

SEACOAST BANKING CORP OF FLORIDA
Form 10-Q
November 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____.

Commission File No. 0-13660

Seacoast Banking Corporation of Florida

(Exact Name of Registrant as Specified in its Charter)

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Florida 59-2260678
(State or Other Jurisdiction of Incorporation or (I.R.S. Employer Identification No.)
Organization

815 COLORADO AVENUE, STUART FL 34994
(Address of Principal Executive Offices) (Zip Code)

(772) 287-4000
(Registrant's Telephone Number, Including Area Code)

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

Yes No

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

Large Accelerated Accelerated Non-Accelerated Small Reporting
Filer Filer Filer Company

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

Yes No

Common Stock, \$0.10 Par Value – 38,025,020 shares as of September 30, 2016

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

| | September 30, 2016 | December 31, 2015 |
|--|--------------------------|-------------------------|
| (Dollars in thousands, except share amounts) | | |
| ASSETS | | |
| Cash and due from banks | \$89,777 | \$81,216 |
| Interest bearing deposits with other banks | 77,606 | 54,851 |
| Total cash and cash equivalents | 167,383 | 136,067 |
| Securities: | | |
| Available for sale (at fair value) | 866,613 | 790,766 |
| Held for investment (fair value: \$397,264 at September 30, 2016, and \$202,813 at December 31, 2015) | 392,138 | 203,525 |
| Total Securities | 1,258,751 | 994,291 |
| Loans held for sale (at fair value) | 20,143 | 23,998 |
| Loans | 2,769,338 | 2,156,330 |
| Less: Allowance for loan losses | (22,684) | (19,128) |
| NET LOANS | 2,746,654 | 2,137,202 |
| Bank premises and equipment, net | 59,035 | 54,579 |
| Other real estate owned | 12,734 | 7,039 |
| Goodwill | 64,649 | 25,211 |
| Other intangible assets, net | 15,291 | 8,594 |
| Bank owned life insurance | 44,044 | 43,579 |
| Net deferred income taxes | 58,848 | 60,274 |
| Other assets | 66,402 | 43,946 |
| | \$4,513,934 | \$3,534,780 |
| LIABILITIES | | |
| Deposits | \$3,510,493 | \$2,844,387 |
| Federal funds purchased and securities sold under agreements to repurchase, maturing within 30 days | 167,693 | 172,005 |

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| | | |
|--|-----------|-----------|
| Federal Home Loan Bank (FHLB) borrowings | 305,000 | 50,000 |
| Subordinated debt | 70,171 | 69,961 |
| Other liabilities | 25,058 | 44,974 |
| | 4,078,415 | 3,181,327 |

SHAREHOLDERS' EQUITY

Common stock, par value \$0.10 per share, authorized
60,000,000 shares, issued 38,068,701 and
outstanding 38,025,020 shares at September 30,
2016 and issued 34,356,892 and outstanding
34,351,409 shares at December 31, 2015

| | | |
|----------------------------|-------------|-------------|
| | 3,799 | 3,435 |
| Other shareholders' equity | 431,720 | 350,018 |
| TOTAL SHAREHOLDERS' EQUITY | 435,519 | 353,453 |
| | \$4,513,934 | \$3,534,780 |

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

| (Dollars in thousands, except per share data) | Three Months Ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|----------------|------------------------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Interest and fees on loans | \$31,932 | \$25,276 | \$87,210 | \$69,285 |
| Interest and dividends on securities | 7,253 | 5,298 | 20,002 | 15,470 |
| Interest on interest bearing deposits and other investments | 429 | 249 | 1,152 | 747 |
| TOTAL INTEREST INCOME | 39,614 | 30,823 | 108,364 | 85,502 |
| Interest on deposits | 1,292 | 857 | 3,447 | 2,450 |
| Interest on borrowed money | 874 | 955 | 2,754 | 2,665 |
| TOTAL INTEREST EXPENSE | 2,166 | 1,812 | 6,201 | 5,115 |
| NET INTEREST INCOME | 37,448 | 29,011 | 102,163 | 80,387 |
| Provision for loan losses | 550 | 987 | 1,411 | 2,275 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 36,898 | 28,024 | 100,752 | 78,112 |
| Noninterest income | | | | |
| Noninterest income, excluding securities gains | 9,764 | 8,082 | 27,505 | 24,236 |
| Securities gains, net (includes net losses of \$(648) and \$(494) in other comprehensive income reclassifications for the three months ended September 30, 2016 and 2015 respectively, and net losses of \$(620) and \$(325) for the nine months ended September 30, 2016 and 2015, respectively.) | 225 | 160 | 361 | 160 |
| TOTAL NONINTEREST INCOME (see NOTE H) | 9,989 | 8,242 | 27,866 | 24,396 |
| TOTAL NONINTEREST EXPENSE (see NOTE H) | 33,435 | 29,127 | 100,584 | 76,601 |
| INCOME BEFORE INCOME TAXES | 13,452 | 7,139 | 28,034 | 25,907 |
| Provision for income taxes (includes \$(250) and \$(191) in income tax benefit from reclassification items for the three months ended September 30, 2016 and 2015, respectively, and \$(239) and \$(125) in income tax benefit for the nine months ended September 30, 2016 and 2015, respectively.) | 4,319 | 2,698 | 9,603 | 9,802 |
| NET INCOME | \$9,133 | \$4,441 | \$18,431 | \$16,105 |

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PER SHARE COMMON STOCK:

| | | | | |
|--------------------------------------|------------|------------|------------|------------|
| Net income diluted | \$0.24 | \$0.13 | \$0.49 | \$0.48 |
| Net income basic | 0.24 | 0.13 | 0.50 | 0.48 |
| Cash dividends declared | 0.00 | 0.00 | 0.00 | 0.00 |
| Average shares outstanding - diluted | 38,169,863 | 34,193,540 | 37,258,133 | 33,524,718 |
| Average shares outstanding - basic | 37,549,804 | 33,907,178 | 36,626,290 | 33,286,933 |

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

| | Three Months | | Nine Months | |
|---|---------------|---------|---------------|----------|
| | Ended | | Ended | |
| (Dollars in thousands) | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| NET INCOME | \$9,133 | \$4,441 | \$18,431 | \$16,105 |
| Other comprehensive income: | | | | |
| Unrealized gains (losses) on securities available for sale | (1,020) | 1,757 | 16,096 | 4,223 |
| Amortization of unrealized losses on securities transferred to held for investment, net | (122) | (123) | (365) | (416) |
| Reclassification adjustment for losses (gains) included in net income | 648 | 494 | 620 | 325 |
| Provision for income taxes | 195 | (822) | (6,307) | (1,595) |
| COMPREHENSIVE INCOME | \$8,834 | \$5,747 | \$28,475 | \$18,642 |

See notes to condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

| (Dollars in thousands) | Nine Months Ended | |
|--|-----------------------|------------|
| | September 30, 2016 | 2015 |
| Cash flows from operating activities | | |
| Interest received | \$ 108,041 | \$ 85,115 |
| Fees and commissions received | 26,761 | 23,833 |
| Interest paid | (5,693) | (5,091) |
| Cash paid to suppliers and employees | (86,824) | (71,573) |
| Origination of loans designated held for sale | (132,482) | (159,662) |
| Sale of loans designated held for sale | 136,337 | 155,002 |
| Net change in other assets | (5,274) | (578) |
| Net cash provided by operating activities | 40,866 | 27,046 |
| Cash flows from investing activities | | |
| Maturity of securities available for sale | 93,538 | 93,830 |
| Maturity of securities held for investment | 29,582 | 23,115 |
| Proceeds from sale of securities available for sale | 39,408 | 60,314 |
| Purchases of securities available for sale | (159,576) | (87,468) |
| Purchases of securities held for investment | (218,654) | (24,366) |
| Net new loans and principal repayments | (280,915) | (172,858) |
| Proceeds from the sale of other real estate owned | 4,987 | 4,688 |
| Proceeds from sale of Federal Home Loan Bank (FHLB) and Federal Reserve Bank stock | 1,700 | 7,427 |
| Purchase of FHLB and Federal Reserve Stock | (16,213) | (6,798) |
| Net cash from bank acquisition | 235,546 | 32,927 |
| Additions to bank premises and equipment | (5,099) | (8,466) |
| Net cash (used in) provided by investing activities | (275,696) | (77,655) |
| Cash flows from financing activities | | |
| Net increase in deposits | 14,598 | 137,307 |
| Net decrease in federal funds purchased and repurchase agreements | (4,312) | (6,690) |
| Net increase (decrease) in FHLB borrowings | 255,000 | (80,000) |
| Stock based employee benefit plans | 860 | 94 |
| Dividends paid | 0 | 0 |
| Net cash provided by financing activities | 266,146 | 50,711 |
| Net decrease in cash and cash equivalents | 31,316 | 102 |
| Cash and cash equivalents at beginning of period | 136,067 | 100,539 |
| Cash and cash equivalents at end of period | \$ 167,383 | \$ 100,641 |

See notes to condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

| (Dollars in thousands) | Nine Months Ended September 30, | |
|---|---------------------------------------|----------|
| | 2016 | 2015 |
| Reconciliation of net income to cash provided by operating activities | | |
| Net income | \$18,431 | \$16,105 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 3,774 | 2,722 |
| Amortization of premiums and discounts on securities, net | 6,381 | 3,061 |
| Other amortization and accretion, net | (1,862) | (1,895) |
| Change in loans held for sale, net | 3,855 | (4,660) |
| Provision for loan losses | 1,411 | 2,275 |
| Gain on sale of securities | (361) | (160) |
| Gain on sale of loans | (935) | (658) |
| Losses (gains) on sale and write-downs of other real estate owned | (348) | 397 |
| Losses on disposition of fixed assets | 2,440 | 120 |
| Change in interest receivable | (2,866) | (527) |
| Change in interest payable | 297 | 24 |
| Change in prepaid expenses | (889) | (1,097) |
| Change in accrued taxes | 10,184 | 10,326 |
| Change in other assets | (5,274) | (578) |
| Change in other liabilities | 6,628 | 1,591 |
| Net cash provided by operating activities | \$40,866 | \$27,046 |
| Supplemental disclosure of non cash investing activities: | | |
| Fair value adjustment to securities | \$15,985 | \$3,711 |
| Transfer from loans to other real estate owned | 2,996 | 4,937 |
| Transfer from bank premises to other real estate owned | 7,708 | 0 |
| Securities principal recorded as a receivable | 647 | 96 |

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Seacoast Banking Corporation of Florida and Subsidiaries

NOTE A — BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 or any other period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2015.

Use of Estimates

The preparation of these condensed consolidated financial statements required the use of certain estimates by management in determining the Company's assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Specific areas, among others, requiring the application of management's estimates include determination of the allowance for loan losses, the valuation of investment securities available for sale, fair value of impaired loans, contingent liabilities, fair value of other real estate owned, the fair value of acquired assets and assumed liabilities, and the valuation of deferred tax assets. Actual results could differ from those estimates.

Early Adoption of Accounting Standard Update

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-09 for "Compensation—Stock Compensation, Improvements to Employee Share Based Payments Accounting." The guidance alters the manner in which companies account for share based payments to employees. Entities are required to immediately recognize income tax effects of awards in the income statement when the awards vest or are settled.

Additional paid-in capital pools are eliminated. The Company early adopted ASU 2016-09 during the three months ended September 30, 2016. As a result of the adoption, the Company recognized a \$418,000 tax benefit in the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016, which added \$0.01 to diluted and basic earnings per share for the three and nine month periods ended September 30, 2016. In addition, the Company presented excess tax benefits as an operating activity in the Consolidated Statement of Cash Flows using a retrospective transition method. The Company also made an accounting policy election to account for forfeitures utilizing estimates for expected forfeiture rates. This policy election did not have a material impact on the Company's consolidated financial statements. Adoption of all other changes did not have an impact on our consolidated financial statements.

NOTE B — RECENTLY ISSUED ACCOUNTING STANDARDS, Not adopted as of September 30, 2016

The FASB issued ASU 2014-09. The ASU is a converged standard between the FASB and the IASB that provides a single comprehensive revenue recognition model for all contracts with customers across transactions and industries. The primary objective of the ASU is revenue recognition that represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU is effective on January 1, 2018, with early adoption permitted January 1, 2017. The Company is currently assessing the impact of adoption of ASU 2014-09.

In January 2016, the FASB issued ASU 2016-01 for “Recognition and Measurement of Financial Assets and Liabilities”. The ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The update requires: a) equity investments (except those accounted for under the equity method of accounting) to be measured at fair value and recognized in net income, b) simplifies impairment assessments of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, and if impaired requires measurement of the investment at fair value, c) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value d) requires entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, e) requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements, g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. The ASU is effective for fiscal years beginning after December 15, 2017, and must be adopted on a modified retrospective basis, including interim periods within those fiscal years. The adoption of ASU 2016-01 is being evaluated for its impact on the Company’s operating results and financial condition.

In February 2016, the FASB amended existing guidance related to the recognition of lease assets and lease liabilities on the balance sheet and disclosures on key information about leasing arrangements, under ASU 2016-02. It will be necessary for all parties to classify leases to determine how to recognize lease-related revenue and expense. The amendment requires lessees to put most leases on their balance sheet and record expenses to the income statement. Changes in the guidance eliminate real estate centric provisions for sale-leaseback transactions, including initial direct costs and lease execution costs for all entities. For lessors, the new FASB standard modifies classification criteria and accounting for sales type and direct financing leases. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements. The amended accounting is applicable to periods after December 15, 2018 and interim periods within that year.

In March 2016, under ASU 2016-04, “Liabilities – Extinguishments of Liabilities, Breakage for Certain Prepaid Stored-Value Products” the FASB intends for entities to recognize liabilities for the sale of prepaid stored value

products redeemable for goods, services, or cash. This guidance aligns recognition of breakage for these liabilities in a way consistent with how gift card breakage will be recognized. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements. Effective date for implementation is for annual periods after December 15, 2018.

In June 2016, the FASB issued ASU 2016-13 for “Measurement of Credit Losses on Financial Instruments” to replace the incurred loss impairment methodology with a current expected credit loss methodology for financial instruments measured at amortized cost and other commitments to extend credit. Expected credit losses reflect losses over the remaining contractual life of an asset, considering the effect of voluntary prepayments and considering available information about the collectability of cash flows, including information about past events, current conditions, and supportable forecasts. The resultant allowance for credit losses reflects the portion of the amortized cost basis that the entity does not expect to collect. Additional quantitative and qualitative disclosures are required upon adoption. The Company is evaluating the impact of the ASU. Adoption is required January 1, 2020, with early adoption permitted January 1, 2019.

In August 2016, The FASB issued final guidance via ASU 2016-15 for “Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments.” The guidance may change how an entity classifies certain cash receipts and cash payments on its statement of cash flows, the purpose being to reduce diversity in practice. This ASU addresses the classification of cash flows for (a) debt prepayment or extinguishment costs, (b) settlement of zero-coupon debt instruments or other debt instruments with coupon rates that are insignificant in relation to the effective interest rate of the borrowing, (c) contingent consideration payments made after a business combination, (d) proceeds from the settlement of insurance claims, (e) proceeds from the settlement of corporate owned life insurance, including bank owned life insurance, (f) distributions received from equity method investees, and (g) beneficial interests in securitization transactions. The guidance clarifies how the predominance principle should be applied. Entities should apply guidance in Accounting Standards Codification (ASC) 230. If not addressed, an entity should separately identify source or use and classify the receipt or payment based on the nature of the cash flow. Classification will depend on the predominant source of use. The Company is evaluating the impact of ASU 2016-15 which will generally be applied retrospectively for fiscal years beginning after December 15, 2017.

