asset Relief Program and later sold to third party investors. The remaining funds from the capital raise were retained for general corporate purposes. The preferred stock carried a 5 percent dividend that was to increase to 9 percent on February 15, 2014. The preferred stock redemption was completed on December 31, 2013, increasing net income available to common shareholders during 2014 and beyond

Seacoast's management uses certain "non-GAAP" financial measures in its analysis of the Company's capital adequacy. Seacoast's management uses these measures to assess the quality of capital and believes that investors may find it useful in their analysis of the Company. The capital measures are not necessarily comparable to similar capital measures that may be presented by other companies (see "Table 6 - Capital Resources" and "Note N – Shareholders' Equity").

Capital ratios remain healthy and are well above regulatory requirements for well-capitalized institutions.

	Seacoast (Consolidated)		Seacoast National		Minimum to be Well-Capitalized*	
Common equity Tier 1 ratio (CET1)	13.25	%	13.31	%	6.5	%
Tier 1 capital ratio	15.21	%	13.31	%	8.0	%
Total risk-based capital ratio	16.01	%	14.11	%	10.0	%
Leverage ratio	10.70	%	9.36	%	5.0	%

* For subsidiary bank only

The Company's total risk-based capital ratio was 16.01% at December 31, 2015, slightly lower than December 31, 2014's ratio of 16.25% and December 31, 2013's ratio of 16.88%. Reinvestment of liquidity into securities and loans with higher risk weightings, and the acquisition of Grand and BANKshares' loans with higher risk weightings, were the primary causes for risk weighted assets increasing, thereby lowering Tier 1 and total risk-based capital ratios during 2015 and 2014. As of December 31, 2015, the Bank's leverage ratio (Tier 1 capital to adjusted total assets) was 9.36%, compared to 9.04% at December 31, 2014 and 9.51% at December 31, 2013, improving during 2015 with escalating net income a major contributor.

The Company and Seacoast Bank are subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal bank regulatory authority may prohibit the payment of dividends where it has determined that the payment of dividends would be an unsafe or unsound practice. The Company is a legal entity separate and distinct from Seacoast Bank and its other subsidiaries, and the Company's primary source of cash and liquidity, other than securities offerings and borrowings, is dividends from its bank subsidiary. Without Office of the Comptroller of the Currency ("OCC") approval, Seacoast Bank can pay over \$81.4 million of dividends to the Company (see "Note C - Cash, Dividend and Loan Restrictions").

The OCC and the Federal Reserve have policies that encourage banks and bank holding companies to pay dividends from current earnings, and have the general authority to limit the dividends paid by national banks and bank holding companies, respectively, if such payment may be deemed to constitute an unsafe or unsound practice. If, in the particular circumstances, either of these federal regulators determined that the payment of dividends would constitute an unsafe or unsound banking practice, either the OCC or the Federal Reserve may, among other things, issue a cease and desist order prohibiting the payment of dividends by Seacoast National or us, respectively. Under a recently adopted Federal Reserve policy, the board of directors of a bank holding company must consider different factors to ensure that its dividend level is prudent relative to the organization's financial position and is not based on overly optimistic earnings scenarios such as any potential events that may occur before the payment date that could affect its ability to pay, while still maintaining a strong financial position. As a general matter, the Federal Reserve has

indicated that the board of directors of a bank holding company, such as Seacoast, should consult with the Federal Reserve and eliminate, defer, or significantly reduce the bank holding company's dividends if: (i) its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or (iii) it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

The Company has seven wholly owned trust subsidiaries, SBCF Capital Trust I and SBCF Statutory Trust II that were both formed in 2005 to issue trust preferred securities. In 2007, the Company formed an additional wholly owned trust subsidiary, SBCF Statutory Trust III. The 2005 trusts each issued \$20.0 million (totaling \$40.0 million) of trust preferred securities and the 2007 trust issued an additional \$12.0 million in trust preferred securities. In 2014, as part of the BANKshares acquisition, the Company acquired BankFIRST Statutory Trust I, BankFIRST Statutory Trust II and The BANKshares Capital Trust I that issued in the aggregate \$14.4 million in trust preferred securities. In 2015, as part of the Grand acquisition, the Company also acquired Grand Bankshares Capital Trust I that issued \$7.2 million in trust preferred securities. Trust preferred securities from our acquisitions are recorded at fair value when acquired. All trust preferred securities are guaranteed by the Company on a junior subordinated basis. The Federal Reserve's rules permit qualified trust preferred securities and other restricted capital elements to be included under Basel III capital guidelines, with limitations, and net of goodwill and intangibles. The Company believes that its trust preferred securities qualify under these revised regulatory capital rules and believes that it will be able to treat all \$70.0 million of trust preferred securities as Tier 1 capital. For regulatory purposes, the trust preferred securities are added to the Company's tangible common shareholders' equity to calculate Tier 1 capital. The Company also formed SBCF Capital Trust IV and SBCF Capital Trust V in 2008, however both are currently inactive.

The Company's capital is expected to continue to increase with positive earnings. The board and management currently believe that the Company's overall level of capital is sufficient given the current economic environment.

Results of Operations

Earnings Summary

The Company has steadily improved results over the past three years. Net income available to common shareholders for 2015 totaled \$22.1 million or \$0.66 per average common share diluted for 2015, compared to \$5,696,000, or \$0.21 per average common diluted share for 2014, and net income of \$47,916,000 or \$2.44 per average common diluted share for 2013. Net income for 2013 benefited from the recapture of \$44.8 million of deferred tax allowance in the third quarter of that year.

Adjusted net income (1) (excluding merger costs and other adjustments) increased \$12.3 million or 94.8% during 2015, compared to all of 2014, and adjusted diluted earnings per share (1) of \$0.75 for 2015, compared with \$0.47 for 2014. The section titled "Fourth Quarter Review" provides a reconciliation of GAAP to the non-GAAP measures indicated.

Net Interest Income and Margin

Net interest income (on a fully taxable equivalent basis) for 2015 totaled \$110.0 million, increasing \$34.8 million or 46.2% as compared to 2014's net interest income of \$75.2 million, which increased by \$9.8 million or 15.0 percent compared to 2013. The Company's net interest margin increased 39 basis points to 3.64% during 2015 from 2014, and 10 basis points to 3.25% during 2014 from 2013.

Loan growth, balance sheet mix and yield/cost management have been the primary forces affecting net interest income and net interest margin results. Total loans were much greater, with average loans increasing \$531.2 million or 36.6% during 2015 compared to 2014, and increasing \$180.4 million or 14.2% during 2014 compared to 2013. Our average investment securities were higher as well, increasing \$225.2 million or 30.6% during 2015 versus 2014, and \$84.0 million or 12.9% during 2014, when compared to the 2013 average. Acquisitions have further accelerated these trends.

For 2015, average loans (the highest yielding component of earning assets) as a percentage of average earning assets totaled 65.6%, compared to 62.8% a year ago and 61.2% for 2013 while interest bearing deposits and other investments decreased to 2.5%, compared to 5.4 percent in 2014 and 7.4 percent in 2013, reflecting the Company's significant effort to invest excess liquidity during the third and fourth quarters of 2014. As average total loans as a percentage of earning assets increased, the mix of loans has improved, with volumes related to commercial real estate representing 49.8 percent of total loans at December 31, 2015 (compared to 48.9% at December 31, 2014 and 42.5% at December 31, 2013). Lower yielding residential loan balances with individuals (including home equity loans and lines, and personal construction loans) represented 35.7 percent of total loans at December 31, 2015 (versus 39.6% at December 31, 2014 and 48.1 percent at December 31, 2013) (see "Loan Portfolio").

