

SEACOAST BANKING CORP OF FLORIDA

Form 10-K

March 17, 2014

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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, 2013

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

For the transition period from to

Commission File No. 0-13660

SEACOAST BANKING CORPORATION OF FLORIDA

(Exact Name of Registrant as Specified in Its Charter)

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Florida (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:

Title of Each Class	Name of Each Exchange on Which Registered
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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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, 2013, as reported on the Nasdaq Global Select Market, was \$129,409,445.

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The number of shares outstanding of Seacoast Banking Corporation of Florida common stock, par value \$0.10 per share, as of February 28, 2014, was 25,969,099.

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Certain portions of the registrant's 2014 Proxy Statement for the Annual Meeting of Shareholders to be held May 21, 2014 (the "2014 Proxy Statement") are incorporated by reference into Part III, Items 10 through 14 of this report. Other than those portions of the 2014 Proxy Statement specifically incorporated by reference herein pursuant to Items 10 through 14, no other portions of the 2014 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, could, expect, estimate, continue, further, plan, point to, project, could, intend, target and other similar words and expressions of the forward-looking statements may not be realized due to a variety of factors, including, without limitation:

the effects of future economic, business and market conditions and changes, domestic and foreign, including seasonality;

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

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

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

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

changes in borrower credit risks and payment behaviors;

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

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

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

our concentration in commercial real estate loans;

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

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

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

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

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

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

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

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

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

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 that we make with the Securities and Exchange Commission (the "Commission" or "SEC") under the Exchange Act.

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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 have no obligation and do not undertake to update, revise or correct any of the forward-looking statements after the date of this report, or after the respective dates on which such statements otherwise are made, except as required by law.

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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, 2013, we had total consolidated assets of approximately \$2,268.9 million, total deposits of approximately \$1,806.0 million, total consolidated liabilities, including deposits, of approximately \$2,070.3 million and consolidated shareholders' equity of approximately \$198.6 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 34 banking offices in 12 counties in Florida at year-end 2013. We have 21 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 loan production offices in the larger metropolitan markets we serve, more specifically, three in Orlando, one in Boca Raton, and one in Ft. Lauderdale, Florida.

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. 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 information via Seacoast National's Customer Service Center (CSC). From 7 A.M. to 7 P.M. (EST) Monday through Friday and on Saturdays from 9 A.M. to 4 P.M. (EST) 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.

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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. During 2013, Seacoast National 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 five 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; and

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. 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 2013.

We directly own all the common equity in three 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; and

SBCF Statutory Trust III, formed on June 29, 2007, also for the purpose of issuing \$12 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 and two offices in California since November 2002, and have representation with offices in Washington and Maine. 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 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.

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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, 2013, we and our subsidiaries employed 519 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 loan production 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.

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 17 new offices in 14 counties of Florida. We have also rationalized our branch footprint by closing and consolidating less productive branches. Since 2007, we have closed 11 offices in six counties of Florida, with two offices consolidated in January 2013 and three additional offices consolidated during the last six months of 2012. During 2013, we opened five new loan production offices in Florida, with three opened in Orlando, one in Ft. Lauderdale and one in Boca Raton. The Seacoast Marine Finance Division operates loan production offices, or LPOs , in Ft. Lauderdale, Florida, and Newport Beach and Alameda, California, and have representation with offices in Washington and Maine. For more information on our branches and offices see Item 2. Properties . As part of our overall strategic growth plans, 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.

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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 2013; 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. We also operate in six 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 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

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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, 2013 are included elsewhere in this report with no material weaknesses reported.

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 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.

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

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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 officially came into being on July 21, 2011, and 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.

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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 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 issued August 16, 2010 and effective April 1, 2011, 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 Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans the lender sells and other asset-backed securities that the securitizer issues if the loans have not complied with the ability to repay standards. The risk retention requirement generally will be 5%, but could be increased or decreased by regulation.

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 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 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 assessment base against which an insured depository institution's deposit insurance premiums paid to the DIF will be calculated. Under the amendments, the assessment base will no longer be the institution's deposit base, but rather its average consolidated total assets less its average tangible equity. This may shift 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 of the DIF, increasing the minimum designated reserve ratio (DRR) from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. Furthermore, on February 7, 2011, the FDIC issued a final rule that modifies two adjustments added to the risk-based pricing system in 2009 (an unsecured debt adjustment and a brokered deposit adjustment),

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discontinues a third adjustment added in 2009 (the secured liability adjustment), and adds an adjustment for long-term debt held by an insured depository institution where the debt is issued by another insured depository institution. Additionally, effective July 21, 2011, the Dodd-Frank Act repealed the prohibition on the payment of interest on demand deposits.

Capital Standards. As a result of new regulation that banking regulators recently issued, we will be required to begin complying 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. While the Revised Capital Rules became effective on January 1, 2014 for certain large banking organizations, most U.S. banking organizations, including the Company and Seacoast National Bank, have until January 1, 2015 to begin complying with this new framework.

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.

FDIC Insurance Special Assessment

On November 12, 2009, the FDIC adopted a final rule that required nearly all FDIC-insured depositor-institutions to prepay the DIF assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. In addition, the FDIC voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011, which increase would be reflected in our prepaid assessments. As discussed above, the Dodd-Frank Act amended the statutory regime governing the DIF and the FDIC has issued implementing regulations that set the DRR at 2.0 percent and modify the rules for calculating the amount of an institution's deposit insurance premiums. On June 28, 2013, Seacoast National received a refund of \$3.8 million for premiums prepaid at the end of 2009 (less premiums calculated and paid since year end 2009, and minus the March 31, 2013 insurance premium).

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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. The current 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). The agreement is supported by the U.S. federal banking agencies and the final text of the Basel III rules was released by the Basel Committee on Banking Supervision on December 16, 2010. On July 2, 2013, the timing and scope of U.S. implementation of Basel III was announced, with transition to the new standard to begin on January 1, 2015. Banking regulators recently 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 not 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, 2014:

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).