NOTE C — BASIC AND DILUTED EARNINGS PER COMMON SHARE

For each of the periods ended September 30, 2016 and 2015, options to purchase 189,000 shares and 282,000 shares, respectively, were antidilutive and accordingly were excluded in determining diluted earnings per share.

| (Dollars in thousands, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Basic: | | | | |
| Income available to common shareholders | \$9,133 | \$4,441 | \$18,431 | \$16,105 |
| Average basic shares outstanding | 37,549,804 | 33,907,178 | 36,626,290 | 33,286,933 |
| Basic earnings per share | \$0.24 | \$0.13 | \$0.50 | \$0.48 |

Diluted:

Income available to common shareholders plus

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| | | | | |
|------------------------------------|------------|------------|------------|------------|
| assumed conversions | \$9,133 | \$4,441 | \$18,431 | \$16,105 |
| Average basic shares outstanding | 37,549,804 | 33,907,178 | 36,626,290 | 33,286,933 |
| Restricted stock and stock options | 620,059 | 286,362 | 631,843 | 237,785 |
| Average diluted shares outstanding | 38,169,863 | 34,193,540 | 37,258,133 | 33,524,718 |
| Diluted earnings per share | \$0.24 | \$0.13 | \$0.49 | \$0.48 |

NOTE D — SECURITIES

The amortized cost and fair value of securities available for sale and held for investment at September 30, 2016 and December 31, 2015 are summarized as follows:

| (Dollars in thousands) | September 30, 2016 | | | |
|--|----------------------|------------------------|-------------------------|------------|
| | Gross Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| SECURITIES AVAILABLE FOR SALE | | | | |
| U.S. Treasury securities and obligations of U.S. Government Sponsored Entities | \$ 12,485 | \$ 333 | \$ 0 | \$ 12,818 |
| Mortgage-backed securities of U.S. Government Sponsored Entities | 165,802 | 3,268 | (96) | 168,974 |
| Collateralized mortgage obligations of U.S. Government Sponsored Entities | 251,419 | 2,043 | (979) | 252,483 |
| Private mortgage backed securities | 32,720 | 0 | (688) | 32,032 |
| Private collateralized mortgage obligations | 73,371 | 617 | (860) | 73,128 |
| Collateralized loan obligations | 124,663 | 437 | (676) | 124,424 |
| Obligations of state and political subdivisions | 61,798 | 2,688 | (52) | 64,434 |
| Corporate and other debt securities | 75,552 | 1,125 | (39) | 76,638 |
| Commercial mortgage backed securities | 60,624 | 1,301 | (243) | 61,682 |
| | \$ 858,434 | \$ 11,812 | \$ (3,633) | \$ 866,613 |

SECURITIES HELD FOR INVESTMENT

| | | | | |
|---|------------|----------|-----------|------------|
| Mortgage-backed securities of U.S. Government Sponsored Entities | \$ 183,507 | \$ 4,306 | \$ 0 | \$ 187,813 |
| Collateralized mortgage obligations of U.S. Government Sponsored Entities | 160,377 | 1,618 | (405) | 161,590 |
| Collateralized loan obligations | 41,494 | 183 | (465) | 41,212 |
| Private collateralized mortgage obligations | 6,760 | 1 | (112) | 6,649 |
| | \$ 392,138 | \$ 6,108 | \$ (982) | \$ 397,264 |

| (Dollars in thousands) | December 31, 2015 | | | |
|--|----------------------|------------------------|-------------------------|------------|
| | Gross Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| SECURITIES AVAILABLE FOR SALE | | | | |
| U.S. Treasury securities and obligations of U.S. Government Sponsored Entities | \$ 3,833 | \$ 78 | \$ 0 | \$ 3,911 |
| Mortgage-backed securities of U.S. Government Sponsored Entities | 192,224 | 847 | (1,322) | 191,749 |
| Collateralized mortgage obligations of U.S. Government Sponsored Entities | 242,620 | 470 | (4,900) | 238,190 |
| Private mortgage backed securities | 32,558 | 0 | (766) | 31,792 |
| Private collateralized mortgage obligations | 77,965 | 700 | (708) | 77,957 |
| Collateralized loan obligations | 124,477 | 0 | (1,894) | 122,583 |
| Obligations of state and political subdivisions | 39,119 | 882 | (110) | 39,891 |
| Corporate and other debt securities | 44,652 | 37 | (416) | 44,273 |
| Commercial mortgage backed securities | 41,127 | 13 | (720) | 40,420 |

\$798,575 \$ 3,027 \$ (10,836) \$790,766

SECURITIES HELD FOR INVESTMENT

| | | | | |
|---|-----------|----------|-------------|-----------|
| Mortgage-backed securities of | | | | |
| U.S. Government Sponsored Entities | \$64,993 | \$ 574 | \$ (16) | \$65,551 |
| Collateralized mortgage obligations of | | | | |
| U.S. Government Sponsored Entities | 89,265 | 581 | (406) | 89,440 |
| Collateralized loan obligations | 41,300 | 0 | (1,360) | 39,940 |
| Private collateralized mortgage obligations | 7,967 | 0 | (85) | 7,882 |
| | \$203,525 | \$ 1,155 | \$ (1,867) | \$202,813 |

Proceeds from sales of securities during the nine month period ended September 30, 2016 were \$39.4 million, with gross gains of \$448,000 and gross losses of \$87,000. Proceeds from sales of securities during the nine month period ended September 30, 2015 were \$60.3 million, with gross gains of \$632,000 and gross losses of \$472,000.

In 2014, approximately \$158.8 million of investment securities available for sale were transferred into held for investment. The unrealized holding losses at the date of transfer totaled \$3.1 million. For the securities transferred into the held for investment category from available for sale, 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 these securities 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. At September 30, 2016, the remaining unrealized holding losses totaled \$1.9 million.

Securities at September 30, 2016 with a carrying and fair value of \$161.0 were pledged as collateral for United States Treasury deposits, other public deposits and trust deposits. Securities with both a carrying value and fair value of \$167.7 million were pledged as collateral for repurchase agreements.

The amortized cost and fair value of securities at September 30, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because prepayments of the underlying collateral for these securities may occur, due to the right to call or repay obligations with or without call or prepayment penalties.

| (Dollars in thousands) | Held for Investment | | Available for Sale | |
|---|---------------------|------------|--------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in less than one year | \$0 | \$0 | \$7,760 | \$7,934 |
| Due after one year through five years | 0 | 0 | 83,490 | 84,017 |
| Due after five years through ten years | 41,494 | 41,212 | 139,005 | 140,811 |
| Due after ten years | 0 | 0 | 33,131 | 34,422 |
| | 41,494 | 41,212 | 263,386 | 267,184 |
| Mortgage-backed securities of U.S. Government Sponsored Entities | 183,507 | 187,813 | 165,802 | 168,974 |
| Collateralized mortgage obligations of U.S. Government Sponsored Entities | 160,377 | 161,590 | 251,419 | 252,483 |
| Private mortgage backed securities | 0 | 0 | 32,720 | 32,032 |
| Private collateralized mortgage obligations | 6,760 | 6,649 | 73,371 | 73,128 |

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| | | | | |
|--|-----------|-----------|-----------|-----------|
| Other debt securities | 0 | 0 | 11,112 | 11,130 |
| Commercial mortgage backed securities | 0 | 0 | 60,624 | 61,682 |
| | \$392,138 | \$397,264 | \$858,434 | \$866,613 |

The estimated fair value of a security is determined based on market quotations when available or, if not available, by using quoted market prices for similar securities, pricing models or discounted cash flows analyses, using observable market data where available. The tables below indicate the amount of securities with unrealized losses and period of time for which these losses were outstanding at September 30, 2016 and December 31, 2015, respectively.

| (Dollars in thousands) | September 30, 2016 | | | | | |
|---|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities of U.S. Government Sponsored Entities | \$5,241 | \$ (9) | \$5,735 | \$ (87) | \$10,976 | \$ (96) |
| Collateralized mortgage obligations of U.S. Government Sponsored Entities | 96,741 | (492) | 72,794 | (892) | 169,535 | (1,384) |
| Private mortgage backed securities | 15,007 | (520) | 17,025 | (168) | 32,032 | (688) |
| Private collateralized mortgage obligations | 3,588 | (141) | 43,918 | (831) | 47,506 | (972) |
| Collateralized loan obligations | 0 | 0 | 51,460 | (1,141) | 51,460 | (1,141) |
| Obligations of state and political subdivisions | 3,692 | (52) | 0 | 0 | 3,692 | (52) |
| Corporate and other debt securities | 8,192 | (35) | 1,996 | (4) | 10,188 | (39) |
| Commercial mortgage backed securities | 2,951 | (10) | 11,810 | (233) | 14,761 | (243) |
| Total temporarily impaired securities | \$135,412 | \$ (1,259) | \$204,738 | \$ (3,356) | \$340,150 | \$ (4,615) |

| (Dollars in thousands) | December 31, 2015 | | | | | |
|---|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities of U.S. Government Sponsored Entities | \$112,236 | \$ (1,082) | \$14,508 | \$ (256) | \$126,744 | \$ (1,338) |
| Collateralized mortgage obligations of U.S. Government Sponsored Entities | 97,512 | (973) | 147,266 | (4,333) | 244,778 | (5,306) |
| Private mortgage backed securities | 31,792 | (766) | 0 | 0 | 31,792 | (766) |
| Private collateralized mortgage obligations | 19,939 | (321) | 31,533 | (472) | 51,472 | (793) |
| Collateralized loan obligations | 101,601 | (1,642) | 60,922 | (1,612) | 162,523 | (3,254) |
| Obligations of state and political subdivisions | 11,570 | (110) | 0 | 0 | 11,570 | (110) |
| Corporate and other debt securities | 31,342 | (416) | 0 | 0 | 31,342 | (416) |
| Commercial mortgage backed securities | 37,838 | (720) | 0 | 0 | 37,838 | (720) |
| Total temporarily impaired securities | \$443,830 | \$ (6,030) | \$254,229 | \$ (6,673) | \$698,059 | \$ (12,703) |

The tables above include securities held for investment that were transferred from available for sale into held for investment during 2014. Those securities had unrealized losses of \$3.1 million at the date of transfer. None of these securities had a fair value with an unrealized loss for less than twelve months at September 30, 2016. At December 31, 2015, the fair value of those securities in an unrealized loss position for less than twelve months was \$38.9 million, and the unrealized losses on those securities in an unrealized loss position for less than twelve months was \$0.4 million. None of these securities were in an unrealized loss position for more than twelve months at September 30, 2016 and December 31, 2015, respectively.

At September 30, 2016, private label securities with a fair value of \$79.5 million secured by collateral originated in 2005 and prior were in an unrealized loss position. Their unrealized loss position of approximately \$1.7 million is attributable to a combination of factors, including relative changes in interest rates since the time of purchase. The collateral underlying these mortgage investments are 30- and 15-year fixed and 10/1 adjustable rate mortgage loans with low loan to values, subordination and all historically have had minimal foreclosures. Based on its assessment of these factors, management believes that the unrealized losses on these debt security holdings are a function of changes in investment spreads and interest rate movements and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities.

At September 30, 2016, the Company also had \$1.5 million of unrealized losses on collateralized mortgage obligations and mortgage backed securities of government sponsored entities having a fair value of \$180.5 million that were attributable to a combination of factors, including relative changes in interest rates since the time of purchase. The contractual cash flows for these securities are guaranteed by U.S. government agencies and U.S. government-sponsored enterprises. Based on our assessment of these factors, management believes that the unrealized losses on these debt security holdings are a function of changes in investment spreads and interest movements and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities.

At September 30, 2016, the Company also had \$1.1 million of unrealized losses on collateralized loan obligations having a fair value of \$51.5 million that were attributable to a combination of factors, including relative changes in interest rates, spreads and interest movements since the time of purchase. Based on our assessment of these factors, management believes that the unrealized losses on these debt security holdings are a function of changes in investment spreads and interest movements and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities.

At September 30, 2016, \$28.7 million of remaining securities categories had unrealized losses of \$0.3 million. Management believes that unrealized losses on these debt security holdings are a function of changes in investment spreads and interest movements and not change in credit quality.

As of September 30, 2016, management does not intend to sell securities that are in unrealized loss positions and it is not more likely than not that the Company will be required to sell these securities before recovery of the amortized cost basis. Therefore, management does not consider any investment to be other-than-temporarily impaired at September 30, 2016.

Included in other assets is \$30.9 million of Federal Home Loan Bank and Federal Reserve Bank stock stated at par value. At September 30, 2016, the Company has not identified events or changes in circumstances which may have a significant adverse effect on the carrying value of the \$30.9 million of cost method investment securities.

The Company also holds 11,330 shares of Visa Class B stock, which following resolution of Visa litigation will be converted to Visa Class A shares (the conversion rate was 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 with a value of \$1.5 million. 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 a zero basis.

Information relating to portfolio loans, purchased credit impaired (“PCI”) loans, and purchased unimpaired loans (“PUL”) is summarized as follows:

| September 30, 2016 | Portfolio Loans | PCI Loans | PUL's | Total |
|-----------------------------------|------------------------|--------------|-----------|-------------|
| | (Dollars in thousands) | | | |
| Construction and land development | \$129,239 | \$114 | \$24,548 | \$153,901 |
| Commercial real estate | 947,612 | 11,281 | 334,619 | 1,293,512 |
| Residential real estate | 772,579 | 685 | 60,149 | 833,413 |
| Commercial and financial | 278,065 | 977 | 63,459 | 342,501 |
| Consumer | 144,291 | 0 | 1,231 | 145,522 |
| Other loans | 489 | 0 | 0 | 489 |
| NET LOAN BALANCES (1) | \$2,272,275 | \$13,057 | \$484,006 | \$2,769,338 |

| December 31, 2015 | Portfolio Loans | PCI Loans | PUL's | Total |
|-----------------------------------|------------------------|--------------|-----------|-------------|
| | (Dollars in thousands) | | | |
| 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 |

(1) Net loan balances as of September 30, 2016 and December 31, 2015 include deferred fee/costs (net) and fair value adjustments on acquired loans, aggregating to \$12.4 million and \$7.7 million for each period, respectively.

Purchased Loans - PCI loans are accounted for pursuant to ASC Topic 310-30. The excess of cash flows expected to be collected over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan in situations where there is a reasonable expectation about the timing and amount of cash flows expected to be collected. The difference between the contractually required payments and the cash flows expected to be collected, considering the impact of prepayments, is referred to as the nonaccretable difference.

We have applied ASC Topic 310-20 accounting treatment to PULs. The unamortized fair value mark established at acquisition on the loans has been ascribed as an accretable yield that is accreted into interest income over the estimated remaining life of the loans.

The table below summarize the changes in total contractually required principal and interest cash payments, management's estimate of expected total cash payments and carrying value of PCI loans during the three and nine month periods ended September 30, 2016 and 2015. Contractually required principal and interest payments have been adjusted for estimated prepayments.

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| Three Months Ended September 30, 2016 | June 30, 2016 | Additions | Deletions | Accretion | Reclassifications from nonaccretable difference | September 30, 2016 |
|---|------------------|-----------|-----------|-----------|--|--------------------------|
| | (In thousands) | | | | | |
| Contractually required principal and interest | \$24,576 | \$ 0 | \$ (376) | \$ 0 | \$ 0 | \$ 24,200 |
| Nonaccretable difference | (6,250) | 0 | (711) | 0 | 0 | (6,961) |
| Cash flows expected to be collected | 18,326 | 0 | (1,087) | 0 | 0 | 17,239 |
| Accretable yield | (4,674) | 0 | 113 | 379 | 0 | (4,182) |
| Carrying value of acquired loans | 13,652 | \$ 0 | \$ (974) | \$ 379 | \$ 0 | 13,057 |
| Allowance for loan losses | 0 | | | | | 0 |
| Carrying value less allowance for loan losses | \$13,652 | | | | | \$ 13,057 |

| Nine Months Ended September 30, 2016 | December 31, 2015 | Additions | Deletions | Accretion | Reclassifications from nonaccretable difference | September 30, 2016 |
|---|-------------------------|-----------|-------------|-----------|--|--------------------------|
| | (In thousands) | | | | | |
| Contractually required principal and interest | \$19,966 | \$9,148 | \$ (4,914) | \$ 0 | \$ 0 | \$ 24,200 |
| Nonaccretable difference | (5,247) | (4,109) | 2,395 | 0 | 0 | (6,961) |
| Cash flows expected to be collected | 14,719 | 5,039 | (2,519) | 0 | 0 | 17,239 |
| Accretable yield | (2,610) | (1,831) | (1,158) | 1,417 | 0 | (4,182) |
| Carrying value of acquired loans | 12,109 | \$3,208 | \$ (3,677) | \$ 1,417 | \$ 0 | 13,057 |
| Allowance for loan losses | 0 | | | | | 0 |
| Carrying value less allowance for loan losses | \$12,109 | | | | | \$ 13,057 |

| Three Months Ended September 30, 2015 | June 30, 2015 | Additions | Deletions | Accretion | Reclassifications from nonaccretable difference | September 30, 2015 |
|---|------------------|-----------|-------------|-----------|--|--------------------------|
| | (In thousands) | | | | | |
| Contractually required principal and interest | \$11,564 | \$12,552 | \$ (609) | \$ 0 | \$ 0 | \$ 23,507 |
| Nonaccretable difference | (3,901) | (4,249) | (1,656) | 0 | 152 | (9,654) |
| Cash flows expected to be collected | 7,663 | 8,303 | (2,265) | 0 | 152 | 13,853 |
| Accretable yield | (1,101) | (702) | 610 | 165 | (152) | (1,180) |
| Carrying value of acquired loans | 6,562 | \$7,601 | \$ (1,655) | \$ 165 | \$ 0 | 12,673 |
| Allowance for loan losses | (212) | | | | | (49) |
| Carrying value less allowance for loan losses | \$6,350 | | | | | \$ 12,624 |

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| Nine Months Ended September 30, 2015 | | | | | Reclassifications from | |
|---|---|-----------|-------------|-----------|-----------------------------|--------------------------|
| | December 31, 2014 (In thousands) | Additions | Deletions | Accretion | nonaccretable difference | September 30, 2015 |
| Contractually required principal and interest | \$ 14,831 | \$ 12,552 | \$ (3,876) | \$ 0 | \$ 0 | \$ 23,507 |
| Nonaccretable difference | (5,825) | (4,249) | 7 | 0 | 413 | (9,654) |
| Cash flows expected to be collected | 9,006 | 8,303 | (3,869) | 0 | 413 | 13,853 |
| Accretable yield | (1,192) | (702) | 758 | 369 | (413) | (1,180) |
| Carrying value of acquired loans | 7,814 | \$ 7,601 | \$ (3,111) | \$ 369 | \$ 0 | 12,673 |
| Allowance for loan losses | (64) | | | | | (49) |
| Carrying value less allowance for loan losses | \$ 7,750 | | | | | \$ 12,624 |

