

SEACOAST BANKING CORP OF FLORIDA
Form 10-K
March 16, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

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

For the transition period from _____ to _____

Commission File No. 0-13660

SEACOAST BANKING CORPORATION OF FLORIDA

(Exact Name of Registrant as Specified in Its Charter)

Florida (State or Other Jurisdiction of Incorporation or Organization)	59-2260678 (I.R.S. Employer Identification No.)
815 Colorado Avenue, Stuart, FL (Address of Principal Executive Offices)	34994 (Zip Code)

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

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

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

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

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

YES NO

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

YES NO

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

YES NO

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

YES NO

The aggregate market value of Seacoast Banking Corporation of Florida common stock, par value \$0.10 per share, held by non-affiliates, computed by reference to the price at which the stock was last sold on June 30, 2014, as reported on the Nasdaq Global Select Market, was \$210,642,143.

The number of shares outstanding of Seacoast Banking Corporation of Florida common stock, par value \$0.10 per share, as of February 27, 2015, was 33,135,526.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant’s 2015 Proxy Statement for the Annual Meeting of Shareholders to be held May 26, 2015 (the “2015 Proxy Statement”) are incorporated by reference into Part III, Items 10 through 14 of this report. Other than those portions of the 2015 Proxy Statement specifically incorporated by reference herein pursuant to Items 10 through 14, no other portions of the 2015 Proxy Statement shall be deemed so incorporated.

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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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and are intended to be covered by the safe harbor provided by the same.

Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause the actual results, performance or achievements of Seacoast Banking Corporation of Florida (“Seacoast” or the “Company”) to be materially different from those set forth in the forward-looking statements.

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

the effects of current and future economic, business and market conditions in the United States generally or in the communities we serve, including the effects of declines in property values, unemployment rates and potential reduction of economic growth;

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

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

changes in accounting policies, rules and practices and applications or determinations made thereunder, as required by the Financial Accounting Standards Board or other regulatory agencies;

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

changes in borrower credit risks and payment behaviors, including changes in the speed of loan prepayments, loan originations and sale volumes, charge-offs, loan loss provisions or actual loan losses;

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

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

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

our concentration in commercial real estate loans;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Part I

Item 1. Business

General

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

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

As of December 31, 2014, we had total consolidated assets of approximately \$3.093 billion, total deposits of approximately \$2.417 billion, total consolidated liabilities, including deposits, of approximately \$2.781 billion and consolidated shareholders’ equity of approximately \$312.7 million. Our operations are discussed in more detail under “Item 7. Management’s Discussion and Analysis of Consolidated Financial Condition and Results of Operations.”

We and our subsidiaries offer a full array of deposit accounts and retail banking services, engage in consumer and commercial lending and provide a wide variety of trust and asset management services, as well as securities and annuity products to our customers. Seacoast National had 43 traditional banking offices in 14 counties in Florida at year-end 2014. We have 20 branches in the “Treasure Coast of Florida,” including the counties of Martin, St. Lucie and Indian River on Florida’s southeastern coast. During 2013, we expanded our footprint by strategically opening five new commercial lending offices in the larger metropolitan markets we serve, more specifically, three in Orlando, one in Boca Raton, and one in Ft. Lauderdale, Florida. Most recently, in October 2014, we acquired 12 branches in Central Florida through our acquisition of The BANKshares, Inc., a Florida corporation (“BANKshares”), and its subsidiary bank, BankFIRST.

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

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

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

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

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

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

We have seven indirect, wholly-owned subsidiaries:

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

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

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

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

BankFIRST Realty, Inc., acquired in the BANKshares acquisition, which owns and operates certain properties acquired through foreclosure.

The operations of each of these direct and indirect subsidiaries represented less than 10% of our consolidated assets and contributed less than 10% to our consolidated revenues in 2014.

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

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

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

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

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

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

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

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

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

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

Employees

As of December 31, 2014, we and our subsidiaries employed 579 full-time equivalent employees. We consider our employee relations to be good, and we have no collective bargaining agreements with any employees.

Expansion of Business

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

new branches and commercial lending offices.

In 2002, we entered Palm Beach County by establishing a new branch office. On April 30, 2005, we acquired Century National Bank, a commercial bank headquartered in Orlando, Florida. Century National Bank operated as our wholly owned subsidiary until August 2006 when it was merged with Seacoast National.

In April 2006, we acquired Big Lake National Bank (“Big Lake”), a commercial bank headquartered in Okeechobee, Florida, inland from our Treasure Coast markets, with nine offices in seven counties. Big Lake was merged with Seacoast National in June 2006.

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

Florida law permits statewide branching, and Seacoast National has expanded, and anticipates future expansion, by opening additional bank offices and facilities, as well as by acquisition of other financial institutions and branches. Since 2002, we have opened and acquired 31 new offices in 14 counties of Florida. With technology improvements and changes, we have also rationalized our branch footprint by closing and consolidating less productive branches. Since 2007, we have closed 16 offices in seven counties of Florida, with five offices consolidated in December 2014, two offices consolidated in January 2013 and three additional offices consolidated during the last six months of 2012. During 2013, we opened five new commercial lending offices in our larger metropolitan locations in Florida, with three opened in Orlando, one in Ft. Lauderdale and one in Boca Raton. The Seacoast Marine Finance Division operates a loan production office in Ft. Lauderdale, Florida, and has representation in California, Washington and Arizona. For more information on our branches and offices see “Item 2. Properties”. As part of our overall strategic growth plan, we intend to regularly evaluate possible mergers, acquisitions and other expansion opportunities. We believe that with the current economic environment, there will be many opportunities for us to acquire and consolidate other financial institutions in the State of Florida.

Seasonality; Cycles

We believe our commercial banking operations are somewhat seasonal in nature. Investment management fees and deposits often peak in the first and second quarters, and often are lowest in the third quarter. Transactional fees from merchants, and ATM and debit card use also typically peak in the first and second quarters. Public deposits tend to increase with tax collections in the first and fourth quarters and decline as a result of spending thereafter.

Deposits also tend to increase due to hurricanes as insurers disburse insurance proceeds more quickly than hurricane-related damage is repaired. No major hurricanes occurred between 2006 and 2014; as a result, deposit trends were more typical than during 2004 and 2005, when major hurricanes hit our coastal market areas, leading to an increase in deposits.

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

Competition

We and our subsidiaries operate in the highly competitive markets of Martin, St. Lucie, Indian River, Brevard, Palm Beach and Broward Counties, in southeastern Florida and in the Orlando metropolitan statistical area in Orange, Seminole and Lake County, as well as Volusia County. We also operate in five competitive counties in central Florida near Lake Okeechobee. Seacoast National not only competes with other banks of comparable or larger size in its markets, but also competes with various other nonbank financial institutions, including savings and loan associations,

credit unions, mortgage companies, personal and commercial financial companies, peer to peer lending businesses, investment brokerage and financial advisory firms and mutual fund companies. We compete for deposits, commercial, fiduciary and investment services and various types of loans and other financial services. Seacoast National also competes for interest-bearing funds with a number of other financial intermediaries and investment alternatives, including mutual funds, brokerage and insurance firms, governmental and corporate bonds, and other securities. Continued consolidation, and rapid technological changes, within the financial services industry will most likely change the nature and intensity of competition that we face, but can also create opportunities for us to demonstrate and exploit what we believe are our competitive advantages.

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

Supervision and Regulation

Bank holding companies and banks are extensively regulated under federal and state law. This discussion is qualified in its entirety by reference to the particular statutory and regulatory provisions below and is not intended to be an exhaustive description of the statutes or regulations applicable to us and Seacoast National’s business. As a bank holding company under federal law, we are subject to regulation, supervision and examination by the Federal Reserve. As a national bank, our primary bank subsidiary, Seacoast National, is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (“OCC”). In addition, as discussed in more detail below, Seacoast National and any other of our subsidiaries that offer consumer financial products could be subject to regulation, supervision, and examination by the Consumer Financial Protection Bureau (“CFPB”). Supervision, regulation, and examination of us, Seacoast National and our respective subsidiaries by the bank regulatory agencies are intended primarily for the protection of consumers, bank depositors and the Deposit Insurance Fund (“DIF”) of the FDIC, rather than holders of our capital stock. The following summarizes certain of the more important statutory and regulatory provisions. Substantial changes to the regulatory framework applicable to us and our subsidiaries were passed by the U.S. Congress in 2010. These changes have been, and will continue to be implemented, by various regulatory agencies. For a discussion of such changes, see “Recent Regulatory Developments” below. The full effect of the changes in the applicable laws and regulations, as implemented by the regulatory agencies, cannot be fully predicted and could have a material adverse effect on our business and results of operations.

We are required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as rules and regulations adopted by the SEC, the Public Company Accounting Oversight Board, and Nasdaq. In particular, we are required to include management and independent registered public accounting firm reports on internal controls as part of our Annual Report on Form 10-K in order to comply with Section 404 of the Sarbanes-Oxley Act. We have evaluated our controls, including compliance with the SEC rules on internal controls, and have and expect to continue to spend significant amounts of time and money on compliance with these rules. Our failure to comply with these internal control rules may materially adversely affect our reputation, ability to obtain the necessary certifications to financial statements, and the values of our securities. The assessments of our financial reporting controls as of December 31, 2014 are included in this report under “Section 9A. Controls and Procedures.”

Recent Regulatory Developments

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

On July 21, 2010, President Obama signed into law the Dodd-Frank Act. The Dodd-Frank Act has and will continue to have a broad impact on the financial services industry, imposing significant regulatory and compliance changes, the imposition of increased capital, leverage and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework of authority to conduct systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, (the "Oversight Council"), the Federal Reserve, the OCC and the FDIC. Certain requirements of the Dodd-Frank Act have been implemented, while others will be implemented by regulators in the coming years. Provisions of the Dodd-Frank Act that have or are likely to affect our operations or the operations of Seacoast National include:

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

New limitations on federal preemption.

New prohibitions and restrictions on the ability of a banking entity and nonbank financial company to engage in proprietary trading and have certain interests in, or relationships with, a hedge fund or private equity fund (the "Volcker Rule").

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

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

Changes to the assessment base for deposit insurance premiums.

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

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

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

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

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

Creation of New Governmental Authorities. The Dodd-Frank Act created various new governmental authorities such as the Oversight Council and the CFPB, an independent regulatory authority housed within the Federal Reserve. The CFPB has broad authority to regulate the offering and provision of consumer financial products. The CFPB has rulemaking authority for a range of consumer financial protection laws (such as the Truth in Lending Act, the Electronic Funds Transfer Act and the Real Estate Settlement Procedures Act, among others) transferred from the federal prudential banking regulators to the CFPB on that date. The Dodd-Frank Act gave the CFPB authority to supervise and examine depository institutions with more than \$10 billion in assets for compliance with these federal consumer laws. The authority to supervise and examine depository institutions with \$10 billion or less in assets for compliance with federal consumer laws remains largely with those institutions' primary regulators. However, the CFPB may participate in examinations of these smaller institutions on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. The CFPB also has supervisory and examination authority over certain nonbank institutions that offer consumer financial products. The Dodd-Frank Act identifies a number of covered nonbank institutions, and also authorizes the CFPB to identify additional institutions that will be subject to its jurisdiction. Accordingly, the CFPB may participate in examinations of Seacoast National, which currently has assets of less than \$10 billion, and could supervise and examine our other direct or indirect subsidiaries that offer consumer financial products or services. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB, and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against certain institutions.

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

Mortgage Loan Origination and Risk Retention. The Dodd-Frank Act contains additional regulatory requirements that may affect our mortgage origination and servicing operations, result in increased compliance costs and may impact revenue. For example, in addition to numerous new disclosure requirements, the Dodd-Frank Act imposed new standards for mortgage loan originations on all lenders, including banks, in an effort to strongly encourage lenders to verify a borrower's ability to repay. The CFPB has issued rules that implement this "ability-to-repay" requirement and provide lenders with protection from liability for "qualified mortgages," as required by the Dodd-Frank Act. Most significantly, the new "qualified mortgage" standards, which took effect on January 10, 2014, generally limit the total points and fees that we and/or a broker may charge on conforming and jumbo loans to 3% of the total loan amount. Also, the Dodd-Frank Act, in conjunction with the Federal Reserve's final rule on loan originator compensation, prohibits certain compensation payments to loan originators and steering consumers to loans not in their interest because it will result in greater compensation for a loan originator. In addition, the CFPB has issued additional rules pertaining to loan originator compensation, and that established qualification, registration and licensing requirements for loan originators. These standards will result in a myriad of new system, pricing, and compensation controls in order to ensure compliance and to decrease repurchase requests and foreclosure defenses. In addition, the banking regulators that have issued final rules that require the securitizer of asset-backed securities to retain not less than 5 percent of the credit risk of the assets collateralizing the asset-backed securities, unless subject to an exemption for asset-backed securities that are collateralized exclusively by residential mortgages that qualify as "qualified residential

mortgages.”

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Corporate Governance. The Dodd-Frank Act addresses many investor protection, corporate governance, and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for Compensation Committee members; and (3) requires companies listed on national securities exchanges to adopt incentive-based compensation clawback policies for executive officers. Additionally, the Dodd-Frank Act requires federal regulators to issue regulations or guidelines to prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by providing excessive compensation or that may lead to material losses at certain financial institutions with \$1 billion or more in assets. However, regulators have yet to issue final rules on the topic. Further, in June 2010, the regulators issued a comprehensive final guidance designed to ensure that incentive compensation policies do not undermine the safety and soundness of banking organizations by encouraging employees to take imprudent risks. This regulation significantly restricts the amount, form, and context in which we pay incentive compensation to our employees.

Deposit Insurance. The Dodd-Frank Act permanently raised the standard maximum insurance amount to \$250,000. Amendments to the Federal Deposit Insurance Act (the “FDIA”) also revise the DIF assessment base to be the average consolidated total assets less its average tangible equity. This has shifted the burden of deposit insurance premiums toward those depository institutions that rely on funding sources other than U.S. deposits. Additionally, the Dodd-Frank Act made changes to the minimum designated reserve ratio (“DRR”) of the DIF, increasing the minimum DRR, eliminated the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds, and modified or eliminated certain adjustments. Additionally, the Dodd-Frank Act repealed the prohibition on the payment of interest on demand deposits.

Capital Standards. We are required to comply with higher minimum capital requirements as of January 1, 2015. These new rules (“Revised Capital Rules”) implement the Dodd-Frank Act including the “Collins Amendment” and a separate international regulatory regime known as “Basel III” (which is discussed below). The Collins Amendment required that the appropriate federal banking agencies establish minimum leverage and risk-based capital requirements on a consolidated basis for insured depository institutions and their holding companies. As a result, we and Seacoast National are subject to the same capital requirements, and must include the same components in regulatory capital.

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

While many of the requirements called for in the Dodd-Frank Act have been implemented, others will continue to be implemented over time. Given the extent of the changes brought about by the Dodd-Frank Act and the significant

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

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

Basel III

As a result of the Dodd-Frank Act’s Collins Amendment, we and Seacoast National are subject to the same regulatory capital requirements. Prior to January 1, 2015, the risk-based capital guidelines that apply to us are based upon the 1988 capital accord of the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the U.S. federal banking agencies on an interagency basis. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord (“Basel II”) for large or “core” international banks (generally defined for U.S. purposes as having total assets of \$250 billion or more or consolidated foreign exposures of \$10 billion or more). Basel II emphasizes internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement to a strengthened set of capital requirements for internationally active banking organizations in the United States and around the world (“Basel III”). In July 2013, U.S. regulators issued the Revised Capital Rules, which implement Basel III, as well as capital requirements set forth in the Dodd-Frank Act.

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

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

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

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

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

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

The Revised Capital Rules also preclude counting certain hybrid securities, such as trust preferred securities, as Tier 1 capital of bank or thrift holding companies. However, for bank or thrift holding companies that had assets of less than \$15 billion as of December 31, 2009 like us, trust preferred securities issued prior to May 19, 2010 can be treated as Tier 1 capital to the extent that they do not exceed 25% of Tier 1 capital after applying all capital deductions and adjustments.

Bank Holding Company Regulation

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

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

banking or managing or controlling banks.

furnishing services to or performing services for our subsidiaries; and

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

factoring accounts receivable;

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

leasing personal or real property;

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

performing trust company functions;

providing financial and investment advisory activities;

conducting discount securities brokerage activities;

- underwriting and dealing in government obligations and money market instruments;

providing specified management consulting and counseling activities;

performing selected data processing services and support services;

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

performing selected insurance underwriting activities;

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

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

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

The Gramm-Leach-Bliley Act of 1999 (the “GLB”) substantially revised the statutory restrictions separating banking activities from certain other financial activities. Under the GLB, bank holding companies that are “well-capitalized” and “well-managed”, as defined in Federal Reserve Regulation Y, which have and maintain “satisfactory” ratings under the Community Reinvestment Act of 1977, as amended (the “CRA”), and meet certain other conditions, can elect to become “financial holding companies”. Financial holding companies and their subsidiaries are permitted to acquire or engage in activities such as insurance underwriting, securities underwriting, travel agency activities, a broad range of insurance

agency activities, merchant banking, and other activities that the Federal Reserve determines to be financial in nature or complementary thereto. In addition, under the merchant banking authority added by the GLB and Federal Reserve regulation, financial holding companies are authorized to invest in companies that engage in activities that are not financial in nature, as long as the financial holding company makes its investment with the intention of limiting the term of its investment and does not manage the company on a day-to-day basis, and the invested company does not cross-market with any of the financial holding company's controlled depository institutions. Financial holding companies continue to be subject to supervision and regulation of the Federal Reserve, but the GLB applies the concept of functional regulation to the activities conducted by subsidiaries. For example, insurance activities would be subject to supervision and regulation by state insurance authorities. While we have not become a financial holding company, we may elect to do so in the future in order to exercise the broader activity powers provided by the GLB. Banks may also engage in similar "financial activities" through subsidiaries. The GLB also includes consumer privacy provisions, and the federal bank regulatory agencies have adopted extensive privacy rules implementing these statutory provisions.

The BHC Act permits acquisitions of banks by bank holding companies, such that we and any other bank holding company, whether located in Florida or elsewhere, may acquire a bank located in any other state, subject to certain deposit-percentage, age of bank charter requirements, and other restrictions. Federal law also permits national and state-chartered banks to branch interstate through acquisitions of banks in other states. Florida's Interstate Branching Act (the "Florida Branching Act") permits interstate branching. Under the Florida Branching Act, with the prior approval of the Florida Department of Banking and Finance, a Florida bank may establish, maintain and operate one or more branches in a state other than the State of Florida pursuant to a merger transaction in which the Florida bank is the resulting bank. In addition, the Florida Branching Act provides that one or more Florida banks may enter into a merger transaction with one or more out-of-state banks, and an out-of-state bank resulting from such transaction may maintain and operate the branches of the Florida bank that participated in such merger. An out-of-state bank, however, is not permitted to acquire a Florida bank in a merger transaction, unless the Florida bank has been in existence and continuously operated for more than three years.

Support of Subsidiary Banks by Holding Companies. Federal Reserve policy requires a bank holding company to act as a source of financial and managerial strength and to preserve and protect its bank subsidiaries in situations where additional investments in a troubled bank may not otherwise be warranted. Notably, the Dodd-Frank Act has codified the Federal Reserve's "source of strength" doctrine; this statutory change became effective July 21, 2011. In addition, the Dodd-Frank Act's new provisions authorize the Federal Reserve to require a company that directly or indirectly controls a bank to submit reports that are designed both to assess the ability of such company to comply with its "source of strength" obligations and to enforce the company's compliance with these obligations. In addition, under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), where a bank holding company has more than one bank or thrift subsidiary, each of the bank holding company's subsidiary depository institutions are responsible for any losses to the FDIC resulting from an affiliated depository institution's failure. Accordingly, a bank holding company may be required to loan money to its bank subsidiaries in the form of capital notes or other instruments that qualify as capital under bank regulatory rules. However, any loans from the bank holding company to such subsidiary banks likely will be unsecured and subordinated to such bank's depositors and perhaps to other creditors of the bank.

Capital Requirements

Prior to January 1, 2015, we and Seacoast National were subject to risk-based capital guidelines issued by the Federal Reserve and the OCC for bank holding companies and national banks, respectively. These guidelines required a minimum ratio of capital to risk-weighted assets (including certain off-balance-sheet activities, such as standby letters of credit) of 8%. At least half of the total capital must have consisted of common equity, retained earnings and a limited amount of qualifying preferred stock, less goodwill and certain core deposit intangibles ("Tier 1 capital"). The remainder may have consisted of non-qualifying preferred stock, qualifying subordinated, perpetual, and/or mandatory convertible debt, term subordinated debt and intermediate term preferred stock and up to 45% of pretax unrealized holding gains on available for sale equity securities with readily determinable market values that are prudently valued, and a limited amount of any loan loss allowance ("Tier 2 capital" and, together with Tier 1 capital, "Total Capital"). Under these rules, the Federal Reserve has stated that Tier 1 voting common equity should be the predominant form of capital.

In addition, the Federal Reserve and the OCC established minimum leverage ratio guidelines for bank holding companies and national banks, which provide for a minimum leverage ratio of Tier 1 capital to adjusted average quarterly assets (“leverage ratio”) equal to 3%, plus an additional cushion of 1.0% to 2.0%, if the institution has less than the highest regulatory rating. The guidelines also provided that institutions experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. All bank holding companies and banks are expected to hold capital commensurate with the level and nature of their risks, including the volume and severity of their problem loans, and higher capital may be required as a result of an institution’s risk profile.

As noted above in “Basel III”, the capital requirements applicable to us and Seacoast National have changed effective January 1, 2015 in important respects as a result of the Revised Capital Rules, which implement provisions of the Dodd-Frank Act and Basel III. Moreover, reflecting the importance that regulators place on managing capital and other risks, the banking agencies have adopted rules and guidance for stress testing for banking organizations with more than \$10 billion in total consolidated assets; the regulatory guidance outlines four “high-level” principles for stress testing practices that should be a part of a banking organization’s stress-testing framework. The guidance calls for the framework to (i) include activities and exercises that are tailored to the activities of the organization; (ii) employ multiple conceptually sound activities and approaches; (iii) be forward-looking and flexible; and (iv) be clear, actionable, well-supported, and used in the decision-making process.

FDICIA and Prompt Corrective Action

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

All of the federal bank regulatory agencies have adopted regulations establishing relevant capital measures and relevant capital levels for federally insured depository institutions. Under the regulations effective prior to January 1, 2015, a national bank will be (i) “well capitalized” if it has a total risk-based capital ratio of 10% or greater, a Tier 1 capital ratio of 6% or greater, and a leverage ratio of at least 5%, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive by a federal bank regulatory agency to meet and maintain a specific capital level for any capital measure; (ii) “adequately capitalized” if it has a total risk-based capital ratio of 8% or greater, a Tier 1 capital ratio of 4% or greater, and a leverage ratio of 4% or greater (3% in certain circumstances) and does not meet the definition of a “well capitalized” bank; (iii) “undercapitalized” if it has a total risk-based capital ratio of less than 8% or a Tier 1 capital ratio of less than 4% or a leverage ratio that is less than 4% (3% in certain circumstances); (iv) “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6% or a Tier I capital ratio of less than 3%, or a leverage ratio of less than 3%; or (v) “critically undercapitalized” if its tangible equity

is equal to or less than 2% of average quarterly tangible assets. In order to qualify as well-capitalized or adequately capitalized, an insured depository institution must meet all three minimum requirements. At each successively lower capital tier, increasingly stringent corrective actions are or may be required. The federal bank regulatory agencies have authority to require additional capital.