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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. 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 and 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;

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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 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 Community Reinvestment Act of 1977, as amended (the CRA) ratings, 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

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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 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

The Federal Reserve and the OCC have risk-based capital guidelines for bank holding companies and national banks, respectively. These guidelines require 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 consist 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 consist 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). 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 have 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 provide 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. Lastly, the Federal Reserve's guidelines indicate that the Federal Reserve will continue to consider a tangible Tier 1 leverage ratio (deducting all intangibles) in evaluating proposals for expansion or new activities.

As noted above in Basel III , the capital requirements applicable to us and Seacoast National will change in important respects as a result of the Revised Capital Rules, which implement provisions of

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the Dodd-Frank Act and Basel III. Moreover, reflecting the importance that regulators place on managing capital and other risks, on June 16, 2011, the banking agencies also issued proposed guidance on stress testing for banking organizations with more than \$10 billion in total consolidated assets; this proposed 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. The relevant minimum capital measures are the total risk-based capital ratio, Tier 1 capital ratio, and the leverage ratio. Under the regulations, 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 updates the Prompt Corrective Action framework to correspond to the rule's new minimum capital thresholds, which will take effect beginning 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

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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.

On November 6, 2013, the Company entered into a placement agency agreement with Hovde Group, LLC, acting as placement agent, in connection with the Company's offering, issuance and sale directly to investors of an aggregate of 34,883,721 shares of the Company's common stock, par value \$0.10 per share, at a price of \$2.15 per share. The Company's net proceeds from this capital offering was approximately \$72.0 million (including the CapGen Capital investment discussed below), after deducting all estimated offering expenses and placement agency fees. The sale of the common stock to the investors was made pursuant to purchase agreements, dated November 6, 2013, between the Company and each of the purchasers. The offering closed on November 12, 2013 for an aggregate of \$50.0 million. As part of the total offering, on November 6, 2013, CapGen Capital Group III L.P. (CapGen Capital), which is the Company's largest shareholder, entered into a stock purchase agreement with the Company, whereby CapGen Capital agreed to purchase 11,627,906 shares, or \$25.0 million, of the Company's common stock in this offering at \$2.15 per share. CapGen Capital's purchase of the shares of common stock was subject to regulatory approval by the Board of Governors of the Federal Reserve System because of CapGen's existing ownership of our common stock. The approval was received and the CapGen closing occurred on January 13, 2014.

In December of 2013, the Company's board of directors approved a 1 for 5 reverse stock split (Reverse Stock Split) that shareholders had previously authorized the board to complete. After filing Amended and Restated Articles of Incorporation of the Corporation, effective as of 12:01 am on December 13, 2013, each five (5) shares of the Company's common stock issued and outstanding were combined into one (1) validly issued, fully paid and non-assessable share of common stock, without any further action by the Company or the holder thereof, subject to the treatment of fractional share interests. No fractional shares of common stock were issued in connection with the Reverse Stock Split and any fractional share interests were rounded up to the nearest whole share. The authorized number of shares of Common Stock of the Corporation after the 1 for 5 Reverse Stock Split was reduced from 300,000,000 shares to 60,000,000 shares.

As of December 31, 2013, the consolidated capital ratios of the Seacoast and Seacoast National were as follows:

	Regulatory Minimum	Seacoast (Consolidated)	Seacoast National
Tier 1 capital ratio	4.0%	15.62%	15.49%
Total risk-based capital ratio	8.0%	16.88%	16.74%
Leverage ratio	3.0-5.0%	9.59%	9.51%

Based upon its most recent regulatory examination, on September 19, 2013, the OCC released Seacoast National from its agreement to maintain a Tier 1 leverage capital ratio of at least 8.50 percent and a total risk-based capital ratio of at least 12.00 percent.

FDICIA directs that each federal bank regulatory agency prescribe standards for depository institutions and depository institution holding companies relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth compensation, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value for publicly traded shares, and such other standards as the federal bank regulatory agencies deem appropriate.

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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, 2013, 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

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practice and to prohibit payment thereof. The OCC and the Federal Reserve have indicated that paying dividends that deplete a national or state member bank's capital base to an inadequate level would be an unsound and unsafe banking practice. The OCC and the Federal Reserve have each indicated that depository institutions and their holding companies should generally pay dividends only out of current operating earnings.

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

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

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

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

Seacoast National recorded net income in 2013 and 2011, and small loss in 2012, 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, as defined, 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 \$60.1million to us, without prior OCC approval, as of December 31, 2013. 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 2013.

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.

On January 10, 2013, Seacoast National executed a Stipulation and Consent to a Civil Monetary Penalty (the Consent Agreement) with the OCC. Under the Consent Agreement, Seacoast National, without admitting or denying any wrongdoing, agreed to pay a civil monetary penalty in the amount of \$26,950 as a settlement related to alleged violations of the Flood Disaster Protection Act and its implementing regulations.

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On September 19, 2013, the OCC released Seacoast National from the formal agreement entered into on December 16, 2008, which was to improve Seacoast National's asset quality. Under the formal agreement, Seacoast National's board of directors appointed a compliance committee to monitor and coordinate Seacoast National's performance. The formal agreement provided for the development and implementation of written programs to reduce Seacoast National's credit risk, monitor and reduce the level of criticized assets, and manage commercial real estate (CRE) loan concentrations in light of current adverse CRE market conditions. Seacoast National complied with the terms of this agreement and the agreement was terminated.