The year over year improvement results for each year reflect the increases in net loans and investment securities, and deposit growth, with continued increases in low, cost no cost deposits compared to prior years. The addition of BANKshares' business on October 1, 2014 amplified the Company's performance in the fourth quarter of 2014, helping to drive a \$7.6 million increase in net interest income from the third quarter of 2014, and \$8.5 million increase compared to fourth quarter 2013. The same dynamic occurred with the addition of Grand's business on July 17, 2015, with an increase of \$3.3 million from the third quarter of 2015. We anticipate 2016's net interest income will benefit from the full year impact of the Grand acquisition. The following table details the trend for net interest income and margin results (on a tax equivalent basis), and yield on earning assets that has improved tremendously and the rate on interest bearing liabilities that has changed nominally for the past five quarters:

(Dollars in thousands)	Net Interest Income (1)	Net Interest Margin (1)	Yield on Earning Assets	Rate on Interest Bearing Liabilities
Fourth quarter 2014	24,883	3.56	% 3.78	% 0.31
First quarter 2015	25,834	3.62	3.84	0.32
Second quarter 2015	25,788	3.50	3.73	0.33
Third quarter 2015	29,130	3.75	3.98	0.33
Fourth quarter 2015	29,216	3.67	3.90	0.33

(1) On tax equivalent basis, a non-GAAP measure

Margin expansion in 2015 benefited from organic and acquisition related growth, strong loan growth and improving core yields more than compensated for decreasing purchased loan accretion by the fourth quarter of 2015.

Table 2 recaps the Company's average balance sheets, interest income and expenses, and yields and rates, for the past three years.

Commercial and commercial real estate loan production for 2015 totaled almost \$299 million, with almost \$80 million originated in the fourth quarter of 2015, compared to production for all of 2014 and 2013 of \$258 million and \$200 million, respectively. Closed residential loan production totaled \$272 million, compared to production for all of 2014 and 2013 of \$225 million and \$251 million, respectively. The following chart details the trend for commercial and residential loans closed and pipelines for the past five quarters:

(Dollars in thousands)	Quarter-Ends				
	Fourth 2015	Third 2015	Second 2015	First 2015	Fourth 2014
Commercial/commercial real estate loan pipeline	\$105,556	\$104,915	\$108,538	\$82,143	\$60,136
Commercial/commercial real estate loans closed	80,003	71,823	85,815	61,357	94,719
Total	\$185,559	\$176,738	\$194,353	\$143,500	\$154,855
Residential loan pipeline	\$30,340	\$37,958	\$53,902	\$48,485	\$21,351
Residential loans retained	24,905	36,027	45,596	23,951	31,598
Residential loans sold	35,278	37,996	36,182	31,896	26,336
Total	\$90,523	\$111,981	\$135,680	\$104,332	\$79,285

Along with this strong loan growth, the portfolio continued to build granularity, with industry diversification.

During 2015, proceeds from the sales of securities totaled \$60.5 million (including net gains of \$0.2 million). In comparison, proceeds from the sales of securities totaled \$21.9 million (including net gains of \$0.5 million) for 2014, and proceeds from the sale of securities totaled \$67.3 million for 2013 (including net gains of \$0.4 million). Management believes the securities sold had minimal opportunity to further increase in value. Securities purchases in 2015, 2014 and 2013 have been conducted primarily to reinvest funds from maturities and principal repayments, as well as to reinvest excess funds (in our interest bearing deposit) at the Federal Reserve Bank, and proceeds from securities sales. During 2015, maturities (principally pay-downs of \$146.6 million) totaled \$147.4 million and securities portfolio purchases totaled \$258.7 million. In addition, \$46.4 million in securities from Grand were added to the portfolio in the third quarter of 2015. During 2014, maturities (principally pay-downs of \$107.8 million) totaled \$108.7 million and securities portfolio purchases totaled \$345.5 million. In addition, \$85.4 million in securities from BANKshares were added to the portfolio in the fourth quarter of 2014. In comparison, 2013 maturities totaled \$155.6 million (including \$150.3 million in pay-downs) and securities portfolio purchases totaled \$230.1 million.

The securities portfolio has grown in size but remained a relatively constant percentage of the balance sheet. However, careful portfolio management has resulted in increased securities yields. In 2015 our securities yielded 2.21%, up from 2.14% in 2014 and 1.98% in 2013.

For 2015, the cost of average interest-bearing liabilities increased 1 basis point to 0.33% from 2014. For 2014, this cost decreased 4 basis points to 0.32% from 2013. The cost of our funding reflects the lower interest rate environment and the Company's successful core deposit focus that produced strong growth in core deposit customer relationships over the past several years. Excluding higher cost certificates of deposit (CDs), core deposits including noninterest bearing demand deposits at December 31, 2105 represent 90.0% of total deposits. The cost of average total deposits (including noninterest bearing demand deposits) for the fourth quarter of 2015 was 0.12%, compared to 0.11% and 0.14% for the fourth quarters of 2014 and 2013. Prospectively, the Company's ability to further reduce the rate paid on

deposits will be challenging to produce, due to more limited re-pricing opportunities. The following table provides trend detail on the ending balance components of our customer relationship funding for the past five quarters-ends:

Customer Relationship Funding (Dollars in thousands)	Quarter-End					
	Fourth 2015	Third 2015	Second 2015	First 2015	Fourth 2014	
Noninterest demand	\$854,447	\$869,877	\$808,429	\$793,336	\$725,238	
Interest-bearing demand	734,749	618,344	599,268	634,854	652,353	
Money market	665,353	660,632	621,973	596,600	450,172	
Savings	295,851	286,810	282,588	272,963	264,738	
Time certificates of deposit	293,987	306,633	292,919	312,072	324,033	
Total deposits	\$2,844,387	\$2,742,296	\$2,605,177	\$2,609,825	\$2,416,534	
Customer sweep accounts	\$172,005	\$148,607	\$157,676	\$170,023	\$153,640	
Total core customer funding (1)	\$2,722,405	\$2,584,270	\$2,469,934	\$2,467,776	\$2,246,141	
Demand deposit mix	30.0	% 31.7	% 31.0	% 30.4	% 30.0	%

(1) Total deposits and customer sweep accounts, excluding time certificates of deposit

Short-term borrowings have been principally comprised of sweep repurchase agreements with customers of Seacoast Bank, increased \$10.9 or 6.4% to average \$177.8 during 2015, after decreasing \$3.2 million to \$152.0 million for 2014, as compared to 2013. With balances typically peaking during the fourth and first quarters each year, public fund clients with larger balances have the most significant influence on average sweep repurchase agreement balances outstanding during the year. No federal funds sold were utilized at December 31, 2015, but at December 31, 2014, the Company also utilized \$80 million in term federal funds purchased from the FHLB at 0.21% (maturing within 30 days), pending expected seasonal funding.

For 2015, average other borrowings comprised of subordinated debt of \$67.1 million related to trust preferred securities issued by subsidiary trusts of the Company (including subordinated debt for Grand and BANKshares added on July 17, 2015 and October 1, 2014) and advances from the FHLB of \$50.0 million. With the exception of the inherited subordinated debt from Grand and BANKshares, no changes have occurred to other borrowings since year-end 2009 (see “Note I – Borrowings” to the Company’s consolidated financial statements).

We have a positive interest rate gap and our net interest margin will benefit from rising interest rates. In December 2015, the Federal Reserve increased its overnight interest rate by 25 basis points. However, further changes in interest rates are uncertain (see “Interest Rate Sensitivity”).