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

As of December 31, 2014, the consolidated capital ratios of Seacoast and Seacoast National were as follows:

	Regulatory Minimum		Seacoast (Consolidated)		Seacoast National	
Tier 1 capital ratio	4.0	%	15.39	%	13.46	%
Total risk-based capital ratio	8.0	%	16.25	%	14.32	%
Leverage ratio	3.0-5.0	%	10.32	%	9.04	%

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

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to

the appointment of a receiver or conservator within 90 days of becoming significantly undercapitalized, except under limited circumstances. Because our company and Seacoast National exceed applicable capital requirements, the respective managements of our company and Seacoast National do not believe that the provisions of FDICIA have had any material effect on our company and Seacoast National or our respective operations.

FDICIA also contains a variety of other provisions that may affect the operations of our company and Seacoast National, including reporting requirements, regulatory standards for real estate lending, “truth in savings” provisions, the requirement that a depository institution give 90 days’ prior notice to customers and regulatory authorities before closing any branch, and a prohibition on the acceptance or renewal of brokered deposits by depository institutions that are not well capitalized, or are adequately capitalized and have not received a waiver from the FDIC. Seacoast National was well capitalized at December 31, 2014, and brokered deposits are not restricted.

Payment of Dividends

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

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

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

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

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

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

Seacoast National recorded a small net loss in 2012, and net income in 2013 and 2014, but no dividends were paid to us during any of these years. Prior approval by the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the bank's profits, for that year combined with its retained net profits for the preceding two calendar years. Under this restriction, based on our recent profitability, Seacoast National is eligible to distribute dividends up to \$59.0 million to us, without prior OCC approval, as of December 31, 2014. Seacoast National has not given any consideration to dividends to the extent permitted by regulation.

With the redemption of our Series A Preferred Stock on December 31, 2013, our ability to pay dividends is no longer limited by the terms of our Series A Preferred Stock. Prior to redemption, and subject to limited exceptions, if we were not current in the payment of quarterly dividends on the Series A Preferred Stock, we were not permitted to pay dividends on our common stock. Dividend payments on the Series A Preferred Stock were current at redemption on December 31, 2013. No dividends on our common stock were declared or paid in 2014.

Enforcement Policies and Actions; Formal Agreement with OCC

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

Bank and Bank Subsidiary Regulation

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

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

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

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

Standards for Safety and Soundness

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

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

FDIC Insurance Assessments

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

Effective April 1, 2011, the FDIC began calculating assessments based on an institution's average consolidated total assets less its average tangible equity in accordance with changes mandated by the Dodd-Frank Act. Changes to assessment rates were developed to approximate the same inflow of premiums to the FDIC, but with a shifting of the burden of deposit insurance premiums toward those depository institutions that rely on funding sources other than U.S. deposits. Initial base assessment rates applicable to second quarter 2011 assessments (and prospectively until the DIF reserve ratio reaches 1.15 percent) were as follows:

	Deposit Insurance
Risk Category	Assessment Rate
I	5 to 9 basis points
II	14 basis points
III	23 basis points
IV	35 basis points

An institution's overall rate may be higher by as much as 10 basis points or lower by as much as 5 basis points depending on adjustments to the base rate for unsecured debt and/or brokered deposits. Furthermore, under the new system, different rate schedules will take effect when the DIF reserve ratio reaches certain levels. For example, for banks in risk category II, the initial base assessment rate will be 14 basis points when the DIF reserve ratio is below 1.15 percent, 12 basis points when the DIF reserve ratio is between 1.15 percent and 2 percent, 10 basis points when the DIF reserve ratio is between 2 percent and 2.5 percent and 9 basis points when the DIF reserve ratio is 2.5 percent or higher.

Since inception of the new schedule, Seacoast National's overall rate for assessment calculations had been 14 basis points, the base rate for Risk Category II. As of September 19, 2013, with the release from its formal agreement with the OCC, Seacoast National's rate was reduced to 8.15 basis points, a calculated rate under Risk Category I. As of September 30, 2014, Seacoast National's rate was further reduced to 6.79 basis points, as calculated under Risk Category I. Seacoast National anticipates it will continue to calculate its assessment rate under Risk Category I guidelines prospectively. For Seacoast National, the new methodology has had a favorable effect, with premiums totaling \$1.6 million for 2014, \$2.6 million for 2013 and \$2.7 million for 2012.

In addition, all FDIC-insured institutions are required to pay a pro rata portion of the interest due on bonds issued by the FICO. FICO assessments are set by the FDIC quarterly and were 0.66 basis points for all four quarters during 2012, 0.64 basis points for all four quarters during 2013, and 0.62 basis points for all four quarters during 2014. The FICO assessment rate for the first quarter of 2015 is 0.60 basis points. FICO assessments of approximately \$125,000, \$124,000 and \$136,000 were paid to the FDIC in 2012, 2013 and 2014, respectively.

Change in Control

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

Other Regulations

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

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

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

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

Bank regulators routinely examine institutions for compliance with these anti-money laundering obligations and recently have been active in imposing “cease and desist” and other regulatory orders and money penalty sanctions

against institutions found to be in violation of these requirements. In addition, the Financial Crimes Enforcement Network has proposed new regulations that would require financial institutions to obtain beneficial ownership information for certain accounts, however, it has yet to establish final regulations on this topic.

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

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

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

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

Concentrations in Lending. During 2006, the federal bank regulatory agencies released guidance on “Concentrations in Commercial Real Estate Lending” (the “Guidance”). The Guidance defines CRE loans as exposures secured by raw land, 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 (that is, 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 (“REIT”) 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.

The Guidance requires that appropriate processes be in place to identify, monitor and control risks associated with real estate lending concentrations. This could include enhanced strategic planning, CRE underwriting policies, risk management, internal controls, portfolio stress testing and risk exposure limits as well as appropriately designed

compensation and incentive programs. Higher allowances for loan losses and capital levels may also be required. The Guidance is triggered when CRE loan concentrations exceed either:

Total reported loans for construction, land development, and other land of 100 percent or more of a bank's total risk based capital; or

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

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

The Guidance applies to our CRE lending activities for construction and land development loans. At December 31, 2014, we had outstanding \$53.3 million in commercial construction and residential land development loans and \$33.7 million in residential construction loans to individuals, which represents approximately 31 percent of Seacoast National's total risk based capital at December 31, 2014, well below the Guidance's threshold.

On October 30, 2009, the banking regulators issued a policy statement on "Prudent Commercial Real Estate Loan Workouts" (the "Policy Statement"), which replaced a previous policy statement issued by regulators in 1995. The regulators issued the Policy Statement in recognition of the difficulties that financial institutions may face when working with commercial real estate borrowers that are experiencing reduced operating cash flows, depreciated collateral values, or prolonged sales and rental absorption periods. Among other things, the Policy Statement identifies supervisory expectations for a bank's risk management elements for loan workout programs, loan workout arrangements, classification of loans, and regulatory reporting and accounting considerations.

We have always had significant exposures to loans secured by commercial real estate due to the nature of our markets and the loan needs of both retail and commercial customers. We believe our long term experience in CRE lending, underwriting policies, internal controls, and other policies currently in place, as well as our loan and credit monitoring and administration procedures, are generally appropriate to managing our concentrations as required under the Guidance. The federal bank regulators are looking more closely at the risks of various assets and asset categories and risk management, and the need for additional rules regarding liquidity, as well as capital rules that better reflects risk. At December 31, 2014, the total CRE exposure for Seacoast National represents approximately 197 percent of total risk based capital, below the Guidance's threshold.

Community Reinvestment Act. We and our banking subsidiaries are subject to the provisions of the Community Reinvestment Act ("CRA") and related federal bank regulatory agencies' regulations. Under the CRA, all banks and thrifts have a continuing and affirmative obligation, consistent with their safe and sound operation, to help meet the credit needs for their entire communities, including low- and moderate-income neighborhoods. The CRA requires a depository institution's primary federal regulator, in connection with its examination of the institution, to assess the institution's record of assessing and meeting the credit needs of the communities served by that institution, including low- and moderate-income neighborhoods. The bank regulatory agency's assessment of the institution's record is made available to the public. Further, such assessment is required of any institution which has applied to: (i) charter a national bank; (ii) obtain deposit insurance coverage for a newly-chartered institution; (iii) establish a new branch office that accepts deposits; (iv) relocate an office; (v) merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution, or (vi) expand other activities, including engaging in financial

services activities authorized by the GLB. A less than satisfactory CRA rating will slow, if not preclude, expansion of banking activities and prevent a company from becoming or remaining a financial holding company.

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

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

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

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

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

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

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

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

In addition, the Credit Card Accountability, Responsibility and Disclosure (“CARD”) Act requires (1) 45-days advance notice to a cardholder before the interest rate on a card may be increased, subject to certain exceptions; (2) a ban on interest rate increases in the first year; (3) an opt-in for over-the-limit charges; (4) caps on high fee cards; (5) greater limits on the issuance of cards to persons below the age of 21; (6) new rules on monthly statements and payment due dates and the crediting of payments; and (7) the application of new rates only to new charges and of payments to higher rate charges.

Rules regarding overdraft charges for debit card and automatic teller machine, or ATM, transactions require banks to notify and obtain the consent of customers before enrolling them in an overdraft protection plan, except with regard to overdraft protection on checks or to automatic bill payments. Federal Reserve rules establish standards for debit card interchange fees and prohibit network exclusivity arrangements and routing restrictions. In addition, the CFPB issued final rules revising Regulation E, which governs electronic transactions, to implement certain Dodd-Frank requirements relating to “remittance transfer” transactions.

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

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

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

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

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

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

As noted above, Seacoast National will likely face a significant increase in its consumer compliance regulatory burden as a result of the combination of the CFPB and the significant roll back of federal preemption of state laws in the area. The responsibility for oversight of many consumer protection laws and regulations has, in large measure, transferred from the bank’s primary regulator to the CFPB. The CFPB has indicated that, in addition to specific statutory mandates, it is working on a wide range of initiatives to address issues in markets for consumer financial products and services, such as revisions to privacy notice requirements, new rules for deposit advance products and amendments to the funds availability requirements of Regulation CC. It is anticipated that the CFPB will engage in numerous other rulemakings in the near term that may impact our business, including by revising consumer protection regulations and associated disclosures. The CFPB also has broad authority to prohibit unfair, deceptive and abusive acts and practices (“UDAAP”) and to investigate and penalize financial institutions that violate this prohibition. While the statutory language of the Dodd-Frank Act sets forth the standards for acts and practices that violate this prohibition, certain aspects of these standards are untested, which has created some uncertainty regarding how the CFPB will exercise this authority.

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

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

Governmental Monetary Policies. The commercial banking business is affected not only by general economic conditions but also by the monetary policies of the Federal Reserve. Changes in the discount rate on member bank borrowings, control of borrowings, open market operations, the imposition of and changes in reserve requirements against member banks, deposits and assets of foreign branches, the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates and the placing of limits on interest rates which member banks may pay on time and savings deposits are some of the instruments of monetary policy available to the Federal Reserve. These monetary policies influence to a significant extent the overall growth of all bank loans, investments and deposits and the interest rates charged on loans or paid on time and savings deposits. In response to the recent financial crisis, the Federal Reserve established several innovative programs to stabilize certain financial institutions and to ensure the availability of credit, which the Federal Reserve has begun to modify in light of improving economic conditions. However, the nature of future monetary policies and the effect of such policies on the bank’s future business and earnings cannot be predicted accurately.

Evolving Legislation and Regulatory Action. Proposals for new statutes and regulations are frequently circulated at both the federal and state levels, and may include wide-ranging changes to the structures, regulations and competitive relationships of financial institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition or results of operations.

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

Statistical Information

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

Item 1A. Risk Factors

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

Risks Related to Our Business

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

At December 31, 2014 and 2013, our nonperforming loans (which consist of nonaccrual loans) totaled \$21.1 million and \$27.7 million, or 1.2 percent and 2.1 percent of the loan portfolio, respectively. At December 31, 2014 and 2013, our nonperforming assets (which include foreclosed real estate) were \$28.6 million and \$34.5 million, or 0.9 percent and 1.5 percent of assets, respectively. In addition, we had approximately \$6.1 million and \$3.1 million in accruing loans that were 30 days or more delinquent at December 31, 2014 and 2013, respectively. Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or other real estate owned, thereby adversely affecting our income, and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related loan to the then fair market value of the collateral, which may result in a loss. These loans and other real estate owned also increase our risk profile and the capital our regulators believe is appropriate in light of such risks. Until economic and market conditions improve, we may incur additional losses relating to an increase in nonperforming loans. If economic conditions and market factors negatively and/or disproportionately affect some of our larger loans, then we could see a

sharp increase in our total net charge-offs and also be required to significantly increase our allowance for loan losses. Any further increase in our nonperforming assets and related increases in our provision for losses on loans could negatively affect our business and could have a material adverse effect on our capital, financial condition and results of operations.

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

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

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

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

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

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

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

As of December 31, 2014, we had deferred tax assets of \$66.8 million, based on management's estimation of the likelihood of those deferred tax assets being realized. These and future deferred tax assets may be reduced in the future if our estimates of future taxable income from our operations and tax planning strategies do not support the amount of the deferred tax asset.

The Company recorded a small loss in 2012, and recorded income for 2013 and 2014. The Company is in a three-year cumulative pretax gain position at December 31, 2014. A cumulative gain position is considered positive evidence in assessing the prospective realization of a deferred tax asset from a forecast of future taxable income. We also consider all positive and negative evidence including the impact of recent operating results, reversal of existing taxable temporary differences, tax planning strategies and projected earnings with the statutory tax loss carryover period. This process requires significant judgment by management about matters that are by nature uncertain. If we were to conclude that significant portions of our deferred tax assets were not more likely than not to be realized (due to operating results or other factors), a requirement to establish a valuation allowance could adversely affect our financial position and results of operation, thereby negatively affecting our stock price.

The amount of net operating loss carry-forwards and certain other tax attributes realizable annually for income tax purposes may be reduced by an offering and/or other sales of our capital securities, including transactions in the open market by 5% or greater shareholders, if an ownership change is deemed to occur under Section 382. The determination of whether an ownership change has occurred under Section 382 is highly fact specific and can occur through one or more acquisitions of capital stock (including open market trading) if the result of such acquisitions is that the percentage of our outstanding common stock held by shareholders or groups of shareholders owning at least 5% of our common stock at the time of such acquisition, as determined under Section 382, is more than 50 percentage points higher than the lowest percentage of our outstanding common stock owned by such shareholders or groups of shareholders within the prior three-year period. The sale of common stock in August 2009 is no longer within the prior three-year look back period as required by Section 382 and reduced, but did not eliminate the possible negative effects of a change in ownership. As previously disclosed on May 27, 2011, we adopted an amendment to our Amended and Restated Articles of Incorporation, as amended (“Articles of Incorporation”) that is intended to help preserve our net operating losses (the “Protective Amendment”), however, such amendment may not be effective. Based upon independent analysis, management does not believe the common stock offering in November 2013, subsequent reverse stock split in December 2013, and common stock issued in regards to the BANKshares acquisition in October 2014 have any negative implications for the Company under Section 382. Deferred taxes for Section 382 events netting to \$1.3 million were recorded by BANKshares for acquisition activity prior to our merger on October 1, 2014, and were migrated and recorded to the Company’s financial statements.

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

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

- risks of unknown or contingent liabilities;

- unanticipated costs and delays;

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

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

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

- exposure to potential asset quality issues with acquired institutions;

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

- potential disruptions to our business;

- possible loss of key employees and customers of acquired institutions;

- potential short-term decrease in profitability; and

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

Attractive acquisition opportunities may not be available to us in the future.

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

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

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

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

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

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

Commercial real estate (“CRE”) is cyclical and poses risks of loss to us due to our concentration levels and risks of the asset, especially during a difficult economy. As of December 31, 2014 and 2013, 48.9 percent and 42.4 percent of our loan portfolio were comprised of CRE loans, respectively. The banking regulators continue to give CRE lending greater scrutiny, and banks with higher levels of CRE loans are expected to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as higher levels of allowances for possible losses and capital levels as a result of CRE lending growth and exposures. During 2014, we recorded a \$3.5

million recapture of provisioning for losses, compared to additions of \$3.2 million in 2013 and \$10.8 million in 2012.

Seacoast National has a written CRE concentration risk management program and monitors its exposure to CRE; however, there is no guarantee that the program will be effective in managing our concentration in CRE.

Liquidity risks could affect operations and jeopardize our financial condition.

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

Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a downturn in the markets in which our loans are concentrated or adverse regulatory action against us. In addition, our access to deposits may be affected by the liquidity and/or cash flow needs of depositors. Although we have historically been able to replace maturing deposits and FHLB advances as necessary, we might not be able to replace such funds in the future and can lose a relatively inexpensive source of funds and increase our funding costs if, among other things, customers move funds out of bank deposits and into alternative investments, such as the stock market, that are perceived as providing superior expected returns. We may be required to seek additional regulatory capital through capital raises at terms that may be very dilutive to existing shareholders.

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

Our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends.

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

and growth.

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We must effectively manage our interest rate risk.

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

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

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

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

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

Technology and other changes now allow parties to complete financial transactions without banks. For example, consumers can pay bills and transfer funds directly without banks. This process could result in the loss of fee income, as well as the loss of customer deposits and the income generated from those deposits.

The Dodd-Frank Wall Street Reform and Consumer Protection Act could increase our regulatory compliance burden and associated costs or otherwise adversely affect our business.

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

The Dodd-Frank Act directs applicable regulatory authorities to promulgate regulations implementing its provisions, and its effect on the Company and on the financial services industry as a whole will be clarified as those regulations are issued. Certain provisions of the Act have been implemented by regulation, while others are expected to be implemented in the coming years. The Dodd-Frank Act addresses a number of issues, including capital requirements, compliance and risk management, debit card overdraft fees, healthcare, incentive compensation, expanded disclosures and corporate governance. The Dodd-Frank Act established a new, independent CFPB, which has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home equity loans and credit cards. States will be permitted to adopt stricter consumer protection laws and can enforce consumer protection rules issued by the CFPB. The CFPB is working on a wide range of consumer protection initiatives, including revisions to existing regulations, many of which will likely impact our business.

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

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

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

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

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

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

As of April 1, 2011, the FDIC implemented its new calculation methodology for insurance assessments, applying revised risk category ratings for calculating assessments to total assets less Tier 1 risk-based capital. Deposits are no longer utilized as the primary base and the base assessment rates vary depending on the DIF reserve ratio. We have not experienced any negative impact to our consolidated financial statements as a result of the new method as of December 14, 2014.

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

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

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

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

Current and proposed rules may impose additional executive compensation and corporate governance requirements that may adversely affect us and our business, including our ability to recruit and retain qualified employees.

The Federal Reserve has proposed guidelines on executive compensation. Reflecting regulators’ focus on compensation issues, in 2010, the FDIC proposed, but did not finalize, a rule to incorporate employee compensation factors into the risk assessment system which would adjust risk-based deposit insurance assessment rates if the design of certain compensation programs does not satisfy certain FDIC goals to prevent executive compensation from encouraging undue risk-taking. In addition, the Dodd-Frank Act requires banking regulators to issue regulations or guidelines to prohibit incentive-based compensation arrangements that encourage inappropriate risk taking by providing excessive compensation or that may lead to material loss at certain financial institutions with \$1 billion or more in assets. Regulators have proposed, but not yet finalized, rules on the topic. Further, in June, 2010, the Federal Reserve, the OCC, the Office of Thrift Supervision, and the FDIC jointly issued comprehensive final guidance designed to ensure that incentive compensation policies do not undermine the safety and soundness of banking organizations by encouraging employees to take imprudent risks. This regulation significantly restricts the amount, form, and context in which we pay incentive compensation.

These provisions and any future rules issued by the Federal Reserve and the FDIC or any other regulatory agencies could adversely affect our ability to attract and retain management capable and sufficiently motivated to manage and operate our business through difficult economic and market conditions. If we are unable to attract and retain qualified employees to manage and operate our business, we may not be able to successfully execute our business strategy.

The short-term and long-term impact of the new Basel III capital standards and their implementing rules is uncertain.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced an agreement to a strengthened set of capital requirements for internationally active banking organizations in the United States and around the world, known as Basel III. U.S. Regulators issued the Revised Capital Rules, which implement Basel III, as well as capital requirements set forth in the Dodd-Frank Act. These rules establish increased minimum capital requirements and create other new requirements, such as the requirement to maintain a “capital conservation buffer” on top of the minimum risk-weighted asset ratios. These rules took effect on January 1, 2015 and will be phased in over a four year period. For a more detailed description of Basel III and the Revised Capital Rules, see “Item 1. Business—Supervision and Regulation.”

Lending goals may not be attainable.

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

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

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

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

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

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

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

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

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

We operate in a heavily regulated environment.

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

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

We are required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as rules and regulations adopted by the SEC, the Public Company Accounting Oversight Board and Nasdaq. In particular, we are required to include management and independent registered public

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

Our controls and procedures may fail or be circumvented.

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

Our operations rely on external vendors.

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

We must effectively manage our information systems risk.

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

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

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

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

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

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

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

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

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

operations, by, among other things, reducing the volume of mortgage loans that Seacoast National can originate and sell into the secondary market, increasing its compliance burden and impairing Seacoast National's ability to proceed against certain delinquent borrowers with timely and effective collection efforts.

Risks Related to our Common Stock

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

We are currently authorized to issue up to 60 million shares of common stock, of which 33,136,592 shares were outstanding as of December 31, 2014, and up to 4 million shares of preferred stock, of which no shares are outstanding. Subject to certain NASDAQ requirements, our board of directors has authority, without action or vote of the shareholders, to issue all or part of the remaining authorized but unissued shares and to establish the terms of any series of preferred stock. These authorized but unissued shares could be issued on terms or in circumstances that could dilute the interests of other shareholders.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

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

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

CBF, our receivables factoring company occupies 1,511 square feet of leased space on the first floor of the Winter Park branch in Orlando, Florida.