In addition, on September 19, 2013, the OCC also released Seacoast National from a letter agreement that required Seacoast National to maintain specific minimum capital ratios by March 31, 2009 and subsequent periods, including a total risk based capital ratio of 12.00 percent and a Tier 1 leverage ratio of 7.50 percent. The agreed upon minimum capital ratios with the OCC were revised under the letter agreement to 12.00 percent for the total risk based capital ratio and 8.50 percent for the Tier 1 leverage ratio at January 31, 2010 and for subsequent periods. The federal bank regulatory agencies have sought higher capital levels than the minimums due to market conditions and the OCC had indicated that Seacoast National, in light of risks in its loan portfolio and local economic conditions, especially in the real estate markets, should hold capital commensurate with such risks. Seacoast National complied with the terms of this agreement and the agreement was terminated.

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. For most institutions, the FFIEC has indicated that market risk primarily reflects exposures to changes in interest rates. When regulators evaluate this component, consideration is expected to be given to: management's ability to identify, measure, monitor, and control market risk; the institution's size; the nature and complexity of its activities and its risk profile; and the adequacy of its capital and earnings in relation to its level of market risk exposure. Market risk is rated based upon, but not limited to, an assessment of the sensitivity of the financial institution's earnings or the economic value of its capital to adverse changes in interest rates, foreign exchange rates, commodity prices, or equity prices; management's ability to identify, measure, monitor, and control exposure to market risk; and the nature and complexity of interest rate risk exposure arising from non-trading positions.

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.

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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.

The FDIC issued a final rule effective April 1, 2009 that changed the way that the FDIC's assessment system differentiates for risk, made corresponding changes to assessment rates beginning with the second quarter of 2009, and made other changes to the deposit insurance assessment rules. These rules included (1) a decrease for long-term unsecured debt, including senior and subordinated debt and, for small institutions with assets under \$10 billion, a portion of Tier 1 capital; (2) an increase for secured liabilities above a threshold amount; and (3) an increase for brokered deposits above a threshold amount. These assessment rules increased assessments for banks that use brokered deposits above a threshold level to fund rapid asset growth. As a result, we were required to pay significantly increased premiums or additional special assessments.

To restore the FDIC's DIF, all FDIC-insured institutions were required to prepay their deposit premiums for the next 3 years on December 30, 2009. The FDIC ruling also provided for maintaining the assessment rates at their current levels through the end of 2010, with a uniform increase of \$0.03 per \$100 of covered deposits effective January 1, 2011. On December 30, 2009, we prepaid \$14.8 million of FDIC insurance premiums for the calendar quarters ending December 31, 2009 through December 31, 2012.

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Effective April 1, 2011, and as discussed above (see *Recent Regulatory Developments* above), 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:

Risk Category	Deposit Insurance 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. 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 \$2.7 million for 2012 and \$2.6 million for 2013. Institutions with a prepayment amount remaining after paying their March 2013 premium were refunded any excess on their June 2013's premium invoice. Seacoast National's refund totaled \$3.8 million.

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 ranged from 1.02 basis points in the first quarter of 2011 to 0.68 basis points in the last quarter of 2011, 0.66 basis points for all four quarters during 2012, and 0.64 basis points for all four quarters during 2013. The FICO assessment rate for the first quarter of 2014 is 0.62 basis points. FICO assessments of approximately \$146,000, \$125,000 and \$124,000 were paid to the FDIC in 2011, 2012 and 2013, respectively.

Participation in Treasury's Capital Purchase Program

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA) became law. Under the TARP authorized by the EESA, the Treasury established the CPP providing for the purchase of senior preferred shares of qualifying FDIC-insured depository institutions and their holding companies. On December 19, 2008, pursuant to a letter agreement (the *Purchase Agreement*), we sold 2,000 shares of Series A Preferred Stock (the *Series A Preferred Stock*) and a warrant (the *Warrant*) to acquire 1,179,245 shares of common stock to the Treasury pursuant to the CPP for an aggregate consideration of \$50 million. Pursuant to the terms of the Warrant, the successful public capital raise conducted by the Company during 2009 reduced the number of shares under the Warrant by 50 percent to 589,625 shares of common stock. The Treasury's interest in outstanding Series A Preferred Stock was sold on April 3, 2012 to third parties and the Company repurchased the Warrant for \$81,000 (net of related expenses) on May 30, 2012. Prior to April 3, 2012, and as a result of our participation in the CPP, we agreed to certain limitations on our executive compensation as discussed further below.

Specifically, we adopted the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury held the equity issued pursuant to the Purchase Agreement, including the common stock which could be issued pursuant to the Warrant. These standards

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generally applied to our chief executive officer, chief financial officer and the three next most highly compensated senior executive officers. The standards included:

ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution;

required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate;

prohibited making golden parachute payments to senior executives; and

an agreement not to deduct for tax purposes executive compensation in excess of \$500,000 for each senior executive.

On February 17, 2009 President Obama signed into law The American Recovery and Reinvestment Act of 2009 (the ARRA), commonly known as the economic stimulus or economic recovery package. The ARRA retroactively imposed certain new executive compensation and corporate expenditure limits and corporate governance standards on all current and future TARP recipients, including us, that were in addition to those previously announced by the Treasury, until the institution repaid the Treasury. The Treasury released an interim final rule on TARP standards for compensation and corporate governance on June 15, 2009, which implemented and further expanded the limitations and restrictions imposed on executive compensation and corporate governance by the TARP CPP and ARRA. The Treasury interim final rules also prohibited any tax gross-up payments to senior executive officers and the next 20 highest paid executives; required say on pay vote in annual shareholders meeting; and imposed restrictions on bonus payments with the exceptions for long-term restricted stock.