Fully taxable equivalent net interest income is a common term and measure used in the banking industry but is not a term used under GAAP. We believe that these presentations of tax-equivalent net interest income and tax equivalent net interest margin aid in the comparability of net interest income arising from both taxable and tax-exempt sources over the periods presented. We further believe these non-GAAP measures enhance investors' understanding of the Company's business and performance, and facilitate an understanding of performance trends and comparisons with the performance of other financial institutions. The limitations associated with these measures are the risk that persons might disagree as to the appropriateness of items comprising these measures and that different companies might calculate these measures differently, including as a result of using different assumed tax rates. These disclosures should not be considered as an alternative to GAAP. The following information is provided to reconcile GAAP measures and tax equivalent net interest income and net interest margin on a tax equivalent basis.

	Total Year 2015	Fourth Quarter 2015	Third Quarter 2015	Second Quarter 2015	First Quarter 2015	Total Year 2014	Fourth Quarter 2014
(Dollars in thousands)							
Nontaxable interest adjustment	\$481	\$116	\$119	\$122	\$124	\$314	\$150
Tax rate	35 %	35 %	35 %	35 %	35 %	35 %	35 %
Net interest income (TE)	\$109,968	\$29,216	\$29,130	\$25,788	\$25,834	\$75,221	\$24,883
Total net interest income (not TE)	109,487	29,100	29,011	25,666	25,710	74,907	24,733
Net interest margin (TE)	3.64 %	3.67 %	3.75 %	3.50 %	3.62 %	3.25 %	3.56 %
Net interest margin (not TE)	3.62	3.66	3.73	3.48	3.60	3.24	3.54

TE = Tax Equivalent

Noninterest Income

Noninterest income (excluding securities gains and bargain purchase gain) totaled \$32.0 million for 2015, 29.4% higher than for 2014. For 2014, noninterest income of \$24.7 million was \$0.4 million or 1.7% higher than for 2013. Noninterest income accounted for 22.6% of total revenue (net interest income plus noninterest income, excluding securities gains and the bargain purchase gain), compared to 24.8% a year ago and 27.2% for 2013.

Table 4 provides detail regarding noninterest income components for the past three years.

For 2015, most categories of service fee income showed year over year growth compared to 2014, with service charges on deposit accounts increasing \$1.6 million or 23.2%, interchange income up \$1.7 million or 28.7%, and other deposit based EFT charges up 15.7%. These increases reflect continued strength in customer acquisition and cross sell and benefits from acquisition activity. Overdraft fees represent 67% of total service charges on deposits for 2015, versus 66% for 2014. Regulators continue to review banking industry's practices for overdraft programs and additional regulation could reduce fee income for the Company's overdraft services. Interchange revenue is dependent upon business volumes transacted, as well as the fees permitted by VISA® and MasterCard®.

Wealth management, including brokerage commissions and fees, and trust income, increased during 2015, growing by \$0.7 million or 14.4%. Growth was driven by revenues from the Company's brokerage business.

Mortgage production was higher during 2015 (see "Loan Portfolio"), with mortgage banking activity generating fees that were \$1.2 million or 39.1% higher, compared to 2014. Originated residential mortgage loans are processed by

commissioned employees of Seacoast, with many mortgage loans referred by the Company's branch personnel.

With the closure of our loan production office in Newport Beach, California at the end of 2014, business volumes for marine lending for 2015 were negatively impacted and fees from marine financing were lower, declining \$0.2 million or 12.7%. In addition to our office in Ft. Lauderdale, Florida, we continue to rely upon third party independent contractors on the West coast of the United States to assist in generating marine loans, with all loans in California sold via secondary marketing correspondent relationships.

Seacoast also benefited from a full year of bank owned life insurance ("BOLI"), up \$1.2 million for 2015 compared to a total of \$0.3 million a year ago (for the fourth quarter). This revenue is tax-exempt. No BOLI investments existed for the Company prior to fourth quarter 2014.

Our fourth quarter 2015's noninterest income result included a bargain purchase gain of \$0.4 million from the acquisition of Grand, that arose from unanticipated recoveries and resulting adjustments to loans and other real estate owned realized during the fourth quarter. Seacoast also benefited from a gain on a participated loan of \$0.7 million that was realized during the second quarter of 2015, with no amounts to compare to for 2014. Accounting treatment for this gain, related to a discount accreted on a BANKshares loan that was participated during the second quarter of 2015, required this income to be included in other operating income rather than recognition through the margin.

For 2014, Seacoast's noninterest income growth was nominal, increasing \$0.4 million or 1.7% when compared to 2013's revenues. While service charges on deposit accounts and interchange income grew \$0.2 million or 3.6% and \$0.6 million or 10.5%, reflecting successful organic household growth, and trust income and marine financing fees were higher by \$0.3 million or 10.1% and \$0.1 million or 11.0%, respectively, other revenue streams were challenged, with mortgage banking fees declining \$1.1 million or 26.7%. Favorably impacting noninterest income was BOLI totaling \$0.3 million that did not exist for the Company in 2013.

Noninterest Expenses

When compared to 2013, total noninterest expenses increased during 2014 by \$18.2 million or 24.2% to \$93.4 million, resulting in an expense ratio (excluding amortization of intangibles) of 92.4%. For 2015, this expense ratio was 72.1%, with noninterest expenses increasing \$10.4 million or 11.1% to \$103.8 million. Prospectively, Seacoast management expects its expense ratio will continue to improve. The Company anticipates its digital servicing capabilities and technology will support better, more efficient channel integration allowing consumer to choose their path of convenience to satisfy their banking needs, resulting in organic growth of our products and services as well as related revenue.

Acquisition activity added to noninterest expenses during 2014 and 2015, with acquisition related costs for Grand in 2015 and BANKshares in 2014 of approximately \$3.1 million and \$4.4 million, respectively. During 2014, we also chose to invest \$0.7 million in refreshing and reintroducing our brand, and as part of this refresh, the Company retooled its logo and signage throughout our branch network and digital platforms. These additional costs have been key to our tactical plans to increase loan production and acquire households, thereby increasing value in the Seacoast franchise.

Table 5 provides detail of noninterest expense components for the years ending December 31, 2015, 2014 and 2013.

Salaries and wages totaling \$41.1 million were \$5.9 million or 16.9% higher for 2015, than for 2014. Base salaries were \$6.8 million or 21.8% higher during 2015, reflecting full-year impact of additional personnel retained as part of

the fourth quarter 2014 acquisition of BANKshares and third quarter 2015's acquisition of Grand. Additional FGC personnel in receivable funding were incremental as well, comprising \$1.0 million of the increase during 2015, versus prior year. Improved revenue generation and lending production, among other factors resulted in commissions, cash and stock incentives (aggregated) that were \$3.3 million higher for 2015, compared to a year ago, but that were more than offset by deferred loan origination costs (a contra expense), higher by \$4.1 million. Severance related to the Grand acquisition summed to \$0.5 million, with total severance totaling \$0.9 million for 2015.

Similarly, salaries and wages for 2014 were \$4.1 million or 13.3% higher than for 2013. A significant portion of the increase was for base salaries that were by \$2.7 million or 9.6% greater, reflecting the addition of BANKfirst personnel and higher severance of \$0.9 million, year over year.

During 2015, employee benefits costs (group health insurance, profit sharing, payroll taxes, as well as unemployment compensation) increased \$0.8 million or 9.0% to \$9.6 million from a year ago, and compared to a \$1.4 million or 19.7% increase in 2014, versus 2013 expenditures. These costs reflect the increased staffing and salary costs, discussed above. Our self-funded health care plan comprises the largest portion of employee benefits, totaling \$4.9 million for 2015, and payroll taxes totaling \$3.0 million were the second largest category. The Company offers competitively priced health coverage to all of its associates that qualify for benefits, to use as an attraction for the best professional talent seeking to be employed by the Company, and at a reasonable cost and competitive with other businesses in the Florida markets where we conduct business.