Seacoast National maintained 42 branch offices, five commercial lending offices and its main office in Florida at December 31, 2014. As of December 31, 2014, the net carrying value of these offices (excluding the main office) was approximately \$35.2 million. Seacoast National's branch and commercial lending offices in 2014 are generally described as follows:

Branch Office	Year Opened	Square Feet	Owned/Leased
Jensen Beach			
1000 N.E. Jensen Beach Blvd.	1977	1,920	Owned
Jensen Beach, FL 34957			
East Ocean			
2081 East Ocean Blvd	1978 (relocated in 1995)	2,300	Owned; expected to close in 2015
Stuart, FL 34996			
Cove Road			
5755 S.E. U.S. Highway 1	1983	3,450	Leased
Stuart, FL 34997			
Hutchinson Island			
4392 N.E. Ocean Blvd.	1984	4,000	Lease expired; closed in December 2014
Jensen Beach, FL 34957			
Westmoreland			
1108 S.E. Port St. Lucie Blvd.	1985 (relocated in 2008)	4,468 (with 1,179 leased to tenants)	Owned building located on leased land
Port St. Lucie, FL 34952			
Wedgewood Commons			
3200 U.S. Highway 1	1988 (relocated in 2009)	5,477 (with 2,641 available to be leased to tenants)	Owned building located on leased land.
Stuart, FL 34997			

Bayshore

247 S.W. Port St. Lucie Blvd.	1990	3,520	Leased
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Port St. Lucie, FL 34984

Hobe Sound

11711 S.E. U.S. Highway 1	1991	8,000 (with 1,225 available to be leased to tenants)	Owned
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Hobe Sound, FL 33455

Fort Pierce

1901 South U.S. Highway 1	1991 (relocated in 2008)	5,477 (with 2,641 available to be leased to tenants)	Owned building located on leased land
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Fort Pierce, FL 34950

Martin Downs

2601 S.W. High Meadow Ave.	1992	3,960	Owned
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Palm City, FL 34990

Tiffany

9698 U.S. Highway 1 1992 8,250 Owned

Port St. Lucie, FL 34952

Vero Beach

1206 U.S. Highway 1 1993 3,300 Owned

Vero Beach, FL 32960

Cardinal

2940 Cardinal Dr. 1993 (relocated in 2008) 5,435 Leased

Vero Beach, FL 32963

St. Lucie West

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

Port St. Lucie, FL 34986

Sebastian Wal-Mart

2001 U.S. Highway 1 1996 865 Leased; closed in December 2014

Sebastian, FL 32958

South Vero Square

752 U.S. Highway 1 1997 3,150 Owned

Vero Beach, FL 32962

Sebastian West

1110 Roseland Rd. 1998 3,150 Owned

Sebastian, FL 32958

Tequesta

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

Tequesta, FL 33469

Jupiter

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

Jupiter, FL 33458

Vero 60 West

6030 20th Street 2005 2,500 Owned

Vero Beach, FL 32966

Downtown Orlando

65 N. Orange Ave. 2005 6,752 Lease expired; closed in December 2014

Orlando, FL 32801

Maitland

541 S. Orlando Ave. 2005 4,536 Leased

Maitland, FL 32751

PGA Blvd.				
3001 PGA Blvd.	2006		13,454	Leased
Palm Beach Gardens, FL 33410				
South Parrott				
1409 S. Parrott Ave.	2006		8,232	Owned
Okeechobee, FL 34974				
North Parrott				
500 N. Parrott Ave.	2006		3,920	Owned
Okeechobee, FL 34974				
Arcadia				
1601 E. Oak St.	2006 (expanded in 2008)		3,256	Owned
Arcadia, FL 34266				
Moore Haven				
501 U.S. Highway 27	2006 (relocated from leased premises in 2012)		4,415	Owned
Moore Haven, FL 33471				
Clewiston				
300 S. Berner Rd.	2006		5,661	Owned
Clewiston, FL 33440				
LaBelle				
17 N. Lee St.	2006		2,361	Owned
LaBelle, FL 33935				

Lake Placid

199 U.S. Highway 27 North	2006	2,125	Owned
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Lake Placid, FL
33852

Viera – The Avenues

6711 Lake Andrew Dr.	2007	5,999	Leased; closed in December 2014
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Viera, FL 32940

Murrell Road

5500 Murrell Rd.	2008	9,041 (with 2,408 leased to tenants and 1,856 available to be leased)	Leased; closed in December 2014
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Viera, FL 32940

Gatlin Boulevard

1790 S.W. Gatlin Blvd.	2008	5,300 (with 2,518 available for leasing)	Owned
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Port St. Lucie, FL
34953

Winter Park

1031 West Morse Blvd	2014 (acquired through BankFIRST merger; opened 1989)	18,135 (with 9,069 occupied by Seacoast, 1,511 by CBF, and 7,555 available to be leased)	Leased
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Winter Park, FL
32789

Winter Garden				
13207 West Colonial Dr.	2014 (acquired through BankFIRST merger; opened 1989)	8,081		Owned
Winter Garden, FL 34787				
Eustis				
15119 Highway 441	2014 (acquired through BankFIRST merger; opened 1991)	4,699		Owned
Eustis, FL 32726				
Melbourne				
300 South Harbor City Blvd.	2014 (acquired through BankFIRST merger; opened 1996)	4,558		Owned
Melbourne, FL 32901				
Ormond Beach				
1240 W. Granada Blvd.	2014 (acquired through BankFIRST merger; opened 1997)	8,810		Owned
Ormond Beach, FL 32174				
Oviedo				
2839 Clayton Crossing Way	2014 (acquired through BankFIRST merger; opened 2000)	4,482		Owned
Oviedo, FL 32765				
Viera				
105 Capron Trail	2014 (acquired through BankFIRST merger; opened 2000)	3,426		Owned
Viera, FL 32940				
Apopka				
345 East Main St.	2014 (acquired through BankFIRST merger; opened 2001)	4,984		Owned
Apopka, FL 32703				
Port Orange	2014 (acquired through BankFIRST merger; opened 2001)	3,120		Owned
405 Dunlawton Ave.				

Port Orange, FL 32127

Sanford

3791 West 1 st St.	2014 (acquired through BankFIRST merger; opened 2003)	3,191	Owned
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Sanford, FL 32771

Titusville

4250 South Washington Ave.	2014 (acquired through BankFIRST merger; opened 2003)	2,050	Owned
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Titusville, FL 32780

Clermont

1000 East Highway 50	2014 (acquired through BankFIRST merger; opened 2005)	7,354 (with 3,582 leased to tenants)	Owned
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Clermont, FL 34711

Sebastian

1627 U.S. Highway 1, Suite 107	2014	1,190	Leased
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Sebastian, FL 32958

Sewall's Point

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

Commercial lending offices	Opened In	Square Feet	Owned/Leased
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Hannibal Square

444 W. New England Avenue, Suite 117	2013	2,000	Leased
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Winter Park, FL 32789

Rialto

7335 W. Sand Lake Road, Suite 137	2013	1,489	Leased
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Orlando, FL 32819

Park Place

7025 County Road 46A, Suite 1091	2013	1,979	Leased
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Heathrow, FL 32746

Victoria Park Shoppes

622 North Federal Highway	2013	1,800	Leased
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Ft. Lauderdale, FL 33304

Town Center	2013	1,495	Leased
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5250 Town Center Circle,

Suite 109

Boca Raton, FL 34486

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

Item 3. Legal Proceedings

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

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Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

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

Our common stock is traded under the symbol "SBCF" on the Nasdaq Global Select Market, which is a national securities exchange ("Nasdaq"). As of February 27, 2015 there were 33,135,526 shares of our common stock outstanding, held by approximately 1,980 record holders.

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

	Sales Price per Share of Seacoast Common Stock		Quarterly Dividends Declared Per Share of Seacoast Common Stock
	High	Low	
2013			
First Quarter	\$ 11.25	\$ 7.75	\$ 0.00
Second Quarter	11.00	8.50	0.00
Third Quarter	12.30	10.10	0.00
Fourth Quarter	12.49	10.10	0.00
2014			
First Quarter	\$ 12.51	\$ 10.55	\$ 0.00
Second Quarter	11.28	10.00	0.00
Third Quarter	11.27	10.03	0.00
Fourth Quarter	14.24	10.80	0.00

Dividends

Dividends from Seacoast National are our primary source of funds to pay dividends on our common stock. Under the National Bank Act, national banks may in any calendar year, without the approval of the OCC, pay dividends to the extent of net profits for that year, plus retained net profits for the preceding two years (less any required transfers to surplus). The need to maintain adequate capital in Seacoast National also limits dividends that may be paid to us. Beginning in the third quarter of 2008, we reduced our dividend per share of common stock to *de minimis* \$0.01. On May 19, 2009, the Company's board of directors voted to suspend quarterly dividends on common stock entirely.

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

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

Outstanding Warrants

On May 30, 2012, Seacoast repurchased the Warrant previously issued to the U.S. Treasury under the TARP CPP for \$81,000 (net of related expenses). Seacoast had no warrants outstanding at December 31, 2014.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Item 6. Selected Financial Data

For five years selected financial data of the Company is set forth under the caption “Financial Highlights” on page 120.

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations appears under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on pages 61-99.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For discussion of the quantitative and qualitative disclosures about market risk, see “Interest Rate Sensitivity”, “Securities”, and “Market Risk” sections of Management’s Discussion and Analysis of Financial Condition and Results of Operations on pages 87-88 and pages 96-97.

Item 8. Financial Statements and Supplementary Data

The reports of Crowe Horwath LLP and KPMG LLP (KPMG), independent registered public accounting firms, and the Consolidated Financial Statements and Notes appear on pages 121-173. Quarterly Consolidated Income Statements are included on page 119 entitled "Selected Quarterly Financial Information".

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

None.

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Item 9A. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures*

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

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

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

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

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2014. This assessment was based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework* 2013. Based on this assessment, management believes that, as of December 31, 2014, our internal control over financial reporting was effective. As permitted, the Company has excluded the current year acquisition of The BANKshares, Inc. (represents approximately 20 percent of total consolidated assets at December 31, 2014) from the scope of management's report on internal control over financial reporting.

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

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

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

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

Except as described above, there were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information concerning our directors and executive officers is set forth under the headings “Proposal 1 - Election of Directors,” “Corporate Governance,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Certain Transactions and Business Relationships” in the 2015 Proxy Statement, incorporated herein by reference.

Item 11. Executive Compensation

Information regarding the compensation paid by us to our directors and executive officers is set forth under the headings “Executive Compensation,” “Compensation Discussion & Analysis,” “Compensation and Governance Committee Report” and “2014 Director Compensation” in the 2015 Proxy Statement which are incorporated herein by reference.

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

The following table sets forth information about our common stock that may be issued under all of our existing compensation plans as of December 31, 2014.

Equity Compensation Plan Information

December 31, 2014

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities represented in column (a))
Equity compensation plans approved by shareholders:			
2000 Plan (1)	37,400	\$ 116.43	0
2008 Plan (2)	0	0.00	0
2013 Plan (3)	455,600	10.70	387,024
Employee Stock Purchase Plan (4)	0	0.00	116,640
TOTAL	493,000	\$ 18.72	503,664

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

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

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

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

Additional information regarding the ownership of our common stock is set forth under the headings “Proposal 1 - Election of Directors” and “Security Ownership of Management and Certain Beneficial Holders” in the 2015 Proxy Statement, and is incorporated herein by reference.

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

Information regarding certain relationships and transactions between us and our officers, directors and significant shareholders is set forth under the heading “Compensation and Governance Committee Interlocks and Insider Participation” and “Certain Transactions and Business Relationships” and “Corporate Governance” in the 2015 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information concerning our principal accounting fees and services is set forth under the heading “Relationship with Independent Registered Public Accounting Firm; Audit and Non- Audit Fees” in the 2015 Proxy Statement, and is incorporated herein by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) The Consolidated Financial Statements, the Notes thereto and the report of the Independent Registered Public Accounting Firm thereon listed in Item 8 are set forth commencing on page 121.

(a)(2) List of financial statement schedules

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

(a)(3) Listing of Exhibits

PLEASE NOTE: It is inappropriate for readers to assume the accuracy of, or rely upon any covenants, representations or warranties that may be contained in agreements or other documents filed as Exhibits to, or incorporated by reference in, this report. Any such covenants, representations or warranties may have been qualified or superseded by disclosures contained in separate schedules or exhibits not filed with or incorporated by reference in this report, may reflect the parties’ negotiated risk allocation in the particular transaction, may be qualified by materiality standards that differ from those applicable for securities law purposes, may not be true as of the date of this report or any other date, and may be subject to waivers by any or all of the parties. Where exhibits and schedules to agreements filed or incorporated by reference as Exhibits hereto are not included in these Exhibits, such exhibits and schedules to agreements are not included or incorporated by reference herein.

The following Exhibits are attached hereto or incorporated by reference herein (unless indicated otherwise, all documents referenced below were filed pursuant to the Exchange Act by Seacoast Banking Corporation of Florida,

Commission File No. 0-13660):

Exhibit 3.1.1 Amended and Restated Articles of Incorporation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Exhibit 3.2 Amended and Restated By-laws of the Company

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

Exhibit 4.1 Specimen Common Stock Certificate

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

Exhibit 4.2 Junior Subordinated Indenture

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

Exhibit 4.3 Guarantee Agreement

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

Exhibit 4.4 Amended and Restated Trust Agreement

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

Exhibit 4.5 Indenture

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

Exhibit 4.6 Guarantee Agreement

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

Exhibit 4.7 Amended and Restated Declaration of Trust

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

Exhibit 4.8 Indenture

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

Exhibit 4.9 Guarantee Agreement

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

Exhibit 4.10 Amended and Restated Declaration of Trust

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

Exhibit 4.11 Registration Rights Agreement

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

Exhibit 10.1 Amended and Restated Retirement Savings Plan*

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

Exhibit 10.2 Amended and Restated Employee Stock Purchase Plan*

Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on DEF14A, filed with the Commission on April 27, 2009.

Exhibit 10.3 Dividend Reinvestment and Stock Purchase Plan

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

Exhibit 10.4 2000 Long Term Incentive Plan as Amended*

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

Exhibit 10.5 Executive Deferred Compensation Plan*

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

Exhibit 10.6 Change of Control Employment Agreement*

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

Exhibit 10.7 Amended and Restated Directors Deferred Compensation Plan*

Incorporated herein by reference from Exhibit 10.9 to the Company's Form 10-K, filed on March 17, 2014.

Exhibit 10.8 2008 Long-Term Incentive Plan*

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

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

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

Exhibit 10.10 2013 Incentive Plan

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

Exhibit 10.11 Letter Agreement Regarding Lead Director Position*

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

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

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

Exhibit 10.13 Employment Agreement*

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

Exhibit 10.14 Agreement and Plan of Merger

Dated April 24, 2014, by and among the Company, Seacoast National Bank, The BANKshares, Inc. and BankFIRST, incorporated herein by reference from Exhibit 2.1 to the Company's Form 8-K, filed April 28, 2014.

Exhibit 21 Subsidiaries of Registrant

Exhibit 23.1 Consent of Independent Registered Public Accounting Firm

Exhibit 23.2 Consent of Independent Registered Public Accounting Firm

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

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

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

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

Exhibit 101 Interactive Data File

* Management contract or compensatory plan or arrangement.

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

(b) Exhibits

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

(c) Financial Statement Schedules

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEACOAST BANKING CORPORATION OF
FLORIDA
(Registrant)

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

Date: March 16, 2015

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

Date

/s/ Dennis S. Hudson, III

Dennis S. Hudson, III, Chairman of the Board,
Chief Executive Officer and Director
(principal executive officer) March 16, 2015

/s/ William R. Hahl

William R. Hahl, Executive Vice President and
Chief Financial Officer
(principal financial and accounting officer) March 16, 2015

/s/ Dennis J. Arczynski

Dennis J. Arczynski, Director
March 16, 2015

/s/ Stephen E. Bohner

Stephen E. Bohner, Director
March 16, 2015

/s/ T. Michael Crook

March 16, 2015

T. Michael Crook, Director

/s/ H. Gilbert Culbreth, Jr.

March 16, 2015

H. Gilbert Culbreth, Jr, Director

	Date
/s/ Julie H. Daum Julie H. Daum, Director	March 16, 2015
/s/ Christopher E. Fogal Christopher E. Fogal, Director	March 16, 2015
/s/ Maryann B. Goebel Maryann B. Goebel, Director	March 16, 2015
/s/ Roger O. Goldman Roger O. Goldman, Director	March 16, 2015
/s/ Robert B. Goldstein Robert B. Goldstein, Director	March 16, 2015
/s/ Dale M. Hudson Dale M. Hudson, Director	March 16, 2015
/s/ Dennis S. Hudson, Jr. Dennis S. Hudson, Jr., Director	March 16, 2015
/s/ Thomas E. Rossin Thomas E. Rossin, Director	March 16, 2015
Edwin E. Walpole, III, Director	March 16, 2015

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

The purpose of this discussion and analysis is to aid in understanding significant changes in the financial condition of Seacoast Banking Corporation of Florida and its subsidiaries (the "Company") and their results of operations during 2014, 2013 and 2012. Nearly all of the Company's operations are contained in its banking subsidiary, Seacoast National Bank ("Seacoast National" or the "Bank"). This discussion and analysis is intended to highlight and supplement information presented elsewhere in the annual report on Form 10-K, particularly the consolidated financial statements and related notes appearing in Item 8. For purposes of the following discussion, the words the "Company," "we," "us," and "our" refer to the combined entities of Seacoast Banking Corporation of Florida and its direct and indirect wholly owned subsidiaries.

Overview

The Company has been proactively positioning its business for growth by aggressively focusing on improving credit quality, de-risking the overall loan portfolio, disposing of problem assets, increasing loan production and growing core deposits.

In addition, several important accomplishments in 2014 further improved the position of the Company to increase net income to common shareholders in 2015, and prospectively. These included:

• completion of its acquisition of The BANKshares, Inc. ("BANKshares") and its banking subsidiary BankFIRST on October 1, 2014;

- use of excess liquidity to acquire floating rate investment securities;

• a consolidation of branch locations, including the closure of five offices and opening of two new locations during the fourth quarter (see "Part I, Item 2 – Properties" for more detail); and

- continued investments in digital technology and improved processes and reducing future overhead.

Also a number of significant milestones and improvements in our business were completed in 2013. They included:

the recapture of the \$45 million valuation allowance on net deferred tax assets;

a successful raise of \$75 million in common equity;

the termination of the Bank's formal agreement with the Office of the Comptroller of the Currency ("OCC");

the redemption of the Company's \$50 million in outstanding Series A Preferred Stock originally issued to the U.S. Department of Treasury under the Troubled Asset Relief Program; and

investing in new commercial lending offices and loan production personnel in larger metro markets in Orlando, Boca Raton and Fort Lauderdale.

As a result, revenue (aggregate net interest income and noninterest income) increased significantly for 2014, higher by \$10.2 million or 11.3 percent compared to results for 2013. In addition, for the year ended December 31, 2014, we had strong double digit loan growth from increased organic loan production and loans acquired from BankFIRST, and the Company reduced noninterest expenses prospectively while absorbing increases in core operating expenses related to new investments to improve revenue growth and improve customer service.

Enhancing our footprint was the acquisition of BANKshares. On October 1, 2014, the Company completed its acquisition of BANKshares, whereby BANKshares merged with and into the Company. Pursuant to and simultaneous with the merger of BANKshares with and into the Company, BANKshares's wholly owned subsidiary bank, BankFIRST, merged with and into the Company's subsidiary bank, Seacoast National Bank. The Company acquired 100% of the outstanding common stock of BANKshares. The purchase price consisted wholly of stock. Each share of BANKshares common stock was exchanged for 0.4975 shares of the Company's common stock. Based on the closing price of the Company's common stock on September 30, 2014, the resulting purchase price was \$76.8 million. The Company's primary reasons for the transaction were to further solidify its market share in the Central Florida market and expand its customer base to enhance deposit fee income and leverage operating cost through economies of scale. The acquisition contributed \$516.3 million in total deposits and \$365.4 million in loans to our balance sheet, and significantly boosted our net interest margin in the fourth quarter of 2014. The acquisition of BANKshares increases our number of households by approximately 13%. It also provides excellent opportunities for growth in one of Florida's fastest growing markets.

Through our new commercial lending offices, the Company continues to focus on reaching customers in unique ways, creating a path to achieve higher customer satisfaction. The commercial lending offices provide our customers with talented, results-oriented staff, specializing in loans to the smaller business market segment. From their tenure and market experience, our bankers are familiar with the multitude of challenges the small business customer faces. Seacoast intends to build customer relationships with depth that surpass traditional commercial lending, and open opportunities into other areas in which we provide services.

During the third and fourth quarters of 2014, average investment securities increased \$234.9 million, or \$149.5 million excluding securities from the BANKshares acquisition. Funding for the increase in investment securities (uncapped floating rate collateralized loan obligations with credit support) was derived from liquidity, both legacy and that acquired in the merger, and increase in seasonal funding from our core customer deposit base. This deployment contributed approximately 10 basis points to net interest margin improvement in the fourth quarter and should continue to provide a benefit prospectively.

Our customer growth strategy has also included investments in digital delivery and products we believe have contributed to increasing core customer funding. As of December 31, 2014, approximately 59 percent of our online customers have adopted mobile product offerings and the total number of services utilized by our retail customers increased to an average of 4.1 per household, primarily due to an increase in debit card activation, direct deposit and mobile banking users. Personal and business mobile banking has grown from 13,659 users at December 31, 2013 to 21,587 users at December 31, 2014, an increase of 58 percent. We are concentrating on building a more integrated

distribution system which will allow us to reduce our fixed costs as we further invest in technology designed to better serve our customers. The growth in new households, a deepening of relationships with current households, and better retention overall is creating stronger value in our core customer franchise.

A persistent emphasis on expense reduction resulted in the successful implementation of first and second quarter 2014 cost savings totaling \$1.4 million and \$1.9 million, respectively, annually. These savings were the result of negotiations with our current vendors for competitive pricing, changes in organizational structure, and the termination of the regulatory agreement and its requirements. Legacy cost reductions (primarily branch consolidations) totaling \$1.8 million annualized were implemented in the fourth quarter 2014. One-time charges included in noninterest expense for 2014 related to these reductions totaled \$4.3 million. These legacy cost reductions are in addition to cost savings related to the acquisition of BANKshares that totaled in excess of \$5.5 million annually and will be fully implemented in the first quarter 2015. Taken together they are expected to further reduce quarterly noninterest expenses by an additional \$1.1 million beginning in the first quarter of 2015.

The combination of these actions, including additional office consolidations, revenue enhancements, an acceleration of growth initiatives and a variety of cost-saving opportunities, resulted in net income available to common shareholders for 2014 of \$5.7 million, compared to 2013's net income of \$3.1 million excluding \$44.8 million from the recapture of the deferred tax valuation allowance, and a net loss of \$710,000 for 2012. Net income available to common shareholders for 2014 totaled \$5.7 million or \$0.21 per average common diluted share, compared to 2013 net income totaling \$47.9 million or \$2.44 per average common diluted share, and a net loss of \$4.5 million or \$(0.24) per average common diluted share for 2012 (after preferred dividends and accretion of preferred stock discount). Per share amounts reflect the 1 for 5 reverse stock split effective December 13, 2013, as previously approved by shareholders of the Company at its annual meeting in 2013.