At December 31, 2013, the Company redeemed all of the Series A Preferred Stock at par for \$50 million, plus accrued dividends of \$319,000. The \$50.0 million offering of common stock completed in November 2013 provided the funding for the Company's redemption of its Series A Preferred Stock. We currently believe that the Company's overall level of capital is sufficient, given the current economic environment and the additional \$25.0 million from the sale of common stock to CapGen Capital closed on January 13, 2014. Our earnings and asset quality objectives remain a priority, and as we return to sustainable profitability over the long term, we hope to be able to consider paying a dividend from Seacoast National to the Company, as well as to shareholders at some time in the future.

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.

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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 is in the process of establishing 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 insure 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.

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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, 2013, we had outstanding \$33.3 million in commercial construction and residential land development loans and \$34.2 million in residential construction loans to individuals, which represents approximately 30 percent of Seacoast National's total risk based capital at December 31, 2013, 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

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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. We have agreed with the OCC to manage our CRE risks. At December 31, 2013, the total CRE exposure for Seacoast National represents approximately 172 percent of total risk based capital, below the Guidance's threshold. See Item 1. Business Enforcement Policies and Actions; Formal Agreement with OCC.

Furthermore, the Dodd-Frank Act contains provisions that may impact our business by reducing the amount of our commercial real estate lending and increasing the cost of borrowing, including rules relating to risk retention of securitized assets. Section 941 of the Dodd-Frank Act requires, among other things, a loan originator or a securitizer of asset-backed securities to retain a percentage of the credit risk of securitized assets. Federal regulators have issued a proposed and second proposed rule to implement these requirements, but have yet to issue final rules.

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

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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. Rulemaking authority for these and other consumer financial protection laws transferred from the prudential regulators to the CFPB on July 21, 2011. 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.

New rules on credit card interest rates, fees, and other terms took effect on February 22, 2010, as directed by the Credit Card Accountability, Responsibility and Disclosure (CARD) Act. Among the new requirements are (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.

New rules regarding overdraft charges for debit card and automatic teller machine, or ATM, transactions took effect on July 1, 2010. These rules eliminated automatic overdraft protection arrangements now in common use and required banks to notify and obtain the consent of customers before enrolling them in an overdraft protection plan. For existing debit card and ATM card holders, the current automatic programs expired on August 15, 2010. The notice and consent process is a requirement for all new cards issued on or after July 1, 2010. The new rules do not apply to overdraft protection on checks or to automatic bill payments. In June 2011, pursuant to requirements of the Dodd-Frank Act, the Federal Reserve issued a final rule establishing standards for debit card interchange fees and prohibiting 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 recently 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

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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.

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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, FINRA, the Public Company Accounting Oversight Board 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.

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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

Difficult market conditions have adversely affected and may continue to affect our industry.

We are exposed to downturns in the U.S. economy, and particularly the local markets in which we operate in Florida. Declines in the housing markets over the past several years, including falling home prices and sales volumes, and increasing foreclosures, have negatively affected the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks, as well as Seacoast National. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in many cases, to fail. This market turmoil and the tightening of credit have led to increased levels of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and reductions in business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets have adversely affected our business, financial condition and results of operations. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and other financial institutions. In particular:

We are facing increased regulation of our industry, including as a result of recent regulatory reform initiatives by the U.S. government. Compliance with such regulations will increase our costs and may limit our ability to pursue business opportunities.

Market developments, government programs and the winding down of various government programs may continue to adversely affect consumer confidence levels and may cause adverse changes in borrower behaviors and payment rates, resulting in further increases in delinquencies and default rates, which could affect our loan charge-offs and our provisions for credit losses.

Our ability to assess the creditworthiness of our customers or to estimate the values of our assets and collateral for loans will be reduced if the models and approaches we use become less predictive of future behaviors, valuations, assumptions or estimates. We estimate losses inherent in our credit exposure, the adequacy of our allowance for loan losses and the values of certain assets by using estimates based on difficult, subjective, and complex judgments, including estimates as to the effects of economic conditions and how these economic conditions might affect the ability of our borrowers to repay their loans or the value of assets.

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Our ability to borrow from other financial institutions on favorable terms or at all, or to raise capital, could be adversely affected by further disruptions in the capital markets or other events, including, among other things, deterioration in investor expectations and changes in the FDIC's resolution authority or practices.

Failures of other depository institutions in our markets and increasing consolidation of financial services companies as a result of current market conditions could increase our deposits and assets, necessitating additional capital, and may have unexpected adverse effects upon our ability to compete effectively.

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, 2013 and 2012, our nonperforming loans (which consist of nonaccrual loans) totaled \$27.7 million and \$41.0 million, or 2.1 percent and 3.3 percent of the loan portfolio, respectively. At December 31, 2013 and 2012, our nonperforming assets (which include foreclosed real estate) were \$34.5 million and \$52.8 million, or 1.5 percent and 2.4 percent of assets, respectively. In addition, we had approximately \$3.1 million and \$3.6 million in accruing loans that were 30 days or more delinquent at December 31, 2013 and 2012, 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

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because of unanticipated adverse changes in the economy, market conditions or events adversely affecting specific customers, industries or markets, or borrower behaviors towards repaying their loans. Generally speaking, the credit quality of our borrowers has deteriorated as a result of the economic downturn in our markets. Although there are now signs of economic recovery, if the credit quality of our customer base or their debt service behavior materially decreases further, if the risk profile of a market, industry or group of customers declines further or weaknesses in the real estate markets and other economics persist or worsen, or if our allowance for loan losses is not adequate, our business, financial condition, including our liquidity and capital, and results of operations could be materially adversely affected. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. If charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses, which would result in a decrease in net income and capital, and could have a material adverse effect on our financial condition and results of operations.

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

As of December 31, 2013, we had deferred tax assets of \$66.9 million, based on management's estimation of the likelihood of those deferred tax assets being realized. These and future deferred tax assets may be reduced in the future if our estimates of future taxable income from our operations and tax planning strategies do not support the amount of the deferred tax asset.