Seacoast National utilizes third parties for its core data processing systems and outsourced data processing costs are directly related to the number of transactions processed. Outsourced data processing costs totaled \$10.2 million for 2015, an increase of \$1.4 million or 15.6% from a year ago, and were \$2.4 million higher for 2014, versus 2013. Increased data processing costs included one-time charges for conversion activity related to our acquisition. We continue to improve and enhance our mobile and other digital products and services through our core data processor, which may increase our outsourced data processing costs as customers adopt improvements and products. The Company's contract with its core data processor was renegotiated as of January 1, 2013 for a term of 5½ years. Outsourced data processing costs can be expected to increase as the Company's business volumes grow.

Telephone and data line expenditures, including electronic communications with customers and between branch locations and personnel, as well as third party data processors, increased \$0.5 million or 35.0% to \$1.8 million for 2015 when compared to 2014, and were \$0.1 million or 6.2% higher for 2014 versus 2013's expenditure. The addition of BANKshares and Grand locations and customers were the primary contributors to the increase.

Total occupancy, furniture and equipment expense for 2015 increased \$1.7 million or 16.4% (on an aggregate basis) to \$12.2 million year over year, versus 2014's expense. For 2014, these costs were \$5.4 million or 57.2% higher than in 2013. For 2015 and 2014, the increases were primarily driven by the two offices acquired from Grand, and twelve branches acquired in the BANKshares acquisition. A third Grand office was closed during the third quarter of 2015, due to its proximity to our existing location and resulted in a charge of \$0.1 million. Two other legacy branches were closed during 2015, with no write down in value and are currently being marketed. Branch consolidations during the fourth quarter of 2014 lessened the impact of acquired locations as well. Branch consolidations are likely to continue for the Company and the banking industry in general, as customers increase their usage of digital and mobile products thereby lessening the necessity to visit offices (see Form 10K dated December 31, 2015, "Item 2, Properties" for a complete description).

For 2015, marketing expenses (including sales promotion costs, ad agency production and printing costs, digital, newspaper, TV and radio advertising, and other public relations costs), increased by \$0.9 million or 23.8% to \$4.4 million, compared to all of 2014. For 2014, these costs were \$1.2 million or 52.9% higher, versus 2013. Primary to these increases during 2015 and 2014 were efforts to solidify customer acquisition and corporate brand awareness surrounding the Grand Palm Beach and BANKshares Orlando footprint. Media advertising on television and radio was higher in 2015, totaling \$0.8 million and increasing our expense \$0.5 million from 2014. Expenditures for 2014 also included \$0.7 million to refresh and reintroduce our brand, an expense not existing in prior year.

Legal and professional fees for 2015 were higher by \$1.2 million or 16.8% from a year ago, and were \$4.4 million higher for 2014, versus 2013. Included were acquisition related fees that totaled \$1.1 million for 2015 and \$2.4 million for 2014. No acquisition related fees were incurred during 2013. Recoveries of legal fees from two creditors summed to \$1.0 million and accounted for most of the remaining increase for 2014, versus 2013. Regulatory examination fees increased as total assets increased, which are the basis for examination fee calculation.

Since the end of the first quarter in 2013, FDIC assessments have been generally calculated on the basis of average total assets less tangible equity. While the Company has benefited from its classification under FDIC premium guidelines, our growth in total assets (both organic and through acquisition) has increased the basis for calculated premiums and increases in our FDIC quarterly assessment. Our FDIC assessments were \$2.2 million, \$1.7 million and \$2.6 million for 2015, 2014 and 2013, respectively. The Company's assessments were lower for 2014 than in 2013 when the FDIC changed its calculation methodology. That change resulted in an improved risk posture for the Company, and regulatory enforcement actions terminated in 2013 were beneficial as well. Total assets and equity have increased during the past three years and Seacost expects increases prospectively. FDIC rates could decline for financial institution under \$10 billion in total assets if FDIC insurance pools achieve higher amounts as specified by

Congress.

Since 2013 when asset disposition expense and net losses on sales of OREO and other repossessed assets aggregated to \$2.0 million, nonperforming assets have declined (see “Nonperforming Loans, Troubled Debt Restructurings, Other Real Estate Owned, and Credit Quality”) and so have these associated costs. For 2015 and 2014, these expenses have been stable and aggregated to \$0.7 million and \$0.8 million respectively.

Other expenses were higher by \$2.2 million or 22.2% for 2015 compared to a year ago, totaling \$12.2 million. For 2014, other expenses were \$0.5 million or 5.4% higher, compared to 2013. Larger increases during 2015 were driven by a full-year impact of the BANKshares acquisition and the Grand acquisition in the third quarter of 2015, and variable costs related to our successful lending activity.

Income Taxes

For 2015, 2014 and 2013, provision for income taxes totaled \$13.5 million, and \$4.5 million and \$4.4 million, respectively. For 2015 and 2014, a portion of investment banking fees, and legal and professional fees expended and related to the acquisitions were not deductible for tax purposes. At September 30, 2013, we were able to reverse the tax valuation allowance of \$44.8 million. Management believes it can realize all of its future tax benefits (see “Note L – Income Taxes”).

Critical Accounting Policies and Estimates

The Company’s consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, (“GAAP”), including prevailing practices within the financial services industry. The preparation of consolidated financial statements requires management to make judgments in the application of certain of its accounting policies that involve significant estimates and assumptions. We have established policies and control procedures that are intended to ensure valuation methods are well controlled and applied consistently from period to period. These estimates and assumptions, which may materially affect the reported amounts of certain assets, liabilities, revenues and expenses, are based on information available as of the date of the financial statements, and changes in this information over time and the use of revised estimates and assumptions could materially affect amounts reported in subsequent financial statements. Management, after consultation with the Company’s Audit Committee, believes the most critical accounting estimates and assumptions that involve the most difficult, subjective and complex assessments are:

- the allowance and the provision for loan losses;
- acquisition accounting and purchased loans;
- intangible assets and impairment testing;

- other fair value adjustments;
- other than temporary impairment of securities;
- realization of deferred tax assets; and
- contingent liabilities.

The following is a discussion of the critical accounting policies intended to facilitate a reader's understanding of the judgments, estimates and assumptions underlying these accounting policies and the possible or likely events or uncertainties known to us that could have a material effect on our reported financial information. For more information regarding management's judgments relating to significant accounting policies and recent accounting pronouncements (see "Note A-Significant Accounting Policies" to the Company's consolidated financial statements).

Allowance and Provision for Loan Losses – Critical Accounting Policies and Estimates

Management determines the provision for loan losses charged to operations by continually analyzing and monitoring delinquencies, nonperforming loans and the level of outstanding balances for each loan category, as well as the amount of net charge-offs, and by estimating losses inherent in its portfolio. While the Company's policies and procedures used to estimate the provision for loan losses charged to operations are considered adequate by management, factors beyond the control of the Company, such as general economic conditions, both locally and nationally, make management's judgment as to the adequacy of the provision and allowance for loan losses necessarily approximate and imprecise (see "Nonperforming Assets").