The following tables present the contractual delinquency of the recorded investment in past due loans by class of loans as of September 30, 2016 and December 31, 2015:

| September 30, 2016 (Dollars in thousands) | Accruing | Accruing | Accruing | | | Total |
|--|---------------------------|---------------------------|----------------------------|------------------|---------------------|--------------------------|
| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Nonaccrual | Current | Financing Receivables |
| Portfolio Loans | | | | | | |
| Construction and land development | \$ 0 | \$ 0 | \$ 0 | \$ 229 | \$ 129,010 | \$ 129,239 |
| Commercial real estate | 2,270 | 1,257 | 0 | 1,296 | 942,789 | 947,612 |
| Residential real estate | 574 | 361 | 0 | 8,730 | 762,914 | 772,579 |
| Commercial and financial | 399 | 0 | 0 | 137 | 277,529 | 278,065 |
| Consumer | 66 | 0 | 0 | 169 | 144,056 | 144,291 |
| Other | 0 | 0 | 0 | 0 | 489 | 489 |
| Total | 3,309 | 1,618 | 0 | 10,561 | 2,256,787 | \$ 2,272,275 |
| Purchased Unimpaired Loans | | | | | | |
| Construction and land development | \$ 0 | \$ 0 | \$ 0 | \$ 34 | \$ 24,514 | \$ 24,548 |
| Commercial real estate | 148 | 0 | 0 | 2,008 | 332,463 | 334,619 |
| Residential real estate | 0 | 0 | 0 | 1,271 | 58,878 | 60,149 |
| Commercial and financial | 333 | 352 | 0 | 209 | 62,565 | 63,459 |
| Consumer | 0 | 0 | 0 | 0 | 1,231 | 1,231 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 481 | 352 | 0 | 3,522 | 479,651 | \$ 484,006 |
| Purchased Credit Impaired Loans | | | | | | |
| Construction and land development | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 114 | \$ 114 |
| Commercial real estate | 0 | 0 | 0 | 4,354 | 6,927 | 11,281 |
| Residential real estate | 182 | 0 | 0 | 0 | 503 | 685 |
| Commercial and financial | 0 | 0 | 0 | 0 | 977 | 977 |
| Consumer | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 182 | 0 | 0 | 4,354 | 8,521 | \$ 13,057 |
| Total Loans | \$ 3,972 | \$ 1,970 | \$ 0 | \$ 18,437 | \$ 2,744,959 | \$ 2,769,338 |

| December 31, 2015 (Dollars in thousands) | Accruing 30-59 Days Past Due | Accruing 60-89 Days Past Due | Accruing Greater Than 90 Days | Nonaccrual | Current | Total Financing Receivables |
|---|---------------------------------------|---------------------------------------|--|------------------|---------------------|-----------------------------------|
| Portfolio Loans | | | | | | |
| Construction and land development | \$ 665 | \$ 0 | \$ 0 | \$ 269 | \$96,695 | \$97,629 |
| Commercial real estate | 810 | 0 | 0 | 2,301 | 773,764 | 776,875 |
| Residential real estate | 141 | 0 | 0 | 9,941 | 668,049 | 678,131 |
| Commercial and financial | 59 | 0 | 0 | 0 | 187,954 | 188,013 |
| Consumer | 430 | 0 | 0 | 247 | 82,040 | 82,717 |
| Other | 0 | 0 | 0 | 0 | 507 | 507 |
| Total | \$ 2,105 | \$ 0 | \$ 0 | \$ 12,758 | \$ 1,809,009 | \$ 1,823,872 |
| Purchased Unimpaired Loans | | | | | | |
| Construction and land development | \$ 0 | \$ 0 | \$ 0 | \$ 40 | \$11,004 | \$11,044 |
| Commercial real estate | 179 | 0 | 0 | 2,294 | 220,040 | 222,513 |
| Residential real estate | 66 | 0 | 0 | 0 | 44,666 | 44,732 |
| Commercial and financial | 39 | 0 | 0 | 130 | 39,252 | 39,421 |
| Consumer | 39 | 0 | 0 | 0 | 2,600 | 2,639 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | \$ 323 | \$ 0 | \$ 0 | \$ 2,464 | \$ 317,562 | \$ 320,349 |
| Purchased Impaired Loans | | | | | | |
| Construction and land development | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$114 | \$114 |
| Commercial real estate | 132 | 0 | 0 | 1,816 | 8,042 | 9,990 |
| Residential real estate | 0 | 0 | 0 | 348 | 574 | 922 |
| Commercial and financial | 0 | 0 | 0 | 0 | 1,083 | 1,083 |
| Consumer | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | \$ 132 | \$ 0 | \$ 0 | \$ 2,164 | \$ 9,813 | \$ 12,109 |
| Total Loans | \$ 2,560 | \$ 0 | \$ 0 | \$ 17,386 | \$ 2,136,384 | \$ 2,156,330 |

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company's risk rating system, the Company classifies problem and potential problem loans as "Special Mention," "Substandard," and "Doubtful" and these loans are monitored on an ongoing basis. Substandard loans include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful, have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The principal balance of loans classified as doubtful are generally charged off. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve management's close attention are deemed to be Special Mention. Risk ratings are updated any time the situation warrants.

Loans not meeting the criteria above are considered to be pass-rated loans and risk grades are recalculated at least annually by the loan relationship manager. The following tables present the risk category of loans by class of loans based on the most recent analysis performed as of September 30, 2016 and December 31, 2015:

September 30, 2016

| (Dollars in thousands) | Construction | | Residential Real Estate | Commercial and Consumer | | Total |
|---------------------------------|-----------------------|---------------------------|----------------------------|-------------------------------|------------|--------------|
| | & Land Development | Commercial Real Estate | | Financial | Loans | |
| Pass | \$ 141,629 | \$ 1,257,999 | \$ 805,997 | \$ 336,238 | \$ 144,253 | \$ 2,686,116 |
| Special mention | 5,893 | 8,335 | 1,762 | 3,824 | 1,129 | 20,943 |
| Substandard | 5,550 | 13,429 | 3,398 | 2,093 | 100 | 24,570 |
| Doubtful | 0 | 0 | 0 | 0 | 0 | 0 |
| Nonaccrual | 263 | 7,658 | 10,001 | 346 | 169 | 18,437 |
| Pass-Troubled debt restructures | 47 | 5,031 | 363 | 0 | 44 | 5,485 |
| Troubled debt restructures | 519 | 1,060 | 11,892 | 0 | 316 | 13,787 |
| | \$ 153,901 | \$ 1,293,512 | \$ 833,413 | \$ 342,501 | \$ 146,011 | \$ 2,769,338 |

December 31, 2015

| (Dollars in thousands) | Construction | | Residential Real Estate | Commercial and Consumer | | Total |
|---------------------------------|-----------------------|---------------------------|----------------------------|-------------------------------|-----------|--------------|
| | & Land Development | Commercial Real Estate | | Financial | Loans | |
| Pass | \$ 100,186 | \$ 973,942 | \$ 697,907 | \$ 226,391 | \$ 83,786 | \$ 2,082,212 |
| Special mention | 3,377 | 12,599 | 629 | 1,209 | 1,392 | 19,206 |
| Substandard | 4,242 | 9,278 | 3,197 | 769 | 70 | 17,556 |
| Doubtful | 0 | 0 | 0 | 0 | 0 | 0 |
| Nonaccrual | 309 | 6,410 | 10,290 | 130 | 247 | 17,386 |
| Pass-Troubled debt restructures | 58 | 5,893 | 0 | 18 | 0 | 5,969 |
| Troubled debt restructures | 615 | 1,256 | 11,762 | 0 | 368 | 14,001 |
| | \$ 108,787 | \$ 1,009,378 | \$ 723,785 | \$ 228,517 | \$ 85,863 | \$ 2,156,330 |

NOTE F — IMPAIRED LOANS AND ALLOWANCE FOR LOAN LOSSES

During the nine months ending September 30, 2016 and 2015, the total of newly identified Troubled Debt Restructurings (“TDRs”) totaled \$1.7 million and \$2.0 million, respectively.

The Company’s TDR concessions granted generally do not include forgiveness of principal balances. 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. When a loan is modified as a TDR, there is not a direct, material impact on the loans within the consolidated balance sheet, as principal balances are generally not forgiven. Most loans prior to modification were classified as an impaired loan and the allowance for loan losses is determined in accordance with Company policy.

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The following table presents loans that were modified within the nine months ending September 30, 2016:

| | Number of Contracts | Pre- Modification Outstanding Recorded Investment | Post- Modification Outstanding Recorded Investment | Specific Reserve Recorded | Valuation Allowance Recorded |
|-------------------------|---------------------------|---|--|---------------------------------|------------------------------------|
| (Dollars in thousands) | | | | | |
| Residential real estate | 6 | \$ 1,660 | \$ 1,489 | \$ 0 | \$ 171 |
| | 6 | \$ 1,660 | \$ 1,489 | \$ 0 | \$ 171 |

The following table presents loans that were modified within the nine months ending September 30, 2015:

| | Number of Contracts | Pre- Modification Outstanding Recorded Investment | Post- Modification Outstanding Recorded Investment | Specific Reserve Recorded | Valuation Allowance Recorded |
|-------------------------|---------------------------|---|--|---------------------------------|------------------------------------|
| (Dollars in thousands) | | | | | |
| Residential real estate | 1 | \$ 26 | \$ 25 | \$ 0 | \$ 1 |
| Commercial real estate | 3 | 1,881 | 1,787 | 0 | 94 |
| Consumer | 4 | 48 | 45 | 0 | 3 |
| | 8 | \$ 1,955 | \$ 1,857 | \$ 0 | \$ 98 |

No accruing loans that were restructured within the twelve months preceding September 30, 2016 defaulted during the nine months ended September 30, 2016, and no loans restructured within the twelve months preceding September 30, 2015 defaulted during the twelve months ended September 30, 2015. The Company considers a loan to have defaulted when it becomes 90 days or more delinquent under the modified terms, has been transferred to nonaccrual status, or has been transferred to other real estate owned. A defaulted TDR is generally placed on nonaccrual and specific allowance for loan loss is assigned in accordance with the Company's policy.

As of September 30, 2016 and December 31, 2015, the Company's recorded investment in impaired loans and the related valuation allowance were as follows:

| | September 30, 2016 | | |
|--|---------------------|--------------------------|-----------------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Valuation Allowance |
| (Dollars in thousands) | | | |
| Impaired Loans with No Related Allowance Recorded: | | | |
| Construction and land development | \$211 | \$297 | \$ 0 |
| Commercial real estate | 1,421 | 2,889 | 0 |
| Residential real estate | 9,258 | 13,609 | 0 |
| Commercial and financial | 19 | 19 | 0 |
| Consumer | 136 | 229 | 0 |
| Impaired Loans with an Allowance Recorded: | | | |
| Construction and land development | 585 | 595 | 42 |
| Commercial real estate | 5,966 | 5,966 | 346 |
| Residential real estate | 11,727 | 12,025 | 1,608 |
| Commercial and financial | 0 | 0 | 0 |
| Consumer | 392 | 392 | 49 |
| Total: | | | |

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| | | | |
|-----------------------------------|----------|----------|----------|
| Construction and land development | 796 | 892 | 42 |
| Commercial real estate | 7,387 | 8,855 | 346 |
| Residential real estate | 20,985 | 25,634 | 1,608 |
| Commercial and financial | 19 | 19 | 0 |
| Consumer | 528 | 621 | 49 |
| | \$29,715 | \$36,021 | \$ 2,045 |

| (Dollars in thousands) | December 31, 2015 | | |
|--|---------------------|--------------------------|-----------------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Valuation Allowance |
| Impaired Loans with No Related Allowance Recorded: | | | |
| Construction and land development | \$ 107 | \$ 255 | \$ 0 |
| Commercial real estate | 2,363 | 3,911 | 0 |
| Residential real estate | 9,256 | 13,707 | 0 |
| Commercial and financial | 17 | 17 | 0 |
| Consumer | 264 | 349 | 0 |
| Impaired Loans with an Allowance Recorded: | | | |
| Construction and land development | 835 | 870 | 84 |
| Commercial real estate | 7,087 | 7,087 | 429 |
| Residential real estate | 12,447 | 12,803 | 1,964 |
| Commercial and financial | 0 | 0 | 0 |
| Consumer | 351 | 351 | 40 |
| Total: | | | |
| Construction and land development | 942 | 1,125 | 84 |
| Commercial real estate | 9,450 | 10,998 | 429 |
| Residential real estate | 21,703 | 26,510 | 1,964 |
| Commercial and financial | 17 | 17 | 0 |
| Consumer | 615 | 700 | 40 |
| | \$32,727 | \$39,350 | \$ 2,517 |

For the three months ended September 30, 2016 and 2015, the Company's average recorded investments in impaired loans and related interest income were as follows:

| | Three Months Ended September 30, 2016 | | Three Months Ended September 30, 2015 | |
|--|--|------------------------|--|------------------------|
| | Average Recorded Investment | Interest Recognized | Average Recorded Investment | Interest Recognized |
| (Dollars in thousands) | | | | |
| Impaired Loans with No Related Allowance Recorded: | | | | |
| Construction & land development | \$208 | \$ 3 | \$1,216 | \$ 2 |
| Commercial real estate | 1,437 | 31 | 3,138 | 7 |
| Residential real estate | 9,346 | 138 | 9,700 | 35 |
| Commercial and financial | 16 | 0 | 83 | 0 |
| Consumer | 157 | 3 | 152 | 0 |
| Impaired Loans with an Allowance Recorded: | | | | |
| Construction & land development | 609 | 7 | 1,070 | 23 |
| Commercial real estate | 6,565 | 64 | 6,638 | 78 |
| Residential real estate | 12,038 | 102 | 14,762 | 89 |
| Commercial and financial | 0 | 0 | 0 | 0 |
| Consumer | 383 | 4 | 490 | 7 |
| Total: | | | | |
| Construction & land development | 817 | 10 | 2,286 | 25 |
| Commercial real estate | 8,002 | 95 | 9,776 | 85 |
| Residential real estate | 21,384 | 240 | 24,462 | 124 |
| Commercial and financial | 16 | 0 | 83 | 0 |
| Consumer | 540 | 7 | 642 | 7 |
| | \$30,759 | \$ 352 | \$37,249 | \$ 241 |

For the nine months ended September 30, 2016 and 2015, the Company's average recorded investments in impaired loans and related interest income were as follows:

| | Nine Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|--|---|------------------------|---|------------------------|
| | Average Recorded Investment | Interest Recognized | Average Recorded Investment | Interest Recognized |
| (Dollars in thousands) | | | | |
| Impaired Loans with No Related Allowance Recorded: | | | | |
| Construction & land development | \$188 | \$ 11 | \$1,632 | \$ 7 |
| Commercial real estate | 1,854 | 97 | 3,012 | 13 |

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| | | | | |
|--|----------|----------|----------|--------|
| Residential real estate | 9,444 | 406 | 10,745 | 103 |
| Commercial and financial | 16 | 0 | 106 | 1 |
| Consumer | 193 | 10 | 126 | 0 |
| Impaired Loans with an Allowance Recorded: | | | | |
| Construction & land development | 671 | 20 | 912 | 39 |
| Commercial real estate | 6,835 | 193 | 7,312 | 223 |
| Residential real estate | 12,098 | 322 | 15,658 | 270 |
| Commercial and financial | 0 | 0 | 0 | 0 |
| Consumer | 363 | 14 | 507 | 17 |
| Total: | | | | |
| Construction & land development | 859 | 31 | 2,544 | 46 |
| Commercial real estate | 8,689 | 290 | 10,324 | 236 |
| Residential real estate | 21,542 | 728 | 26,403 | 373 |
| Commercial and financial | 16 | 0 | 106 | 1 |
| Consumer | 556 | 24 | 633 | 17 |
| | \$31,662 | \$ 1,073 | \$40,010 | \$ 673 |

Impaired loans also include loans that have been modified in troubled debt restructurings where concessions to borrowers who experienced financial difficulties have been granted. At September 30, 2016 and at December 31, 2015, accruing TDRs totaled \$19.3 million and \$20.0 million, respectively.

The impaired loans are measured for impairment based on the value of underlying collateral or the present value of expected future cash flows discounted at the loan's effective rate. The valuation allowance is included in the allowance for loan losses.

Interest payments received on impaired loans are recorded as interest income unless collection of the remaining recorded investment is doubtful at which time payments received are recorded as reductions to principal.

Nonaccrual loans and accruing loans past due 90 days or more (excluding purchased loans) totaled \$10.6 million and \$0, respectively, at September 30, 2016, and \$12.8 million and \$0 at December 31, 2015, respectively. Purchased nonaccrual and accruing loans past due 90 days or more were \$7.9 million and \$0 at September 30, 2016, and \$4.6 million and \$0 at December 31, 2015.

Activity in the allowance for loan losses (excluding PCI loans) for the three-month period ended and nine-month period ended September 30, 2016 is summarized as follows:

Allowance for Loan Losses for the Three Months Ended September 30, 2016

| (Dollars in thousands) | Provision | | | | Net Recoveries | Ending Balance |
|---------------------------------|-------------------|-----------------|-------------|------------|----------------|----------------|
| | Beginning Balance | for Loan Losses | Charge-Offs | Recoveries | | |
| Construction & land development | \$1,160 | \$ 48 | \$ 0 | \$ 25 | \$ 25 | \$1,233 |
| Commercial real estate | 7,192 | 1,450 | (78) | 169 | 91 | 8,733 |
| Residential real estate | 8,299 | (662) | 0 | 272 | 272 | 7,909 |
| Commercial and financial | 2,591 | (550) | (283) | 1,278 | 995 | 3,036 |
| Consumer | 1,483 | 264 | (18) | 44 | 26 | 1,773 |
| | \$20,725 | \$ 550 | \$ (379) | \$ 1,788 | \$ 1,409 | \$22,684 |

Allowance for Loan Losses for the Nine Months Ended September 30, 2016

| (Dollars in thousands) | Provision | | | Net Recoveries | Net (Charge-Offs) | Ending Balance |
|---------------------------------|-------------------|-----------------|-------------|----------------|-------------------|----------------|
| | Beginning Balance | for Loan Losses | Charge-Offs | | | |
| Construction & land development | \$1,151 | \$ (132) | \$ 0 | \$ 214 | \$ 214 | \$1,233 |

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| | | | | | | |
|--------------------------|----------|----------|-----------|----------|----------|----------|
| Commercial real estate | 6,756 | 1,960 | (254) | 271 | 17 | 8,733 |
| Residential real estate | 8,057 | (672) | (145) | 669 | 524 | 7,909 |
| Commercial and financial | 2,042 | (403) | (376) | 1,773 | 1,397 | 3,036 |
| Consumer | 1,122 | 658 | (98) | 91 | (7) | 1,773 |
| | \$19,128 | \$ 1,411 | \$ (873) | \$ 3,018 | \$ 2,145 | \$22,684 |