The Company recorded income in 2011 that was higher than its loss for 2012, and recorded income for 2013. The Company is in a three-year cumulative pretax gain position at December 31, 2013. 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

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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 and subsequent reverse stock split in December 2013 have any negative implications for the Company under Section 382.

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

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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.

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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.

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 further 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, 2013 and 2012, respectively, 42.4 percent and 41.5 percent of our loan portfolio were comprised of CRE loans. 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 2013, we recorded \$3.2 million in provisioning for losses, compared to additions of \$10.8 million in 2012 and \$2.0 million in 2011.

Pursuant to the prior formal agreement that Seacoast National entered into with the OCC, Seacoast National adopted and implemented a written CRE concentration risk management program. Although the OCC has released Seacoast National from the formal agreement, we have continued to reduce our exposure to CRE; however, there is no guarantee that the program will effectively reduce our concentration in CRE.

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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

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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 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. The FDIC adopted a revised risk-based deposit insurance assessment schedule in 2009, raising deposit insurance premium rates, and also requiring all FDIC-insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012, which was paid on December 30, 2009. In June 2013, the FDIC returned remaining amounts of unused prepaid assessments to participating institutions.

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. 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. Seacoast National is no longer required to adhere to an informal letter agreement with the OCC to maintain a Tier 1 leverage capital ratio of 8.50 percent and a total risk-based capital ratio of 12.00 percent, and 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.

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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.

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.

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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 recently 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 will begin to take 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 lack of meeting 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.

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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 Counties in southeastern Florida, the Orlando, Florida metropolitan statistical area, as well as in 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

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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-

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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.

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We may engage in FDIC-assisted transactions in the future, which could present additional risks to our business.

We may have future opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions, which present general acquisition risks, as well as risks specific to these transactions. Although FDIC-assisted transactions typically provide for FDIC assistance to an acquiror to mitigate certain risks, which may include loss-sharing, where the FDIC absorbs most losses on covered assets and provides some indemnity, we would be subject to many of the same risks we would face in acquiring another bank in a negotiated transaction, without FDIC assistance, including risks associated with pricing such transactions, the risks of loss of deposits and maintaining customer relationships and the failure to realize the anticipated acquisition benefits in the amounts and within the timeframes we expect. In addition, because these acquisitions provide for limited diligence and negotiation of terms, these transactions will require additional resources, personnel and time, servicing acquired problem loans and costs related to integration of personnel and operating systems, the establishment of processes to service acquired assets, and require us to raise additional capital, which may be dilutive to our existing shareholders. If we are unable to manage these risks, FDIC-assisted acquisitions could have a material adverse effect on our business, financial condition and results of operations.

The protective amendment contained in our articles of incorporation, which is intended to help preserve our net operating losses, may not be effective or may have unintended negative effects.

On May 27, 2011, we filed with the Florida Secretary of State Articles of Amendment to our Amended and Restated Articles of Incorporation adding a new Section 4.06 to Article IV thereto (the Protective Amendment) which is intended to help preserve certain tax benefits primarily associated with our net operating losses (NOLs).

Subject to certain exceptions pertaining to existing 5% or greater shareholders, the Protective Amendment generally will restrict any direct or indirect transfer (such as transfers of our stock that result from the transfer of interests in other entities that own our stock) if the effect would be to:

increase the direct or indirect ownership of our stock by any person (or any public group of shareholders, as that term is defined under Section 382) from less than 5% to 5% or more of our common stock;

increase the percentage of our common stock owned directly or indirectly by a person (or public group) owning or deemed to own 5% or more of our common stock; or

create a new public group.

Under the Protective Amendment, any direct or indirect transfer attempted in violation of the Protective Amendment is void *ab initio* as of the date of the prohibited transfer as to the purported transferee (or, in the case of an indirect transfer, the ownership of the direct owner of our common stock would terminate effective simultaneously with the transfer), and the purported transferee (or in the case of any indirect transfer, the direct owner) would not be recognized as the owner of the shares owned in violation of the Protective Amendment for any purpose, including for purposes of voting and receiving dividends or other distributions in respect of such common stock, or in the case of options or warrants, receiving our common stock in respect of their exercise. Prohibited transfers are also subject to other restrictions, as set forth in the articles of amendment.

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Although the Protective Amendment is intended to reduce the likelihood of an ownership change under Section 382, which could reduce certain tax benefits associated with our NOLs, we cannot eliminate the possibility that an ownership change will occur even if the Protective Amendment is adopted since:

The Board of Directors can permit a transfer to an acquirer that results or contributes to an ownership change if it determines that such transfer is in the Company's and our shareholders' best interests.

Under the Florida Business Corporation Act, the articles of incorporation of a corporation may impose restrictions on the transfer of shares of the corporation. However, a restriction does not affect shares issued before the restriction was adopted unless the holders of such shares are parties to the restriction agreement or voted in favor of the restriction. A restriction on the transfer or registration of transfer of shares is valid and enforceable against the holder or a transferee of the holder if the restriction is authorized by Section 607.0627 of the Florida Business Corporation Act and its existence is noted conspicuously on the front or back of the certificate or is contained in the information statement required by Section 607.0626(2) of the Florida Business Corporation Act. Unless so noted, a restriction is not enforceable against a person without knowledge of the restriction. We intend to cause shares of our common stock issued after the effectiveness of the Protective Amendment to be issued with the relevant transfer restriction conspicuously noted on the certificate(s) representing such shares and therefore under Florida law such newly issued shares will be subject to the transfer restriction. We also intend to disclose such restrictions to persons holding our common stock in uncertificated form. For the purpose of determining whether a shareholder is subject to the Protective Amendment, we intend to take the position that all shares issued prior to the effectiveness of the Protective Amendment that are proposed to be transferred were voted in favor of the Protective Amendment, unless the contrary is established. We may also assert that shareholders have waived the right to challenge or otherwise cannot challenge the enforceability of the Protective Amendment, unless a shareholder establishes that it did not vote in favor of the Protective Amendment. Nonetheless, a court could find that the Protective Amendment is unenforceable, either in general or as applied to a particular shareholder or fact situation.