The provision for loan losses is the result of a detailed analysis estimating an appropriate and adequate allowance for loan losses. The analysis includes the evaluation of impaired and purchased loans as prescribed under FASB Accounting Standards Codification ("ASC") 310, *Receivables* as well as an analysis of homogeneous loan pools not individually evaluated as prescribed under ASC 450, *Contingencies*. For 2015, we recorded provisioning for loan losses of \$2.6 million, which compared to a recapture of the allowance for loan losses for 2014 of \$3.5 million. Net charge-offs of \$0.6 million for 2015, compared to net recoveries for 2014 of \$0.5 million, and were 0.03% and (0.03%) of average total loans for each year, respectively. For 2015, provisioning for loan losses reflects continued strong credit metrics, offset by continued loan growth. Charge-offs for 2015 includes \$655,000 recorded in the third quarter related to a single purchased credit impaired loan that performed below our initial expectations. Delinquency trends remain low and show continued stability (see "Nonperforming Assets").

Table 10 provides certain information concerning the Company's provisioning for loan losses and allowance (recapture) for the years indicated.

Management continuously monitors the quality of the Company's loan portfolio and maintains an allowance for loan losses it believes is sufficient to absorb probable losses inherent in the loan portfolio. The allowance for loan losses increased \$2,057,000 to \$19,128,000 at December 31, 2015, compared to \$17,071,000 at December 31, 2014. The allowance for loan losses ("ALLL") framework has four basic elements: (1) specific allowances for loans individually evaluated for impairment; (2) general allowances for pools of homogeneous non-purchased loans ("portfolio loans") within the portfolio that have similar risk characteristics, which are not individually evaluated; (3) specific allowances for purchased impaired loans which are individually evaluated based on the loans expected principal and interest cash

flows; and (4) general allowances for purchased unimpaired pools of homogeneous loans that have similar risk characteristics. The aggregate of these four components results in our total allowance for loan losses.

The first element of the ALLL analysis involves the estimation of allowance specific to individually evaluated impaired portfolio loans, including accruing and nonaccruing restructured commercial and consumer loans. In this process, a specific allowance is established for impaired loans based on an analysis of the most probable sources of repayment, including discounted cash flows, liquidation of collateral, or the market value of the loan itself. It is the Company's policy to charge off any portion of the loan deemed a loss. Restructured consumer loans are also evaluated in this element of the estimate. As of December 31, 2015, the specific allowance related to impaired portfolio loans individually evaluated totaled \$2.5 million, compared to \$3.6 million as of December 31, 2014.

The second element of the ALLL analysis, the general allowance for homogeneous portfolio loan pools not individually evaluated, is determined by applying allowance factors to pools of loans within the portfolio that have similar risk characteristics. The general allowance factors are determined using a baseline factor that is developed from an analysis of historical net charge-off experience and qualitative factors designed and intended to measure expected losses. These baseline factors are developed and applied to the various portfolio loan pools. Adjustments may be made to baseline reserves for some of the loan pools based on an assessment of internal and external influences on credit quality not fully reflected in the historical loss. These influences may include elements such as changes in concentration risk, macroeconomic conditions, and/or recent observable asset quality trends.

The third component consists of amounts reserved for purchased credit-impaired loans. On a quarterly basis, the Company updates the amount of loan principal and interest cash flows expected to be collected, incorporating assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that are reflective of current market conditions. Probable decreases in expected loan principal cash flows trigger the recognition of impairment, which is then measured as the present value of the expected principal loss plus any related foregone interest cash flows discounted at the pool's effective interest rate. Impairments that occur after the acquisition date are recognized through the provision for loan losses. Probable and significant increases in expected principal cash flows would first reverse any previously recorded allowance for loan losses; any remaining increases are recognized prospectively as interest income. The impacts of (i) prepayments, (ii) changes in variable interest rates, and (iii) any other changes in the timing of expected cash flows are recognized prospectively as adjustments to interest income. Disposals of loans, which may include sales of loans, receipt of payments in full by the borrower, or foreclosure, result in removal of the loan from the purchased credit impaired portfolio.

The final component consists of amounts reserved for purchased unimpaired loans. Loans collectively evaluated for impairment reported at December 31, 2015 include loans acquired from Grand on July 17, 2015 and BANKshares on October 1, 2014 that are not PCI loans. These loans are performing loans recorded at estimated fair value at the acquisition date. The fair value adjustment for loans acquired from Grand and BANKshares at their acquisition dates was approximately \$3.2 million (2.7% of the outstanding aggregate loan balances) and \$11.2 million (3.1% of the outstanding aggregate loan balances), respectively. These amounts are accreted into interest income over the remaining lives of the related loans on a level yield basis, and remained adequate at December 31, 2015, and therefore no provision for loan loss was recorded related to these loans at December 31, 2015 and 2014.

Our analyses of the adequacy of the allowance for loan losses also takes into account qualitative factors such as credit quality, loan concentrations, internal controls, audit results, staff turnover, local market conditions and loan growth.

The Company's independent Credit Administration Department assigns all loss factors to the individual internal risk ratings based on an estimate of the risk using a variety of tools and information. Its estimate includes consideration of the level of unemployment which is incorporated into the overall allowance. In addition, the portfolio loans are segregated into a graded loan portfolio, residential, installment, home equity, and unsecured signature lines, and loss factors are calculated for each portfolio.

The loss factors assigned to the graded loan portfolio are based on the historical migration of actual losses by grade over 4, 8, 12, 16, 20 and 24 quarter intervals. Minimum and maximum average historical loss rates over one to five years are referenced in setting the loss factors by grade within the graded portfolio. Management uses historical loss factors as its starting point, and qualitative elements are considered to capture trends within each portion of the graded portfolio. The direction and expectations of past dues, charge-offs, nonaccruals, classified loans, portfolio mix, market conditions, and risk management controls are considered in setting loss factors for the graded portfolio. The loan loss migration indicates that the minimum and maximum average loss rates and median loss rates over the past many quarters have been declining. Also, the level of criticized and classified loans has been declining as a result of a combination of upgrades and loan payoffs, which are reducing the risk profile of the loan portfolio. Additionally, the risk profile has declined given the shift in complexion of the graded portfolio, particularly a reduced level of commercial real estate loan concentrations.

Residential and consumer (installment, secured lines, and unsecured lines) are analyzed differently as risk ratings, or grades, are not assigned to individual loans. Residential and consumer loan losses are tracked by pool. Management examines the historical losses over one to five years in its determination of the appropriate loss factor for vintages of loans currently in the portfolio rather than the vintages that produced the significant losses in prior years. These loss factors are then adjusted by qualitative factors determined by management to reflect potential probable losses inherent in each loan pool. Qualitative factors may include various loan or property types, loan to value, concentrations and economic and environmental factors.

Residential loans that become 90 days past due are placed on nonaccrual and a specific allowance is made for any loan that becomes 120 days past due. Residential loans are subsequently written down if they become 180 days past due and such write-downs are supported by a current appraisal, consistent with current banking regulations.

Our charge-off policy meets or exceeds regulatory minimums. Losses on unsecured consumer loans are recognized at 90 days past due compared to the regulatory loss criteria of 120 days. Secured consumer loans, including residential real estate, are typically charged-off or charged down between 120 and 180 days past due, depending on the collateral type, in compliance with Federal Financial Institution Examination Council guidelines. Commercial loans and real estate loans are typically placed on nonaccrual status when principal or interest is past due for 90 days or more, unless the loan is both secured by collateral having realizable value sufficient to discharge the debt in-full and the loan is in the legal process of collection. Secured loans may be charged-down to the estimated value of the collateral with previously accrued unpaid interest reversed. Subsequent charge-offs may be required as a result of changes in the market value of collateral or other repayment prospects. Initial charge-off amounts are based on valuation estimates derived from appraisals, broker price opinions, or other market information. Generally, new appraisals are not received until the foreclosure process is completed; however, collateral values are evaluated periodically based on market information and incremental charge-offs are recorded if it is determined that collateral values have declined from their initial estimates.