Activity in the allowance for loan losses (excluding PCI loans) for the three-month period and nine-month period ended September 30, 2015 is summarized as follows:

| Allowance for Loan Losses for the Three Months Ended September 30, 2015 | | | | | | |
|---|---------------------------|----------|-------------|------------|--------------------------|----------------|
| (Dollars in thousands) | Provision | | | | Net | |
| | Beginningfor Loan Balance | Losses | Charge-Offs | Recoveries | (Charge-Offs) Recoveries | Ending Balance |
| Construction & land development | \$887 | \$ 891 | \$(859) | \$ 109 | \$ (750) | \$1,028 |
| Commercial real estate | 5,278 | 925 | (128) | 315 | 187 | 6,390 |
| Residential real estate | 9,686 | (686) | (193) | 359 | 166 | 9,166 |
| Commercial and financial | 945 | 193 | (160) | 107 | (53) | 1,085 |
| Consumer | 1,783 | (173) | (22) | 22 | 0 | 1,610 |
| | \$18,579 | \$ 1,150 | \$(1,362) | \$ 912 | \$ (450) | \$19,279 |

| Allowance for Loan Losses for the Nine Months Ended September 30, 2015 | | | | | | |
|--|---------------------------|----------|-------------|------------|--------------------------|----------------|
| (Dollars in thousands) | Provision | | | | Net | |
| | Beginningfor Loan Balance | Losses | Charge-Offs | Recoveries | (Charge-Offs) Recoveries | Ending Balance |
| Construction & land development | \$722 | \$ 910 | \$(925) | \$ 321 | \$ (604) | \$1,028 |
| Commercial real estate | 4,528 | 1,690 | (430) | 602 | 172 | 6,390 |
| Residential real estate | 9,784 | (1,235) | (515) | 1,132 | 617 | 9,166 |
| Commercial and financial | 1,179 | (245) | (284) | 435 | 151 | 1,085 |
| Consumer | 794 | 1,020 | (276) | 72 | (204) | 1,610 |
| | \$17,007 | \$ 2,140 | \$(2,430) | \$ 2,562 | \$ 132 | \$19,279 |

The allowance for loan losses is composed of specific allowances for certain impaired loans and general allowances grouped into loan pools based on similar characteristics. The Company's loan portfolio (excluding PCI loans) and related allowance at September 30, 2016 and December 31, 2015 is shown in the following tables:

| At September 30, 2016 | | | | | | |
|---------------------------------|---------------------------------------|----------------------|---------------------------------------|----------------------|----------------|----------------------|
| (Dollars in thousands) | Individually Evaluated for Impairment | | Collectively Evaluated for Impairment | | Total | |
| | Carrying Value | Associated Allowance | Carrying Value | Associated Allowance | Carrying Value | Associated Allowance |
| Construction & land development | \$796 | \$ 42 | \$152,991 | \$ 1,191 | \$153,787 | \$ 1,233 |
| Commercial real estate | 7,387 | 346 | 1,274,844 | 8,387 | 1,282,231 | 8,733 |
| Residential real estate | 20,985 | 1,608 | 811,743 | 6,301 | 832,728 | 7,909 |
| Commercial and financial | 19 | 0 | 341,505 | 3,036 | 341,524 | 3,036 |
| Consumer | 528 | 49 | 145,483 | 1,724 | 146,011 | 1,773 |

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\$29,715 \$ 2,045 \$2,726,566 \$ 20,639 \$2,756,281 \$ 22,684

At December 31, 2015

| | Individually Evaluated for Impairment | | Collectively Evaluated for Impairment | | Total | |
|---------------------------------|---|-------------------------|---|-------------------------|-------------------|-------------------------|
| | Carrying Value | Associated Allowance | Carrying Value | Associated Allowance | Carrying Value | Associated Allowance |
| (Dollars in thousands) | | | | | | |
| Construction & land development | \$942 | \$ 84 | \$107,731 | \$ 1,067 | \$108,673 | \$ 1,151 |
| Commercial real estate | 9,450 | 429 | 989,938 | 6,327 | 999,388 | 6,756 |
| Residential real estate | 21,703 | 1,964 | 701,160 | 6,093 | 722,863 | 8,057 |
| Commercial and financial | 17 | 0 | 227,417 | 2,042 | 227,434 | 2,042 |
| Consumer | 615 | 40 | 85,248 | 1,082 | 85,863 | 1,122 |
| | \$32,727 | \$ 2,517 | \$2,111,494 | \$ 16,611 | \$2,144,221 | \$ 19,128 |

Loans collectively evaluated for impairment at December 31, 2015 included loans acquired from BANKshares on October 1, 2014 and Grand Bankshares on July 17, 2015 that are not PCI loans, and loans at September 30, 2016 included loans acquired from Floridian and BMO Harris as well that are not PCI loans. These loans are performing loans recorded at estimated fair value at the acquisition date. The fair value adjustment represents the total fair value discount of each PUL, is accreted into interest income over the remaining lives of the related loans on a level yield basis, and remained adequate at September 30, 2016.

The table below summarizes PCI loans that were individually evaluated for impairment based on expected cash flows at September 30, 2016 and December 31, 2015:

| | PCI Loans Individually Evaluated for Impairment | | | |
|---------------------------------|---|----------------------|-------------------|----------------------|
| | September 30, 2016 | | December 31, 2015 | |
| (Dollars in thousands) | Carrying Value | Associated Allowance | Carrying Value | Associated Allowance |
| Construction & land development | \$ 114 | \$ 0 | \$ 114 | \$ 0 |
| Commercial real estate | 11,281 | 0 | 9,990 | 0 |
| Residential real estate | 685 | 0 | 922 | 0 |
| Commercial and financial | 977 | 0 | 1,083 | 0 |
| Consumer | 0 | 0 | 0 | 0 |
| | \$ 13,057 | \$ 0 | \$ 12,109 | \$ 0 |

NOTE G — SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are accounted for as secured borrowings. For securities sold under agreements to repurchase, the Company would be obligated to provide additional collateral in the event of a significant decline in fair value of collateral pledged. At September 30, 2016 and December 31, 2015, Company securities pledged were as follows by collateral type and maturity:

| (Dollars in thousands) | Overnight and Continuous Maturity | |
|--|-----------------------------------|-------------------|
| Fair Value | September 30, 2016 | December 31, 2015 |
| Mortgage backed securities and collateralized mortgage obligations of U.S. Government Sponsored Entities | \$ 167,693 | \$ 172,005 |

NOTE H – NONINTEREST INCOME AND EXPENSE

Details of noninterest income and expense follow:

| (Dollars in thousands) | Three Months Ended September 30, | | Nine months ended September 30, | |
|-------------------------------------|--|----------------|---------------------------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Noninterest income | | | | |
| Service charges on deposit accounts | \$2,698 | \$2,217 | \$7,057 | \$6,334 |
| Trust fees | 820 | 781 | 2,464 | 2,341 |
| Mortgage banking fees | 1,885 | 1,177 | 4,248 | 3,297 |
| Brokerage commissions and fees | 463 | 604 | 1,564 | 1,621 |
| Marine finance fees | 138 | 258 | 558 | 947 |
| Interchange income | 2,306 | 1,925 | 6,893 | 5,695 |
| Other deposit based EFT fees | 109 | 88 | 352 | 298 |
| BOLI income | 382 | 366 | 1,602 | 1,030 |
| Gain on participated income | 0 | 0 | 0 | 725 |
| Other | 963 | 666 | 2,767 | 1,948 |
| | 9,764 | 8,082 | 27,505 | 24,236 |
| Securities gains, net | 225 | 160 | 361 | 160 |
| TOTAL NONINTEREST INCOME | \$9,989 | \$8,242 | \$27,866 | \$24,396 |

| (Dollars in thousands) | Three Months Ended | | Nine months ended | |
|--|-----------------------|-----------------|-----------------------|-----------------|
| | September 30, 2016 | 2015 | September 30, 2016 | 2015 |
| Noninterest expense | | | | |
| Salaries and wages | \$14,337 | \$11,850 | \$41,620 | \$29,940 |
| Employee benefits | 2,425 | 2,430 | 7,428 | 7,386 |
| Outsourced data processing costs | 3,198 | 3,277 | 10,440 | 7,695 |
| Telephone / data lines | 539 | 446 | 1,606 | 1,385 |
| Occupancy | 3,675 | 2,396 | 10,292 | 6,430 |
| Furniture and equipment | 1,228 | 883 | 3,509 | 2,434 |
| Marketing | 780 | 1,099 | 2,786 | 3,300 |
| Legal and professional fees | 2,213 | 2,189 | 7,226 | 5,442 |
| FDIC assessments | 517 | 552 | 1,704 | 1,661 |
| Amortization of intangibles | 728 | 397 | 1,767 | 1,027 |
| Asset dispositions expense | 219 | 77 | 469 | 393 |
| Net loss on other real estate owned and repossessed assets | (96) | 262 | (348) | 396 |
| Early redemption cost for FHLB advances | 0 | 0 | 1,777 | 0 |
| Other | 3,672 | 3,269 | 10,308 | 9,112 |
| TOTAL NONINTEREST EXPENSE | \$33,435 | \$29,127 | \$100,584 | \$76,601 |

NOTE I — EQUITY CAPITAL

The Company is well capitalized and at September 30, 2016, the Company and the Company's principal banking subsidiary, Seacoast National Bank, or "Seacoast Bank", met the common equity Tier 1 capital ratio (CET1) regulatory threshold of 6.5% for well-capitalized institutions under the Basel III standardized transition approach, as well as risk-based and leverage ratio requirements for well capitalized banks under the regulatory framework for prompt corrective action.

NOTE J — CONTINGENCIES

The Company and its subsidiaries, because of the nature of their businesses, are at all times subject to numerous legal actions, threatened or filed. Management presently believes that none of the legal proceedings to which it is a party are likely to have a materially adverse effect on the Company's consolidated financial condition, operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

NOTE K — FAIR VALUE

Under ASC 820, fair value measurements for items measured at fair value on a recurring and nonrecurring basis at September 30, 2016 and December 31, 2015 included:

| (Dollars in thousands) | Fair Value Measurements | Quoted | Significant | |
|-----------------------------------|-------------------------|---|-----------------------------------|---|
| | | Prices in Active Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| At September 30, 2016: | | | | |
| Available for sale securities (1) | \$ 866,613 | \$ 100 | \$ 866,513 | \$ 0 |
| Loans held for sale (2) | 20,143 | 0 | 20,143 | 0 |
| Loans (3) | 4,704 | 0 | 3,805 | 899 |
| Other real estate owned (4) | 12,734 | 0 | 662 | 12,072 |
| At December 31, 2015: | | | | |
| Available for sale securities (1) | \$ 790,766 | \$ 225 | \$ 790,541 | \$ 0 |
| Loans held for sale (2) | 23,998 | 0 | 23,998 | 0 |
| Loans (3) | 7,511 | 0 | 6,052 | 1,459 |
| Other real estate owned (4) | 7,039 | 0 | 598 | 6,441 |

(1) See Note D for further detail of fair value of individual investment categories.

(2) Recurring fair value basis determined using observable market data.

See Note F. Nonrecurring fair value adjustments to loans identified as impaired reflect full or partial write-downs (3) that are based on the loan's observable market price or current appraised value of the collateral in accordance with ASC 310.

(4) Fair value is measured on a nonrecurring basis in accordance with ASC 360.

The fair value of impaired real estate loans which are collateral dependent is based on recent real estate appraisals less estimated costs of sale. For residential real estate impaired loans, appraised values or internal evaluation are based on the comparative sales approach. These impaired loans are considered level 2 in the fair value hierarchy. For commercial and commercial real estate impaired loans, evaluations may use either a single valuation approach or a combination of approaches, such as comparative sales, cost and/or income approach. A significant unobservable input in the income approach is the estimated capitalization rate for a given piece of collateral. At September 30, 2016 the range of capitalization rates utilized to determine fair value of the underlying collateral averaged approximately 7.9%. Adjustments to comparable sales may be made by an appraiser to reflect local market conditions or other economic factors and may result in changes in the fair value of an asset over time. As such, the fair value of these impaired loans is considered level 3 in the fair value hierarchy. Impaired loans measured at fair value total \$4.7 million with a specific reserve of \$2.5 million at September 30, 2016, compared to \$7.5 million with a specific reserve of \$2.9 million at December 31, 2015.

Fair value of available for sale securities are determined using valuation techniques for individual investments as described in Note D.

When appraisals are used to determine fair value and the appraisals are based on a market approach, the fair value of other real estate owned (“OREO”) is classified as a level 2 input. When the fair value of OREO is based on appraisals which require significant adjustments to market-based valuation inputs or apply an income approach based on unobservable cash flows, the fair value of OREO is classified as Level 3.

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company's monthly and/or quarter-end valuation process.

During the first nine months ended September 30, 2016, there were no transfers between level 1 and level 2 assets carried at fair value.

For loans classified as level 3 the transfers in totaled \$0.3 million for the first nine months of 2016, consisting of loans that became impaired during 2016. Transfers out consisted of charge-offs of \$0.1 million, and loan foreclosures migrating to OREO and other reductions (including principal payments) totaling \$0.7 million.

Charge-offs recognized upon loan foreclosures are generally offset by general or specific allocations of the allowance for loan losses and generally do not, and did not during the reported periods, significantly impact the Company's provision for loan losses.

For OREO classified as level 3 during the first nine months of 2016, foreclosed loans transferred in totaled \$2.9 million and migrated bank branches taken out of service totaled \$7.7 million. Transfers out summed to \$4.9 million, consisting entirely of sales.

The carrying amount and fair value of the Company's other significant financial instruments that are not measured at fair value on a recurring basis in the balance sheet as of September 30, 2016 and December 31, 2015 is as follows:

| (Dollars in thousands) | Carrying Amount | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant | |
|---------------------------------|--------------------|---|--|--|
| | | | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| At September 30, 2016: | | | | |
| Financial Assets | | | | |
| Securities held to maturity (1) | \$392,138 | \$ 0 | \$ 397,264 | \$ 0 |
| Loans, net | 2,741,950 | 0 | 0 | 2,743,652 |

| | | | | |
|-----------------------|-----------|---|--------|-----------|
| Financial Liabilities | | | | |
| Deposit liabilities | 3,510,493 | 0 | 0 | 3,512,632 |
| Subordinated debt | 70,171 | 0 | 52,785 | 0 |

At December 31, 2015:

| | | | | |
|-------------------------------------|-----------|------|------------|-----------|
| Financial Assets | | | | |
| Securities held to maturity (1) | \$203,525 | \$ 0 | \$ 202,813 | \$ 0 |
| Loans, net | 2,129,691 | 0 | 0 | 2,147,024 |
| Financial Liabilities | | | | |
| Deposit liabilities | 2,844,387 | 0 | 0 | 2,843,800 |
| FHLB advances, maturing in 2017 (2) | 50,000 | 0 | 51,788 | 0 |
| Subordinated debt | 69,961 | 0 | 52,785 | 0 |

(1) See Note D for further detail of fair value of individual investment categories.

(2) Redemption in April 2016 and no longer outstanding

The short maturity of Seacoast's assets and liabilities results in having a significant number of financial instruments whose fair value equals or closely approximates carrying value. Such financial instruments are reported in the following balance sheet captions: cash and cash equivalents, interest bearing deposits with other banks, federal funds purchased and securities sold under agreement to repurchase, maturing within 30 days.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value at September 30, 2016 and December 31, 2015:

Securities: U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities are reported at fair value utilizing Level 2 inputs. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

The Company reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, the Company does not purchase investment portfolio securities that are esoteric or that have a complicated structure. The Company's portfolio consists of traditional investments, nearly all of which are U.S. Treasury obligations, federal agency bullet or mortgage pass-through securities, or general obligation or revenue based municipal bonds. Pricing for such instruments is fairly generic and is easily obtained. The fair value of collateralized loan obligations are determined from broker quotes. From time to time, the Company will validate, on a sample basis, prices supplied by the independent pricing service by comparison to prices obtained from other brokers and third-party sources or derived using internal models.

Loans: Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, mortgage, etc. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories. The fair value of loans, except residential mortgages, is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risks inherent in the loan. For residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusting for prepayment assumptions using discount rates based on secondary market sources. The estimated fair value is not an exit price fair value under ASC 820 when this valuation technique is used.

Loans held for sale: Fair values are based upon estimated values to be received from independent third party purchasers. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with Company's policy on loans held for investment. None of the loans are 90 days or more past due or on nonaccrual as of September 30, 2016 and December 31, 2015.

At September 30, 2016 and December 31, 2015, the aggregate fair value, contractual balance (including accrued interest) and gains or losses was as follows:

| | September 30, 2016 | December 31, 2015 |
|------------------------|--------------------------|-------------------------|
| (Dollars in thousands) | | |
| Aggregate fair value | \$ 20,143 | \$ 23,998 |
| Contractual balance | 19,604 | 23,384 |
| Gains (losses) | 539 | 614 |

Deposit Liabilities: The fair value of demand deposits, savings accounts and money market deposits is the amount payable at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for funding of similar remaining maturities.

Borrowings: The fair value of floating rate borrowings is the amount payable on demand at the reporting date. The fair value of fixed rate borrowings is estimated using the rates currently offered for borrowings of similar remaining maturities.

Subordinated debt: The fair value of the floating rate subordinated debt was based on independent third party analysis, that included discounted cash flow analysis, assessments of the Company's current incremental borrowing rate for similar instruments, and market quotes for similar debt.

NOTE L — BUSINESS COMBINATIONS

Acquisition of Grand Bankshares, Inc.

On July 17, 2015, the Company completed its acquisition of Grand Bankshares, Inc. ("Grand") whereby Grand was merged with and into the Company. Grand's subsidiary bank, Grand Bank & Trust of Florida ("GB") was simultaneously merged with and into Seacoast National Bank. The Company acquired 100% of the outstanding common and preferred stock of Grand. The total purchase price was \$18.7 million.

With the acquisition, the Company further solidified its market share in the attractive Palm Beach market, expanding its customer base and leveraging operating costs through economies of scale, enhancing its fee income and positively affecting its net interest income operating results. The acquisition contributed \$188.4 million in total deposits and \$111.3 million in total loans to our balance sheet.

The acquisition of Grand constitutes a business combination and was accounted for under ASC Topic 805, Business Combinations. Accordingly, the assets acquired and liabilities assumed are presented at their fair values. The determination of fair value requires management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change, and in some instances rely on use of third party experts. These fair value estimates are final and are no longer subject to change as the one year period post-closing of the acquisition date when measurement period adjustments were allowed has expired.

No goodwill was recognized for this whole bank acquisition that resulted in a bargain purchase gain of \$416,000 recorded to income in the fourth quarter of 2015 due to a measurement period adjustment. In addition, a \$2.6 million core deposit intangible (“CDI”) was recorded.