Despite the adoption of the Protective Amendment, there is still a risk that certain changes in relationships among shareholders or other events could cause an ownership change under Section 382. We cannot assure you that the Protective Amendment is effective or enforceable in all circumstances, particularly against shareholders who did not vote in favor of the proposal or who did not have notice of the acquisition restrictions at the time they subsequently acquire their shares. Accordingly, we cannot assure you that an ownership change will not occur even with the Protective Amendment.

As a result of these and other factors, the Protective Amendment serves to reduce, but does not eliminate, the risk that we will undergo an ownership change.

The Protective Amendment also requires any person attempting to become a holder of 5% or more of our common stock, as determined under Section 382, to seek the approval of our Board of

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Directors. This may have an unintended anti-takeover effect because our Board of Directors may be able to prevent any future takeover. Similarly, any limits on the amount of stock that a shareholder may own could have the effect of making it more difficult for shareholders to replace current management. Additionally, because the Protective Amendment may have the effect of restricting a shareholder's ability to dispose of or acquire our common stock, the liquidity and market value of our common stock might suffer.

The Protective Amendment will expire on the earliest of:

the Board of Directors' determination that the Protective Amendment is no longer necessary for the preservation of our NOLs because of the amendment or repeal of Section 382 or any successor statute;

the beginning of a taxable year to which the Board of Directors determines that none of our NOLs may be carried forward;

such date as the Board of Directors otherwise determines that the Protective Amendment is no longer necessary for the preservation of tax benefits associated with our NOLs; or

three years from its adoption, unless reapproved by shareholders.

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 23,637,434 shares were outstanding as of December 31, 2013, 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.

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

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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, a 430 square foot leased space in Alameda, California and a 1,200 square foot leased space in Newport Beach, California, and has representation with offices in Washington and Maine.

Seacoast National maintained approximately 33 branch offices, five newly opened loan production offices and its main office in Florida at December 31, 2013. As of December 31, 2013, the net carrying value of these offices (excluding the main office) was approximately \$26.3 million. Seacoast National's branch and loan production offices in 2013 are generally described as follows:

Branch Office	Year Opened	Square Feet	Owned/Leased
Jensen Beach 1000 N.E. Jensen Beach Blvd. Jensen Beach, FL 34957	1977	1,920	Owned
East Ocean 2081 S.E. U.S. Highway 1 Stuart, FL 34996	1978 (relocated in 1995)	2,300	Owned
Cove Road 5755 S.E. U.S. Highway 1 Stuart, FL 34997	1983	3,450	Leased
Hutchinson Island 4392 N.E. Ocean Blvd. Jensen Beach, FL 34957	1984	4,000	Leased
Westmoreland 1108 S.E. Port St. Lucie Blvd. Port St. Lucie, FL 34952	1985 (relocated in 2008)	4,468 (with 1,179 available to be leased to tenants)	Owned building located on leased land
Wedgewood Commons 3200 U.S. Highway 1 Stuart, FL 34997	1988 (relocated in 2009)	5,477 (with 2,641 available to be leased to tenants)	Owned building located on leased land.
Bayshore 247 S.W. Port St. Lucie Blvd.	1990	3,520	Leased

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Hobe Sound	1991	8,000 (with 1,225 available to be leased to tenants)	Owned
11711 S.E. U.S. Highway 1			
Hobe Sound, FL 33455			
Fort Pierce	1991 (relocated in 2008)	5,477 (2,641 available to be leased to tenants)	Owned building located on leased land
1901 South U.S. Highway 1			
Fort Pierce, FL 34950			
Martin Downs	1992	3,960	Owned
2601 S.W. High Meadow Ave.			
Palm City, FL 34990			
Tiffany	1992	8,250	Owned
9698 U.S. Highway 1			
Port St. Lucie, FL 34952			
Vero Beach	1993	3,300	Owned
1206 U.S. Highway 1			
Vero Beach, FL 32960			
Cardinal	1993 (relocated in 2008)	5,435	Leased
2940 Cardinal Dr.			
Vero Beach, FL 32963			
St. Lucie West	1994 (relocated in 1997)	4,320	Leased
1100 S.W. St. Lucie West Blvd.			
Port St. Lucie, FL 34986			
Sebastian Wal-Mart	1996	865	Leased
2001 U.S. Highway 1			
Sebastian, FL 32958			
South Vero Square	1997	3,150	Owned
752 U.S. Highway 1			
Vero Beach, FL 32962			
Oak Point	1997	5,619 (with 2,030 sublet to tenants)	Leased; closed in January 2013
3730 7th Terrace			

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Vero Beach, FL 32960

Sebastian West

1998

3,150

Owned

1110 Roseland Rd.

Sebastian, FL 32958

Tequesta

2003

3,500

Owned

710 N. U.S. Highway 1

Tequesta, FL 33469

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Jupiter	2004	2,881	Owned building located on leased land
585 W. Indiantown Rd.			
Jupiter, FL 33458			
Vero 60 West	2005	2,500	Owned
6030 20th Street			
Vero Beach, FL 32966			
Downtown Orlando	2005	6,752	Leased
65 N. Orange Ave.			
Orlando, FL 32801			
Maitland	2005	4,536	Leased
541 S. Orlando Ave.			
Maitland, FL 32751			
Longwood	2005	4,596	Leased; closed in January 2013
2101 W. State Rd. 434			
Longwood, FL 32779			
PGA Blvd.	2006	13,454	Leased
3001 PGA Blvd.			
Palm Beach Gardens, FL 33410			
South Parrott	2006	8,232	Owned
1409 S. Parrott Ave.			
Okeechobee, FL 34974			
North Parrott	2006	3,920	Owned
500 N. Parrott Ave.			
Okeechobee, FL 34974			
Arcadia	2006 (expanded in 2008)	3,256	Owned
1601 E. Oak St.			
Arcadia, FL 34266			
Moore Haven	2006 (relocated from leased premises in 2012)	4,415	Owned
501 U.S. Highway 27			