We project noncore credit related expenses, primarily losses on other real estate owned ("OREO") and asset disposition expense, will continue to decline as nonperforming assets decline and the economy improves, however we expect the provision for loan losses will normalize and likely increase for 2015, with loan growth in our portfolio the primary driver. Our successful retail and business deposit growth initiatives continue to be emphasized and we expect further increases in households served, margins and fees for 2015.

We plan to continue to execute on our targeted plan to grow our customer and commercial franchise. During the fourth quarter of 2014, we refreshed and reintroduced our brand, retooling our logo and associated signage throughout our branch network and digital platforms. The accretive effect of the acquisition, as well as, ongoing investments in loan production personnel and digital technology, and the effect of asset quality improvements and expense management, bode well for prospective earnings improvements. Our successes in 2014 are expected to carry over into 2015, and are a direct result of Company management executing on our strategic initiatives, and our improved condition supporting better growth for both consumer household and commercial relationships prospectively. We believe growing our customer and commercial franchise is the best way to build shareholder value, and we expect to continue supplementing this growth through strategic acquisition opportunities from time to time.

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

Our Business

The Company is a single-bank holding company with operations on Florida's southeast coast (ranging from Broward County in the south to Brevard and Volusia County in the north) as well as Florida's interior around Lake Okeechobee and up through Orlando (including Orange, Seminole and Lake County). The Company had 43 full service offices at December 31, 2014, compared to 34 offices at December 31, 2013. In 2014, Seacoast acquired 12 offices from BANKshares, closed and consolidated five existing offices, and opened two new full service offices to supplant the closed offices. Two full service offices were closed and consolidated with other locations during January 2013, and two other offices were closed and consolidated in December 2012. During 2013, five commercial lending offices with supporting personnel were opened, two late in the first quarter, two during the second quarter and one in the fourth quarter of 2013.

The Company, through Seacoast National, provides a broad range of community banking services to commercial, small business and retail customers, offering a variety of transaction and savings deposit products, treasury management services, brokerage, and secured and unsecured loan products, including revolving credit facilities, letters of credit and similar financial guarantees. Seacoast National also provides trust and investment management services to retirement plans, corporations and individuals.

While the past recession adversely affected our markets, we have seen much improvement in the last two years and expect these markets to continue to improve because these areas in Florida remain attractive markets in which to live and there are many positive indications that Florida's economy will continue to improve.

Florida's economic recovery is now well established, with solid job growth, declining unemployment, and higher consumer confidence fueling improvements in our markets. We believe the Florida economy will further strengthen in 2015, as we continue to attract population inflows. Our housing markets, manufacturing base, tourism and services industries are building on current momentum, and provide a diversified base for our economy. The residential real estate market is becoming stronger as pricing continues to firm and sales volumes continue to increase. Many seasonal businesses are now reporting improving trends. We are also hopeful the Congress and President of the United States will collaborate to avert any dampening to the economy prospectively. Our primary competitors now are the mega-banks, and many of these large institutions are struggling with higher capital requirements and new restrictions and regulations that are requiring difficult choices regarding their business models. We continue to believe we have entered a period of opportunity to achieve meaningful market share gains

Strategic Review

As part of its ongoing consideration and evaluation of its long-term prospects and strategies, Seacoast's board of directors and senior management have regularly reviewed and assessed its business strategies and objectives, including strategic opportunities and challenges, and have considered various strategic opportunities, including mergers and acquisitions, all with the goal of enhancing long term value for its shareholders and other stakeholders. The Company will likely continue to consider strategic acquisitions as part of the Company's overall future growth plans in complementary and attractive markets within the state of Florida.

The Company operates both a full retail banking strategy in its core markets, which are some of Florida's wealthiest, as well as a complete commercial banking strategy. The Company's core markets are comprised of Martin, St. Lucie and Indian River counties located on Florida's southeast coast, Okeechobee County, which is contiguous to these coastal counties, and Orange, Seminole and Lake County located in Central Florida. Our core markets contain 28 of our 43 retail full service locations, including four private banking centers. Because of the branch coverage in these markets, the Company has a significant presence, which provides convenience to customers and results in a larger deposit market share. The Company's deposit mix for the fourth quarter of 2014 is favorable with 86 percent of average deposit balances comprised of NOW, savings, money market and noninterest bearing transaction customer accounts.

The acquisition of BANKshares increased the Company's total deposits by approximately \$516.3 million, consisting of \$208.4 million in noninterest demand deposits, \$220.5 million in NOW, savings and money market accounts, and \$87.4 million in certificates of deposit. The cost of deposits averaged 0.12 percent for 2014 (compared to 0.16 percent for 2013 and 0.32 percent for 2012), which the Company believes ranks among the lowest when compared to other banks operating in the Company's market. The Company has improved its acquisition, retention and mix of deposits and has benefited from lower rates paid for interest bearing liabilities .. This has resulted in lower funding costs and improved profitability. As part of the Company's complete retail product and service offerings, customers are provided wealth management services through our trust wealth management division and brokerage services through a co-source relationship.

The Company's net interest margin increased 10 basis points to 3.25 percent during 2014 from 2013. The improvement follows on prior year's trend when net interest margin decreased from 3.22% in 2012 to 3.15% in 2013. In 2014, the year over year improvement results from increases in net loans, investment securities and improved deposit mix compared to a year ago. The merger with BANKshares was favorable, supplementing net interest income and benefiting our margin. The level of nonaccrual loans, changes in the earning assets mix, and the Federal Reserve's policies keeping interest rates low have been primary forces affecting net interest income and net interest margin results. In 2013, net interest income was lower as a result of lower loan and investment security yields, partially offset by an improved deposit mix and loan growth. Overall, loan production improved during 2014, 2013 and 2012. In 2014, the Company had commercial/commercial real estate loan production of \$258 million, compared to more limited production of \$200 million and \$111 million, respectively, for 2013 and 2012. The Company closed \$225 million in residential loans during 2014, compared to the \$251 million in 2013 and \$250 million in 2012. Stabilizing home values and lower interest rates sparked renewed interest by consumers in home equity loans and lines of credit during 2014. Higher interest rates beginning in the third quarter of 2013 slowed residential loan production and carried over into first quarter 2014's production. We expect improved commercial loan production in 2015, which we anticipate will be accomplished by increasing market share through our growing presence in the Orlando and Palm Beach markets.

The Board of Governors of the Federal Reserve System (the "Federal Reserve") has made a historic effort over the past several years to rejuvenate the economy and limit the effect of the recession by keeping interest rates between 0 and 25 basis points and expanding various liquidity programs. The Federal Reserve has indicated that it will maintain the target range for the federal funds rate for a considerable time following the end of its asset purchase program in October of 2014. However, if incoming information indicates faster progress toward the Federal Reserve's employment and inflation objectives than it now expects, then increases in the target range for the federal funds rate are likely to occur sooner than currently anticipated. Conversely, if progress proves slower than expected, then increases in the target range are likely to occur later than currently anticipated. While rates have been at historic lows, it is not expected to continue indefinitely. Including the acquisition of BANKshares, our net interest margin for the fourth quarter 2014 was successfully managed to 3.56 percent, up 39 basis points compared to third quarter 2014. Prospectively, our focus will be on continuing to improve our deposit mix by increasing low cost deposits and adding to our loan balances to offset compressed interest rate spreads which are expected to continue into 2015.

Loan Growth and Lending Policies

For 2014, balances in the loan portfolio increased 39.7 percent, compared with an increase of 6.4 percent for 2013 and a decline of 1.5 percent for 2012, reflecting the acquisition of BANKshares and a significant improvement from the recessionary climate and loan sales of 2012 and prior years. Adjusting for loans acquired from BANKshares, the loan portfolio grew 11.8 percent during 2014, year over year. Additional commercial relationship managers hired during 2013 at our new commercial lending offices increased loan growth in 2014, and with improving economic conditions will continue to do so prospectively. The Company expects loan growth opportunities for all types of lending in 2015, including commercial lending to targeted customer segments and 1-4 family agency conforming residential mortgages. We will continue to expand our business banking teams, adding new commercial loan officers where market opportunities arise. In addition, the acquisition of a receivables factoring subsidiary in the BANKshares merger provides another product vehicle to better serve our customers. We believe that achieving our revenue growth

objectives, together with continued reductions in credit costs and reduced problem loan related expenses will provide us with the potential to make further, meaningful improvements in our earnings in 2015.

In recent years, the Company increased its focus and monitoring of its exposure to residential land, acquisition and development loans. We undertook steps to de-risk this portfolio and our activities resulted in greater loan pay-downs, collections from guarantors, and obtaining additional collateral to support the loans. Overall, the Company reduced its exposure to residential land, acquisition and development loans from its peak of \$352 million or 20.2 percent of total loans in early 2007 to \$16 million or 0.9 percent at December 31, 2014.

Our construction and land development loans were \$87.0 million at December 31, 2014, up \$19.5 million from \$67.5 million at December 31, 2013, which was up \$6.8 million from \$60.7 million at December 31, 2012. The size of our average commercial construction and land development loan at December 31, 2014, 2013 and 2012 was \$392,000, \$416,000 and \$496,000, respectively.

Deposit Growth, Mix and Costs

The Company's focus on high quality customer service, expanded digital products and distribution, as well as convenient branch locations supports its strategy to provide stable, low cost deposit funding growth over the long term. Over the past several years, the Company has strengthened its retail deposit franchise using new strategies and product offerings, while maintaining its focus on building customer relationships. We believe that digital product offerings are central to prospective core deposit growth as access via these distribution channels is increasingly required by our customers. During the last two years, the Company experienced significant growth in its average transaction deposits (noninterest bearing demand and NOW accounts), with increases of \$157.8 million or 17.2 percent in 2014, and \$98.7 million or 12.0 percent in 2013, year over year. Along with new relationships, our deposit programs have improved our market share, increased average services per household, and decreased customer attrition.

Our growth in core deposits has also helped us limit further degradation to our net interest margin throughout the last two years. Declines in certificates of deposit ("CDs"), which are a higher cost of funds, continued in 2014 and 2013, but growth in core deposit relationships more than offset such declines. The Company believes that its overall deposit mix remains favorable and its average cost of deposits, including noninterest bearing demand deposits, remains low. The average cost of deposits for the Company continued to trend lower in 2014. In 2014, the cost of deposits was 0.12 percent, decreasing 4 basis points from 0.16 percent for the prior year, which was a 16 basis point decrease from 0.32 percent in 2012.

During 2014, total deposits increased \$610 million or 33.8 percent and sweep repurchase agreements increased \$2 million or 1.5 percent, versus 2013. Deposits for 2014 include acquired balances from BANKshares of approximately \$516 million. In comparison, during 2013 total deposits increased \$47 million or 2.7 percent and sweep repurchase agreements increased \$15 million or 10.6 percent when compared to 2012. Most of the increase in sweep repurchase agreements during 2013 was in public funds, principally from higher tax collector receipts.

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;

- fair value measurements;
- acquisition accounting and purchased loans
- intangible assets
- other than temporary impairment of securities;
- realization of deferred tax assets; and
- contingent liabilities.

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

Allowance and Provision for Loan Losses

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

The provision for loan losses is the result of a detailed analysis estimating an appropriate and adequate allowance for loan losses. The analysis includes the evaluation of impaired and purchased loans as prescribed under FASB Accounting Standards Codification ("ASC") 310, *Receivables* as well as an analysis of homogeneous loan pools not individually evaluated as prescribed under ASC 450, *Contingencies*. For 2014 we recorded a recapture of the allowance for loan losses of \$3.5 million, which compared to provisioning for 2013 of \$3.2 million. Net recoveries of \$0.5 million for 2014 compared to net charge-offs of \$5.2 million for 2013, and were (0.03) and 0.41 percent of average total loans for each year, respectively. Delinquency trends remain low and show continued stability (see "Nonperforming Assets").

Table 12 provides certain information concerning the Company's allowance (recapture) and provisioning for loan losses for the years indicated.

Management continuously monitors the quality of the Company's loan portfolio and maintains an allowance for loan losses it believes is sufficient to absorb probable losses inherent in the loan portfolio. The allowance for loan losses declined \$2,997,000 to \$17,071,000 at December 31, 2014, compared to \$20,068,000 at December 31, 2013. The allowance for loan losses ("ALLL") framework has four basic elements. Specific allowances for loans individually evaluated for impairment. General allowances for pools of homogeneous non purchased loans ("portfolio loans") within the portfolio that have similar risk characteristics, which are not individually evaluated. Specific allowances for purchased impaired loans which are individually evaluated based on the loans expected principal and interest cash flows. General allowances for purchased unimpaired pools of homogeneous loans that have similar risk characteristics. The aggregate of these four components results in our total allowance for loan losses.

The first element of the ALLL analysis involves the estimation of allowance specific to individually evaluated impaired portfolio loans, including accruing and nonaccruing restructured commercial and consumer loans. In this process, a specific allowance is established for impaired loans based on an analysis of the most probable sources of repayment, including discounted cash flows, liquidation of collateral, or the market value of the loan itself. It is the Company's policy to charge off any portion of the loan deemed a loss. Restructured consumer loans are also evaluated in this element of the estimate. As of December 31, 2014, the specific allowance related to impaired portfolio loans individually evaluated totaled \$3.6 million, compared to \$5.4 million as of December 31, 2013.

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

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

The final component consists of amounts reserved for purchased unimpaired loans. Loans collectively evaluated for impairment reported at December 31, 2014 include loans acquired from BANKshares on October 1, 2014 that are not PCI loans. These loans are performing loans recorded at estimated fair value at the acquisition date. The fair value adjustment for loans acquired from BANKshares at the acquisition date was approximately \$11.2 million, or approximately 3.1 percent of the outstanding aggregate loan balances. This amount is accreted into interest income over the remaining lives of the related loans on a level yield basis, but remains adequate at December 31, 2014, and therefore no provision for loan loss was recorded related to these loans at December 31, 2014.

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

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

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

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

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

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

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

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

Table 13 summarizes the Company's allocation of the allowance for loan losses to real estate loans, commercial and financial loans, and installment loans to individuals, and information regarding the composition of the loan portfolio at the dates indicated.

Net recoveries for the year ended December 31, 2014 totaled \$489,000, compared to net charges-offs of \$5,224,000 for the year ended December 31, 2013 (See "Table 12 – Summary of Loan Loss Experience" for detail on net charge-offs for the last five years). Note F to the financial statements (titled "Impaired Loans and Allowance for Loan Losses") summarizes the Company's allocation of the allowance for loan losses to construction and land development loans, commercial and residential estate loans, commercial and financial loans, and consumer loans, and provides more specific detail regarding charge-offs and recoveries for each loan component and the composition of the loan portfolio at December 31, 2014 and 2013. 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 and that with stabilizing market conditions, future charge-offs should continue to decline.

The allowance as a percentage of portfolio loans outstanding was 1.14 percent at December 31, 2014, compared to 1.54 percent at December 31, 2013. The allowance for loan losses represents management's estimate of an amount adequate in relation to the risk of losses inherent in the loan portfolio. The reduced level of impaired loans contributed to a lower risk of loss and the lower allowance for loan losses as of December 31, 2014. 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 will likely benefit from continued improvement in our credit quality, but offset by more normal loan growth as business activity and the economy improves.

Concentrations of credit risk, discussed under the caption "Loan Portfolio" of this discussion and analysis, can affect the level of the allowance and may involve loans to one borrower, an affiliated group of borrowers, borrowers engaged in or dependent upon the same industry, or a group of borrowers whose loans are predicated on the same type of collateral. The Company's most significant concentration of credit is a portfolio of loans secured by real estate. At December 31, 2014, the Company had \$1.611 billion in loans secured by real estate, representing 88.4 percent of total loans, up from \$1.181 billion but lower as a percent of total loans (versus 90.5 percent) at December 31, 2013. 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.

Nonperforming Assets

Table 14 provides certain information concerning nonperforming assets for the years indicated.

Nonperforming assets (“NPAs”) at December 31, 2014 totaled \$28,602,000 and were comprised of \$18,563,000 of nonaccrual portfolio loans, \$2,577,000 of nonaccrual purchased loans, \$5,567,000 of non-acquired other real estate owned (“OREO”) and \$1,895,000 of acquired OREO. In comparison, NPAs at December 31, 2013 totaled \$34,532,000 (comprised of \$27,672,000 in nonaccrual loans and \$6,860,000 of OREO). At December 31, 2014, approximately 99.1 percent of nonaccrual loans were secured with real estate, the remainder principally by marine vessels. See the tables below for details about nonaccrual loans. At December 31, 2014, nonaccrual loans have been written down by approximately \$5.5 million or 21.9 percent of the original loan balance (including specific impairment reserves).

As anticipated, the Company closed a number of OREO sales during 2014 and 2013 that reduced non-acquired OREO outstanding. Compared to December 31, 2013, non-acquired OREO was \$1.3 million or 18.8 percent lower at December 31, 2014. This represents the lowest level of OREO since 2008 and is reflective of our improving credit quality.

During 2014, \$8.5 million in loans were moved to nonperforming compared to \$10.0 million for all of 2013. Of the \$8.5 million, \$4.0 million was related to purchased loans in the fourth quarter. Most of the loans are collateralized by real estate. During the second quarter of 2014, a single commercial credit of \$4.3 million was transferred from nonaccrual loans to troubled debt restructure (“TDR”). Inflows to nonperforming loans during 2012 included a \$14.4 million performing TDR commercial real estate loan participation. This loan was written down to \$10.3 million in the third quarter of 2012 and moved to loans available for sale. Subsequently the loan was sold for a loss of \$1.2 million as reflected on our income statement at December 31, 2012. NPAs are subject to changes in the economy, both nationally and locally, changes in monetary and fiscal policies, changes in borrowers’ payment behaviors and changes in conditions affecting various borrowers from Seacoast National. Based on lower classified assets and impaired loan balances as of December 31, 2014, management believes that future inflows to nonperforming loans will continue to be reduced.

The table below shows the nonperforming inflows by quarter for 2014, 2013 and 2012:

New Nonperforming Loans

(In thousands)	2014	2013	2012
First quarter	\$1,651	\$2,868	\$20,207
Second quarter	810	2,949	17,291
Third quarter	523	2,019	14,521
Fourth quarter*	5,525	2,167	6,891

*\$4,007 related to BankFIRST loans acquired in the fourth quarter 2014.

The Company pursues loan restructurings in selected cases where it expects to realize better values than may be expected through traditional collection activities. The Company has worked with retail mortgage customers, when possible, to achieve lower payment structures in an effort to avoid foreclosure. TDRs have been a part of the Company's loss mitigation activities and can include rate reductions, payment extensions and principal deferrals. Company policy requires TDRs that are classified as nonaccrual loans after restructuring remain on nonaccrual until performance can be verified, which usually requires six months of performance under the restructured loan terms. We are optimistic that some of these credits will rehabilitate and be upgraded versus migrating to nonperforming or OREO prospectively. Accruing restructured loans totaled \$25.0 million at December 31, 2014 compared to \$25.1 million at December 31, 2013. The tables below set forth details related to nonaccrual and restructured loans.

December 31, 2014 (In thousands)	Nonaccrual Loans			Accruing Restructured Loans
	Non- Current	Per- forming	Total	
Construction & land development				
Residential	\$0	\$26	\$26	\$ 1,903
Commercial	1,621	0	1,621	71
Individuals	0	316	316	202
	1,621	342	1,963	2,176
Residential real estate mortgages	2,941	11,856	14,797	14,303
Commercial real estate mortgages	1,698	2,491	4,189	7,990
Real estate loans	6,260	14,689	20,949	24,469
Commercial and financial	0	0	0	120
Consumer	0	191	191	408
	\$6,260	\$14,880	\$21,140	\$ 24,997

At December 31, 2014 and 2013, total TDRs (performing and nonperforming) were comprised of the following loans by type of modification:

NONPERFORMING ASSETS

Total TDRs by type of modification

(Dollars in thousands)	2014		2013	
	Number	Amount	Number	Amount
Rate reduction	106	\$18,906	113	\$19,843
Maturity extended with change in terms	71	8,891	81	10,620
Forgiveness of principal	1	1,588	1	1,838
Chapter 7 bankruptcies	54	3,348	55	2,594
Not elsewhere classified	11	1,786	10	5,602
	243	\$34,519	260	\$40,497

During the first, second, third and fourth quarters of 2014, newly identified TDRs totaled \$0.4 million, \$4.9 million, \$0.1 million and \$0.1 million, respectively, compared to \$10.7 million for all of 2013. Loan modifications are not reported in calendar years after modification if the loans were modified at an interest rate equal to the yields of new loan originations with comparable risk and the loans are performing based on the terms of the restructuring agreements. No accruing loans that were restructured within the twelve months preceding December 31, 2014 defaulted during the twelve months ended December 31, 2014, compared to \$1,948,000 for 2013. A restructured loan is considered in default when it becomes 60 days or more past due under the modified terms, has been transferred to nonaccrual status, or has been transferred to other real estate owned.

At December 31, 2014, loans totaling \$43,577,000 were considered impaired (comprised of total nonaccrual, loans 90 days or more past due, and TDRs) and \$3,541,000 of the allowance for loan losses was allocated for potential losses on these loans, compared to \$52,969,000 and \$5,446,000, respectively, at December 31, 2013.

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.

Acquisition Accounting, and Purchased Loans .

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

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 are being amortized over 74 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. We perform an annual impairment test of goodwill and core deposit intangibles as required by FASB ASC 350, *Intangibles—Goodwill and Other*, in the fourth quarter.

Fair Value Measurements

All impaired loans are reviewed quarterly to determine if fair value adjustments are necessary based on known changes in the market and/or the project assumptions. When necessary, the “As Is” appraised value may be adjusted based on more recent appraisal assumptions received by the Company on other similar properties, the tax assessed market value, comparative sales and/or an internal valuation. If an updated assessment is deemed necessary and an internal valuation cannot be made, an external “As Is” appraisal will be obtained. If the “As Is” appraisal does not appropriately reflect the current fair market value, in the Company’s opinion, a specific reserve is established and/or the loan is written down to the current fair market value.

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

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

At December 31, 2014, outstanding securities designated as available for sale totaled \$741,375,000. The fair value of the available for sale portfolio at December 31, 2014 was less than historical amortized cost, producing net unrealized losses of \$5,015,000 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 2014 and 2013. The fair value of each security available for sale was obtained from independent pricing sources utilized by many financial institutions or from dealer quotes. The fair value of many state and

municipal securities are not readily available through market sources, so fair value estimates are based on quoted market price or prices of similar instruments. Generally, the Company obtains one price for each security. However, actual values can only be determined in an arms-length transaction between a willing buyer and seller that can, and often do, vary from these reported values. Furthermore, significant changes in recorded values due to changes in actual and perceived economic conditions can occur rapidly, producing greater unrealized losses or gains in the available for sale portfolio.