Acquisition of Floridian Financial Group, Inc.

On March 11, 2016, the Company completed its acquisition of Floridian Financial Group, Inc. (“Floridian”), the parent company of Floridian Bank. Simultaneously, upon completion of the merger, Floridian’s wholly owned subsidiary bank, Floridian Bank, was merged with and into Seacoast National Bank. Floridian, headquartered in Lake Mary, Florida, operated 10 branches in Orlando and Daytona Beach, of which several will consolidate with Seacoast locations. This acquisition added approximately \$417 million in total assets, \$337 million in deposits, and \$267 million in loans to Seacoast. As a result of this acquisition the Company expects to further solidify its market share in the Central Florida market, expand its customer base and leverage operating cost through economies of scale, and positively affect the Company’s operating results to the extent the Company earns more from interest earning assets than it pays in interest on its interest bearing liabilities.

The Company acquired 100% of the outstanding common stock of Floridian. Under the terms of the definitive agreement, Floridian shareholders received, at their election, (i) the combination of \$4.29 in cash and 0.5291 shares of Seacoast common stock, (ii) \$12.25 in cash, or (iii) 0.8140 shares of Seacoast common stock, subject to a customary proration mechanism so that the aggregate consideration mix equals 35% cash and 65% Seacoast shares (based on Seacoast’s closing price of \$15.47 per share on March 11, 2016).

This transaction closed on March 11, 2016.

| | |
|---|-------------------|
| | March 11, 2016 |
| Shares exchanged for cash | \$26,699,000 |
| Number of Floridian Financial Group, Inc. common shares outstanding | 6,222,119 |
| Per share exchange ratio | 0.5289 |
| Number of shares of common stock issued | 3,291,066 |
| Multiplied by common stock price per share on March 11, 2016 | \$15.47 |
| Value of common stock issued | 50,912,791 |
| Total purchase price | \$77,611,791 |

The fair values listed are preliminary and are subject to adjustment. The acquisition is accounted for under the acquisition method in accordance with ASC Topic 805, *Business Combinations*. The fair values initially assigned to assets acquired and liabilities assumed are preliminary and could change for up to one year after the closing date of the acquisition as new information and circumstances relative to closing date fair values are known. Determining fair values of assets and liabilities, especially the loan portfolio and foreclosed real estate, is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values.

| Date of acquisition | Initial Report March 11, 2016 | Measurement | |
|--------------------------|-------------------------------------|-----------------------|-------------------------------------|
| | | Period Adjustments | As Adjusted March 11, 2016 |
| | | (in thousands) | |
| Assets: | | | |
| Cash | \$28,243 | \$0 | \$28,243 |
| Investment securities | 66,912 | 95 | 67,007 |
| Loans, net | 268,249 | (2,112) | 266,137 |
| Fixed assets | 7,801 | (628) | 7,173 |
| Core deposit intangibles | 3,375 | 0 | 3,375 |
| Goodwill | 29,985 | 1,647 | 31,632 |
| Other assets | 12,879 | 998 | 13,877 |
| | \$417,444 | \$0 | \$417,444 |
| Liabilities: | | | |
| Deposits | \$337,341 | \$0 | \$337,341 |
| Other liabilities | 2,492 | 0 | 2,492 |
| | \$339,833 | \$0 | \$339,833 |

The table below presents information with respect to the fair value of acquired loans, as well as their unpaid principal balance (“Book Balance”) at acquisition date.

| (Dollars in thousands) | March 11, 2016 | |
|---------------------------------------|-----------------|---------------|
| | Book Balance | Fair Value |
| Loans: | | |
| Single family residential real estate | \$38,304 | \$37,367 |
| Commercial real estate | 172,531 | 167,105 |
| Construction/development/land | 20,546 | 18,108 |
| Commercial loans | 39,070 | 37,804 |
| Consumer and other loans | 3,385 | 3,110 |
| Purchased credit-impaired | 6,186 | 2,643 |
| Total acquired loans | \$280,022 | \$266,137 |

For the loans acquired we first segregated all acquired loans with specifically identified credit deficiency factor(s). The factors we considered to identify loans as Purchase Credit Impaired (“PCI”) loans were all acquired loans that were nonaccrual, 60 days or more past due, designated as Trouble Debt Restructured (“TDR”), graded “special mention” or “substandard.” These loans were then evaluated to determine estimated fair values as of the acquisition date. As required by generally accepted accounting principles, we are accounting for these loans pursuant to ASC Topic 310-30. The

table below summarizes the total contractually required principal and interest cash payments, management's estimate of expected total cash payments and fair value of the loans as of March 11, 2016 for purchased credit impaired loans. Contractually required principal and interest payments have been adjusted for estimated prepayments.

| | |
|---|----------------------|
| (Dollars in thousands) | March 11, 2016 |
| Contractually required principal and interest | \$8,031 |
| Non-accretable difference | (4,820) |
| Cash flows expected to be collected | 3,211 |
| Accretable yield | (568) |
| Total purchased credit-impaired loan acquired | \$2,643 |

Second, loans without specifically identified credit deficiency factors are referred to as Purchased Unimpaired Loans (“PULs”) for disclosure purposes. These loans were then evaluated to determine estimated fair values as of the acquisition date. Although no specific credit deficiencies were identifiable, we believe there is an element of risk as to whether all contractual cash flows will be eventually received. Factors that were considered included the economic environment both nationally and locally as well as the real estate market particularly in Florida. We have applied ASC Topic 310-20 accounting treatment to the PULs.

The Company believes the deposits assumed from the acquisition have an intangible value. The Company applied ASC Topic 805, which prescribes the accounting for goodwill and other intangible assets such as core deposit intangibles, in a business combination. In determining the valuation amount, a third party analyzed the deposits based on factors such as type of deposit, deposit retention, interest rates and age of deposit relationships.

The Company recognized goodwill of \$32 million for this acquisition that is nondeductible for tax purposes. The acquisition of Floridian constitutes a business combination. Accordingly, the assets acquired and liabilities assumed are presented at their fair values. The determination of fair value requires management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change, and in some instances rely on use of third party experts. These fair value estimates are considered preliminary and are subject to change for up to one year after the closing date of the acquisition as additional information becomes available. For Floridian, fair values as presented for securities, loans, fixed assets, and certain other assets and liabilities are necessarily considered preliminary.

The operating results of the Company for the three months and nine months ended September 30 2016 include the operating results of the acquired assets and assumed liabilities since the date of acquisition of March 11, 2016. Results for the three-month period ended September 30, 2016 includes Floridian for the full quarter. Pro-forma data for the three months ended 2015 and nine months ending September 30, 2016 and 2015 listed in the table below present pro-forma information as if the acquisition occurred at the beginning of 2015.

| | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | 2015 |
|--|--|---|----------|
| (Dollars in thousands, except per share amounts) | | | |
| Net interest income | \$ 32,145 | \$104,921 | \$89,851 |
| Net income available to common shareholders | 4,805 | 21,440 | 17,462 |
| EPS - basic | 0.13 | 0.58 | 0.48 |
| EPS - diluted | 0.13 | 0.57 | 0.47 |

Acquisition of BMO Harris Central Florida Offices, Deposits and Loans

On June 3, 2016, Seacoast National assumed approximately \$314 million in deposits related to business and consumer banking customers at a deposit premium of 3.0% of the deposit balances, \$63 million in business loans at a loan premium of 0.5%, and fourteen branches of BMO Harris Bank N.A. (“BMO”), located in the Orlando Metropolitan Statistical Area (“MSA”). As a result of this acquisition the Company expects to further improve its market share in the Central Florida market, expand its customer base and leverage operating cost through economies of scale, and positively affect the Company’s operating results to the extent the Company earns more from interest earning assets than it pays in interest on its interest bearing liabilities.

The fair values listed are preliminary and are subject to adjustment. The acquisition is accounted for under the acquisition method in accordance with ASC Topic 805, *Business Combinations*. The fair values initially assigned to assets acquired and liabilities assumed are preliminary and could change for up to one year after the closing date of the acquisition as new information and circumstances relative to closing date fair values are known. Determining fair values of assets and liabilities, especially the loan portfolio and bank premises and leases related to the fourteen branches acquired, is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values.

| | June 3, 2016 | Measurement Period Adjustments (in thousands) | As Adjusted June 3, 2016 |
|---------------------|-----------------|---|-----------------------------------|
| Date of acquisition | | | |
| Assets: | | | |

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| | | | | |
|--|-----------|------|---|-----------|
| Cash from BMO (net of payable to BMO Harris) | \$234,094 | \$ 0 | | \$234,094 |
| Loans, net | 62,671 | 0 | | 62,671 |
| Fixed assets | 3,715 | 0 | | 3,715 |
| Core deposit intangibles | 5,223 | (135 |) | 5,088 |
| Goodwill | 7,645 | 163 | | 7,808 |
| Other assets | 952 | (28 |) | 924 |
| | \$314,300 | \$ 0 | | \$314,300 |
| Liabilities: | | | | |
| Deposits | \$314,248 | \$ 0 | | \$314,248 |
| Other liabilities | 52 | 0 | | 52 |
| | \$314,300 | \$ 0 | | \$314,300 |

The table below presents information with respect to the fair value of acquired loans, as well as their unpaid principal balance (“Book Balance”) at acquisition date.

| (Dollars in thousands) | June 3, 2016 | |
|---------------------------|--------------|------------|
| | Book Balance | Fair Value |
| Loans: | | |
| Commercial real estate | \$31,564 | \$31,200 |
| Commercial loans | 32,479 | 31,471 |
| Purchased credit-impaired | 0 | 0 |
| Total acquired loans | \$64,043 | \$62,671 |

At June 3, 2016, no loans acquired from BMO Harris were specifically identified with a credit deficiency factor(s). The factors we consider to identify loans as PCI loans are acquired loans that were nonaccrual, 60 days or more past due, designated as TDR, graded “special mention” or “substandard.” PULs were evaluated to determine estimated fair values as of the acquisition date. Although no specific credit deficiencies were identifiable, we believe there is an element of risk as to whether all contractual cash flows will be eventually received. Factors that were considered included the economic environment both nationally and locally as well as the real estate market particularly in Florida. We have applied ASC Topic 310-20 accounting treatment to the PULs.

The Company believes the deposits assumed from the acquisition have an intangible value. The Company applied ASC Topic 805, which prescribes the accounting for goodwill and other intangible assets such as core deposit intangibles, in a business combination. In determining the valuation amount, a third party analyzed the deposits based on factors such as type of deposit, deposit retention, interest rates and age of deposit relationships.

The Company recognized intangibles (including goodwill) of \$13 million for this acquisition that is deductible for tax purposes over a 15-year period. The acquisition of BMO Harris’s Orlando banking operations by Seacoast National constitutes a business combination. Accordingly, the assets acquired and liabilities assumed are presented at their fair values. The determination of fair value requires management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change, and in some instances rely on use of third party experts. These fair value estimates are considered preliminary and are subject to change for up to one year after the closing date of the acquisition as additional information becomes available. With the closing of the BMO Harris transaction near the end of the second quarter 2016 reporting period, fair values as presented for loans, fixed assets, deposits, and certain other assets and liabilities are necessarily considered preliminary.

NOTE M — SUBSEQUENT EVENT

On November 4, 2016, the Company entered into a definitive agreement to acquire GulfShore Bancshares, Inc. (“GulfShore”), the parent company of GulfShore Bank (the “Gulfshore Bank”). Seacoast expects that GulfShore Bank will be merged with and into Seacoast National Bank. The acquisition of GulfShore Bank, a full-service community bank serving the Tampa area since 2007, will add approximately \$332 million in assets, \$279 million in deposits and \$253 million in loans. GulfShore Bank, which operates three branches – two in Tampa and one in St. Petersburg – has 55% of total deposits in transaction accounts.

Under the terms of the definitive agreement, GulfShore common shareholders will receive a combination of 0.4807 shares of Seacoast common stock and \$1.47 in cash for each share they own, representing a consideration mix of 85% Seacoast common shares and 15% cash (based on Seacoast’s ten-day average closing price of \$17.33 per share as of November 2, 2016). This values GulfShore’s shares at \$9.80 per share, for a total transaction value of approximately \$54.8 million.

Directors of both Seacoast and GulfShore approved the acquisition. The transaction is expected to close in the first quarter of 2017, subject to approval by GulfShore’s shareholders, receipt of regulatory approvals and other customary closing conditions.

Item 2. 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. Nearly all of the Company's operations are contained in its banking subsidiary, Seacoast Bank ("Seacoast Bank" or the "Bank"). Such discussion and analysis should be read in conjunction with the Company's Condensed Consolidated Financial Statements and the related notes included in this report. 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.

THIRD QUARTER 2016

Strategic Overview

Results demonstrate the impact of our digital transformation strategy, successful integration of acquisitions, and disciplined loan growth. Seacoast continues to execute on its plan to grow our core business organically, innovating to build our franchise and improve efficiency, and grow through mergers and acquisitions. We believe that these investments better position us to increase net income and build value for shareholders. Evidence of the success of our strategy includes:

improved earnings through cost reductions including branch consolidations, a substantial portion of cost savings coming from the integration of BMO Harris offices during the third quarter of 2016 and Floridian during the second quarter of 2016;

growth in revenue, excluding securities gains. The third quarter of 2016 revenues grew 27% compared to prior year levels driven by organic growth and acquisition activity, while adjusted noninterest expense (1) grew 18%, providing 9% operating leverage;

continued implementation of our digital strategy, which is enabling us to add new households, both organically and in our recently acquired banks; driving cross sells of services and transforming our business model and reducing overhead. During the third quarter of 2016, after adding 14 BMO Harris locations to our six Floridian locations and eight existing branches, and based on data analytics, we successfully grew revenues while we have reshaped our

branch network; ten full-service offices were taken out of service during the third quarter of 2016;

ongoing customer satisfaction, reflected by continued success in deepening relationships with existing customers; the number of consumer loans and deposit accounts sold to existing customers increased at an annualized rate of 77% and 54 %, respectively, from prior year levels; check deposits made outside the branch grew to 35% in the third quarter of 2016, up from 27% in the same period a year ago.

Our success in Orlando and Palm Beach counties, where we acquired BankFirst on October 1, 2014 and Grand on July 17, 2015, continues with household growth remaining strong and cross sell statistics outpacing growth in Seacoast legacy markets. Seacoast has welcomed new customers from Floridian and BMO Harris' Orlando banking operations. With the BMO Harris acquisition in early June, we further solidified Seacoast's status in Orlando propelling Seacoast to a top-10 position in this market.

Seacoast reported net income of \$9.1 million during the third quarter of 2016, a \$4.7 million or 106% increase from the third quarter of 2015, and an increase of \$3.8 million or 71% compared to the second quarter of 2016. Third quarter return on average assets (ROA) increased 31 basis points linked quarter to 0.82%, return on average equity increased 329 basis points to 8.44% from the second quarter of 2016. Third quarter 2016 results include \$2.6 million in costs related to consolidation of branches acquired through the BMO Harris acquisition and other nonrecurring items. Diluted earnings per share (EPS) were \$0.24, up 71% from \$0.14 in the second quarter of 2016, and up 85% from \$0.13 in the third quarter of 2015. Net income for the first nine months of 2016 was \$18.4 million compared to \$16.1 million for the first nine months of 2015. Diluted EPS was \$0.49 compared to \$0.48 in the same period of 2015.

Adjusted net income, a non-GAAP measure (see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” in “Results of Operations”), totaled \$10.6 million, a \$4.4 million or 70% increase year over year and an increase of \$1.8 million, or 21% (not annualized) from the second quarter of 2016. Adjusted diluted EPS, a non-GAAP measure (see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” in “Results of Operations”), was \$0.28 for the third quarter of 2016, a \$0.05 or 22% increase from the second quarter of 2016 and a gain of \$0.10 or 56% from the third quarter a year ago. Adjusted net income, a non-GAAP measure (see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” in “Results of Operations”), for the first nine months of 2016 increased \$7.8 million to \$26.1 million and adjusted diluted EPS, a non-GAAP measure (see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” under “Results of Operations”), grew 27% to \$0.70, compared on the same basis to a year ago.

Seacoast management affirms its goal of an adjusted diluted EPS target (a non-GAAP measure---see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” in “Results of Operations”) of \$1.00 for 2016.

Financial Condition

Total assets increased \$1.136 billion or 33.6% from September 30, 2015 to \$4.514 billion at September 30, 2016. The acquisitions of Grand and Floridian, and acquired loans (and branches) from BMO Harris’s Orlando operation, along with organic growth, drove this balance sheet success.

Loan Portfolio

Total loans (net of unearned income and excluding the allowance for loan losses) were \$2.769 billion at September 30, 2016, \$669.9 million or 31.9% more than at September 30, 2015, and \$613.0 million or 28.4% more than at December 31, 2015. The Floridian acquisition on March 11, 2016, and loans acquired from BMO Harris on June 3, 2016, contributed \$276 million and \$64 million in loans, respectively. Growth of \$27 million was from purchases (net of sales of seasoned portfolio loans) for the three months ended September 30, 2016, and included marine and

residential mortgage loans; these loans have been included in portfolio loans.