Management continually evaluates the allowance for loan losses methodology and seeks to refine and enhance this process as appropriate. As a result, it is likely that the methodology will continue to evolve over time.

Our Loan Review unit is independent, and performs loan reviews and evaluates a representative sample of credit extensions after the fact for appropriate individual internal risk ratings. Loan Review has the authority to change internal risk ratings and is responsible for assessing the adequacy of credit underwriting. This unit reports directly to the Directors' Loan Committee of Seacoast National's board of directors.

Table 11 summarizes the Company's allocation of the allowance for loan losses to real estate loans, commercial and financial loans, and installment loans to individuals, and information regarding the composition of the loan portfolio at the dates indicated.

Net charge-offs for the year ended December 31, 2015 totaled \$587,000, compared to net recoveries of \$489,000 for the year ended December 31, 2014 (See “Table 10 – Summary of Loan Loss Experience” for detail on net charge-offs for the last five years). Note F to the financial statements (titled “Impaired Loans and Allowance for Loan Losses”) summarizes the Company’s allocation of the allowance for loan losses to construction and land development loans, commercial and residential estate loans, commercial and financial loans, and consumer loans, and provides more specific detail regarding charge-offs and recoveries for each loan component and the composition of the loan portfolio at December 31, 2015 and 2014. Although there is no assurance that we will not have elevated charge-offs in the future, we believe that we have significantly reduced the risks in our loan portfolio.

The allowance as a percentage of portfolio loans outstanding (excluding PCI and PUL loans) was 1.03 percent at December 31, 2015, compared to 1.14 percent at December 31, 2014. The allowance for loan losses represents management's estimate of an amount adequate in relation to the risk of losses inherent in the loan portfolio. The reduced level of impaired loans contributed to a lower risk of loss and the lower allowance for loan losses as of December 31, 2015. The risk profile of the loan portfolio has been reduced by implementing a program to decrease the level of credit risk in such portfolio by strengthening credit management methodologies and implementing a low risk "back-to-basics" strategic plan for loan growth. New loan production has shifted to adjustable rate residential real estate loans, owner-occupied commercial real estate, small business loans for professionals and businesses, and consumer lending. Strategies, processes and controls are in place to ensure that new production is well underwritten and maintains a focus on smaller, diversified and lower-risk lending. Aided by initiatives embodied in new loan programs and continued aggressive collection actions, the portfolio mix has changed dramatically and has become more diversified. The improved mix is most evident by a lower percentage of loans in income producing commercial real estate and construction and land development loans. Prospectively, we anticipate that the allowance is likely benefit from continued improvement in our credit quality, but offset by more normal loan growth as business activity and the economy improves.

Concentrations of credit risk, discussed under the caption "Loan Portfolio" of this discussion and analysis, can affect the level of the allowance and may involve loans to one borrower, an affiliated group of borrowers, borrowers engaged in or dependent upon the same industry, or a group of borrowers whose loans are predicated on the same type of collateral. The Company's most significant concentration of credit is a portfolio of loans secured by real estate. At December 31, 2015, the Company had \$1.842 billion in loans secured by real estate, representing 85.4 percent of total loans, up from \$1.611 billion but lower as a percent of total loans (versus 88.4 percent) at December 31, 2014. In addition, the Company is subject to a geographic concentration of credit because it only operates in central and southeastern Florida.

While it is the Company's policy to charge off in the current period loans in which a loss is considered probable, there are additional risks of future losses that cannot be quantified precisely or attributed to particular loans or classes of loans. Because these risks include the state of the economy, borrower payment behaviors and local market conditions as well as conditions affecting individual borrowers, management's judgment of the allowance is necessarily approximate and imprecise. The allowance is also subject to regulatory examinations and determinations as to adequacy, which may take into account such factors as the methodology used to calculate the allowance for loan losses and the size of the allowance for loan losses in comparison to a group of peer companies identified by the regulatory agencies.

In assessing the adequacy of the allowance, management relies predominantly on its ongoing review of the loan portfolio, which is undertaken both to ascertain whether there are probable losses that must be charged off and to assess the risk characteristics of the portfolio in aggregate. This review considers the judgments of management, and also those of bank regulatory agencies that review the loan portfolio as part of their regular examination process. Our bank regulators have generally agreed with our credit assessment, however in the future, regulators could seek additional provisions to our allowance for loan losses, which would reduce our earnings.

Acquisition Accounting and Purchased Loans – Critical Accounting Policies and Estimates

The Company accounts for its acquisitions under ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. All loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Over the life of the purchased credit impaired loans acquired, the Company continues to estimate cash flows expected to be collected. The Company evaluates at each balance sheet date whether the present value of the acquired loans using the effective interest rates has decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan's remaining life.

Intangible Assets and Impairment Testing – Critical Accounting Policies and Estimates

Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation specialists. The core deposit intangibles from the BANKshares and Grand acquisitions are being amortized over 74 months and 94 months, respectively, on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. We performed an annual impairment test of goodwill and core deposit intangibles as required by FASB ASC 350, *Intangibles—Goodwill and Other*, in the fourth quarter of 2015 for the BANKshares acquisition (on October 1, 2014). Seacoast employed an independent third party with extensive experience in conducting and documenting impairment tests of this nature, and concluded that no impairment occurred.

Other Fair Value Measurements – Critical Accounting Policies and Estimates

All impaired loans are reviewed quarterly to determine if fair value adjustments are necessary based on known changes in the market and/or the project assumptions. When necessary, the "As Is" appraised value may be adjusted based on more recent appraisal assumptions received by the Company on other similar properties, the tax assessed market value, comparative sales and/or an internal valuation. If an updated assessment is deemed necessary and an internal valuation cannot be made, an external "As Is" appraisal will be obtained. If the "As Is" appraisal does not

appropriately reflect the current fair market value, in the Company's opinion, a specific reserve is established and/or the loan is written down to the current fair market value.

Collateral dependent impaired loans are loans that are solely dependent on the liquidation of the collateral for repayment. All OREO and repossessed assets ("REPO") are reviewed quarterly to determine if fair value adjustments are necessary based on known changes in the market and/or project assumptions. When necessary, the "As Is" appraisal is adjusted based on more recent appraisal assumptions received by the Company on other similar properties, the tax assessment market value, comparative sales and/or an internal valuation is performed. If an updated assessment is deemed necessary, and an internal valuation cannot be made, an external appraisal will be requested. Upon receipt of the "As Is" appraisal a charge-off is recognized for the difference between the loan amount and its current fair market value.

"As Is" values are used to measure fair market value on impaired loans, OREO and REPOs.

At December 31, 2015, outstanding securities designated as available for sale totaled \$790.8 million. The fair value of the available for sale portfolio at December 31, 2015 was less than historical amortized cost, producing net unrealized losses of \$7.8 million that have been included in other comprehensive income (loss) as a component of shareholders' equity (net of taxes). The Company made no change to the valuation techniques used to determine the fair values of securities during 2015 and 2014. The fair value of each security available for sale was obtained from independent pricing sources utilized by many financial institutions or from dealer quotes. The fair value of many state and municipal securities are not readily available through market sources, so fair value estimates are based on quoted market price or prices of similar instruments. Generally, the Company obtains one price for each security. However, actual values can only be determined in an arms-length transaction between a willing buyer and seller that can, and often do, vary from these reported values. Furthermore, significant changes in recorded values due to changes in actual and perceived economic conditions can occur rapidly, producing greater unrealized losses or gains in the available for sale portfolio.