The credit quality of the Company's securities holdings are primarily investment grade. As of December 31, 2014, the Company's available for sale investment securities, except for approximately \$24.3 million of securities issued by states and their political subdivisions, generally are traded in liquid markets. U.S. Treasury and U.S. Government agency obligations totaled \$476.4 million, or 64.3 percent of the total available for sale portfolio. The portfolio also includes \$115.4 million in private label securities, most secured by collateral originated in 2005 or prior years with low loan to values, and current FICO scores above 700. Generally these securities have credit support exceeding 5%. The collateral underlying these mortgage investments are primarily 30- and 15-year fixed rate, 5/1 and 10/1 adjustable rate mortgage loans. Historically, the mortgage loans serving as collateral for those investments have had minimal foreclosures and losses. During 2013, the Company invested \$32.2 million in uncapped 3-month Libor floating rate collateralized loan obligations. Supplemental purchases of collateralized loan obligations increased the total to \$125.2 million as of December 31, 2014. Collateralized loan obligations are special purpose vehicles that purchase loans as assets that provide a steady stream of income and possible capital appreciation. The collateral for the securities is first lien senior secured corporate debt. The Company has purchased senior tranches rated credit rated A or higher and performed stress tests, which indicated that the senior subordination levels are sufficient and no principal loss is forecast, verifying the independent rating. At October 1, 2014, BANKshares securities of \$85.4 million were acquired and added to the available for sale portfolio at their fair market value, comprised of \$67.6 million of U.S. Treasury and U.S. Government securities and \$17.8 million of securities issued by states and their political subdivisions.

On May 31, 2014 management identified \$158.8 million of investment securities available for sale and transferred them to held for investment. The unrealized holding losses at the date of transfer totaled \$3.0 million.

For the securities that were transferred into the held for investment category from the available for sale category, the unrealized holding losses at the date of the transfer will continue to be reported in other comprehensive income, and will be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of a discount. The amortization of unrealized holding losses reported in equity will offset the effect on interest income of the amortization of the discount.

The securities transferred management believes are a core banking asset that they now intend to hold until maturity and if interest rates were to increase before maturity the fair values would be impacted more significantly and therefore are not consistent with the characteristics of an available for sale investment.

Other Than Temporary Impairment of Securities

Our investments are reviewed quarterly for other than temporary impairment ("OTTI"). The following primary factors are considered for securities identified for OTTI testing: percent decline in fair value, rating downgrades, subordination, duration, amortized loan-to-value, and the ability of the issuers to pay all amounts due in accordance with the contractual terms. Prices obtained from pricing services are usually not adjusted. Based on our internal review procedures and the fair values provided by the pricing services, we believe that the fair values provided by the pricing services are consistent with the principles of ASC 820, Fair Value Measurement. However, on occasion pricing provided by the pricing services may not be consistent with other observed prices in the market for similar

securities. Using observable market factors, including interest rate and yield curves, volatilities, prepayment speeds, loss severities and default rates, the Company may at times validate the observed prices using a discounted cash flow model and using the observed prices for similar securities to determine the fair value of its securities.

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

The Company also held stock in the Federal Home Loan Bank of Atlanta ("FHLB") totaling \$8.5 million as of December 31, 2014, \$3.6 million more than the balance at year-end 2013. The Company accounts for its FHLB stock based on the industry guidance in ASC 942, Financial Services—Depository and Lending, which requires the investment to be carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. We evaluated our holdings in FHLB stock at December 31, 2014 and believe our holdings in the stock are ultimately recoverable at par. We do not have operational or liquidity needs that would require redemption of the FHLB stock in the foreseeable future and, therefore, have determined that the stock is not other-than-temporarily impaired.

Realization of Deferred Tax Assets

At December 31, 2014, the Company had net deferred tax assets (“DTA”) of \$66.8 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 December 31, 2013 the Company had a net DTA of \$66.9 million.

As a result of the losses incurred in 2010 and 2012, the Company had a three-year cumulative pretax loss until the end of the third quarter of 2013. At September 30, 2013, the total converted to a three-year cumulative pretax income of \$4.7 million. Lower credit costs and increased earnings before taxes for 2013 and 2014 results in management’s conclusion that recovery of the net deferred tax assets is more likely than not from future earnings. Other important factors that support this conclusion are:

Income before tax (“IBT”) has steadily increased as a result of organic growth and the 2014 acquisition will further assist in achieving management’s forecast of future earnings which recovers the net operating loss carry-forwards before expiration,

Credit costs have declined and overall credit risk has declined which decreases the impact on future taxable earnings,

Forecasted growth rates for loans are at levels considered reasonable and supported by the acquisition, increased loan officers and support staff. Additional loan officer salaries were added to assure loan portfolio growth and support increased interest income.

New loan production credit quality and concentrations are being well managed through improved and enhanced credit functions and therefore will not cause increased credit costs. The independent loan review in 2014 focused on review of underwriting of new loans and no weaknesses were reported.

Current economic growth forecasts for Florida and the Company’s markets in particular are robustly supported by population increases.

Contingent Liabilities

The Company is subject to contingent liabilities, including judicial, regulatory and arbitration proceedings, and tax and other claims arising from the conduct of our business activities. These proceedings include actions brought against the Company and/or our subsidiaries with respect to transactions in which the Company and/or our subsidiaries acted

as a lender, a financial advisor, a broker or acted in a related activity. Accruals are established for legal and other claims when it becomes probable that the Company will incur an expense and the amount can be reasonably estimated. Company management, together with attorneys, consultants and other professionals, assesses the probability and estimated amounts involved in a contingency. Throughout the life of a contingency, the Company or our advisors may learn of additional information that can affect our assessments about probability or about the estimates of amounts involved. Changes in these assessments can lead to changes in recorded reserves. In addition, the actual costs of resolving these claims may be substantially higher or lower than the amounts reserved for the claims. At December 31, 2014 and 2013, the Company had no significant accruals for contingent liabilities and had no known pending matters that could potentially be significant.

Results of Operations

Earnings Summary

Net income available to common shareholders for 2014 totaled \$5,696,000, or \$0.21 per average common diluted share, compared to net income of \$47,916,000, or \$2.44 per average common diluted share, in 2013, and a net loss of \$4,458,000, or \$(0.24) per average common diluted share, in 2012.

Net Interest Income

Net interest income (on a fully taxable equivalent basis) for 2014 totaled \$75,221,000, increasing by \$9,786,000 or 15.0 percent as compared to 2013. Net interest margin on a tax equivalent basis for 2014 increased 10 basis points to 3.25 percent compared to 3.15 percent in 2013. The year over year improvement results from increases in net loans, in investment securities and our improved deposit mix compared to a year ago. The addition of BANKshares' business volumes on October 1, 2014, amplified performance in the fourth quarter of 2014, with a \$7,601,000 increase in net interest income from the third quarter of 2014, and \$8,547,000 increase compared to fourth quarter 2013. We anticipate 2015's net interest income will benefit from the full year impact of the acquisition. The following table details net interest income and margin results (on a tax equivalent basis) for the past five quarters:

	Net Interest Income	Net Interest Margin	
(Dollars in thousands)	(tax equivalent)	(tax equivalent)	
Fourth quarter 2013	16,336	3.08	%
First quarter 2014	16,277	3.07	
Second quarter 2014	16,779	3.10	
Third quarter 2014	17,282	3.17	
Fourth quarter 2014	24,883	3.56	

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

measures and tax equivalent net interest income and net interest margin on a tax equivalent basis.

	Total Year 2014	Fourth Quarter 2014	Third Quarter 2014	Second Quarter 2014	First Quarter 2014	Total Year 2013	Fourth Quarter 2013
(Dollars in thousands)							
Non-taxable interest income	\$314	\$150	\$54	\$54	\$56	\$432	\$112
Tax Rate	35 %	35 %	35 %	35 %	35 %	35 %	35 %
Net interest income (TE)	\$75,221	\$24,883	\$17,282	\$16,779	\$16,277	\$65,435	\$16,336
Total net interest income (not TE)	74,907	24,733	17,228	16,725	16,221	65,206	16,277
Net interest margin (TE)	3.25 %	3.56 %	3.17 %	3.10 %	3.07 %	3.15 %	3.08 %
Net interest margin (not TE)	3.24	3.54	3.16	3.09	3.06	3.14	3.06

The level of nonaccrual loans, changes in the earning assets mix, and the Federal Reserve's policies keeping interest rates low have been primary forces affecting net interest income and net interest margin results.

The earning asset mix changed year over year impacting net interest income. For 2014, average loans (the highest yielding component of earning assets) as a percentage of average earning assets totaled 62.8 percent, compared to 61.2 percent a year ago. Average securities as a percentage of average earning assets increased from 31.4 percent a year ago to 31.8 percent during 2014 and interest bearing deposits and other investments decreased to 5.4 percent in 2014 from 7.4 percent in 2013, reflecting the investment of excess liquidity during the third and fourth quarters of 2014. Average total loans as a percentage of earning assets increased, and the mix of loans was improved, with volumes related to commercial real estate representing 48.9 percent of total loans at December 31, 2014 (compared to 42.5 percent at December 31, 2013). Lower yielding residential loan balances with individuals (including home equity loans and lines, and personal construction loans) represented 39.6 percent of total loans at December 31, 2014 (versus 48.1 percent at December 31, 2013) (see "Loan Portfolio").

The yield on earning assets for 2014 was 3.48 percent, 6 basis points higher than for 2013. The yield on earning assets improved each quarter during 2014. The acquisition of BANKshares improved the loan mix, and together with organic loan growth during the fourth quarter of 2014 contributed approximately 33 basis points to the increase of 38 basis points from third quarter 2014. The deployment of liquidity during the last three months of 2014 contributed to the yield improvement as well. The following table details the yield on earning assets (on a tax equivalent basis) for the past five quarters:

	Fourth Quarter 2014	Third Quarter 2014	Second Quarter 2014	First Quarter 2014	Fourth Quarter 2013
Yield	3.78 %	3.40 %	3.33 %	3.31 %	3.33 %

While the yield on loans decreased 10 basis points to 4.39 percent over the last twelve months, the yield improved quite dramatically in the fourth quarter of 2014 (by 41 basis points compared to third quarter 2014's yield on loans) for all the reasons previously detailed, but primarily an improved loan mix. The yield on investment securities was slightly higher, increasing 16 basis points year over year to 2.14 percent for 2014, reflecting reduced prepayments of

principal from refinancing activities on mortgage backed securities in the portfolio and higher add-on rates for recent purchases. The yield on interest bearing deposits and other investments was higher as well at 0.81 percent for 2014, up 24 basis points versus a year ago and reflecting lower balances for interest bearing deposits at the Federal Reserve earning only 25 basis points.

Average earning assets for 2014 increased \$237.1 million or 11.4 percent compared to 2013's average balance. Average loan balances for 2014 increased \$180.4 million or 14.2 percent to \$1,452.8 million and average investment securities increased \$84.0 million or 12.9 percent to \$737.0 million, while average interest bearing deposits and other investments decreased \$27.3 million or 17.9 percent to \$125.5 million.

Commercial and commercial real estate loan production for 2014 totaled approximately \$258 million, compared to production for 2013 of \$200 million. Improvements in commercial production resulted from general economic conditions and consumer confidence in the State of Florida improving, encouraging commercial customers to expand and borrow, along with the full-year impact of our five commercial lending offices opened during 2013. Our investment in loan production staff is focused on the hiring of commercial lenders for the larger metropolitan markets in which the Company competes, principally in Orlando, Palm Beach and Fort Lauderdale. The addition of BANKshares locations and personnel in the fourth quarter provides the Company with a significant presence in the Orlando market as well as the coastal region to the east of Orlando. With commercial production improving during 2014 and BANKshares acquisition, period-end total loans outstanding increased by \$517.7 million or 39.7 percent since December 31, 2013. At December 31, 2014, the Company's total commercial and commercial real estate loan pipeline was \$60 million, compared to \$30 million, \$58 million and \$46 million at the end of the first, second and third quarters of 2014, and \$28 million at the end of 2013.

As of December 31, 2014 and 2013, commercial real estate ("CRE") loans were \$890.5 million and \$553.7 million, respectively, up 60.8 percent and up 8.9 percent from the respective prior years. Under regulatory guidelines for commercial real estate concentrations, Seacoast National's total commercial real estate loans outstanding at December 31, 2014 (as defined in guidelines) represented 197 percent of risk-based capital, which is below the regulatory threshold.

Closed residential mortgage loan production for the first, second, third and fourth quarters of 2014 totaled \$40 million, \$61 million, \$66 million and \$58 million, respectively, of which \$19 million, \$28 million, \$35 million and \$26 million was sold servicing-released. In comparison, closed residential mortgage loan production for the first, second, third and fourth quarters of 2013 totaled \$56 million, \$80 million, \$62 million and \$53 million, respectively, of which \$33 million, \$49 million, \$32 million and \$26 million was sold servicing-released. Applications for residential mortgages totaled \$344 million during 2014, compared to \$378 million for 2013. The majority of our loan production has been focused on purchased home mortgages. Existing home sales and home mortgage loan refinancing activity in the Company's markets has improved as the number of foreclosed properties in Florida has diminished, with some improved demand for new home construction emerging.

During 2014, proceeds from the sales of securities totaled \$21.9 million (including net gains of \$469,000). In comparison, proceeds from the sale of securities totaled \$67.3 million for 2013 (including net gains of \$419,000). Securities purchases in 2014 and 2013 have been conducted principally to reinvest funds from maturities and principal repayments, as well as to reinvest excess funds (in an interest bearing deposit) at the Federal Reserve Bank, and proceeds from sales. During 2014, maturities (principally pay-downs of \$107.8 million) totaled \$108.7 million and securities portfolio purchases totaled \$345.5 million. In addition, \$85.4 million in securities from BANKshares were added to the portfolio in the fourth quarter of 2014. In comparison, 2013 maturities totaled \$155.6 million (including \$150.3 million in pay-downs) and securities portfolio purchases totaled \$230.1 million.

For 2014, the cost of average interest-bearing liabilities decreased 4 basis points to 0.32 percent from 2013, reflecting the lower interest rate environment and improved deposit mix. The following table details the cost of average interest

bearing liabilities for the past five quarters:

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	Fourth Quarter 2014	Third Quarter 2014	Second Quarter 2014	First Quarter 2014	Fourth Quarter 2013
Rate	0.31 %	0.32 %	0.33 %	0.33 %	0.35 %

During 2014, the Company's retail core deposit focus produced strong growth in core deposit customer relationships when compared to prior year results. Lower rates paid on interest bearing deposits during 2014 (and last several quarters) reduced the overall cost of total deposits to 0.11 percent for the fourth quarter of 2014, 3 basis points lower than the same quarter a year ago. A significant component favorably affecting the Company's net interest margin, the average balances of lower cost interest bearing deposits (NOW, savings and money market) totaled 80.0 percent of total average interest bearing deposits for 2014, an improvement compared to the average of 76.9 percent a year ago. The average rate for lower cost interest bearing deposits for 2014 was 0.08 percent, identical to 2013's rate. CD rates paid were lower during 2014, averaging 0.55 percent, an 11 basis point decrease compared to 2013. Average CDs (the highest cost component of interest bearing deposits) were 20.0 percent of interest bearing deposits for 2014, compared to 23.1 percent for 2013. Prospectively, with interest rates predicted to remain low through 2015, reductions in interest bearing deposit costs will be more challenging to produce due to more limited re-pricing opportunities.

Average deposits totaled \$1,939.9 million during 2014, and were \$205.6 million higher compared to 2013. This increase included the acquisition of BANKshares on October 1, 2014, with approximately \$516.3 in total deposits. Average aggregate amounts for NOW, savings and money market balances increased \$120.5 million or 12.2 percent to \$1,106.6 million for 2014 compared to 2013, average noninterest bearing deposits increased \$104.2 million or 23.1 percent to \$556.0 million for 2014 compared to 2013, and average CDs decreased by \$19.1 million or 6.4 percent to \$277.3 million over the same period. With the low interest rate environment and lower CD rate offerings available, customers have been more complacent and are leaving more funds in lower cost average balances in savings and other liquid deposit products that pay no interest or a lower interest rate. Averaging only \$8.1 million during 2014, the Company continues to offer its Certificate of Deposit Registry program ("CDARs"), a program that began in mid-2008 that allows customers to have CDs safely insured beyond the Federal Deposit Insurance Corporation ("FDIC") deposit insurance limit, and a favored offering for homeowners' associations concerned with FDIC insurance coverage.

Average short-term borrowings have been principally comprised of sweep repurchase agreements with customers of Seacoast National, which decreased \$3.2 million to \$152.0 million or 2.1 percent for 2014 as compared to 2013. With balances typically peaking during the fourth and first quarters each year, public fund clients with larger balances have the most significant influence on average sweep repurchase agreement balances outstanding during the year. At September 30, 2014, the Company utilized \$80 million in term federal funds purchased from the FHLB at 0.16 percent (maturing in 30 days) to invest in adjustable rate securities, pending seasonal funding expected prospectively. These funds remained outstanding at December 31, 2014, and for the year averaged \$19.9 million. For 2014, average other borrowings are comprised of subordinated debt of \$56.4 million related to trust preferred securities issued by subsidiary trusts of the Company (including subordinated debt for BANKshares added on October 1, 2014) and advances from the FHLB of \$50.0 million. With the exception of the inherited subordinated debt from BANKshares, no changes have occurred to other borrowings since year-end 2009 (see "Note I – Borrowings" to the Company's consolidated financial statements).

Prospectively, with the acquired loans paying down and replaced with new loans at lower yields, partially offset by our lending initiatives producing improved results, and problem loans continuing to decline, we expect our consolidated net interest margin for 2015 will trend lower if interest rates remain low. We are positioned for stronger earnings performance and improved margin with a more typical yield curve, with excess liquidity presently deployed into adjustable rate assets. Our focus on achieving increased household growth year over year should continue to produce future organic revenue growth, as the long term value of core household relationships are revealed, as more products are sold and fees earned, and as normalized interest rates return as the economy improves.

Net interest income (on a fully taxable equivalent basis) for 2013 totaled \$65,435,000, increasing by \$445,000 or 0.7 percent as compared to 2012. Net interest margin on a tax equivalent basis for 2013 decreased 14 basis points to 3.08 percent compared to 3.22 percent in 2012. Lower asset yields as a result of the Federal Reserve's actions to lower interest rates and the restructuring of the investment portfolio to lower pricing risks in 2012 were more than offset by improving loan volumes and a recovery of interest on nonaccrual loans of \$505,000 in the third quarter of 2013.

The earning asset mix changed year over year impacting net interest income. For 2013, average loans (the highest yielding component of earning assets) as a percentage of average earning assets totaled 61.2 percent, compared to 60.9 percent for 2012. Average securities as a percentage of average earning assets increased from 29.2 percent for 2012 to 31.4 percent during 2013 and interest bearing deposits and other investments decreased to 7.4 percent in 2013 from 9.9 percent in 2012, reflecting the reinvestment of \$226.8 million of proceeds from securities sales transacted during the first and second quarters of 2012. Average total loans as a percentage of earning assets increased nominally, and the mix of loans was generally unchanged, with volumes related to commercial real estate representing 42.5 percent of total loans at December 31, 2013 (compared to 41.5 percent at December 31, 2012). Lower yielding residential loan balances with individuals (including home equity loans and lines, and personal construction loans) represented 48.1 percent of total loans at December 31, 2013 (versus 49.6 percent at December 31, 2012).

The yield on earning assets for 2013 was 3.42 percent, 22 basis points lower than for 2012, a reflection of the lower interest rate environment and earning asset mix. The yield on loans decreased 27 basis points to 4.49 percent compared to 2012, with nonaccrual loans totaling \$27.7 million or 2.1 percent of total loans at December 31, 2013 (versus \$41.0 million or 3.3 percent of total loans at December 31, 2012). The yield on investment securities was lower, decreasing 41 basis points from 2012's yield to 1.98 percent for 2013, due to securities sold to reduce interest rate risk during the first six months of 2012 to reduce interest rate risk and reinvestment at lower yields and lower add-on rates as the result of Federal Reserve actions during the last half of 2012. The yield on interest bearing deposits and other investments was slightly higher at 0.57 percent for 2013, up 9 basis points versus the yield for 2012.

Average earning assets for 2013 increased \$61.2 million or 3.0 percent compared to 2012's average balance. Average loan balances for 2013 increased \$44.9 million or 3.7 percent to \$1,272.4 million and average investment securities increased \$63.5 million or 10.8 percent to \$653.0 million, while average interest bearing deposits and other investments decreased \$47.2 million or 23.6 percent to \$152.8 million.

Commercial and commercial real estate loan production for 2013 totaled approximately \$200 million, compared to production for 2012 of \$111 million. Improvements in commercial production resulted from a focused program to target small business segments less impacted by the lingering effects of the recession. Commercial production improved and period-end total loans outstanding at year-end 2013 increased by \$78.1 million or 6.4 percent from December 31, 2012.

Closed residential mortgage loan production for 2013 totaled \$251 million, of which \$140 million was sold servicing-released. In comparison, closed residential mortgage loan production for 2012 totaled \$249 million, of which \$119 million was sold servicing-released. Applications for residential mortgages totaled \$378 million during 2013, compared \$387 million for 2012. In the fourth quarter of 2013, higher interest rates dampened overall residential loan production for the year.

During 2013, proceeds from the sales of securities totaled \$67.3 million (including gains of \$419,000). In comparison, proceeds from the sale of securities totaled \$256.1 million for 2012 (including net gains of \$7,619,000), with most of the proceeds (and net gains) derived from sales during the first and second quarters of 2012, totaling \$226.8 million (and \$6,989,000), respectively. Management believed the securities sold had minimal opportunity to further increase in value. Securities purchases in 2012 were conducted to reinvest funds from maturities and principal repayments, but of greater significance, to reinvest the proceeds from sales. During 2013 securities portfolio purchases totaled \$230.1 million, compared to purchases totaling \$384.6 million in 2012.

For 2013, the cost of average interest-bearing liabilities decreased 19 basis points to 0.36 percent from 2012, reflecting the lower interest rate environment and improved deposit mix. During 2013, the Company's retail core deposit focus produced strong growth in core deposit customer relationships when compared to prior year results. A significant component favorably affecting the Company's net interest margin, the average balances of lower cost interest bearing deposits (NOW, savings and money market) totaled 76.9 percent of total average interest bearing deposits for 2013, an improvement compared to the average of 70.6 percent for 2012. The average rate for lower cost interest bearing deposits for 2013 was 0.08 percent, down by 8 basis points from 2012's rate. CD rates paid were also lower during 2013, averaging 0.66 percent, a 37 basis point decrease compared to 2012. Average CDs (the highest cost component of interest bearing deposits) were 23.1 percent of interest bearing deposits for 2013, compared to 29.4 percent for 2012.

Average deposits totaled \$1,734.3 million during 2013, and were \$37.0 million higher compared to 2012, even with a planned reduction of time deposits occurring. Average aggregate amounts for NOW, savings and money market balances increased \$62.0 million or 6.7 percent to \$986.1 million for 2013 compared to 2012, average noninterest bearing deposits increased \$63.1 million or 16.2 percent to \$451.8 million for 2013 compared to 2012, and average CDs decreased by \$88.1 million or 22.9 percent to \$296.4 million over the same period. For 2013 and 2012, fewer customers sought to invest in CDs, choosing to leave more funds in low rate or no cost liquid deposit products.