The following tables detail loan portfolio composition at September 30, 2016, December 31, 2015 and September 30, 2015:

| September 30, 2016 | Portfolio Loans | PCI Loans | PUL's | Total |
|-----------------------------------|------------------------|--------------|-----------|-------------|
| | (Dollars in thousands) | | | |
| Construction and land development | \$129,239 | \$114 | \$24,548 | \$153,901 |
| Commercial real estate | 947,612 | 11,281 | 334,619 | 1,293,512 |
| Residential real estate | 772,579 | 685 | 60,149 | 833,413 |
| Commercial and financial | 278,065 | 977 | 63,459 | 342,501 |
| Consumer | 144,291 | 0 | 1,231 | 145,522 |
| Other loans | 489 | 0 | 0 | 489 |
| NET LOAN BALANCES (1) | \$2,272,275 | \$13,057 | \$484,006 | \$2,769,338 |

| December 31, 2015 | Portfolio Loans | PCI Loans | PUL's | Total |
|-----------------------------------|------------------------|--------------|-----------|-------------|
| | (Dollars in thousands) | | | |
| 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 |

| September 30, 2015 | Portfolio Loans | PCI Loans | PUL's | Total |
|-----------------------------------|------------------------|--------------|-----------|-------------|
| | (Dollars in thousands) | | | |
| Construction and land development | \$80,406 | \$462 | \$15,168 | \$96,036 |
| Commercial real estate | 737,506 | 10,071 | 243,610 | 991,187 |
| Residential real estate | 671,530 | 1,008 | 50,395 | 722,933 |
| Commercial and financial | 166,059 | 1,132 | 43,144 | 210,335 |
| Consumer | 75,050 | 0 | 3,422 | 78,472 |
| Other loans | 484 | 0 | 0 | 484 |
| NET LOAN BALANCES (1) | \$1,731,035 | \$12,673 | \$355,739 | \$2,099,447 |

Net loan balances at September 30, 2016, December 31, 2015 and September 30, 2015 include deferred fees/costs (1)(net) and fair value adjustments on acquired loans, aggregating to \$14.6 million, \$7.7 million, and \$6.2 million, respectively.

Commercial real estate mortgages increased by \$302.3 million or 30.5% to \$1,293.5 million at September 30, 2016, compared to September 30, 2015, a result of strong loan production and loans acquired in the mergers. Granularity and diversification of commercial real estate lending is a focus, with office buildings of \$323.9 million or 25.0% 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, lodging, churches and educational facilities, multifamily, restaurants, recreation, convenience stores, marinas, mobile home parks, agriculture, and other types of real estate.

The Company's ten largest commercial real estate funded and unfunded loan relationships at September 30, 2016 aggregated to \$137.7 million in commitments (versus \$118.6 million a year ago) and for the 64 commercial real estate relationships in excess of \$5 million the aggregate commitments totaled \$543.5 million, of which \$467.5 million was funded.

Fixed rate and adjustable rate loans secured by commercial real estate, excluding construction loans, totaled approximately \$974 million and \$320 million, respectively, at September 30, 2016, compared to \$712 million and \$279 million, respectively, a year ago.

Reflecting the impact of organic loan growth and the Floridian and BMO Harris loan acquisitions, commercial loans outstanding at September 30, 2016 increased to \$342.5 million, up substantially from \$210.3 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.

Residential mortgage loans increased \$109.6 million or 15.2% to \$833.4 million as of September 30, 2016. At September 30, 2016, approximately \$447 million or 54% of the Company's residential mortgage balances were adjustable 1-4 family mortgage loans (including hybrid adjustable rate mortgages). Fixed rate 15- and 30-year mortgages totaled approximately \$152 million (18% of the residential mortgage portfolio) at September 30, 2016, of which 15- and 30-year mortgages totaled approximately \$25 million and \$127 million, respectively. Remaining residential balances were comprised of home improvement loans totaling \$81 million, most with fixed rates with maturities of 10 years or less, and home equity lines of credit, primarily floating rates totaling approximately \$154 million at September 30, 2016. In comparison, loans secured by residential properties having fixed rates totaled approximately \$111 million at September 30, 2015, with 15- and 30-year fixed rate residential mortgages totaling approximately \$26 million and \$85 million, respectively, and home improvement mortgages and equity lines of credit totaled \$70 million and \$107 million, respectively, a year ago.

The Company also provides consumer loans (including installment loans, loans for automobiles, boats, and other personal, family and household purposes) which increased \$67.0 million or 85.4% year over year and totaled \$145.5 million (compared to \$78.5 million a year ago). Of the \$67.0 million increase, \$35.5 million was in marine loans, \$4.4 million in automobile and truck loans, and \$27.1 million in other consumer loans. Marine loans at September 30, 2016 include \$16.3 million in purchased loan pools acquired during the third quarter of 2016.

At September 30, 2016, the Company had unfunded loan commitments of \$524 million, compared to \$335 million at September 30, 2015.

Loan Concentrations

The Company has developed guardrails to manage exposure to loan types that are most impacted by stressed market conditions in order to achieve lower levels of credit loss volatility in the future. While commercial and commercial real estate loan relationships greater than \$10 million increased by \$38.3 million to \$200.0 million, they represent 7.2% of the total loan portfolio at September 30, 2016, compared with \$161.7 million or 13.0% of the total portfolio at year-end 2010.

Concentrations in total construction and land development loans and total CRE loans are also managed to prudent levels. Construction and land development and commercial real estate loan concentrations as a percentage of total risk based capital for our subsidiary bank (as defined in regulatory guidance regarding construction (and land development) and CRE concentrations are stable at 39% and 209%, respectively, as of September 30, 2016. Regulatory guidance suggests limits of 100% and 300%, respectively.

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.

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

Nonperforming assets (“NPAs”) at September 30, 2016 totaled \$31.2 million, and were comprised of \$10.6 million of nonaccrual portfolio loans, \$7.9 million of nonaccrual purchased loans, \$3.7 million of non-acquired other real estate owned (“OREO”), \$1.4 million of acquired OREO and \$7.6 million of branches out of service. NPAs increased from \$24.5 million as of September 30, 2015 (comprised of \$14.5 million of nonaccrual portfolio loans, \$2.6 million of nonaccrual purchased loans, \$4.2 million of non-acquired OREO, and \$3.2 million of acquired OREO). Nonperforming loans decreased as a percentage of total loans from 0.81% at September 30, 2015 to 0.66% at September 30, 2016. At September 30, 2016, more than 97% of nonaccrual loans were secured with real estate. At September 30, 2016, nonaccrual loans have been written down by approximately \$3.7 million or 16.7% of the original loan balance (including specific impairment reserves). During the twelve months ended September 30, 2016, total OREO increased \$5.3 million or 71.3%, reflecting the ten branches that were taken out of service in the third quarter of 2016 that are actively being marketed.

The Company pursues loan restructurings in selected cases when it expects to realize better values than may be expected through traditional collection activities. The Company has worked with retail mortgage customers, when possible, 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 most of these credits will rehabilitate and be upgraded versus migrating to nonperforming or OREO prospectively. Accruing restructured loans totaled \$19.3 million at September 30, 2016, compared to \$20.5 million at September 30, 2015. Accruing TDRs are excluded from our nonperforming asset ratios. The tables below set forth details related to nonaccrual and restructured loans.

| September 30, 2016 (Dollars in thousands) | Nonaccrual Loans Nonperforming | Total | Accruing Restructured Loans |
|--|-----------------------------------|-------|-----------------------------------|
| Construction & land development | | | |

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| | | | | |
|-----------------------------------|---------|-----------|-----------|-----------|
| Residential | \$0 | \$ 0 | \$0 | \$ 268 |
| Commercial | 0 | 33 | 33 | 47 |
| Individuals | 0 | 230 | 230 | 251 |
| | 0 | 263 | 263 | 566 |
| Residential real estate mortgages | 989 | 9,012 | 10,001 | 12,256 |
| Commercial real estate mortgages | 2,862 | 4,796 | 7,658 | 6,090 |
| Real estate loans | 3,851 | 14,071 | 17,922 | 18,912 |
| Commercial and financial | 346 | 0 | 346 | 0 |
| Consumer | 42 | 127 | 169 | 360 |
| | \$4,239 | \$ 14,198 | \$ 18,437 | \$ 19,272 |

At September 30, 2016 and 2015, total TDRs (performing and nonperforming) were comprised of the following loans by type of modification:

| (Dollars in thousands) | 2016 | | 2015 | |
|--|--------|----------|--------|----------|
| | Number | Amount | Number | Amount |
| Rate reduction | 83 | \$14,817 | 94 | \$16,255 |
| Maturity extended with change in terms | 57 | 7,157 | 62 | 7,459 |
| Forgiveness of principal | 0 | 0 | 0 | 0 |
| Chapter 7 bankruptcies | 38 | 2,376 | 48 | 2,816 |
| Not elsewhere classified | 12 | 1,594 | 14 | 1,876 |
| | 190 | \$25,944 | 218 | \$28,406 |

During the first nine months of 2016, newly identified TDRs totaled \$1.7 million, compared to \$2.6 million for all of 2015. 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 pre-ceding September 30, 2016 defaulted during the nine months ended September 30, 2016, or for the first nine months of 2015. A restructured loan is considered in default when it becomes 90 days or more past due under the modified terms, has been transferred to nonaccrual status, or has been transferred to OREO.

At September 30, 2016, loans totaling \$29.7 million were considered impaired (comprised of total nonaccrual, loans 90 days or more past due, and TDRs) and \$2.0 million of the allowance for loan losses was allocated for potential losses on these loans, compared to \$34.7 million and \$3.1 million, respectively, at September 30, 2015.

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 and Liquidity Risk Management

Cash and cash equivalents (including interest bearing deposits), totaled \$167.4 million on a consolidated basis at September 30, 2016, compared to \$136.1 million at December 31, 2015 and \$100.6 million at September 30, 2015. 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 may 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.

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 September 30, 2016, Seacoast Bank had available unsecured lines of \$50 million and lines of credit under current lendable collateral value, which are subject to change, of \$783 million. Seacoast Bank had \$753 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 \$375 million in residential and commercial real estate loans available as collateral. In comparison, at September 30, 2015, the Company had available unsecured lines of \$40 million and lines of credit of \$868 million, and had \$575 million of U.S. Treasury and Government agency securities and mortgage backed securities not pledged and available for use under repurchase agreements, as well as an

additional \$275 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 September 30, 2016, Seacoast Bank can distribute dividends to the Company of approximately \$50 million. At September 30, 2016, the Company had cash and cash equivalents at the parent of approximately \$14.2 million, compared to \$43.7 million at December 31, 2015, with the decrease directly related to cash paid in the Floridian acquisition (see "Note L – Business Combinations").

Securities

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

At September 30, 2016, the Company had no trading securities, \$866.6 million in securities available for sale, with the remainder of \$392.1 million in securities held for investment. The Company's total securities portfolio increased \$321.5 million or 34.3% from September 30, 2015. During the third quarter of 2015, \$46.4 million were added from Grand, and during the first quarter of 2016, securities totaling \$66.9 million were added from Floridian. Security purchases during second quarter 2016 of \$258.3 million were primarily to utilize cash received by Seacoast from BMO Harris, with an increase of \$203.4 million in securities held for investment (almost a doubling from first quarter of 2016). Security purchases during the third quarter of 2016 were more limited. These efforts were primary contributors to the overall increase in the securities portfolio. Funding for investments is derived from liquidity, both legacy and that acquired in mergers, and increases in funding from our core customer deposit base and FHLB borrowings.

Securities are generally acquired which return principal monthly that can be reinvested. The duration of the investment portfolio at September 30, 2016 was 3.8 years, compared to 3.3 years at September 30, 2015 and 3.8 years at December 31, 2015.

At September 30, 2016, available for sale securities had gross unrealized losses of \$3.6 million and gross unrealized gains of \$11.8 million, compared to gross unrealized losses of \$10.8 million and gross unrealized gains of \$3.0 million at December 31, 2015. 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 are 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 does not have an investment position in trust preferred securities.

Deposits and Borrowings

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

Total deposits increased \$768.2 million or 28.0% to \$3.510 billion at September 30, 2016, compared to one year earlier. Core customer funding increased to \$3.313 billion at September 30, 2016, a \$728.3 million or 28.2% increase from the third quarter of 2015. Excluding acquisitions, core customer funding increased by \$217.6 million or 8.4% from one year ago and total deposits increased \$127.1 million or 4.6% from one year ago. Total deposits grew \$666.1 million or 23.4% from year-end 2015. Excluding acquired deposits from Floridian and BMO Harris, total deposits increased \$25.0 million or 0.9% (not annualized) from year-end 2015. Deposit growth since year-end 2015 was impacted by seasonal decreases in public fund balances, which decreased by \$83.9 million during first nine months of 2016.

Since September 30, 2015, interest bearing deposits (interest bearing demand, savings and money markets deposits) increased \$410.5 million or 26.2% to \$1.976 billion, noninterest bearing demand deposits increased \$298.7 million or 34.3% to \$1.169 billion, and CDs increased \$59.0 million or 19.2% to \$365.6 million. Excluding acquired deposits, noninterest demand deposits were \$129.8 million or 15.2% higher (not annualized) at September 30, 2016, versus December 31, 2015, and represent 33.3% of total deposits compared to 31.7% at September 30, 2015. Deposit growth reflects our success in growing households both organically and through acquisitions.

Customer repurchase agreements totaled \$167.7 million at September 30, 2016, increasing \$19.1 million or 12.8% from September 30, 2015. 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, 2016, borrowings were comprised of subordinated debt of \$70.2 million related to trust preferred securities issued by trusts organized or acquired by the Company, and borrowings from FHLB of \$305.0 million. At September 30, 2016, FHLB borrowings outstanding were all maturing within 30 days, and the rate for FHLB funds averaged 0.43% during the third quarter of 2016. Deposits are seasonally lower in the summer and higher in the winter, with anticipated increases in deposits in fourth quarter 2016 expected to reduce funding from FHLB borrowings.

In April of 2016, an early redemption cost of \$1.8 million was incurred related to prepayment of \$50 million of FHLB advances having a weighted average fixed rate of 3.22% and scheduled to mature in late 2017 (see “Noninterest Expense”). The two FHLB advances redeemed were outstanding since 2007.

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 acquired three junior subordinated debentures totaling \$5.2 million, \$4.1 million, and \$5.2 million, respectively. As part of the Grand acquisition, the Company acquired 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 \$5.3 million lower than face value. This amount is being amortized into interest expense over the acquired subordinated debt’s remaining term to maturity.

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 2.93% for the three month period ended September 30, 2016, compared to 2.43% for all of 2015.

Off-Balance Sheet Transactions

In the normal course of business, the Company 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 \$524 million at September 30, 2016 and \$335 million at September 30, 2015.

Capital Resources

The Company's equity capital at September 30, 2016 increased \$85.2 million to \$435.5 million since September 30, 2015, and increased \$82.1 million from year-end 2015. The ratio of shareholders' equity to period end total assets was 9.65% at September 30, 2016, seventy-two basis points lower than at September 30, 2015. Equity capital increased from a combination of earnings retained by the Company, increased unrealized gains on securities, and capital issued in conjunction with acquisitions completed over the course of the last twelve months. During the first quarter of 2016, the Floridian transaction increased shareholders' equity \$50.9 million, as the Company issued shares of common stock as consideration for each merger. The BMO Harris purchase did not include an issuance of any equity. The ratio of

shareholders' equity total assets declined as the Company successfully grew assets at a faster pace than equity over this period.

Activity in shareholders' equity for the nine months ended September 30, 2016 and 2015 follows:

Shareholder's Equity roll forward

| (Dollars in thousands) | 2016 | 2015 |
|--|-----------|-----------|
| Beginning balance at December 31, 2015 and 2014 | \$353,453 | \$312,651 |
| Net income | 18,431 | 16,105 |
| Issuance of stock pursuant to acquisition of Floridian | 50,913 | 0 |
| Issuance of stock pursuant to acquisition of Grand | 0 | 17,172 |
| Stock compensation (net of Treasury shares acquired) | 2,678 | 1,815 |
| Change in other comprehensive income | 10,044 | 2,537 |
| Ending balance at September 30, 2016 and 2015 | \$435,519 | \$350,280 |

The nine month period ended September 30, 2015 included \$17.2 million in equity issued in conjunction with the Grand transaction.

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

| | Seacoast | | Seacoast | | Minimum to be Well Capitalized* | |
|-----------------------------------|----------------|---|----------|---|---------------------------------|---|
| September 30, 2016: | (Consolidated) | | National | | | |
| Common equity Tier 1 ratio (CET1) | 10.89 | % | 12.13 | % | 6.5 | % |
| Tier 1 capital ratio | 12.64 | % | 12.13 | % | 8 | % |
| Total risk-based capital ratio | 13.41 | % | 12.86 | % | 10 | % |
| Tier 1 leverage ratio | 9.15 | % | 8.75 | % | 5 | % |

* For subsidiary bank only

The Company's total risk-based capital ratio was 13.41% at September 30, 2016, below our ratio of 16.01% at December 31, 2015. Larger pro rata cash payments and more modest amounts of common stock issued to Floridian shareholders, as well as ongoing reinvestment of liquidity into securities and loans with higher risk weightings and the addition of Floridian's and BMO Harris's loans with higher risk weightings, were primary causes for Tier 1 and total risk-based capital ratios decreasing during the second quarter of 2016. At September 30, 2016, the Bank's leverage ratio (Tier 1 capital to adjusted total assets) was 8.75%, declining from 9.36% at December 31, 2015, reflecting the effect of push down accounting on Seacoast's subsidiary bank's capital.

The Company 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. 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 National can pay over \$50 million of dividends to the Company.

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 that have issued trust preferred stock. Trust preferred securities from BankFIRST and Grand that were integrated have been 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 can treat all \$70.2 million of its trust preferred securities as Tier 1 capital.

Results of Operations

Earnings Overview

Seacoast reported net income of \$9.1 million during the third quarter of 2016, a \$4.7 million or 106% increase from the third quarter of 2015, and an increase of \$3.8 million or 71% compared to the second quarter of 2016. Third quarter return on average assets (ROA) increased 31 basis points linked quarter to 0.82%, return on average equity increased 329 basis points to 8.44% from the second quarter of 2016. Third quarter 2016 results include \$2.6 million in costs related to consolidation of branches acquired through the BMO Harris acquisition and other nonrecurring items. Diluted earnings per share (EPS) was \$0.24, up 71% from \$0.14 in the second quarter of 2016, and up 85% from \$0.13 in the third quarter of 2015. Net income for the first nine months of 2016 was \$18.4 million compared to \$16.1 million for the first nine months of 2015. Diluted EPS was \$0.49 compared to \$0.48 in the same period in 2015.