The credit quality of the Company's securities holdings are primarily investment grade. As of December 31, 2015, the Company's available for sale investment securities, except for approximately \$39.9 million of securities issued by states and their political subdivisions, generally are traded in liquid markets. U.S. Treasury and U.S. Government agency obligations totaled \$433.9 million, or 54.9 percent of the total available for sale portfolio. The portfolio also includes \$109.7 million in private label securities, most secured by residential real estate collateral originated in 2005 or prior years with low loan to values, and current FICO scores above 700. Generally these securities have credit support exceeding 5%. The collateral underlying these mortgage investments are primarily 30- and 15-year fixed rate, 5/1 and 10/1 adjustable rate mortgage loans. Historically, the mortgage loans serving as collateral for those investments have had minimal foreclosures and losses. The Company also has invested \$122.6 million in uncapped 3-month Libor floating rate collateralized loan obligations. Collateralized loan obligations are special purpose vehicles that purchase loans as assets that provide a steady stream of income and possible capital appreciation. The collateral for the securities is first lien senior secured corporate debt. The Company has purchased senior tranches rated credit A or higher and performed stress tests, which indicated that the senior subordination levels are sufficient and no principal loss is forecast, verifying the independent rating. In addition, during 2015 the Company acquired several corporate bonds and private commercial mortgage backed securities totaling \$84.7 million at year-end. At July 7, 2015, Grand securities of \$46.4 million were acquired and added to the available for sale portfolio at their fair value, and at October 1, 2104, BANKshares securities of \$85.4 million were acquired and added to the available for sale portfolio at their fair market value.

On May 31, 2014 management identified \$158.8 million of investment securities available for sale and transferred them to held for investment. The unrealized holding losses at the date of transfer totaled \$3.0 million. For the securities that were transferred into the held for investment category from the available for sale category, the unrealized holding losses at the date of the transfer will continue to be reported in other comprehensive income, and will be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of a discount. The amortization of unrealized holding losses reported in equity will offset the effect on interest income of the amortization of the discount. Management believes the securities transferred are a core banking asset that they now intend to hold until maturity, and if interest rates were to increase before maturity, the fair values would be impacted more significantly and therefore are not consistent with the characteristics of an available for sale investment.

Seacoast Bank also holds 11,330 shares of Visa Class B stock, which following resolution of Visa's litigation will be converted to Visa Class A shares (the conversion rate presently is 1.6483 shares of Class A stock for each share of Class B stock) for a total of 18,675 shares of Visa Class A stock. Our ownership is related to prior ownership in Visa's network, while Visa operated as a cooperative. This ownership is recorded on our financial records at zero basis.

Other Than Temporary Impairment of Securities – Critical Accounting Policies and Estimates

Our investments are reviewed quarterly for other than temporary impairment (“OTTI”). The following primary factors are considered for securities identified for OTTI testing: percent decline in fair value, rating downgrades, subordination, duration, amortized loan-to-value, and the ability of the issuers to pay all amounts due in accordance with the contractual terms. Prices obtained from pricing services are usually not adjusted. Based on our internal review procedures and the fair values provided by the pricing services, we believe that the fair values provided by the pricing services are consistent with the principles of ASC 820, Fair Value Measurement. However, on occasion pricing provided by the pricing services may not be consistent with other observed prices in the market for similar securities. Using observable market factors, including interest rate and yield curves, volatilities, prepayment speeds, loss severities and default rates, the Company may at times validate the observed prices using a discounted cash flow model and using the observed prices for similar securities to determine the fair value of its securities.

Changes in the fair values, as a result of deteriorating economic conditions and credit spread changes, should only be temporary. Further, management believes that the Company’s other sources of liquidity, as well as the cash flow from principal and interest payments from its securities portfolio, reduces the risk that losses would be realized as a result of a need to sell securities to obtain liquidity.

The Company also held stock in the Federal Home Loan Bank of Atlanta (“FHLB”) totaling \$5.1 million as of December 31, 2015, \$3.4 million less than the balance at year-end 2014. The Company accounts for its FHLB stock based on the industry guidance in ASC 942, Financial Services—Depository and Lending, which requires the investment to be carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. We evaluated our holdings in FHLB stock at December 31, 2015 and believe our holdings in the stock are ultimately recoverable at par. We do not have operational or liquidity needs that would require redemption of the FHLB stock in the foreseeable future and, therefore, have determined that the stock is not other-than-temporarily impaired.

Realization of Deferred Tax Assets – Critical Accounting Policies and Estimates

At December 31, 2015, the Company had net deferred tax assets (“DTA”) of \$60.3 million. Although realization is not assured, management believes that realization of the carrying value of the DTA is more likely than not, based upon expectations as to future taxable income and tax planning strategies, as defined by ASC 740 Income Taxes. In comparison, at December 31, 2014 the Company had a net DTA of \$66.8 million.

Factors that support this conclusion:

- Income before tax (“IBT”) has steadily increased as a result of organic growth and the 2014 BANKshares and 2015 Grand acquisitions will further assist in achieving management’s forecast of future earnings which recovers the net operating loss carry-forwards before expiration;
- Credit costs have declined and overall credit risk has declined which decreases the impact on future taxable earnings;
 - Growth rates for loans are at levels supported by the acquisitions, increased loan officers and support staff.
 - Additional loan officer salaries were added to assure loan portfolio growth and support increased interest income;
 - New loan production credit quality and concentrations are being well managed through improved and enhanced credit functions and therefore should not cause increased credit costs; and
 - Current economic growth forecasts for Florida and the Company’s markets are supported by population increases.

Contingent Liabilities – Critical Accounting Policies and Estimates

The Company is subject to contingent liabilities, including judicial, regulatory and arbitration proceedings, and tax and other claims arising from the conduct of our business activities. These proceedings include actions brought against the Company and/or our subsidiaries with respect to transactions in which the Company and/or our subsidiaries acted as a lender, a financial advisor, a broker or acted in a related activity. Accruals are established for legal and other claims when it becomes probable that the Company will incur an expense and the amount can be reasonably estimated. Company management, together with attorneys, consultants and other professionals, assesses the probability and estimated amounts involved in a contingency. Throughout the life of a contingency, the Company or our advisors may learn of additional information that can affect our assessments about probability or about the estimates of amounts involved. Changes in these assessments can lead to changes in recorded reserves. In addition, the actual costs of resolving these claims may be substantially higher or lower than the amounts reserved for the claims. At December 31, 2015 and 2014, the Company had no significant accruals for contingent liabilities and had no known pending matters that could potentially be significant.

Interest Rate Sensitivity

Fluctuations in interest rates may result in changes in the fair value of the Company's financial instruments, cash flows and net interest income. This risk is managed using simulation modeling to calculate the most likely interest rate risk utilizing estimated loan and deposit growth. The objective is to optimize the Company's financial position, liquidity, and net interest income while limiting their volatility.

Senior management regularly reviews the overall interest rate risk position and evaluates strategies to manage the risk. The Company's fourth quarter 2015 Asset and Liability Management Committee ("ALCO") model simulation indicates net interest income would increase 10.9% if interest rates increased 200 basis points up over the next 12 months and 5.4% if interest rates increased 100 basis points. This compares with the Company's fourth quarter 2014 model simulation, which indicated net interest income would increase 9.1% if interest rates were increased 200 basis points up over the next 12 months and 4.9% if interest rates were increased 100 basis points. Recent regulatory guidance has placed more emphasis on rate shocks.

The Company had a positive gap position based on contractual and prepayment assumptions for the next 12 months, with a positive cumulative interest rate sensitivity gap as a percentage of total earning assets of 17.2% at December 31, 2015. This result includes assumptions for core deposit re-pricing validated for the Company by an independent third party consulting group.