Average sweep repurchase agreements with customers of Seacoast National increased \$13.6 million to \$155.2 million or 9.6 percent for 2013 as compared to 2012, and there was limited use of federal funds purchased, other than to test available lines. Other borrowings were comprised of subordinated debt of \$53.6 million related to trust preferred securities issued by trusts organized by the Company, and advances from the FHLB of \$50.0 million.

Noninterest Income

Noninterest income (excluding securities gains or losses) for 2014 was \$425,000 or 1.7 percent higher than for 2013, increasing to \$24,744,000. For 2013, noninterest income of \$24,319,000 was \$2,875,000 or 13.4 percent higher than for 2012. Noninterest income accounted for 24.8 percent of total revenue (net interest income plus noninterest income, excluding securities gains), compared to 27.2 percent a year ago and 24.9 percent for 2012 (excluding the loss on sale of commercial loan).

Table 6 provides detail regarding noninterest income components for the past three years.

For 2014, revenues from the Company's wealth management services businesses (trust and brokerage) increased year over year, by \$258,000 or 5.9 percent, and were higher in 2013 than 2012 by \$992,000 or 29.6 percent. Included in the \$258,000 increase from a year ago, trust revenue was higher by \$275,000 or 10.1 percent and brokerage commissions and fees were lower by \$17,000 or 1.0 percent. Higher agency fees and employee benefit income were the primary cause for the higher trust income versus 2013, increasing \$189,000 and \$58,000, respectively, and reflect new pricing effective in the third quarter of 2014. The \$17,000 overall decline in brokerage commissions and fees for 2014 included increases of \$58,000 in aggregate brokerage, mutual fund, and advisory fees and a decrease of \$71,000 in annuity income. Of the \$992,000 increase for 2013, trust revenue was higher by \$432,000 or 19.0 percent and brokerage commissions and fees were lower by \$560,000 or 52.3 percent.

Service charges on deposits for 2014 were \$241,000 or 3.6 percent higher year over year, and were \$466,000 or 7.5 percent higher in 2013 when compared 2012. Overdraft fees increased \$106,000 or 2.4 percent year over year and represented approximately 66 percent of total service charges on deposits for 2014, lower than the average of 67 percent for 2013 and 74 percent for 2012. The regulators continue to review the banking industry's practices around overdraft programs and additional regulation could further reduce fee income for the Company's overdraft services. Remaining service charges on deposits increased \$135,000 or 6.1 percent to \$2,330,000 for 2014, compared to 2013. Service charge increases for 2014 reflect our growing base of core deposit relationships over the past twelve months, including the addition of BANKshares customers in the fourth quarter, and our emphasis on providing products meeting the needs of each customer that generates appropriate fees for the services offered.

For 2014, fees from the non-recourse sale of marine loans totaled \$1,320,000, an increase of \$131,000 or 11.0 percent compared to 2013, and were higher for 2013 by \$78,000 or 7.0 percent compared to 2012. The Seacoast Marine Division originated \$108 million in loans during 2014, compared to \$82 million and \$79 million for 2013 and 2012, respectively. Of the loans originated during 2014, \$80 million were sold (74.3 percent of production), compared to \$69 million sold during 2013 (84.1 percent of production) and \$68 million for 2012 (86.1 percent of production). Approximately \$28 million of 2014's production has been placed in our loan portfolio, compared to \$13 million in 2013 and \$11 million in 2012, thereby reducing the percentage of production sold. The Seacoast Marine Division is headquartered in Ft. Lauderdale, Florida with lending professionals in Florida, California, Washington and Arizona.

Greater usage of check or debit cards over the past several years by core deposit customers and an increased cardholder base has increased our interchange income. For 2014, interchange income increased \$568,000 or 10.5 percent from 2013, and was \$903,000 or 20.1 percent higher for 2013, compared to 2012's income. Other deposit-based electronic funds transfer ("EFT") income increased nominally in 2014 from 2013, after increasing \$6,000 or 1.8 percent in 2013 compared to 2012's revenue. Interchange revenue is dependent upon business volumes transacted, as well as the fees permitted by VISA® and MasterCard®. The Dodd-Frank Act regulation has not impacted this source of fee revenue for Seacoast National materially, but did significantly reduce fees collected by larger financial institutions.

The Company originates residential mortgage loans in its markets, with loans processed by commissioned employees of Seacoast National. Many of these mortgage loans are referred by the Company's branch personnel. Mortgage banking fees in 2014 decreased \$1,116,000 or 26.7 percent from 2013, and were \$463,000 or 12.5 percent higher for 2013 than for 2012. Mortgage banking revenue as a component of overall noninterest income was 12.4 percent for 2014, compared to 17.2 percent for 2013 and 17.3 percent for 2012. Mortgage revenues are dependent upon favorable interest rates, as well as good overall economic conditions, including the volume of home sales. Residential real estate sales and activity in our markets improved during 2013, with transactions increasing, prices firming and affordability improving. However, during the fourth quarter of 2013 and into 2014, the volume of transactions was dampened by higher interest rates and home prices. The Company was the number one originator of home purchase mortgages in Martin, St. Lucie and Indian River counties the first eleven months of 2014 and all of 2013, based on the data available to date.

In the fourth quarter of 2014, Bank owned life insurance (“BOLI”) investments were transferred to the Company from the acquisition of BANKshares, and were added to policies directly acquired during the quarter. BOLI income of \$252,000 was recognized in the fourth quarter of 2014 and for the year ended December 31, 2014. The addition of these investments will provide approximately \$1.3 million in tax exempt revenues in 2015. No BOLI investments existed for the Company previously.

Other income for 2014 increased \$90,000 or 4.2 percent compared to a year ago, and for 2013 decreased \$33,000 or 1.5 percent. Included in the increase for 2014 compared to 2013 was merchant income, which was \$50,000 higher than a year ago.

Noninterest Expenses

The Company's expense ratio was in the low to mid 60 percentile in years prior to the recession. Lower earnings and cyclical credit costs in 2012, 2011 and 2010 resulted in this ratio increasing to 94.6 percent, 90.1 percent, and 104.6 percent, respectively. When compared to 2012, total noninterest expenses for 2013 decreased by \$7,396,000 or 9.0 percent to \$75,152,000, and the expense ratio was 82.9 percent. For 2014, the expense ratio was 92.4 percent and total noninterest expenses were \$18,214,000 or 24.2 percent higher versus 2013, totaling \$93,366,000.

Continued investments in our digital delivery channels, combined with increased advertising and data analytics have partially offset our cost reductions. During the fourth quarter of 2014 we invested approximately \$697,000 in marketing and other expenditures to refresh and reintroduce our brand, and as part of this brand refresh, the Company retooled its logo and signage throughout our branch network and digital platforms.

Some of the decrease in expenses in 2013 was related to the implementation of prospective cost reductions that occurred in 2012. During third quarter of 2012 management's organizational structure was streamlined and the Company announced the consolidation of four offices, resulting in severance and other organizational costs of \$832,000 and branch consolidation costs of \$723,000 impacting overhead for the third and fourth quarters of 2012. Through these decisions and other cost reduction measures that took effect over 2014 and 2013, and our tactical plans to increase loan production and the acquisition of households, we anticipate significant improvement in our results for 2015.

Table 7 provides detail of noninterest expense components for the years ending December 31, 2014, 2013 and 2012.

Salaries and wages were \$4,126,000 or 13.3 percent higher for 2014 compared to 2013, and were \$1,071,000 or 3.6 percent higher for 2013 compared to the same period in 2012. Base salaries were higher for 2014 by \$2,707,000 or 9.6 percent, with additional personnel retained as part of the fourth quarter acquisition of BANKshares. Aggregate cash and stock incentives for 2014 were \$2,032,000 higher, reflecting an improved outlook and better than expected production. Severance, primarily related to the acquisition, resultant organizational changes and cost reduction strategies, was \$914,000 higher compared to 2013. Improved loan production year over year for 2014 resulted in deferred loan origination costs (a contra-expense) increasing \$1,586,000 or 64.0 percent which partially offset the salary and wage increases. For 2013, base salaries were higher when compared to 2012, by \$2,201,000 or 8.4 percent, reflecting additional commercial relationship managers and credit support personnel hired during 2013. Totaling only

\$67,000, severance payments for 2013 were \$621,000 lower than 2012 when organizational changes were occurring. Higher commission and incentive payments of \$253,000 were included in the increase for salaries and wages for 2013 compared to 2012, but were more than offset by the deferral of loan origination costs that were \$785,000 or 46.3 percent higher for 2013. Executive cash incentive compensation was not paid in 2013 or 2012.

In 2014, employee benefits costs increased by \$1,446,000 or 19.7 percent to \$8,773,000 from a year ago, but were lower by \$383,000 or 5.0 percent for 2013 when compared to 2012. For 2014, costs for our self-funded health care plan were \$737,000 higher than for 2013, due to higher claims and utilization, and the addition of personnel from the acquisition of BANKshares. For 2013, costs for our self-funded health care plan were \$565,000 lower than for 2012, when a few large claims and higher utilization occurred. For 2014, 2013, and 2012, profit sharing contributions for all associates were eliminated. During 2014, matching 401K contributions associated with employee salary deferrals were returned to levels pre-recession, and were \$391,000 higher than in 2013, as compared to an increase of \$36,000 in 401K plan costs for 2013, versus 2012. Higher payroll taxes accounted for remaining increases in employee benefits for 2014 and 2013, a reflection of additions to staff.

Seacoast National utilizes third parties for its core data processing systems and outsourced data processing costs are directly related to the number of transactions processed. Outsourced data processing costs totaled \$8,781,000 for 2014, an increase of \$2,409,000 or 37.8 percent from a year ago. In comparison, for 2013 outsourced data processing costs decreased \$1,010,000 or 13.7 percent from 2012. Of the \$2,409,000 increase during 2014, \$1,581,000 was directly related to additional charges for the BANKshares merger and conversion of systems. Without the merger related costs, outsourced data processing increased 13.0 percent year over year, with software licensing and maintenance, and interchange processing costs all increasing during 2014. The Company's contract with its core data processor was renegotiated as of January 1, 2013 for a term of 5 1/2 years, resulting in data processing costs decreasing \$861,000 for 2013 under the renegotiated terms as compared to 2012. In addition, software licensing, software maintenance, and other EFT processing costs were \$53,000, \$63,000 and \$151,000 lower for 2013 than in 2012. Interchange processing costs were \$118,000 higher in 2013 as compared to 2012, due entirely to rising transaction volumes. Outsourced data processing costs can be expected to increase as the Company's business volumes grow. We continue to further improve and enhance our mobile and other digital products and services through our core data processor, which will likely increase our outsourced data processing costs as customers adopt these improvements and products. At December 31, 2014, 59 percent of our customer households use online services and 49 percent of our online customers use our mobile banking products.

Telephone and data line expenditures, including electronic communications with customers and between branch locations and personnel, as well as third party data processors, increased \$78,000 or 6.2 percent to \$1,331,000 for 2014 when compared to 2013. Improved systems and monitoring of services utilized has reduced our communication costs, and these costs should continue to reflect moderate fluctuations prospectively. Such expenses for 2013 increased \$75,000 or 6.4 percent to \$1,253,000 from 2012's totals.

Total occupancy, furniture and equipment expenses for 2014 increased year over year versus 2013, by \$5,445,000 or 57.2 percent to \$14,957,000. In comparison, 2013 expenses decreased year over year versus 2012, by \$953,000 or 9.1 percent to \$9,512,000. Branch consolidation costs totaled \$4,261,000 in the fourth quarter 2014, and comprised most of the increase for 2014. The full year impact of opening five new, smaller commercial lending offices during 2013 in the Orlando, Ft. Lauderdale and Palm Beach markets increased our expense by \$278,000 for 2014. The addition of twelve branches acquired in the BANKshares acquisition during the fourth quarter of 2014 will have a full year impact on 2015 as well (see Form 10K dated December 31, 2014, "Item 2, Properties" for a complete description). A primary contributor to the decrease for 2013 compared to 2012, branch consolidation costs of \$232,000 and \$407,000 were recorded during the third and fourth quarters of 2012, respectively. Branch consolidations are likely to continue for the Company and the banking industry in general, as customers increase their usage of digital and mobile products thereby lessening the necessity to visit offices.

For 2014, marketing expenses including sales promotion costs, ad agency production and printing costs, newspaper and radio advertising, and other public relations costs associated with the Company's efforts to market products and services, increased \$1,635,000 or 69.9 percent compared to the same period in 2013. Fourth quarter 2014's expenditures included \$697,000 to refresh and reintroduce our brand, including a retooling of our logo and associated signage throughout our branch network and digital platforms. All costs related for this logo change and additional branding were incurred in the fourth quarter of 2014. Direct mail, sales promotions, digital/website and media were utilized more extensively during 2014, increasing a combined \$836,000 compared to prior year, and an additional

\$187,000 was incurred in shareholder relations, including activities related to the merger. Our marketing expenditures reflect a tailored, focused campaign in our markets targeting the customers of competing financial institutions and promoting our brand. For 2013, marketing expenses decreased by \$756,000 or 24.4 percent to \$2,339,000 when compared to 2012. For 2013, direct mail activities, media costs for newspaper, television and radio advertising, sales promotions, and printing costs were all lower, by \$398,000, \$187,000, \$98,000 and \$94,000, respectively, compared to 2012.

Legal and professional fees were higher in 2014, increasing by \$4,413,000 from a year ago to \$6,871,000. Acquisition related legal and professional fees for BANKshares summed to \$2,394,000. In addition, other professional fees during 2014 included \$182,000 for consulting fees related to our cost reduction initiatives. For 2014, OCC regulatory examination fees declined \$48,000, alleviated by the release from our regulatory agreement in the third quarter of 2013. In comparison, legal and professional fees trended lower in 2013, decreasing by \$2,783,000 or 53.1 percent to \$2,458,000 from 2012. During 2013, legal fees were \$1,515,000 lower when compared to 2012, reflecting a recovery of legal fees of \$650,000 and \$350,000 in the second and fourth quarters of 2013, respectively. These amounts were recovered from single creditors in each case. Other professional fees, CPA fees and OCC regulatory examination fees for 2013 were lower versus 2012 as well, declining \$1,023,000, \$156,000 and \$89,000, respectively.

The FDIC assessment for the first, second, third and fourth quarters of 2014 totaled \$386,000, \$411,000, \$387,000 and \$476,000, respectively, compared to first, second, third and fourth quarter 2013's assessments of \$717,000, \$720,000, \$713,000 and \$451,000, respectively. For 2012, FDIC assessments summed to \$2,805,000. FDIC assessments declined in the fourth quarter of 2013, reflecting our improved risk posture and the termination of the regulatory enforcement actions. This benefited every quarter in 2014, with the increase in premium paid in the fourth quarter of 2014 reflecting the merger with BANKshares. On July 30, 2013, Seacoast National also received a refund of \$3.8 million for premiums prepaid at the end of 2009 (less premiums calculated and paid since year end 2009). Although the severity of bank failures and their impact on the FDIC's Deposit Insurance Fund were less than predicted, Seacoast National remains exposed to higher FDIC insurance costs.

Net losses on other real estate owned (OREO) and repossessed assets, and asset disposition expenses associated with the management of OREO and repossessed assets (aggregated) totaled \$181,000, \$210,000, \$295,000 and \$112,000 for the first, second, third and fourth quarters of 2014, respectively, and totaled \$798,000 for the year (declining \$1,231,000 when compared to 2013). In comparison, these costs totaled \$857,000, \$604,000, \$388,000 and \$180,000 for the first, second, third and fourth quarters of 2013, and totaled \$2,029,000 for 2013 (declining \$2,897,000 when compared to 2012). These costs have moderated and declined steadily over the last three years, with OREO balances for non-acquired properties declining by 18.9 percent and 42.5 percent, respectively, during 2014 compared to 2013 and 2013 compared to 2012. OREO totals \$7.5 million at December 31, 2014, including \$1.9 million in properties from the acquisition of BANKshares. Of the \$798,000 total for 2014, asset disposition costs summed to \$488,000 and losses on OREO and repossessed assets totaled \$310,000. The Company expects these costs to continue to be lower prospectively.

Amortization of core deposit intangibles totaled \$1,033,000 for the year ended December 31, 2014, compared to \$783,000 and \$788,000 for 2013 and 2012, respectively. Fourth quarter 2014's amortization included \$315,000 for the acquisition of core deposits from BANKshares, that for the total year 2015 is expected to total \$1,260,000.

Other noninterest expenses increased \$516,000 or 6.1 percent to \$9,988,000 for 2014 when compared to 2013, and were \$444,000 or 4.5 percent higher when comparing 2013 to 2012. For 2014, other noninterest expenses included armored car services (up \$50,000), bank paid closing costs (up \$528,000), dealer referral fees (up \$111,000), SBA fees (up \$52,000), director fees (up \$87,000), acquisition costs (of \$144,000) and BOLI and related insurance (of

\$101,000), partially offset by, employee placement fees (down \$48,000), appraisal/self-assessment fees (down \$136,000), insurance expense (down \$94,000), bank meeting costs (down \$62,000), and the lack of a one-time miscellaneous loss of \$190,000 as recorded for 2013. For 2013, other noninterest expenses included a one-time miscellaneous loss of \$190,000 in the fourth quarter of 2013, additional director fees (up \$495,000, including stock compensation), increases in education-related expenditures (up \$80,000) and bank meeting costs (up \$63,000), partially offset by lower check printing costs (down \$195,000), employee placement and relocation costs (down \$71,000), and miscellaneous lending fees and bank paid closing costs (down \$77,000 and \$41,000, respectively).

Interest Rate Sensitivity

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

Senior management regularly reviews the overall interest rate risk position and evaluates strategies to manage the risk. The Company's fourth quarter 2014 Asset and Liability Management Committee ("ALCO") model simulation indicates net interest income would increase 9.1 percent if interest rates increased 200 basis points up over the next 12 months and 4.9 percent if interest rates increased 100 basis points. This compares with the Company's fourth quarter 2013 model simulation, which indicated net interest income would increase 5.3 percent if interest rates were increased 200 basis points up over the next 12 months and 3.1 percent 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 11.7 percent at December 31, 2014. This result includes assumptions for core deposit re-pricing validated for the Company by an independent third party consulting group.

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

Market Risk

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

Interest rate risk, defined as the exposure of net interest income and Economic Value of Equity, or "EVE," to adverse movements in interest rates, is the Company's primary market risk, and mainly arises from the structure of the balance sheet (non-trading activities). The Company is also exposed to market risk in its investing activities. The Company's Asset/Liability Committee, or "ALCO," meets regularly and is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit exposure to interest rate risk. The policies

established by the ALCO are reviewed and approved by the Company's Board of Directors. The primary goal of interest rate risk management is to control exposure to interest rate risk, within policy limits approved by the Board. These limits reflect the Company's tolerance for interest rate risk over short-term and long-term horizons.

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

EVE values only the current balance sheet, and does not incorporate the growth assumptions that are used in the net interest income simulation model. As with the net interest income simulation model, assumptions about the timing and variability of balance sheet cash flows are critical in the EVE analysis. Particularly important are the assumptions driving prepayments and the expected changes in balances and pricing of the indeterminate life deposit portfolios. Core deposits are a more significant funding source for the Company, making the lives attached to core deposits more important to the accuracy of our modeling of EVE. The Company periodically reassesses its assumptions regarding the indeterminate lives of core deposits utilizing an independent third party resource to assist. With lower interest rates over a prolonged period, the average lives of core deposits have trended higher and favorably impacted our model estimates of EVE for higher rates. Based on our fourth quarter 2014 modeling, an instantaneous 100 basis point increase in rates is estimated to increase the EVE 11.5 percent versus the EVE in a stable rate environment, while a 200 basis point increase in rates is estimated to increase the EVE 21.1 percent.

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.

Liquidity Risk Management and Contractual Commitments

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

In the table that follows, all deposits with indeterminate maturities such as demand deposits, NOW accounts, savings accounts and money market accounts are presented as having a maturity of one year or less.

Contractual Obligations

December 31, 2014

		One Year	Over One	Over Three	
(In thousands)	Total	or Less	Year Through	Years Through	Over five
			Three Years	Five Years	Years
Deposit maturities	\$2,416,534	\$2,318,476	\$ 66,843	\$ 30,104	\$ 1,111
Short-term borrowings	233,640	233,640	0	0	0
Borrowed funds	50,000	0	50,000	0	0

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Subordinated debt	64,583	0	0	0	64,583
Operating leases	26,062	3,894	6,969	3,700	11,499
TOTAL	\$2,790,819	\$2,556,010	\$ 123,812	\$ 33,804	\$ 77,193

Funding sources primarily include customer-based core deposits, collateral-backed borrowings, cash flows from operations, and asset securitizations and sales.

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

Contractual maturities for assets and liabilities are reviewed to meet current and expected future liquidity requirements. Sources of liquidity, both anticipated and unanticipated, are maintained through a portfolio of high quality marketable assets, such as residential mortgage loans, securities held for sale and interest-bearing deposits. The Company is also able to provide short term financing of its activities by selling, under an agreement to repurchase, United States Treasury and Government agency securities not pledged to secure public deposits or trust funds. At December 31, 2014, Seacoast National had available unsecured lines of \$45 million and lines of credit under current lendable collateral value, which are subject to change, of \$671 million. Seacoast National had \$588 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 \$235 million in residential and commercial real estate loans available as collateral. In comparison, at December 31, 2013, the Company had available unsecured lines of \$29 million and lines of credit of \$560 million, and had \$334 million of Treasury and Government agency securities and mortgage backed securities not pledged and available for use under repurchase agreements, as well as an additional \$163 million in residential and commercial real estate loans available as collateral.

Liquidity, as measured in the form of cash and cash equivalents (including interest bearing deposits), totaled \$100,539,000 on a consolidated basis at December 31, 2014 as compared to \$191,624,000 at December 31, 2013. The composition of cash and cash equivalents has changed from a year ago. Over the past twelve months, cash and due from banks increased \$15,850,000 to \$64,411,000 and interest bearing deposits decreased to \$36,128,000 from \$143,063,000. The interest bearing deposits are maintained in Seacoast National's account at the Federal Reserve Bank of Atlanta. Cash and cash equivalents vary with seasonal deposit movements and are generally higher in the winter than in the summer, and vary with the level of principal repayments and investment activity occurring in Seacoast National's securities and loan portfolios. During 2014, our intent was to reinvest excess liquidity into the loan and securities portfolios.