Adjusted net income, a non-GAAP measure (see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” in “Results of Operations”), totaled \$10.6 million, a \$4.4 million or 70% increase year over year and an increase of \$1.8 million, or 21% (not annualized) from the second quarter of 2016. Adjusted diluted EPS, a non-GAAP measure (see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” under “Results of Operations”), was \$0.28 for the third quarter of 2016, a \$0.05 or 22% increase from the second quarter of 2016 and a gain of \$0.10 or 56% from the third quarter a year ago. Adjusted net income, a non-GAAP measure (see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” in “Results of Operations”), for the first nine months of 2016 increased \$7.8 million to \$26.1 million and adjusted diluted EPS, a non-GAAP measure (see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” under “Results of Operations”), grew 27% to \$0.70, compared on the same basis to a year ago.

We are also beginning to realize significant cost savings through the execution of our digital transformation as our multi-channel delivery of banking services enables us to trim our physical presence while keeping customer satisfaction high. We entered the year with eight Orlando branches, and acquired six Floridian and 14 BMO Harris locations in that market. By the end of the third quarter of 2016 we closed ten more full service offices, and presently operate a total of 15 branches in the Orlando MSA, substantially reducing our physical presence in this market. We will continue to prudently refine our infrastructure as we move into the future.

Data analytics and technology-assisted operational improvement are also helping us build efficiencies across our organization and drive process automation.

Explanation of Certain Non-GAAP Financial Measures

The measures entitled adjusted net income; adjusted diluted earnings per share; return on average tangible common equity; adjusted revenue; adjusted return on assets; adjusted return on average tangible common equity; adjusted efficiency ratio; adjusted pre-tax, pre-provision income; annualized adjusted operating expenses as a percent of average assets; and adjusted noninterest expense are not measures recognized under U.S. generally accepted accounting principles (GAAP) and therefore are considered non-GAAP financial measures. The most comparable GAAP measures are net income, diluted earnings per share, return on average equity, revenues, return on average assets, return on average equity, expenses/revenues, net income, noninterest expense as a percent of average assets, and noninterest expense, respectively.

Management uses the non-GAAP financial measures in its analysis of the Company's performance and believes these presentations provide useful supplemental information, and a clearer understanding of the Company's performance, and if not provided would be requested by the investor community. The Company believes the non-GAAP measures enhance investors' understanding of the Company's business and performance. These measures are also useful in understanding performance trends and in facilitating comparisons with the performance of other financial institutions. The limitations associated with operating 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. The company presents non-GAAP measures to remove or adjust for items like transaction related merger and acquisition costs or other costs or revenue items that are not related to the ongoing operations of the company as well as to adjust intangible assets and intangible asset amortization from acquired companies. The Company believes these measures are useful to investors because removing the amount of intangible assets and amortization thereof, and removing costs and revenues not related to ongoing operations of the company (the level of which may vary from company to company and from period to period), allows investors to more easily compare the Company's capital position and financial performance to other companies in the industry that present similar measures. The Company also believes that removing these items provides a more relevant measure of the Company's financial performance from period to period. These measures are utilized by management to assess the capital adequacy and profitability of the Company.

These disclosures should not be considered an alternative to GAAP. The computations of adjusted net income; adjusted diluted earnings per share; return on average tangible common equity; adjusted revenue; adjusted return on assets; adjusted return on average tangible common equity; adjusted efficiency ratio; adjusted pre-tax, pre-provision income; annualized adjusted operating expenses as a percent of average assets; and adjusted noninterest expense and the reconciliation of these measures are set forth in the tables below:

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| | Quarters (1) | | | | |
|---|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|
| | Third Quarter 2016 | Second Quarter 2016 | First Quarter 2016 | Fourth Quarter 2015 | Third Quarter 2015 |
| (Dollars in thousands except per share data) | | | | | |
| Net income | \$9,133 | \$5,332 | \$3,966 | \$6,036 | \$4,441 |
| Boli Income | 0 | 0 | (464) | 0 | 0 |
| Security (gains) | (225) | (47) | (89) | (1) | (160) |
| Bargain purchase gain | 0 | 0 | 0 | (416) | 0 |
| Total Adjustments to Revenue | (225) | (47) | (553) | (417) | (160) |
| Severance | 287 | 464 | 306 | 187 | 670 |
| Merger related charges | 1,628 | 2,448 | 4,038 | 1,043 | 2,120 |
| Branch closure charges and costs related to expense initiatives | 678 | 1,121 | 691 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 121 |
| Miscellaneous losses | 0 | 0 | 0 | 48 | 112 |
| Early redemption cost for FHLB advances | 0 | 1,777 | 0 | 0 | 0 |
| Total Adjustments to Noninterest Expense | 2,593 | 5,810 | 5,035 | 1,278 | 3,023 |
| Effective tax rate on adjustments | (913) | (2,322) | (1,690) | (328) | (1,072) |
| Adjusted Net Income (1) | \$10,588 | \$8,773 | \$6,758 | \$6,569 | \$6,232 |
| Earnings per diluted share, as reported | \$0.24 | \$0.14 | \$0.11 | \$0.18 | \$0.13 |
| Adjusted earnings per diluted share (1) | \$0.28 | \$0.23 | \$0.19 | \$0.19 | \$0.18 |
| Average shares outstanding (000) | 38,170 | 38,142 | 35,453 | 34,395 | 34,194 |
| Adjusted Net Income (1) | \$10,588 | \$8,773 | \$6,758 | \$6,569 | \$6,232 |
| Provision for loan losses | 550 | 662 | 199 | 369 | 987 |
| Income taxes | 5,232 | 5,172 | 4,125 | 4,052 | 3,771 |
| Adjusted pretax, pre-provision income (1) | \$16,370 | \$14,607 | \$11,082 | \$10,990 | \$10,990 |
| Revenue | \$47,437 | \$43,651 | \$38,941 | \$37,299 | \$37,253 |
| Total Adjustments to Revenue | (225) | (47) | (553) | (417) | (160) |
| Adjusted Revenue (1) | \$47,212 | \$43,604 | \$38,388 | \$36,882 | \$37,093 |
| Noninterest Expense | \$33,435 | \$34,808 | \$32,341 | \$27,169 | \$29,127 |
| Total Adjustments to Noninterest Expense | 2,593 | 5,810 | 5,035 | 1,278 | 3,023 |
| Adjusted Noninterest Expense (1) | \$30,842 | \$28,998 | \$27,306 | \$25,891 | \$26,104 |
| Adjusted Noninterest Expense | \$30,842 | \$28,998 | \$27,306 | \$25,891 | \$26,104 |
| Foreclosed property expense & amortization of intangible | (851) | (553) | (484) | (324) | (736) |
| Net Adjusted Noninterest Expense | \$29,991 | \$28,445 | \$26,822 | \$25,567 | \$25,368 |
| Adjusted Revenue | \$47,212 | \$43,604 | \$38,388 | \$36,882 | \$37,093 |
| Impact of FTE adjustment | 287 | 308 | 127 | 117 | 119 |
| Adjusted Revenue on a fully taxable equivalent basis | \$47,499 | \$43,912 | \$38,515 | \$36,999 | \$37,212 |

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| | | | | | |
|---|---------|---------|---------|---------|---------|
| Adjusted Efficiency Ratio (1)(3) | 63.14 % | 64.78 % | 69.64 % | 69.10 % | 68.17 % |
| Return on Average Assets (ROA) | 0.82 % | 0.51 % | 0.44 % | 0.69 % | 0.52 % |
| Impacted of adjustments for Adjusted Net Income (4) | 0.13 | 0.33 | 0.31 | 0.06 | 0.25 |
| Adjusted ROA (1) | 0.95 % | 0.84 % | 0.75 % | 0.75 % | 0.77 % |
| Return on Average Common Equity | 8.4 % | 5.2 % | 4.3 % | 6.8 % | 5.1 % |
| Impact of removing average intangible assets and related amortization (4) | 2.5 | 1.4 | 0.8 | 1.0 | 0.8 |
| Return on Average Tangible Common Equity (ROTCE)(1) | 10.9 % | 6.6 % | 5.1 % | 7.8 % | 5.9 % |
| Impact of adjustments for Adjusted Net Income (5) | 1.7 | 4.0 | 3.4 | 1.1 | 2.3 |
| Adjusted Return on Average Tangible Common Equity (1) | 12.6 % | 10.6 % | 8.5 % | 8.9 % | 8.2 % |

(1) Non GAAP measure (see page 45, *Explanation of Certain Non-GAAP Financial Measures*" in "Results of Operations").

(2) Presentation has been revised in accordance with SEC's Division of Corporation Finance Compliance and Disclosure Interpretations, *Non-GAAP Financial Measures*" issued May 17, 2016

(3) Defined as (adjusted noninterest expense less foreclosed property expense and amortization of intangibles) divided by net operating revenue (net interest income on a fully taxable equivalent basis plus adjusted noninterest income).

(4) The Company believes that return on average assets and equity excluding the impacts of noncash amortization expense on intangible assets is a better measurement of the Company's trend in earnings growth.

(5) Includes adjusted detailed in Total Adjustments to Revenue, Total Adjustments to Noninterest Expense and the Effective tax rate on adjustments.

Net Interest Income and Margin

Net interest income (on a tax equivalent basis) for the quarter totaled \$37.7 million, increasing \$2.9 million or 8.4% during the third quarter of 2016 compared to the second quarter of 2016, and was \$8.6 million or 29.5% higher than third quarter 2015's result. Net interest margin expanded to 3.69%, a 6 basis point improvement when compared to second quarter 2016's margin, and a contraction of 6 basis points compared to third quarter 2015.

Loan growth, balance sheet mix and yield/cost management have been the primary forces affecting net interest income and net interest margin. Acquisitions have accelerated income growth. Loan growth combined with deployment of liquidity at the time of the BMO acquisition were main contributors to net interest margin improvement linked quarter. The business volumes from Floridian on March 11, 2016, and BMO Harris's Orlando operating base on June 3, 2016, amplified the Company's performance in 2016, helping drive the \$8.6 million increase in net interest income for the third quarter of 2016, compared to the third quarter of 2015. The decrease in margin year over year reflects decreased loan yields, reflecting the current low interest rate environment, partially offset by improved balance sheet mix.

We anticipate 2016's net interest income will continue to benefit from the full year impact of these acquisitions.

The following table details the trend for net interest income and margin results (on a tax equivalent basis), the yield on earning assets that has improved tremendously and the rate paid 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 (1) | Rate on Interest Bearing Liabilities |
|------------------------|----------------------------------|----------------------------------|---|---|
| Third quarter 2015 | \$29,130 | 3.75 | % 3.98 | % 0.33 |
| Fourth quarter 2015 | 29,216 | 3.67 | 3.90 | 0.33 |
| First quarter 2016 | 30,349 | 3.68 | 3.92 | 0.34 |
| Second quarter 2016 | 34,801 | 3.63 | 3.85 | 0.31 |
| Third quarter 2016 | 37,735 | 3.69 | 3.90 | 0.30 |

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

Average loans (the highest yielding component of earning assets) as a percentage of average earning assets totaled 66.9% during the third quarter of 2016, compared to 65.7% for the second quarter of 2016. Additionally, the mix of loans improved, with volumes related to commercial and commercial real estate representing 62.5 percent of total loans at September 30, 2016 (compared to 59.9% at September 30, 2015)(see “Loan Portfolio”). The deployment of excess liquidity held during the second quarter 2016 acquisition of BMO Harris’s Orlando operations reduced federal funds sold and other investments, a low yielding category, from 2.9% of average assets in the second quarter of 2016 to 1.4% of average assets in the third quarter of 2016.

Commercial and commercial real estate loan originations for the third quarter of 2016 exceeded \$109 million, with the commercial pipeline (in underwriting and approval or approved and not yet closed) totaling \$119 million at September 30, 2016, ahead of prior-year levels. Third quarter 2015's commercial and commercial real estate loan originations totaled \$72 million, and the pipeline at September 30, 2015 was \$105 million. Consumer loan and small business originations totaled \$88 million (inclusive of lines of credit) during the third quarter of 2016 compared to \$53 million one year ago. Closed residential production for the quarter totaled \$114 million compared with \$74 million during the third quarter 2015, with a total residential pipeline of \$79 million at September 30, 2016 up from \$38 million one year ago.

Customer relationship funding is detailed in the following table for the last five quarters:

| Customer Relationship Funding (Dollars in thousands) | Quarters | | | | | |
|---|---------------|----------------|---------------|----------------|---------------|---|
| | Third 2016 | Second 2016 | First 2016 | Fourth 2015 | Third 2015 | |
| Noninterest demand | \$1,168,542 | \$1,146,791 | \$1,054,069 | \$854,447 | \$869,877 | |
| Interest-bearing demand | 776,480 | 776,389 | 750,904 | 734,749 | 618,344 | |
| Money market | 858,931 | 860,930 | 741,657 | 665,353 | 660,632 | |
| Savings | 340,899 | 330,928 | 313,179 | 295,851 | 286,810 | |
| Time certificates of deposit | 365,641 | 386,278 | 362,638 | 293,987 | 306,633 | |
| Total deposits | \$3,510,493 | \$3,501,316 | \$3,222,447 | \$2,844,387 | \$2,742,296 | |
| Customer sweep accounts | \$167,693 | \$183,387 | \$198,330 | \$172,005 | \$148,607 | |
| Total core customer funding (1) | \$3,312,545 | \$3,298,425 | \$3,058,139 | \$2,722,405 | \$2,584,270 | |
| Noninterest demand deposit mix | 33.3 | % 32.8 | % 32.7 | % 30.0 | % 31.7 | % |

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

Total deposits increased \$768.2 million or 28.0% to \$3.510 billion at September 30, 2016, compared to one year earlier. Core customer funding increased to \$3.313 billion at September 30, 2016, a \$728.3 million or 28.2% increase from the third quarter of 2015. Excluding acquisitions, total deposits increased \$127.1 million or 2.6% from one year ago. Also, at September 30, 2016, total deposits grew \$666.1 million or 23.4% from year-end 2015. Deposit growth for 2016 was impacted by seasonal decreases in public fund balances, which decreased by \$84 million during the first nine months of 2016 from year-end 2015.

Noninterest demand deposits grew \$314.1 million or 36.8% from the end of 2015 and \$298.7 million or 34.3% from the third quarter of 2015. Noninterest demand deposits increased to 33.3% of total deposits, up from 31.7% a year ago. The overall cost of total deposits remained relatively low at 0.15% for the third quarter of 2016.

Federal funds purchased and sweep repurchase agreements (with Seacoast Bank customers) at September 30, 2016 and 2015 totaled \$167.9, increasing \$19.1 million or 12.8% from a year ago. No term federal funds purchased were outstanding for Seacoast Bank on these dates in 2016 or 2015. The average yield on customer repurchase accounts was 0.25% for the third quarter of 2016.

Fixed rate advances from the FHLB of \$50.0 million (with an inception date in November 2007) were to mature in 2017; these advances were redeemed in April 2016 for at a cost of \$1.8 million (see “Noninterest Expense”). The rate on the redeemed FHLB advances was 3.22%, and compares to a rate on FHLB borrowings (maturing in 30 days or less) of 0.43% during the third quarter of 2016.

For 2016, average subordinated debt summed to \$70.1 million related to trust preferred securities issued by subsidiary trusts of the Company (including acquired subordinated debt for BANKshares and Grand) remain outstanding.

The following table details average balances, net interest income and margin results (on a tax equivalent basis) for the third and second quarter of 2016, and the third quarter of 2015.

| (Dollars in thousands) | 2016 Third Quarter | | | Second Quarter | | | 2015 Third Quarter | | |
|---|-----------------------|---------------|----------------|--------------------|---------------|----------------|-----------------------|---------------|--|
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | |
| Assets | | | | | | | | | |
| Earning assets: | | | | | | | | | |
| Securities: | | | | | | | | | |
| Taxable | \$1,264,345 | \$6,966 | 2.20% | \$1,185,022 | \$6,603 | 2.23% | \$966,764 | \$5,154 | |
| Nontaxable | 28,344 | 441 | 6.22 | 28,445 | 459 | 6.45 | 14,982 | 220 | |
| Total Securities | 1,292,689 | 7,407 | 2.29 | 1,213,468 | 7,062 | 2.33 | 981,746 | 5,374 | |
| Federal funds sold and other investments | 55,465 | 429 | 3.08 | 110,636 | 433 | 1.57 | 42,083 | 249 | |
| Loans, net | 2,720,121 | 32,065 | 4.69 | 2,532,533 | 29,392 | 4.67 | 2,060,326 | 25,319 | |
| Total Earning Assets | 4,068,275 | 39,901 | 3.90 | 3,856,637 | 36,887 | 3.85 | 3,084,155 | 30,942 | |
| Allowance for loan losses | (21,934) | | | (20,185) | | | (19,294) | | |
| Cash and due from banks | 84,592 | | | 92,159 | | | 70,292 | | |
| Premises and equipment | 62,552 | | | 63,149 | | | 54,436 | | |
| Intangible assets | 80,068 | | | 69,449 | | | 35,185 | | |
| Bank owned life insurance | 43,860 | | | 43,542 | | | 41,934 | | |
| Other assets | 103,025 | | | 102,049 | | | 107,150 | | |
| | \$4,420,438 | | | \$4,206,800 | | | \$3,373,858 | | |
| Liabilities & Shareholders' Equity | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Interest-bearing demand | \$781,620 | \$151 | 0.08% | \$755,206 | \$161 | 0.09% | \$621,365 | \$116 | |

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| | | | | | | | | |
|--|-------------|----------|-------|-------------|----------|-------|-------------|----------|
| Savings | 331,685 | 41 | 0.05 | 322,567 | 39 | 0.05 | 285,410 | 39 |
| Money market | 864,228 | 487 | 0.22 | 810,709 | 488 | 0.24 | 637,840 | 407 |
| Time deposits | 374,852 | 613 | 0.65 | 366,263 | 550 | 0.60 | 308,184 | 295 |
| Federal funds purchased and securities sold under agreements to repurchase | 184,170 | 118 | 0.25 | 195,802 | 129 | 0.26 | 163,385 | 100 |
| FHLB borrowings | 223,467 | 240 | 0.43 | 171,011 | 215 | 0.51 | 70,109 | 418 |
| Other borrowings | 70,137 | 516 | 2.93 | 70,064 | 504 | 2.89 | 68,961 | 437 |
| Total Interest-Bearing Liabilities | 2,830,159 | 2,166 | 0.30 | 2,691,622 | 2,086 | 0.31 | 2,155,254 | 1,812 |
| Noninterest demand | 1,131,073 | | | 1,059,039 | | | 849,468 | |
| Other liabilities | 28,796 | | | 39,391 | | | 20,235 | |
| Total Liabilities | 3,990,028 | | | 3,790,052 | | | 3,024,957 | |
| Shareholders' equity | 430,410 | | | 416,748 | | | 348,901 | |
| | \$4,420,438 | | | \$4,206,800 | | | \$3,373,858 | |
| As a % of earning assets: | | | | | | | | |
| Interest expense | | | 0.21% | | | 0.22% | | |
| Net interest income (1) | | \$37,735 | 3.69% | | \$34,801 | 3.63% | | \$29,130 |

On a fully taxable equivalent basis, a non-GAAP measure, as defined (see Non-GAAP Measure on next page). All (1)yields and rates have been computed on an annual basis using amortized cost. Fees on loans have been included in interest on loans. Nonaccrual loans are included in loan balances.