The computations of interest rate risk do not necessarily include certain actions management may undertake to manage this risk in response to changes in interest rates. Derivative financial instruments, such as interest rate swaps, options, caps, floors, futures and forward contracts may be utilized as components of the Company's risk management profile.

Market Risk

Market risk refers to potential losses arising from changes in interest rates, and other relevant market rates or prices.

Interest rate risk, defined as the exposure of net interest income and Economic Value of Equity, or "EVE," to adverse movements in interest rates, is the Company's primary market risk, and mainly arises from the structure of the balance sheet (non-trading activities). The Company is also exposed to market risk in its investing activities. The Company's Asset/Liability Committee, or "ALCO," meets regularly and is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit exposure to interest rate risk. The policies established by the ALCO are reviewed and approved by the Company's Board of Directors. The primary goal of interest rate risk management is to control exposure to interest rate risk, within policy limits approved by the Board. These limits reflect the Company's tolerance for interest rate risk over short-term and long-term horizons.

The Company also performs valuation analyses, which are used for evaluating levels of risk present in the balance sheet that might not be taken into account in the net interest income simulation analyses. Whereas net interest income simulation highlights exposures over a relatively short time horizon, valuation analysis incorporates all cash flows over the estimated remaining life of all balance sheet positions. The valuation of the balance sheet, at a point in time, is defined as the discounted present value of asset cash flows minus the discounted value of liability cash flows, the net result of which is the EVE. The sensitivity of EVE to changes in the level of interest rates is a measure of the longer-term re-pricing risks and options risks embedded in the balance sheet. In contrast to the net interest income simulation, which assumes interest rates will change over a period of time, EVE uses instantaneous changes in rates.

EVE values only the current balance sheet, and does not incorporate the growth assumptions that are used in the net interest income simulation model. As with the net interest income simulation model, assumptions about the timing and variability of balance sheet cash flows are critical in the EVE analysis. Particularly important are the assumptions driving prepayments and the expected changes in balances and pricing of the indeterminate life deposit portfolios. Core deposits are a more significant funding source for the Company, making the lives attached to core deposits more important to the accuracy of our modeling of EVE. The Company periodically reassesses its assumptions regarding the indeterminate lives of core deposits utilizing an independent third party resource to assist. With lower interest rates over a prolonged period, the average lives of core deposits have trended higher and favorably impacted our model estimates of EVE for higher rates. Based on our fourth quarter 2015 modeling, an instantaneous 100 basis point increase in rates is estimated to increase the EVE 12.1% versus the EVE in a stable rate environment, while a 200 basis point increase in rates is estimated to increase the EVE 21.5%.

While an instantaneous and severe shift in interest rates is used in this analysis to provide an estimate of exposure under an extremely adverse scenario, a gradual shift in interest rates would have a much more modest impact. Since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon, i.e., the next fiscal year. Further, EVE does not take into account factors such as future balance sheet growth, changes in product mix, change in yield curve relationships, and changing product spreads that could mitigate the adverse impact of changes in interest rates.

Effects of Inflation and Changing Prices

The condensed consolidated financial statements and related financial data presented herein have been prepared in accordance with U.S. GAAP, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money, over time, due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the

general level of inflation. However, inflation affects financial institutions by increasing their cost of goods and services purchased, as well as the cost of salaries and benefits, occupancy expense, and similar items. Inflation and related increases in interest rates generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings, and shareholders' equity. Mortgage originations and re-financings tend to slow as interest rates increase, and higher interest rates likely will reduce the Company's earnings from such activities and the income from the sale of residential mortgage loans in the secondary market.

Fourth Quarter Review

Earnings highlights for the fourth quarter 2015:

- Adjusted net income (1) increased 56% to \$6.5 million or \$0.19 per average diluted share, compared to \$4.2 million or \$0.13 per diluted share in the fourth quarter 2014;
- Net interest income improved \$4.4 million or 18% compared to fourth quarter 2014, due to organic loan growth;
 - Net interest margin increased 11 basis points year-over-year to 3.67%;
- Adjusted return on average tangible common equity improved to 8.4% from 6.2% year-over-year.

Fourth quarter 2015 growth highlights:

- Loans increased \$57 million or 3% not annualized compared to third quarter 2015 and rose 18% year-over-year. Excluding acquisitions, loans increased \$218 million or 12% above year-ago levels;
 - Excluding acquisitions, households grew 5% year-over-year;

The tables below provide reconciliation between Generally Accepted Accounting Principles (“GAAP”) net income and adjusted net income (1). Management uses these non-GAAP financial amounts in its analysis of the Company’s performance and believes the presentation provides a clearer understanding of the Company’s performance. The Company believes the presentation of adjusted net income (1) enhances investor understanding of the performance trend and facilitates comparisons with the performance of other financial institutions. The limitations associated with adjusted net income (1) are the risk that persons might disagree as to the appropriateness of items comprising the measure and that different companies might calculate the measure differently. The Company provides reconciliations between GAAP and non-GAAP measures, and these measures should not be considered an alternative to GAAP. For 2015 and 2014, by quarter and for total year, net income and adjusted net income (1) were as follows:

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(Dollars in thousands except per share data)	2015 Quarters				
	Fourth 2015	Third 2015	Second 2015	First 2015	Total Year
Net income (loss), as reported:					
Net income (loss)	\$6,036	\$4,441	\$5,805	\$5,859	\$22,141
Diluted earnings per share	\$0.18	\$0.13	\$0.18	\$0.18	\$0.66
Adjusted net income (1):					
Net income (loss)	\$6,036	\$4,441	\$5,805	\$5,859	\$22,141
Severance	187	98	29	12	326
Merger related charges	1,043	2,692	337	275	4,347
Bargain purchase gain	(416)	0	0	0	(416)
Security (gains)	(1)	(160)	0	0	(161)
Miscellaneous losses	0	112	0	0	112
Other	0	121	0	0	121
Net loss on OREO and repossessed assets	(157)	262	53	81	239
Asset dispositions expense	79	77	173	143	472
Effective tax rate on adjustments	(299)	(1,210)	(225)	(193)	(1,927)
Adjusted net income (1)	\$6,472	\$6,433	\$6,172	\$6,177	\$25,254
Adjusted diluted earnings per share (1)	\$0.19	\$0.19	\$0.19	\$0.19	\$0.75

(Dollars in thousands except per share data)	2014 Quarters						
	Fourth 2014	Third 2014	Second 2014	First 2014	Total Year		
Net income (loss), as reported:							
Net income (loss)			\$(1,517)	\$2,996	\$1,918	\$2,299	\$5,696
Diluted earnings per share			\$(0.05)	\$0.12	\$0.07	\$0.09	\$0.21
Adjusted net income (1):							
Net income (loss)			\$(1,517)	\$2,996	\$1,918	\$2,299	\$5,696
Severance			478	328	181	212	1,199
Merger related charges			2,722	399	1,234	6	4,361
Branch closure charges and costs related to expense initiatives			4,261	0	0	0	4,261
Marketing and brand refresh expenses			697	0	0	0	697
Stock compensation expense and other incentive costs related to improved outlook			1,213	0	0	0	1,213
Security (gains)			(108)	(344)	0	(17)	(469)
Miscellaneous losses (gains)			119	(45)	144	0	218
Other			0	(124)	114	0	(10)
Net loss on OREO and repossessed assets			9	156	92	53	310
Asset dispositions expense			103	139	118	128	488
Effective tax rate on adjustments			(3,798)	(219)	(811)	(148)	(4,976)
Adjusted net income (1)			\$4,179	\$3,286	\$2,990	\$2,533	\$12,988
Adjusted diluted earnings per share (1)			\$0.13	\$0.13	\$0.12	\$0.10	\$0.47

(1) Non-GAAP measures

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