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

The Company is a legal entity separate and distinct from Seacoast National and its other subsidiaries. Various legal limitations, including Section 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W, restrict Seacoast National from lending or otherwise supplying funds to the Company or its non-bank subsidiaries. The Company has traditionally relied upon dividends from Seacoast National 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. During the third quarter of 2013, formal regulatory agreements with the OCC were removed thereby

allowing Seacoast National to pay dividends to the Company without prior OCC approval. At December 31, 2014, Seacoast National can distribute dividends to the Company of approximately \$59.0 million. At December 31, 2014, the Company had cash and cash equivalents at the parent of approximately \$38.3 million. In comparison, at December 31, 2013, the Company had cash and cash equivalents at the parent of approximately \$1.7 million. A \$75.0 million common stock offering in the fourth quarter of 2013 resulted in approximately \$47.0 million (net of costs) in funds received during the quarter, with the remaining funds of \$25 million from CapGen Capital received on January 13, 2014 after regulatory approval of CapGen's investment. The \$47.0 million, along with a portion of existing cash available from the parent, was utilized to redeem all of the Series A Preferred stock at December 31, 2013 at its \$50.0 million par value plus dividends of \$319,000 accrued through the date of redemption. The acquisition of BANKshares supplemented cash and cash equivalents in the parent by approximately \$14 million.

Off-Balance Sheet Transactions

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

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

Loan commitments to customers are made in the normal course of our commercial and retail lending businesses. For commercial customers, loan commitments generally take the form of revolving credit arrangements. For retail customers, loan commitments generally are lines of credit secured by residential property. These instruments are not recorded on the balance sheet until funds are advanced under the commitment. For loan commitments, the contractual amount of a commitment represents the maximum potential credit risk that could result if the entire commitment had been funded, the borrower had not performed according to the terms of the contract, and no collateral had been provided. Loan commitments were \$238 million at December 31, 2014, and \$135 million at December 31, 2013 (see “Note P-Contingent Liabilities and Commitments with Off-Balance Sheet Risk” to the Company’s consolidated financial statements).

Income Taxes

The provision for income taxes for 2014 and 2013, and benefit for net loss for 2012 totaled \$4.5 million, \$4.4 million and \$0.1 million, respectively. The deferred tax valuation allowance was decreased or increased by a like amount for 2012, therefore there was no change in the carrying value of deferred tax assets for 2012 (see “Critical Accounting Estimates – Deferred Tax Assets”). At September 30, 2013, we were able to reverse the tax valuation allowance of \$44.8 million. Management believes it can realize all of its future tax benefits (see “Note L – Income Taxes” to the Company’s consolidated financial statements).

Capital Resources

Table 8 summarizes the Company's capital position and selected ratios. The Company's equity capital at December 31, 2014 totaled \$312.7 million and the ratio of shareholders' equity to period end total assets was 10.11 percent, compared with 8.75 percent at December 31, 2013, and 7.62 percent at December 31, 2012. During fourth quarter 2014, the BANKshares acquisition was transacted for common stock of \$76.8 million, increasing total shareholders' equity. Also, during third quarter 2013, the reversal of the deferred tax valuation allowance increased net income and total shareholders' equity. Seacoast's management uses certain "non-GAAP" financial measures in its analysis of the Company's capital adequacy. Seacoast's management uses this measure to assess the quality of capital and believes that investors may find it useful in their analysis of the Company. This capital measure is not necessarily comparable to similar capital measures that may be presented by other companies (see "Note N – Shareholders' Equity").

On November 12, 2013, the Company received \$47.0 million (net of costs) in proceeds from its \$75 million common stock issuance, with the additional \$25.0 million remitted from CapGen Capital on January 13, 2014 following regulatory approval of CapGen's investment. In addition, effective December 13, 2013, the Company transacted a 1 for 5 reverse common stock split, which resulted in 23,637,434 common shares outstanding at December 31, 2013. The proceeds from the capital raise were used to redeem 2,000 shares of outstanding Series A Preferred Stock (at par) totaling \$50 million originally issued to the U.S. Department of Treasury under the Troubled Asset Relief Program and later sold to third party investors. The remaining funds from the capital raise were retained for general corporate purposes. The preferred stock carried a 5 percent dividend that was to increase to 9 percent on February 15, 2014. The preferred stock redemption was completed on December 31, 2013, increasing net income available to common shareholders during 2014 and beyond.

The Company's capital position remains strong, meeting the general definition of "well capitalized", with a total risk-based capital ratio of 16.25 percent at December 31, 2014, lower than December 31, 2013's ratio of 16.88 percent and 18.33 percent at December 31, 2012. Reinvestment of cash and cash equivalents with a zero percent risk weight into securities and loans with higher risk weightings, and the acquisition of BANKshares' loans with higher risk weightings, was the primary cause for risk weighted assets increasing, thereby lowering Tier 1 and total risk-based capital ratios at December 31, 2014. As of December 31, 2014, the Bank's leverage ratio was 9.04 percent, compared to 9.51 percent at December 31, 2013 and 9.72 percent at December 31, 2012.

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 National 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 OCC approval presently, the Seacoast National can pay up to \$59.0 million of dividends to the Company (see "Note C - Cash, Dividend and Loan Restrictions").

The OCC and the Federal Reserve have policies that encourage banks and bank holding companies to pay dividends from current earnings, and have the general authority to limit the dividends paid by national banks and bank holding companies, respectively, if such payment may be deemed to constitute an unsafe or unsound practice. If, in the particular circumstances, either of these federal regulators determined that the payment of dividends would constitute an unsafe or unsound banking practice, either the OCC or the Federal Reserve may, among other things, issue a cease and desist order prohibiting the payment of dividends by Seacoast National or us, respectively. Under a recently adopted Federal Reserve policy, the board of directors of a bank holding company must consider different factors to ensure that its dividend level is prudent relative to the organization's financial position and is not based on overly optimistic earnings scenarios such as any potential events that may occur before the payment date that could affect its ability to pay, while still maintaining a strong financial position. As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company, such as Seacoast, should consult with the Federal Reserve and eliminate, defer, or significantly reduce the bank holding company's dividends if: (i) its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) its prospective rate of earnings retention is not consistent with its capital

needs and overall current and prospective financial condition; or (iii) it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

The Company has six wholly owned trust subsidiaries, SBCF Capital Trust I and SBCF Statutory Trust II that were both formed in 2005 to issue trust preferred securities. In 2007, the Company formed an additional wholly owned trust subsidiary, SBCF Statutory Trust III. The 2005 trusts each issued \$20.0 million (totaling \$40.0 million) of trust preferred securities and the 2007 trust issued an additional \$12.0 million in trust preferred securities. In 2014, as part of the BANKshares acquisition, the Company acquired BankFIRST Statutory Trust I, BankFIRST Statutory Trust II and The BANKshares Capital Trust I that issued in the aggregate \$14.4 million in trust preferred securities. 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 as Tier 1 capital up to 25 percent of core capital, net of goodwill and intangibles. The Company believes that its trust preferred securities qualify under these revised regulatory capital rules and expects that it will be able to treat all \$62.5 million of trust preferred securities as Tier 1 capital. For regulatory purposes, the trust preferred securities are added to the Company's tangible common shareholders' equity to calculate Tier 1 capital. The weighted average interest rate of our outstanding subordinated debt related to trust preferred securities was 1.87 percent during 2014, compared to 1.74 and 1.93 percent during 2013 and 2012 respectively. The Company also formed SBCF Capital Trust IV and SBCF Capital Trust V in 2008, however both are currently inactive.

Changes in rules under new Basel III guidelines take effect on January 1, 2015, and affect risk based capital calculations. The Company has taken a prospective look at its ratios, finding that our ratios remain strong under these guidelines.

Financial Condition

Total assets increased \$824,395,000 or 36.3 percent to \$3,093,335,000 at December 31, 2014, after increasing \$95,011,000 or 4.4 percent to \$2,268,940,000 in 2013. The highlight of 2014 was our acquisition of BANKshares which closed on October 1, 2014 and expanded our presence in Central Florida, particularly in the greater Orlando market, and increased total assets, by approximately \$627 million. The Company is the sixth largest Florida-based bank.

Loan Portfolio

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

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.

Total loans (net of unearned income and excluding the allowance for loan losses) were \$1,821,885,000 at December 31, 2014, \$517,678,000 or 39.7 percent more than at December 31, 2013, and were \$1,304,207,000 at December 31, 2013, \$78,126,000 or 6.4 percent more than at December 31, 2012. The BANKshares acquisition on October 1, 2014 contributed \$365.4 million in loans.

The Company continues to look for opportunities to invest excess liquidity, and believes the best current use is to fund loan growth. Additional new commercial relationship managers hired over the past three years have increased loan growth, and will continue to do so prospectively. Loan production of \$424 million, \$354 million and \$287 million was retained in the loan portfolio during the twelve months ended December 31, 2014, 2013 and 2012, respectively. No problem loan sales occurred in 2014 or 2013, compared to \$9 million in sales in 2012. The sales in 2012 were necessary to improve the Company's overall risk profile.

As shown in the supplemental loan table below, construction and land development loans (excluding individuals) increased \$20.0 million to \$53.3 million at December 31, 2014. The primary causes for the increase were loans collateralized by land of \$13.3 million, many derived via the acquisition of BANKshares, with approximately 70 loans comprising the \$18.2 million outstanding at December 31, 2014. In comparison, construction and land development loans (excluding individuals) increased \$11.5 million to \$33.3 million at December 31, 2013.

Construction and land development loans, including loans secured by commercial real estate, were comprised of the following types of loans at December 31, 2014 and 2013:

December 31 (In millions)	2014			2013		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Construction and land development						
Residential:						
Town homes	\$0.3	\$ 11.0	\$11.3	\$0.0	\$ 1.5	\$1.5
Single family residences	6.8	17.1	23.9	2.0	3.0	5.0
Single family land and lots	6.1	0.0	6.1	4.9	0.0	4.9
Multifamily	3.0	0.0	3.0	3.7	0.0	3.7
	16.2	28.1	44.3	10.6	4.5	15.1
Commercial:						
Office buildings	1.6	2.7	4.3	0.0	0.0	0.0
Retail trade	0.7	0.4	1.1	7.7	1.3	9.0
Land	18.2	3.0	21.2	4.9	1.4	6.3
Industrial buildings	2.7	0.5	3.2	0.0	0.0	0.0
Healthcare	0.0	0.0	0.0	5.4	3.8	9.2
Churches and educational facilities	2.9	0.4	3.3	3.8	0.2	4.0
Lodging	7.1	0.0	7.1	0.9	6.3	7.2
Convenience stores	3.2	1.7	4.9	0.0	0.0	0.0
Automobile and RV dealerships	0.3	0.0	0.3	0.0	0.0	0.0
Other	0.4	0.1	0.5	0.0	0.0	0.0
	37.1	8.8	45.9	22.7	13.0	35.7
Total residential and commercial construction and land development	53.3	36.9	90.2	33.3	17.5	50.8
Individuals:						
Lot loans	15.5	0.0	15.5	12.9	0.0	12.9
Construction	18.2	13.0	31.2	21.3	18.0	39.3
	33.7	13.0	46.7	34.2	18.0	52.2
Total	\$87.0	\$ 49.9	\$136.9	\$67.5	\$ 35.5	\$103.0

Commercial real estate mortgages were higher by \$316.8 million or 60.9 percent, totaling \$837.2 million at December 31, 2014. The Company's ten largest commercial real estate funded and unfunded loan relationships at December 31, 2014 aggregated to \$95.9 million (versus \$104.1 million a year ago) and for the 37 commercial real estate relationships in excess of \$5 million the aggregate funded and unfunded totaled \$283.2 million (compared to 26

relationships of \$198.0 million a year ago).

Commercial real estate mortgage loans, excluding construction and development loans, were comprised of the following loan types at December 31, 2014 and 2013:

December 31 (In millions)	2014			2013		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Office buildings	\$235.7	\$ 3.6	\$239.3	\$118.7	\$ 2.5	\$121.2
Retail trade	205.5	1.3	206.8	130.6	2.4	133.0
Industrial	157.3	3.9	161.2	81.1	0.7	81.8
Healthcare	50.6	0.7	51.3	45.5	1.0	46.5
Churches and educational facilities	26.1	0.1	26.2	25.3	0.0	25.3
Recreation	3.2	0.1	3.3	2.5	0.0	2.5
Multifamily	17.4	0.0	17.4	16.8	0.0	16.8
Mobile home parks	1.7	0.0	1.7	1.9	0.0	1.9
Lodging	16.9	0.0	16.9	17.1	0.0	17.1
Restaurant	3.3	0.0	3.3	3.7	0.0	3.7
Agriculture	2.6	0.7	3.3	7.0	0.8	7.8
Convenience stores	21.2	1.0	22.2	20.8	0.1	20.9
Marina	18.5	0.0	18.5	21.3	0.0	21.3
Other	77.2	2.5	79.7	28.1	0.1	28.2
Total	\$837.2	\$ 13.9	\$851.1	\$520.4	\$ 7.6	\$528.0

Fixed rate and adjustable rate loans secured by commercial real estate, excluding construction loans, totaled approximately \$596 million and \$241 million, respectively, at December 31, 2014, compared to \$350 million and \$170 million, respectively, at December 31, 2013.

Residential mortgage lending is an important segment of the Company's lending activities. The Company has never offered sub-prime, Alt A, Option ARM or any negative amortizing residential loans, programs or products, although we have originated and hold residential mortgage loans from borrowers with original or current FICO credit scores that are less than "prime." Substantially all residential originations have been underwritten to conventional loan agency standards, including loans having balances that exceed agency value limitations. The Company selectively adds residential mortgage loans to its portfolio, primarily loans with adjustable rates. The Company's asset mitigation staff handles all foreclosure actions together with outside legal counsel.

Exposure to market interest rate volatility with respect to long-term fixed rate mortgage loans held for investment is managed by attempting to match maturities and re-pricing opportunities and through loan sales of most fixed rate product

Adjustable and fixed rate residential real estate mortgages were higher at December 31, 2014, by \$49.4 million or 12.6 percent and \$2.8 million or 3.0 percent, compared to a year ago. At December 31, 2014, approximately \$441 million or 64 percent of the Company's residential mortgage balances were adjustable, compared to \$392 million or 66 percent at December 31, 2013. Loans secured by residential properties having fixed rates totaled approximately \$94 million at December 31, 2014, of which 15- and 30-year mortgages totaled approximately \$23 million and \$71 million, respectively. The remaining fixed rate balances were comprised of home improvement loans, most with maturities of 10 years or less, that increased \$9.8 million or 15.8 percent since December 31, 2013. In comparison, loans secured by

residential properties having fixed rates totaled approximately \$91 million at December 31, 2013, with 15- and 30-year fixed rate residential mortgages totaling approximately \$22 million and \$69 million, respectively. The Company also has a growing home equity line portfolio, primarily floating rates, totaling approximately \$80 million at December 31, 2014, higher than the \$48 million that was outstanding at December 31, 2013, and validating improving property values.

Reflecting the impact of improved economic conditions and the acquisition, commercial loans increased to \$157.4 million at December 31, 2014, doubling from \$78.6 million at December 31, 2013, and includes \$54.1 million from BANKshares. Commercial lending activities are directed principally towards businesses whose demand for funds are within the Company's lending limits, such as small- to medium-sized professional firms, retail and wholesale outlets, and light industrial and manufacturing concerns. Such businesses are smaller and subject to the risks of lending to small to medium sized businesses, including, but not limited to, the effects of a downturn in the local economy, possible business failure, and insufficient cash flows.

The Company also provides consumer loans (including installment loans, loans for automobiles, boats, and other personal, family and household purposes) which increased \$8.2 million or 18.3 percent year over year and totaled \$52.9 million (versus \$44.7 million a year ago). In addition, real estate construction loans to individuals secured by residential properties totaled \$18.2 million (versus \$21.3 million a year ago), and residential lot loans to individuals which totaled \$15.5 million (versus \$12.9 million a year ago).

At December 31, 2014, the Company had commitments to make loans of \$238.1 million, compared to \$135.1 million at December 31, 2013 and \$118.9 million at December 31, 2012 (see "Note P - Contingent Liabilities and Commitments with Off-Balance Sheet Risk" to the Company's consolidated financial statements).

Loan Concentrations

Over the past five years, the Company has been pursuing an aggressive program to reduce exposure to loan types that have been most impacted by stressed market conditions in order to achieve lower levels of credit loss volatility. The program included aggressive collection efforts, loan sales and early stage loss mitigation strategies focused on the Company's largest loans. Successful execution of this program has significantly reduced our exposure to larger balance loan relationships (including multiple loans to a single borrower or borrower group). Commercial loan relationships greater than \$10 million were reduced by \$109.6 million to \$95.9 million at December 31, 2014, compared with year-end 2009.

December 31	2014	2013	2012	2011	2010	2009
Performing	\$95,893	\$64,224	\$77,321	\$84,610	\$112,469	\$145,797
Performing TDR*	0	0	10,431	25,494	28,286	31,152
Nonaccrual	0	0	0	0	20,913	28,525
Total	\$95,893	\$64,224	\$87,752	\$110,104	\$161,668	\$205,474

Top 10 Customer Loan

Relationships	\$114,632	\$104,145	\$115,506	\$128,739	\$151,503	\$173,162
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*TDR = Troubled debt restructures

Commercial loan relationships greater than \$10 million as a percent of tier 1 capital and the allowance for loan losses totaled 29.7 percent at December 31, 2014, compared with 27.9 percent at year-end 2013, 37.5 percent at year-end 2012, 45.8 percent at year-end 2011, 66.5 percent at year-end 2010, and 85.9 percent at the end of 2009.

Concentrations in total construction and development loans and total commercial real estate (CRE) loans have also been substantially reduced. As shown in the table below, under regulatory guidance for construction and land development and commercial real estate loan concentrations as a percentage of total risk based capital, Seacoast National's loan portfolio in these categories (as defined in the guidance) have improved.

December 31	2014	2013	2012	2011	2010	2009
Construction and land development loans to total risk based capital	31 %	30 %	28 %	22 %	39 %	81 %
CRE loans to total risk based capital	197 %	172 %	164 %	174 %	218 %	274 %

Deposits

The Company's balance sheet continues to be primarily core funded. The Company continues to utilize a focused retail and commercial deposit growth strategy that has successfully generated core deposit relationships and increased services per household.

Total deposits increased \$610,489,000 or 33.8 percent, to \$2,416,534,000 at December 31, 2014 compared to one year earlier, and increased \$47,084,000, or 2.7 percent, to \$1,806,045,000 at December 31, 2013 when compared to December 31, 2012. The acquisition of BANKshares contributed approximately \$516.3 million in total deposits. The acquisition of BANKshares increases our number of households by approximately 13 percent, further strengthening our customer base. Declining single service time deposits over the past two years have been more than offset by increasing low cost or no cost deposits.

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.

Securities

Information related to yields, maturities, carrying values and unrealized gains (losses) of the Company's securities is set forth in Tables 15-17.

At December 31, 2014, the Company had no trading securities, \$741,375,000 in securities available for sale (representing 78.1 percent of the total portfolio), with the remainder of \$207,904,000 in securities held for investment (representing 21.9 percent of the total portfolio). The Company's total securities portfolio increased \$307.7 million or 48.0 percent from December 31, 2013, primarily as a result of efforts to invest excess liquidity and short-term borrowings, and the addition of securities from the merger with BANKshares. During 2013, the securities portfolio decreased \$15.3 million or 2.3 percent from December 31, 2012, primarily as a result of improved loan growth.

As part of the Company's interest rate risk management process, an average duration for the securities portfolio is targeted. In addition, securities are acquired which return principal monthly that can be reinvested.

The effective duration of the investment portfolio at December 31, 2014 was 3.2 years, compared to 4.0 years at December 31, 2013. During the third and fourth quarters of 2014, average investment securities increased \$234.9 million, or \$149.5 million excluding securities acquired from the BANKshares acquisition. Funding for this increase in investments was derived from liquidity, both legacy and that acquired in the merger, and an increase in seasonal funding from our core customer deposit base. Investments added during the third and fourth quarters were primarily uncapped, floating rate, senior collateralized loan obligations (CLO) securities with average yields at static LIBOR ranging from 1.40% to 3.30% and credit support ranging from 17 to 36%. Duration increased in 2013 due to a steeper yield curve as interest rates increased approximately 80 to 100 basis points for 5- and 10-year maturities during 2013. The Company's investments do not extend beyond an average duration of 4.6 years if interest rates were to increase 300 basis points in the future. Management believes the effective average duration of the portfolio will remain in the 3.0 to 3.5 years over 2015 if the yield curve remains unchanged.

Cash and due from banks and interest bearing deposits (aggregated) totaled \$100,539,000 at December 31, 2014, compared to \$191,624,000 at December 31, 2013. The Company maintained additional liquidity during the uncertain environment and has utilized proceeds held in cash and cash equivalents to increase loans and investments as the economy has improved.

At December 31, 2014, available for sale securities had gross losses of \$9,403,000 and gross gains of \$4,388,000, compared to gross losses of \$20,003,000 and gross gains of \$3,156,000 at December 31, 2013. All of the securities with unrealized losses are reviewed for other-than-temporary impairment at least quarterly. As a result of these reviews it was determined that the unrealized losses were not other than temporarily impaired and the Company has the intent and ability to retain these securities until recovery over the periods presented (see additional discussion under "Critical Accounting Estimates-Fair Value and Other than Temporary Impairment of Securities Classified as Available for Sale").

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

Fourth Quarter Review

For fourth quarter 2014, a net loss of \$(1,517,000) or (\$0.05) per average common diluted share was reported, compared to net income for the third, second and first quarter of 2014 of \$2,996,000 or \$0.12 per average common diluted share, \$1,918,000 or \$0.07 per average common diluted share, and \$2,299,000 or \$0.09 per average common

diluted share, respectively. In comparison, net income in 2013's fourth quarter was \$588,000 or \$0.03 per average common diluted share. The most significant factor impacting the fourth quarter 2014's net income was much higher noninterest expenses.

Noninterest expenses increased by \$14.1 million versus third quarter 2014's result, and were \$15.4 million higher when compared to the fourth quarter of 2013. Impacting the fourth quarter of 2014, our acquisition of BANKshares (with 12 full-service offices) expanded our presence in central Florida, particularly the greater Orlando market. Merger related charges in the fourth quarter totaled approximately \$2.7 million and were primarily related to core system conversion costs, software and other contract termination charges, and investment banking fees. Also accrual of long term stock compensation expense related to an improved outlook and other incentive costs related to better than expected production added incremental \$1.2 million to expenses in the fourth quarter. As expected, one-time charges were incurred in the fourth quarter of 2014 for approximately \$4.3 million, were related to announced branch closings. Severance totaled \$0.5 million for the fourth quarter, versus no payouts a year ago. In addition, during the fourth quarter 2014, we invested approximately \$0.7 million in marketing and other expenditures to refresh and reintroduce our brand, including retooling our logo and associated signage throughout our branch network and digital platforms. All costs for this logo change and additional branding were incurred in the fourth quarter of 2014. All of the above added a total of \$9.4 to fourth quarter noninterest expense which will not be incurred in the first quarter of 2015.