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Moore Haven, FL 33471

Clewiston

2006

5,661

Owned

300 S. Berner Rd.

Clewiston, FL 33440

LaBelle

2006

2,361

Owned

17 N. Lee St.

LaBelle, FL 33935

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Lake Placid 199 U.S. Highway 27 North Lake Placid, FL 33852	2006	2,125	Owned
Viera The Avenues 6711 Lake Andrew Dr. Viera, FL 32940	2007	5,999	Leased
Murrell Road 5500 Murrell Rd. Viera, FL 32940	2008	9,041 (with 2,408 leased to tenants and 1,856 to be leased)	Leased
Gatlin Boulevard 1790 S.W. Gatlin Blvd. Port St. Lucie, FL 34953	2008	5,300 (with 2,518 available for leasing)	Owned
Loan Production Offices	Opened In	Square Feet	Owned/Leased
Hannibal Square 444 W. New England Avenue, Suite 117 Winter Park, FL 32789	2013	2,000	Leased
Rialto 7335 W. Sand Lake Road, Suite 137 Orlando, FL 32819	2013	1,489	Leased
Park Place 7025 County Road 46A, Suite 1091 Heathrow, FL 32746	2013	1,979	Leased
Victoria Park Shoppes 622 North Federal Highway Ft. Lauderdale, FL 33304	2013	1,800	Leased
Town Center	2013	1,495	Leased

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5250 Town Center Circle,

Suite 109

Boca Raton, FL 34486

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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.

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 28, 2014 there were 25,969,099 shares of our common stock outstanding, held by approximately 1,560 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	
2012			
First Quarter	\$ 9.70	\$ 7.50	\$ 0.00
Second Quarter	9.55	6.85	0.00
Third Quarter	8.45	6.60	0.00
Fourth Quarter	8.25	6.90	0.00
2013			
First Quarter	\$ 11.25	\$ 7.35	\$ 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
<u>Dividends</u>			

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

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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 in our 2013 Annual Report, portions of which are incorporated by reference herein, including in Part II, Item 8 of this report. 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, 2013.

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 64.

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 65-99.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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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 on pages 86-88 and pages 96-97.

Item 8. Financial Statements and Supplementary Data

The reports of KPMG LLP, an independent registered public accounting firm, and the Consolidated Financial Statements and Notes appear on pages 119-167. Quarterly Consolidated Income Statements are included on page 118 entitled [Selected Quarterly Financial Information](#) .

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

None.

Item 9A. Controls and Procedures

(a) Conclusion Regarding the Effectiveness of Disclosure and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2013. Based upon that evaluation, the CEO and CFO concluded that, as a result of a material weakness in internal control over financial reporting that is described below in Management's Report on Internal Control Over Financial Reporting, the Company's disclosure controls and procedures were not effective as of December 31, 2013.

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

Our independent registered public accounting firm has audited the effectiveness of our internal control over financial reporting as of December 31, 2013 as stated in their report, dated March 17, 2014, which appears elsewhere within this Form 10-K. Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are

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subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management has concluded that, as of December 31, 2013, the Company's internal control over financial reporting was not effective due to the material weakness described below. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Management has identified a material weakness in the internal control over financial reporting relating to the following item:

Financial Reporting

As of December 31, 2013, management concluded that there was a material weakness in the Company's internal control over financial reporting because the Company did not have a control designed to provide for an effective review of the accounting for previously recorded charge-offs, a non-routine matter, related to a matured troubled debt restructured loan. This control deficiency resulted in a misstatement to the allowance for loan losses in the Company's third quarter earnings press release issued on October 28, 2013, and allowed for a reasonable possibility that a material misstatement would not have been prevented or detected on a timely basis. The Company filed a Form 8-K on November 12, 2013 updating and correcting the prior earnings press release, and the Company's Form 10-Q for the third quarter was filed with the corrected items on November 14, 2013. Although the error was corrected prior to the filing of the Company's third quarter Form 10-Q, management did not complete its evaluation of the control deficiency until the fourth quarter of 2013.

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(c) Remediation Plan

Over the next year, the Company will focus on its internal controls over its accounting for non-routine accounting matters related to troubled debt restructured loans, and the Company will implement a control to ensure that the Company's financial department will provide for additional management review and will consult, as needed, with outside independent consultants and accounting experts when faced with non-routine accounting matters.

(d) Changes in Internal Control Over Financial Reporting

Our management, with the participation of our principal executive officer and our principal financial officer, have evaluated any change in internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2013 in accordance with the requirements of Rule 13a-15(d) promulgated by the SEC under the Exchange Act. There were no changes in internal control over financial reporting identified in connection with management's evaluation that occurred during the fiscal quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, as described above, the Company's management has developed and will implement a new procedure to remediate the material weakness identified in this Annual Report on Form 10-K.

Table of Contents**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 2014 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 2013 Director Compensation in the 2014 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, 2013.

Equity Compensation Plan Information

December 31, 2013

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)	52,850	\$ 115.47	0
2008 Plan (2)	0	0.00	0
2013 Plan (3)	49,000	11.00	982,715
Employee Stock Purchase Plan (4).	0	0.00	129,934
TOTAL	101,850	\$ 65.10	1,112,649

- (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.

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- (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.

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(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 2014 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" and "Certain Transactions and Business Relationships" and "Corporate Governance" in the 2014 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 2014 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 119.

(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.

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(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.