Non-GAAP Measures regarding Net Interest Income and Margin

Fully taxable equivalent net interest income is a common term and measure used in the banking industry but is not a term used under generally accepted accounting principles (“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 net interest income and net interest margin on a tax equivalent basis.

| | Third Quarter 2016 | Second Quarter 2016 | First Quarter 2016 | Fourth Quarter 2015 | Third Quarter 2015 |
|---------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|
| (Dollars in thousands) | | | | | |
| Nontaxable interest income | \$287 | \$308 | \$127 | \$116 | \$119 |
| Tax Rate | 35 % | 35 % | 35 % | 35 % | 35 % |
| Net interest income (TE) | \$37,735 | \$34,801 | \$30,349 | \$29,216 | \$29,130 |
| Total net interest income (not TE) | 37,448 | 34,493# | 30,222 | 29,100 | 29,011 |
| Net interest margin (TE) | 3.69 % | 3.63 % | 3.68 % | 3.67 % | 3.75 % |
| Net interest margin (not TE) | 3.66 | 3.60 | 3.67 | 3.66 | 3.73 |

Noninterest Income

Noninterest income excluding securities gains, totaled \$9.8 million for the third quarter of 2016, \$1.7 million above \$8.1 million recorded in the third quarter of 2015. Significant contributors to the increase in noninterest income include mortgage banking revenue of \$1.9 million, which increased \$0.7 million or 60% from the year-ago period, reflecting record originations and sale of seasoned residential mortgages for a gain of \$0.4 million. Strong increases in interchange income and service charges on deposit accounts, up \$0.4 million or 20% and \$0.5 million or 22%, respectively. Digitally driven product marketing and service delivery, combined with strong organic and acquisition-related household growth, were primary growth occurring in noninterest income during the third quarter of 2016, compared to 2015’s third quarter.

Noninterest income excluding securities gains, increased \$0.7 million or 7% (not annualized) from second quarter 2016 levels. Strength in mortgage banking revenue, as well as transaction-based fees for deposit service charges, was instrumental to the linked-quarter gain.

Year-to-date 2016 (the first nine months) noninterest income accounted for 21.2% of total revenue (defined as net interest income plus noninterest income, excluding securities gains).

Noninterest income detail is delineated in “Note H – Noninterest Income and Expense.” A summary of more significant noninterest income categories for the third quarter of 2016, compared to second quarter 2016 and the third quarter of 2015 are as follows:

| | Third Quarter 2016 | Second Quarter 2016 | Third Quarter 2015 |
|-----------------------------|--------------------------|---------------------------|--------------------------|
| (Dollars in thousands) | | | |
| Service charges on deposits | \$2,698 | \$2,230 | \$2,217 |
| Mortgage banking fees | 1,885 | 1,364 | 1,177 |
| Interchange income | 2,306 | 2,370 | 1,925 |
| Other income | 2,875 | 3,147 | 2,763 |
| Total | \$9,764 | \$9,111 | \$8,082 |

*Additional detail for “Other” can be found in “Note H – Noninterest Income and Expense.”

Noninterest Expenses

Noninterest expenses in the first three quarters of 2016 reflect merger activity and other investments in the Seacoast strategy.

Noninterest expenses increased \$4.3 million from the third quarter of 2015. Third quarter 2016 expenses were impacted by \$2.6 million in acquisition and other nonrecurring expenses compared to \$3.0 million in the third quarter of 2015. Adjusted noninterest expense, a non-GAAP measure (see page 45, “*Explanations Certain of Non-GAAP Financial Measures*” in Results of Operations), increased \$4.7 million from prior-year levels. The year-over-year increase in adjusted expense reflects ongoing costs related to the 2015 and 2016 acquisitions of Floridian, and BMO Harris’ Orlando operations. Expenses also reflect support of organic growth of and investment in the franchise. Larger drivers include salary and benefit costs, occupancy, and furniture and equipment costs, largely from acquisition activity. While adjusted noninterest expenses (see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” in “Results of Operations”) grew 18% compared to prior year levels, total revenue excluding securities gains grew 27%, providing 9% operating leverage.

Noninterest expense decreased \$1.4 million from the second quarter of 2016, due to a higher level of merger expenses recorded in the second quarter related to 2016 acquisitions. Adjusted noninterest expense (see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” in “Results of Operations”) grew \$1.8 million or 6%. Contributing to the higher adjusted noninterest expense (see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” in “Results

of Operations”) during the third quarter of 2016 were salary and benefit costs, and outsourced data processing costs, as well as, higher amortization of intangibles, largely from acquisition activity. Expenses related the acquisition of Floridian on March 11, 2016 were significant as well. This is excluded from adjusted expense (see page 45, “*Explanation of Certain Non-GAAP Financial Measures*” in “Results of Operations”).

Salaries and employee benefit costs totaling \$16.8 million were \$2.5 million or 17.4% higher for 2016’s third quarter, compared to 2015 for the same period. Of the \$2.5 million increase in the third quarter of 2016, base salaries were \$1.8 million higher during the third quarter of 2016, due to acquisitions, investments in strategy and people to support growth. Improved revenue generation and lending production, among other factors resulted in commissions, cash and stock incentives (aggregated) that were \$1.4 million higher for 2016, compared to third quarter a year ago, but were partially offset by higher deferred costs (a contra) for significantly improved loan production, reducing total salaries by \$0.4 million. Severance costs related to merger activity and bank closures were also lower, by \$0.3 million compared to third quarter 2015.

Seacoast Bank utilizes third parties for its core data processing systems and outsourced data processing costs are correlated to the number of transactions processed. Outsourced data processing costs totaled \$3.2 million for the third quarter of 2016, comparable to a year ago, but a \$0.4 million or 14.1% increase in cost compared to the second quarter of 2016. The primary cause the increase is related to growth in total households banking with Seacoast and increased products utilized by each household. The Company wholly expects its digital servicing capabilities and technology will continue to support better, more efficient channel integration, allowing consumers 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.

Total occupancy, furniture and equipment expenses for the third quarter of 2016 increased \$1.6 million or 49.5% (on an aggregate basis) to \$4.9 million year over year. Branch closure charges summed to \$0.7 million, \$1.1 million and \$0.7 million, respectively, in the third, second and first quarters of 2016. This increase is primarily driven by the ten branches acquired in the Floridian and BMO Harris acquisitions, and the write down of legacy and acquired branches designated to be closed this year. Ten branches were consolidated during the third quarter of 2016, and will lessen the impacts of acquired locations prospectively. Branch consolidation is expected to continue for the Company and the banking industry in general, as customers increase their usage of digital and mobile products.

Increases and decreases in remaining expenses were not as significant, but it should be noted that second quarter 2016 included the \$1.8 million for early redemption of the FHLB advances previously discussed. Marketing expenses were lower by 18.5% and 29.0%, respectively, when compared to the second quarter of 2016 and prior year's third quarter result, as the focus the past couple quarters was on integration of acquired households.

Significant noninterest expense categories for the third quarter of 2016, compared to second quarter 2016 and the third quarter of 2015, is detailed as follows:

| | Third Quarter 2016 | Second Quarter 2016 | Third Quarter 2015 |
|--|--------------------------|---------------------------|--------------------------|
| (Dollars in thousands) | | | |
| Salaries and employee benefits | \$16,762 | \$16,405 | \$14,280 |
| Outsourced data processing costs | 3,198 | 2,803 | 3,277 |
| Occupancy | 3,675 | 3,645 | 2,396 |
| Furniture and equipment | 1,228 | 1,283 | 883 |
| Marketing | 780 | 957 | 1,099 |
| Legal and professional fees | 2,213 | 2,656 | 2,189 |
| Amortization of intangibles | 728 | 593 | 397 |
| Early redemption cost for Federal Home Loan Bank advances | 0 | 1,777 | 0 |
| Other | 4,851 | 4,689 | 4,606 |
| Total | \$33,435 | \$34,808 | \$29,127 |

*Additional detail for "Other" can be found in "Note H – Noninterest Income and Expense."

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.

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.

For 2016's third quarter and first nine months, we recorded provisioning for loan losses of \$0.6 million and \$1.4 million, respectively, which compared to provisioning of \$1.0 million and \$2.3 million, respectively, for 2015's third quarter and first nine months. Net recoveries of \$2.1 million through September 30, 2016, compare to net charge-offs of a nominal amount for the first nine months of 2015 (see "Note F – Impaired Loans and Allowance for Loan Losses"). For 2016, provisioning for loan losses reflects continued strong credit metrics and significant net recoveries, offset by continued loan growth. Delinquency trends remain low and show continued stability (see section titled "Nonperforming Loans, Troubled Debt Restructurings, Other Real Estate Owned, and Credit Quality").

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 \$3.4 million to \$22.7 million at September 30, 2016, compared to \$19.3 million at September 30, 2015. 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 September 30, 2016, the specific allowance related to impaired portfolio loans individually evaluated totaled \$2.0 million, compared to \$3.1 million as of September 30, 2015.

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 September 30, 2016 include loans acquired from BMO Harris on June 3, 2016, Floridian on March 11, 2016, 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. These amounts are accreted into interest income over the remaining lives of the related loans on a level yield basis, and remained adequate at September 30, 2016.

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 Bank's board of directors.

Net recoveries for the three months and nine months ended September 30, 2016 totaled \$1,409,000 and \$2,145,000, respectively, compared to net charge-offs of \$450,000 and \$18,000, respectively, for the three months and nine months ended September 30, 2015. 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 September 30, 2016 and 2015. 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 1.00% at September 30, 2016, compared to 1.11% at September 30, 2015. 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 September 30, 2016. 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 September 30, 2016, the Company had \$2.281 billion in loans secured by real estate, representing 82.4% of total loans, up from \$1.810 billion and a percent of total loans (versus 86.2%) at September 30, 2015. 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, Grand, Floridian and BMO Harris acquisitions are being amortized 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.

Fair value estimates for acquired assets and assumed liabilities are based on the information available, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available.

Other Fair Value Measurements – Critical Accounting Policies and Estimates

“As Is” values are used to measure fair market value on impaired loans, OREO and repossessed assets. All impaired loans, OREO and repossessed assets 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. Collateral dependent impaired loans are loans that are solely dependent on the liquidation of the collateral for repayment. 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.

At September 30, 2016, outstanding securities designated as available for sale totaled \$866.6 million. The fair value of the available for sale portfolio at September 30, 2016 was more than historical amortized cost, producing net unrealized gains 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 2016 and 2015. The credit quality of the Company’s securities holdings are primarily investment grade.

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.

Realization of Deferred Tax Assets – Critical Accounting Policies and Estimates

At September 30, 2016, the Company had net deferred tax assets (“DTA”) of \$58.8 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 September 30, 2015 the Company had a net DTA of \$61.0 million.

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 September 30, 2016, 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 third quarter 2016 Asset and Liability Management Committee (“ALCO”) model simulation indicates net interest income would increase 7.8% if interest rates increased 200 basis points up over the next 12 months and 4.1% if interest rates increased 100 basis points. This compares with the Company’s third quarter 2015 model simulation, which indicated net interest income would increase 10.3% if interest rates were increased 200 basis points up over the next 12 months and 4.8% 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 10.0% at September 30, 2016. 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.

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.

Special Cautionary Notice Regarding Forward Looking Statements

Various of the statements made herein under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Quantitative and Qualitative Disclosures about Market Risk", "Risk Factors" and elsewhere, are "forward-looking statements" within the meaning and protections of Section 27A of the Securities Act of 1933 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, estimates and intentions, 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 to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. You should not expect us to update any 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,” “support,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “estimate,” “continue,” “further,” “point to,” “project,” “co” 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 future economic and market conditions, including seasonality;
- governmental monetary and fiscal policies, as well as legislative, tax and regulatory changes;

legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, and changes in the scope and cost of FDIC insurance and other coverage;

- changes in accounting policies, rules and practices;

the risks of changes in interest rates on the level and composition of deposits, loan demand, liquidity and the values of loan collateral, securities, and interest sensitive assets and liabilities; interest rate risks, sensitivities and the shape of the yield curve;

the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market areas and elsewhere, including institutions operating regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the Internet;

- the failure of assumptions underlying the establishment of reserves for possible loan losses;

the risks of mergers and acquisitions, include, without limitation, unexpected transaction costs, including the costs of integrating operations; the risks that the businesses will not be integrated successfully or that such integration may be more difficult, time-consuming or costly than expected;

the potential failure to fully or timely realize expected revenues and revenue synergies, including as the result of revenues following the merger being lower than expected;

the risk of deposit and customer attrition; any changes in deposit mix; unexpected operating and other costs, which may differ or change from expectations;

the risks of customer and employee loss and business disruption, including, without limitation, as the result of difficulties in maintaining relationships with employees; increased competitive pressures and solicitations of customers by competitors; as well as the difficulties and risks inherent with entering new markets; and

other risks and uncertainties described herein and in our annual report on Form 10-K for the year ended December 31, 2015 and otherwise in our Securities and Exchange Commission, or "SEC", reports and filings.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary notice. We have no obligation and do not undertake to update, revise or correct any of the forward-looking statements after the date of this report, or after the respective dates on which such statements otherwise are made.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Management's discussion and analysis "Interest Rate Sensitivity".

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 third quarter 2016 modeling, an instantaneous 100 basis point increase in rates is estimated to increase the EVE 18.2% versus the EVE in a stable rate environment, while a 200 basis point increase in rates is estimated to increase the EVE 30.5%.

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.

Item 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of its chief executive officer and chief financial officer has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of September 30, 2016 and concluded that those disclosure controls and procedures are effective. There have been no changes to the Company's internal control over financial reporting that occurred since the beginning of the Company's third quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

While the Company believes that its existing disclosure controls and procedures have been effective to accomplish these objectives, the Company intends to continue to examine, refine and formalize its disclosure controls and procedures and to monitor ongoing developments in this area.

Part II. OTHER INFORMATION**Item 1. Legal Proceedings**

The Company and its subsidiaries are subject, in the ordinary course, to litigation incident to the business in which they are engaged. Management presently believes that none of the legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is the subject are materially likely to have a material adverse effect on the Company's consolidated financial position, or operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should consider the factors discussed in "Part I, Item 1A. Risk Factors" in our report on Form 10-K for the year ended December 31, 2015, which could materially affect our business, financial condition and prospective results. The risks described in this report, in our Form 10-K or our other SEC filings are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results. There have been no material changes with respect to the risk factors disclosed in our Annual Report on form 10-K for the year ended December 31, 2015.

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

Issuer purchases of equity securities during the first, second and third quarters of 2016, entirely related to equity incentive plan activity, were as follows:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as part of Public Announced Plan* | Maximum Number of Shares that May yet be Purchased Under the Plan |
|-------------------|---|---------------------------------|---|---|
| 1/1/16 to 1/31/16 | 0 | \$ 0.00 | 187,785 | 227,215 |
| 2/1/16 to 2/29/16 | 3,252 | 14.81 | 191,037 | 223,963 |
| 3/1/16 to 3/31/16 | 0 | 0.00 | 191,037 | 223,963 |

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| | | | | |
|---------------------|--------|-------|---------|---------|
| Total - 1st Quarter | 3,252 | 14.81 | 191,037 | 223,963 |
| 4/1/16 to 4/30/16 | 7,213 | 15.99 | 198,250 | 216,750 |
| 5/1/16 to 5/31/16 | 466 | 16.15 | 198,716 | 216,284 |
| 6/1/16 to 6/30/16 | 18,999 | 16.31 | 217,715 | 197,285 |
| Total - 2nd Quarter | 26,678 | 16.22 | 217,715 | 197,285 |
| 7/1/16 to 7/31/16 | 0 | 0.00 | 217,715 | 197,285 |
| 8/1/16 to 8/31/16 | 15,977 | 16.17 | 233,692 | 181,308 |
| 9/1/16 to 9/30/16 | 0 | 0.00 | 233,692 | 181,308 |
| Total - 3rd Quarter | 15,977 | 16.17 | 233,692 | 181,308 |

*The plan to purchase equity securities totaling 165,000 was approved on September 18, 2001, with no expiration date. An additional 250,000 shares was added to the plan and approved on May 20, 2014.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

During the period covered by this report, there was no information required to be disclosed by us in a Current Report on Form 8-K that was not so reported, nor were there any material changes to the procedures by which our security holders may recommend nominees to our Board of Directors.

Item 6. Exhibits

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

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

Exhibit 32.1 Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101 The following materials from Seacoast Banking Corporation of Florida's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, (iv) the Notes to Condensed Consolidated Financial Statements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEACOAST BANKING CORPORATION OF FLORIDA

November 9, 2016 /s/ Dennis S. Hudson, III
DENNIS S. HUDSON, III
Chairman & Chief Executive Officer

November 9, 2016 /s/ Stephen A. Fowle
STEPHEN A. FOWLE
Executive Vice President & Chief Financial Officer