On October 1, 2014, the BANKshares acquisition contributed \$516.3 million in deposits and \$365.4 million in loans to our balance sheet, and significantly boosted net interest margin in the fourth quarter of 2014. Our net interest margin of 3.56 percent increased 39 basis points during the fourth quarter of 2014 from the third quarter of 2014, and was 48 basis points higher when compared to fourth quarter 2013's result. The deployment of liquidity and organic balance sheet growth into investment securities contributed to the margin improvement in the fourth quarter of 2014 (see "Securities"). Loan demand was better during 2014 compared to 2013, and year over year we expect loan growth will continue to build in 2015. The Company also benefited from lower rates paid for interest bearing liabilities due to the Federal Reserve's reduction in interest rates, as well as, an improved mix of deposits. The average cost of deposits was 1 basis point lower for the fourth quarter of 2014 compared to the third quarter of 2014, and 3 basis points lower compared to the fourth quarter of 2013. During the fourth quarter, noninterest bearing demand deposits increased to 30.0 percent of total deposits, compared with 28.9 percent for the third quarter 2014 and 25.7 for fourth quarter 2013.

Noninterest income (excluding securities gains, net) totaled \$7.1 million for the fourth quarter of 2014, compared to \$6.1 million for the third quarter of 2014, \$5.9 million for the second quarter of 2014, \$5.6 million for the first quarter of 2014, and \$6.0 million for the fourth quarter of 2013. During the fourth quarter 2014, noninterest income (excluding security gains, net) increased \$1.0 million from third quarter 2014 and \$1.1 million from fourth quarter 2013. The increases include a full quarter effect of fees generated from BANKshares. Bank owned life insurance ("BOLI") investments were transferred to Seacoast as a result of the acquisition, and were added to policies directly acquired by the Company during the fourth quarter of 2014. Also increasing for fourth quarter 2014 (compared to fourth quarter a year ago) were service charges on deposits (up \$0.4 million), marine finance fees (up \$0.2 million), and interchange income (up \$0.2 million). Charges and fees derived from customer relationships increased as a result of more accounts and households as a result of our retail deposit growth strategy and the acquisition, and will result in higher noninterest income in 2015.

A provision for loan losses of \$0.1 million was recorded in the fourth quarter of 2014. Overall, a recapture of provisioning was recorded for 2014, as credit quality has improved, compared to 2013. For the fourth quarter of 2014, net charge-offs totaled \$0.6 million, lower by \$0.2 million compared to the fourth quarter of 2013. While the allowance for loan losses to portfolio loans outstanding ratio at December 31, 2014 was lower, 1.14 percent compared to 1.54 percent a year earlier, the coverage ratio (the allowance for loan losses to nonaccrual loans) was 80.8 percent at December 31, 2014 compared to 72.5 percent at December 31, 2013, reflecting the improvement in credit quality.

Internal Controls

The Company's management, including the Chief Executive Officer and Chief Financial Officer with the assistance of outside consultants, has conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, management has concluded as of December 31, 2014, the Company's internal control over financial reporting was effective.

The board of directors, the audit committee of the board and senior management of the Company consider it essential to assure the Company achieves effective and comprehensive internal controls over every aspect of financial reporting.

Table 1 - Condensed Income Statement*

	2014	2013	2012
	(Tax equivalent basis)		
Net interest income	3.03 %	2.99 %	3.07 %
Provision (recapture) for loan losses	(0.14)	0.15	0.51
Noninterest income			
Securities gains, net	0.02	0.02	0.36
Change in fair value of loan held for sale	0.00	0.00	(0.06)
Other	1.00	1.11	1.01
Noninterest expense	3.76	3.43	3.89
Income (loss) before income taxes	0.43	0.54	(0.02)
Provision (benefit) for income taxes including tax equivalent adjustment	0.20	(1.84)	0.01
Net income (loss)	0.23 %	2.38 %	(0.03)%

* *As a Percent of Average Assets*

Table 2 - Changes in Average Earning Assets

	Increase/(Decrease) 2014 vs 2013		Increase/(Decrease) 2013 vs 2012	
	(Dollars in thousands)			
Securities:				
Taxable	\$80,956	12.4 %	\$63,886	10.9 %
Nontaxable	3,036	188.8	(371)	(18.7)
Federal funds sold and other investments	(27,266)	(17.8)	(47,192)	(23.6)
Loans, net	180,304	14.2	44,905	3.7
TOTAL	\$237,030	11.4	\$61,228	3.0

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Table 3 - Rate/Volume Analysis (on a Tax Equivalent Basis)

	2014 vs 2013			2013 vs 2012		
	Due to Change in:			Due to Change in:		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
	Amount of increase (decrease)					
EARNING ASSETS						
Securities						
Taxable	\$1,653	\$939	\$2,592	\$1,390	\$(2,498)	\$(1,108)
Nontaxable	205	14	219	(23)	6	(17)
	1,858	953	2,811	1,367	(2,492)	(1,125)
Federal funds sold and other investments	(190)	338	148	(247)	162	(85)
Loans, net	8,008	(1,383)	6,625	2,076	(3,342)	(1,266)
TOTAL EARNING ASSETS	9,676	(92)	9,584	3,196	(5,672)	(2,476)
INTEREST BEARING LIABILITIES						
NOW						
Savings deposits	44	(47)	(3)	42	(273)	(231)
Money market accounts	20	(8)	12	23	(77)	(54)
Time deposits	27	45	72	(3)	(452)	(455)
	(115)	(294)	(409)	(744)	(1,278)	(2,022)
	(24)	(304)	(328)	(682)	(2,080)	(2,762)
Federal funds purchased and other short term borrowings	30	(19)	11	29	(83)	(54)
Other borrowings	68	46	114	0	(105)	(105)
TOTAL INTEREST BEARING LIABILITIES	74	(277)	(203)	(653)	(2,268)	(2,921)
NET INTEREST INCOME	\$9,602	\$185	\$9,787	\$3,849	\$(3,404)	\$445

(1) Changes attributable to rate/volume are allocated to rate and volume on an equal basis.

Table 4 - Changes in Average Interest Bearing Liabilities

	Increase/(Decrease) 2014 vs 2013		Increase/(Decrease) 2013 vs 2012	
	(Dollars in thousands)			
NOW	\$53,608	11.5 %	\$35,603	8.3 %
Savings deposits	37,754	20.7	29,002	19.0
Money market accounts	29,095	8.6	(2,591)	(0.8)
Time deposits	(19,053)	(6.4)	(88,101)	(22.9)
Federal funds purchased and other short term borrowings	16,743	10.8	13,630	9.6
Other borrowings	2,760	2.7	0	0.0
TOTAL	\$120,907	7.8	\$(12,457)	(0.8)

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Table 5 – Three Year Summary**Average Balances, Interest Income and Expenses, Yields and Rates (1)**

	2014			2013			2012		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)								
EARNING ASSETS									
Securities									
Taxable	\$732,324	\$15,448	2.11 %	\$651,368	\$12,856	1.97 %	\$587,482	\$13,964	2.38 %
Nontaxable	4,644	323	6.96	1,608	105	6.53	1,979	122	6.16
	736,968	15,771	2.14	652,976	12,961	1.98	589,461	14,086	2.39
Federal funds sold and other investments	125,550	1,017	0.81	152,816	868	0.57	200,008	953	0.48
Loans, net (2)	1,452,751	63,788	4.39	1,272,447	57,163	4.49	1,227,542	58,429	4.76
TOTAL EARNING ASSETS	2,315,269	80,576	3.48	2,078,239	70,992	3.42	2,017,011	73,468	3.64
Allowance for loan losses									
	(19,164)			(21,133)			(24,352)		
Cash and due from banks	51,581			36,423			34,215		
Bank premises and equipment	37,970			34,806			34,502		
Bank owned life insurance	6,154			0			0		
Other intangible assets	2,197			1,104			1,889		
Goodwill	6,643			0			0		
Other assets	84,609			57,318			53,810		
	\$2,485,259			\$2,186,757			\$2,117,075		
INTEREST BEARING LIABILITIES									
NOW	\$520,288	399	0.08 %	\$466,680	401	0.09 %	\$431,077	632	0.15 %
Savings deposits	219,793	113	0.05	182,039	101	0.06	153,037	155	0.10
Money market accounts	366,490	352	0.10	337,395	280	0.08	339,986	735	0.22
Time deposits	277,349	1,538	0.55	296,402	1,947	0.66	384,503	3,969	1.03

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Federal funds purchased and other short term borrowings	171,965	297	0.17	155,222	286	0.18	141,592	340	0.24
Other borrowings	106,370	2,656	2.50	103,610	2,542	2.45	103,610	2,647	2.56
TOTAL INTEREST BEARING LIABILITIES	1,662,255	5,355	0.32	1,541,348	5,557	0.36	1,553,805	8,478	0.55
Demand deposits	556,000			451,776			388,685		
Other liabilities	10,137			10,329			9,204		
	2,228,392			2,003,453			1,951,694		
Shareholders' equity	256,867			183,304			165,381		
	\$2,485,259			\$2,186,757			\$2,117,075		
Interest expense as % of earning assets			0.23 %			0.27 %			0.42 %
Net interest income/yield on earning assets		\$75,221	3.25 %		\$65,435	3.15 %		\$64,990	3.22 %

(1) The tax equivalent adjustment is based on a 35% tax rate.

(2) Nonperforming loans are included in average loan balances. Fees on loans are included in interest on loans.

Table 6 – Noninterest Income

	Year Ended			% Change	
	2014	2013	2012	14/13	13/12
	(Dollars in thousands)				
Service charges on deposit accounts	\$6,952	\$6,711	\$6,245	3.6 %	7.5 %
Trust fees	2,986	2,711	2,279	10.1	19.0
Mortgage banking fees	3,057	4,173	3,710	(26.7)	12.5
Brokerage commissions and fees	1,614	1,631	1,071	(1.0)	52.3
Marine finance fees	1,320	1,189	1,111	11.0	7.0
Interchange income	5,972	5,404	4,501	10.5	20.1
Other deposit based EFT fees	343	342	336	0.3	1.8
BOLI Income	252	0	0	n/m	n/m
Other	2,248	2,158	2,191	4.2	(1.5)
	24,744	24,319	21,444	1.7	13.4
Loss on sale of commercial loan	0	0	(1,238)	n/m	n/m
Securities gains, net	469	419	7,619	11.9	(94.5)
TOTAL	\$25,213	\$24,738	\$27,825	1.9	(11.1)

n/m = not meaningful

Table 7 - NonInterest Expense

	Year Ended			% Change	
	2014	2013	2012	14/13	13/12
	(Dollars in thousands)				
Salaries and wages	\$35,132	\$31,006	\$29,935	13.3 %	3.6 %
Employee benefits	8,773	7,327	7,710	19.7	(5.0)
Outsourced data processing costs	8,781	6,372	7,382	37.8	(13.7)
Telephone / data lines	1,331	1,253	1,178	6.2	6.4
Occupancy	7,930	7,178	7,507	10.5	(4.4)
Furniture and equipment	2,535	2,334	2,319	8.6	0.6
Marketing	3,576	2,339	3,095	52.9	(24.4)
Legal and professional fees	6,871	2,458	5,241	179.5	(53.1)
FDIC assessments	1,660	2,601	2,805	(36.2)	(7.3)
Amortization of intangibles	1,033	783	788	31.9	(0.6)
Asset dispositions expense	488	740	1,459	(34.1)	(49.3)
Branch closures and new branding*	4,958	0	639	n/m	(100.0)
Net loss on other real estate owned and repossessed assets	310	1,289	3,467	(76.0)	(62.8)
Other	9,988	9,472	9,023	5.4	5.0
TOTAL	\$93,366	\$75,152	\$82,548	24.2	(9.0)

* n/m = not meaningful

Table 8 - Capital Resources

	December 31		
	2014	2013	2012
	(Dollars in thousands)		
TIER 1 CAPITAL			
Common stock (2)	\$3,300	\$2,364	\$1,897
Preferred stock	0	0	48,746
Warrant for purchase of common stock	0	0	0
Additional paid in capital (2)	379,249	277,290	230,438
Accumulated (deficit)	(65,000)	(70,695)	(118,611)
Treasury stock	(71)	(11)	(62)
Qualifying trust preferred securities	62,539	52,000	52,000
Goodwill	(25,309)	0	0
Intangibles	(4,478)	(718)	(1,501)
Other	(44,565)	(49,797)	(1,068)
TOTAL TIER 1 CAPITAL	305,665	210,433	211,839
TIER 2 CAPITAL			
Allowance for loan losses, as limited (1)	17,100	16,877	15,589
TOTAL TIER 2 CAPITAL	17,100	16,877	15,589
TOTAL RISK-BASED CAPITAL	\$322,765	\$227,310	\$227,428
Risk weighted assets	\$1,986,291	\$1,346,957	\$1,240,593
Tier 1 risk based capital ratio	15.39	% 15.62	% 17.08
Total risk based capital ratio	16.25	16.88	18.33
Regulatory minimum	8.00	8.00	8.00
Tier 1 capital to adjusted total assets	10.32	9.59	10.04
Regulatory minimum	4.00	4.00	4.00
Shareholders' equity to assets	10.11	8.75	7.62
Average shareholders' equity to average total assets	10.34	8.38	7.81

(1) Includes reserve for unfunded commitments of \$29,000 at December 31, 2014, 2013, and 2012.

(2) Year end 2012 adjusted to reflect 1 for 5 reverse stock split effective December 13, 2013.

Table 9 - Loans Outstanding

	December 31				
	2014	2013	2012	2011	2010
	(In thousands)				
Construction and land development					
Residential	\$16,155	\$10,566	\$9,902	\$11,255	\$14,025
Commercial	37,194	22,733	11,907	11,338	33,773
	53,349	33,299	21,809	22,593	47,798
Individuals	33,687	34,151	38,927	26,591	31,508
	87,036	67,450	60,736	49,184	79,306
Commercial real estate	837,147	520,382	486,828	508,353	543,603
Real estate mortgage					
Residential real estate					
Adjustable	441,238	391,885	361,005	334,140	303,320
Fixed rate	93,865	91,108	98,976	96,952	82,559
Home equity mortgages	71,838	62,043	57,955	60,253	73,382
Home equity lines	79,956	47,710	51,395	54,901	57,733
	686,897	592,746	569,331	546,246	516,994
Commercial and financial	157,396	78,636	61,903	53,105	48,825
Installment loans to individuals					
Automobiles and trucks	7,817	6,607	7,761	8,736	10,874
Marine loans	26,236	20,208	18,446	19,932	19,806
Other	18,844	17,898	20,723	21,943	20,922
	52,897	44,713	46,930	50,611	51,602
Other loans	512	280	353	575	278
TOTAL	\$1,821,885	\$1,304,207	\$1,226,081	\$1,208,074	\$1,240,608

Table 10 - Loan Maturity Distribution

	December 31, 2014		
	Commercial and Financial	Construction and Land Development	Total
	(In thousands)		
In one year or less	\$66,844	\$ 44,031	\$110,875
After one year but within five years:			
Interest rates are floating or adjustable	1,178	20,890	22,068
Interest rates are fixed	64,570	10,432	75,002
In five years or more:			
Interest rates are floating or adjustable	2,095	4,989	7,084
Interest rates are fixed	22,709	6,694	29,403
TOTAL	\$157,396	\$ 87,036	\$244,432

Table 11 - Maturity of Certificates of Deposit of \$100,000 or More

	December 31			
	2014	% of Total	2013	% of Total
	(Dollars in thousands)			
Maturity Group:				
Under 3 Months	\$31,244	20.9 %	\$38,805	31.6 %
3 to 6 Months	31,918	21.3	20,604	16.8
6 to 12 Months	38,840	25.9	24,670	20.1
Over 12 Months	47,841	31.9	38,667	31.5
TOTAL	\$149,843	100.0%	\$122,746	100.0%

Table 12 - Summary of Loan Loss Experience

	Year Ended December 31				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Beginning balance	\$20,068	\$22,104	\$25,565	\$37,744	\$45,192
Provision (recapture) for loan losses	(3,486)	3,188	10,796	1,974	31,680
Charge offs:					
Construction and land development	640	604	612	4,739	18,135
Commercial real estate	398	2,714	8,539	3,663	11,162
Residential real estate	1,126	3,153	8,381	7,482	10,797
Commercial and financial	398	60	346	0	759
Consumer	193	253	410	562	775
TOTAL CHARGE OFFS	2,755	6,784	18,288	16,446	41,628
Recoveries:					
Construction and land development	415	212	341	1,053	483
Commercial real estate	1,683	547	2,702	354	517
Residential real estate	902	449	738	513	861
Commercial and financial	170	326	129	301	424
Consumer	74	26	121	72	215
TOTAL RECOVERIES	3,244	1,560	4,031	2,293	2,500
Net loan charge offs (recoveries)	(489)	5,224	14,257	14,153	39,128
ENDING BALANCE	\$17,071	\$20,068	\$22,104	\$25,565	\$37,744
Loans outstanding at end of year*	\$1,821,885	\$1,304,207	\$1,226,081	\$1,208,074	\$1,240,608
Ratio of allowance for loan losses to loans outstanding at end of year	0.94 %	1.54 %	1.80 %	2.12 %	3.04 %
Ratio of allowance for loan losses to loans outstanding (excluding purchased loans) at end of period	1.14 %	N/A	N/A	N/A	N/A
Daily average loans outstanding*	\$1,452,751	\$1,272,447	\$1,227,542	\$1,216,221	\$1,327,111
Ratio of net charge offs (recoveries) to average loans outstanding	(0.03)%	0.41 %	1.16 %	1.16 %	2.95 %

* Net of unearned income.

Table 13 - Allowance for Loan Losses

(Dollars in thousands)	December 31,				
	2014	2013	2012	2011	2010
ALLOCATION BY LOAN TYPE					
Construction and land development	\$ 765	\$ 808	\$ 1,134	\$ 1,883	\$ 7,214
Commercial real estate loans	4,531	6,160	8,849	11,477	18,563
Residential real estate loans	9,802	11,659	11,090	10,966	10,102
Commercial and financial loans	1,179	710	468	402	480
Consumer loans.	794	731	563	837	1,385
TOTAL	\$ 17,071	\$ 20,068	\$ 22,104	\$ 25,565	\$ 37,744
YEAR END LOAN TYPES AS A PERCENT OF TOTAL LOANS					
Construction and land development	4.8 %	5.2 %	5.0 %	4.1 %	6.4 %
Commercial real estate loans	46.0	39.9	39.7	42.1	43.8
Residential real estate loans	37.7	45.5	46.5	45.2	41.7
Commercial and financial loans	8.6	6.0	5.0	4.4	3.9
Consumer loans	2.9	3.4	3.8	4.2	4.2
TOTAL	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Table 14 - Nonperforming Assets

	December 31,					
	2014	2013	2012	2011	2010	
	(Dollars in thousands)					
Nonaccrual loans (1) (2)						
Construction and land development	\$ 1,963	\$ 1,302	\$ 1,342	\$ 2,227	\$ 29,229	
Commercial real estate loans	4,189	5,111	17,234	13,120	19,101	
Residential real estate loans	14,797	20,705	22,099	12,555	14,810	
Commercial and financial loans	0	13	0	16	4,607	
Consumer loans	191	541	280	608	537	
Total	21,140	27,672	40,955	28,526	68,284	
Other real estate owned						
Construction and land development	223	421	2,124	10,879	15,358	
Commercial real estate loans	5,771	5,138	6,305	7,517	8,368	
Residential real estate loans	1,468	1,301	3,458	2,550	1,971	
Total	7,462	6,860	11,887	20,946	25,697	
TOTAL NONPERFORMING ASSETS	\$ 28,602	\$ 34,532	\$ 52,842	\$ 49,472	\$ 93,981	
Amount of loans outstanding at end of year (2)	\$ 1,821,885	\$ 1,304,207	\$ 1,226,081	\$ 1,208,074	\$ 1,240,608	
Ratio of total nonperforming assets to loans outstanding and other real estate owned at end of period	1.56	% 2.63	% 4.27	% 4.03	% 7.42	%
Accruing loans past due 90 days or more	\$ 311	\$ 160	\$ 1	\$ 0	\$ 0	
Loans restructured and in compliance with modified terms (3)	24,997	25,137	41,946	71,611	66,350	

Interest income that could have been recorded during 2014, 2013, and 2012 related to nonaccrual loans was (1) \$1,942,000, \$964,000, and \$1,931,000, respectively, none of which was included in interest income or net income.

All nonaccrual loans are secured.

(2) Net of unearned income.

Interest income that would have been recorded based on original contractual terms was \$1,496,000, \$1,618,000, (3) and \$2,725,000, respectively, for 2014, 2013 and 2012. The amount included in interest income under the modified terms for 2014, 2013, and 2012 was \$1,276,000, \$1,074,000, and \$2,036,000, respectively.

Table 15 - Securities Available For Sale

	December 31		Unrealized	Unrealized
	Amortized Cost	Fair Value	Gains	Losses
	(In thousands)			
U.S. Treasury securities and obligations of U.S. Government Sponsored Entities				
2014	\$3,876	\$3,899	\$ 23	\$ 0
2013	100	100	0	0
Mortgage-backed securities of U.S. Government Sponsored Entities				
2014	123,981	125,059	1,501	(423)
2013	129,468	126,735	1,456	(4,189)
Collateralized mortgage obligations of U.S. Government Sponsored Entities				
2014	352,483	347,481	1,075	(6,077)
2013	383,392	369,421	776	(14,747)
Private mortgage-backed securities				
2014	29,967	30,258	291	0
2013	29,800	29,574	0	(226)
Private collateralized mortgage obligations				
2014	85,175	85,135	688	(728)
2013	76,520	76,838	731	(413)
Collateralized loan obligations				
2014	127,397	125,225	0	(2,172)
2013	32,592	32,179	0	(413)
Obligations of state and political subdivisions				
2014	23,511	24,318	810	(3)
2013	6,586	6,764	193	(15)
Total Securities Available For Sale				
2014	\$746,390	\$741,375	\$ 4,388	\$ (9,403)
2013	\$658,458	\$641,611	\$ 3,156	\$ (20,003)

Table 16 - Securities Held For Investment (1)

December 31

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	Amortized Cost (In thousands)	Fair Value	Unrealized Gains	Unrealized Losses
Mortgage-backed securities of U.S. Government Sponsored Entities				
2014	\$67,535	\$68,347	\$ 812	\$ 0
2013	0	0	0	0
Collateralized mortgage obligations of U.S. Government Sponsored Entities				
2014	114,541	114,956	695	(280)
2013	0	0	0	0
Collateralized loan obligations				
2014	25,828	25,485	0	(343)
2013	0	0	0	0
Total Securities Held For Investment				
2014	\$207,904	\$208,788	\$ 1,507	\$ (623)
2013	\$0	\$0	\$ 0	\$ 0

(1) Management changed its intent to hold certain securities available for sale during the second quarter 2014 and those securities were transferred to securities held for investment to allow more flexibility in managing interest rate risk.

Table 17 - Maturity Distribution of Securities Available For Sale

December 31, 2014					
1	1-5	5-10	After 10		Average
Year					Maturity
Or	Years	Years	Years	Total	In Years
Less					
(Dollars in thousands)					
AMORTIZED COST					