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Exhibit 3.2 Amended and Restated By-laws of the Corporation

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

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.

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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 Stock Purchase Agreement

Dated November 6, 2013, between the Company and CapGen Capital Group III, L.P., incorporated herein by reference from Exhibit 10.2 to the Company's Form 8-K, filed November 7, 2013.

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 Schedule 14A, filed with the Commission on April 27, 2009.

Exhibit 10.3 Dividend Reinvestment and Stock Purchase Plan

Incorporated by reference to the Company's Form S-3 filed on November 9, 2011.

Exhibit 10.4 Executive Employment Agreement*

Dated January 18, 1994 between Dennis S. Hudson, III and the Bank, incorporated herein by reference from the Company's Annual Report on Form 10-K, dated March 28, 1995.

Exhibit 10.5 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.

Exhibit 10.6 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 10.7 Change of Control Employment Agreement*

Dated December 24, 2003 between Dennis S. Hudson, III and the Company, incorporated herein by reference from Exhibit 10.14 to the Company's Form 8-K, filed December 29, 2003.

Exhibit 10.8 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 10.9 Amended & Restated Directors Deferred Compensation Plan*

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Exhibit 10.10 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 10.11 Form of 409A Amendment to Employment Agreements with Dennis S. Hudson, III and William R. Hahl

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

Exhibit 10.12 Letter Agreement Regarding Lead Director Position*

Dated October 24, 2012 between Roger O. Goldman and the Company, incorporated herein by reference from Exhibit 10.1 to the Company's Form 8-K, filed October 29, 2012.

Exhibit 10.13 Stipulation and Consent to a Civil Monetary Penalty

Dated January 10, 2013 between the Office of the Comptroller of the Currency and the Company, incorporated herein by reference from Exhibit 10.1 to the Company's Form 8-K, filed January 15, 2013.

Exhibit 10.14 Placement Agency Agreement

Dated November 6, 2013 between Hovde Group, LLC and the Company, incorporated herein by reference from Exhibit 1.1 to the Company's Form 8-K, filed November 7, 2013.

Exhibit 10.15 Form of Purchase Agreement

Dated November 6, 2013 between investors and the Company, incorporated herein by reference from Exhibit 10.1 to the Company's Form 8-K, filed November 7, 2013.

Exhibit 10.16 2013 Incentive Plan

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

Exhibit 21 Subsidiaries of Registrant

Exhibit 23 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

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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 17, 2014

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	March 17, 2014
Dennis S. Hudson, III, Chairman of the Board, Chief Executive Officer and Director (principal executive officer)	
/s/ William R. Hahl	March 17, 2014
William R. Hahl, Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	
/s/ Dennis J. Arczynski	March 17, 2014
Dennis J. Arczynski, Director	
/s/ Stephen E. Bohner	March 17, 2014
Stephen E. Bohner, Director	
/s/ T. Michael Crook	March 17, 2014
T. Michael Crook, Director	
/s/ H. Gilbert Culbreth, Jr.	March 17, 2014
H. Gilbert Culbreth, Jr., Director	

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	Date
/s/ Christopher E. Fogal	March 17, 2014
Christopher E. Fogal, Director	
/s/ Roger O. Goldman	March 17, 2014
Roger O. Goldman, Director	
/s/ Dale M. Hudson	March 17, 2014
Dale M. Hudson, Director	
/s/ Dennis S. Hudson, Jr.	March 17, 2014
Dennis S. Hudson, Jr., Director	
/s/ Thomas E. Rossin	March 17, 2014
Thomas E. Rossin, Director	
/s/ Edwin E. Walpole	March 17, 2014
Edwin E. Walpole, III, Director	

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(Dollars in thousands, except per share data)	2013	2012	2011	2010	2009
FOR THE YEAR					
Net interest income	\$ 65,206	\$ 64,809	\$ 66,839	\$ 66,212	\$ 73,589
Provision for loan losses	3,188	10,796	1,974	31,680	124,767
Noninterest income:					
Other	24,319	21,444	18,345	18,134	17,495
Loss on sale of commercial loan	0	(1,238)	0	0	0
Securities gains, net	419	7,619	1,220	3,687	5,399
Noninterest expenses	75,152	82,548	77,763	89,556	130,227
Income (loss) before income taxes	11,604	(710)	6,667	(33,203)	(158,511)
Provision (benefit) for income taxes	(40,385)	0	0	0	(11,825)
Net income (loss)	51,989	(710)	6,667	(33,203)	(146,686)
Per Share Data					
Net income (loss) available to common shareholders:					
Diluted	2.44	(0.24)	0.16	2.41	(23.39)
Basic	2.46	(0.24)	0.16	2.41	(23.39)
Cash dividends declared	0.00	0.00	0.00	0.00	0.05
Book value per share common	8.40	6.16	6.46	6.42	9.25
Dividends to net income	0.0%	0.0%	0.0%	0.0	n/m 1
AT YEAR END					
Assets	\$ 2,268,940	\$ 2,173,929	\$ 2,137,375	\$ 2,016,381	\$ 2,151,315
Securities	641,611	656,868	668,339	462,001	410,735
Net loans	1,284,139	1,203,977	1,182,509	1,202,864	1,352,311
Deposits	1,806,045	1,758,961	1,718,741	1,637,228	1,779,434
Shareholders' equity	198,604	165,546	170,077	166,299	151,935
Performance ratios:					
Return on average assets	2.38%	(0.03)%	0.32%	(1.60)%	(6.58)
Return on average equity	28.36	(0.43)	4.03	(19.30)	(73.79)
Net interest margin ²	3.15	3.22	3.42	3.37	3.55
Average equity to average assets	8.38	7.81	8.01	8.27	8.92

1. Not meaningful

2. On a fully taxable equivalent basis

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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 2013, 2012 and 2011. 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

Recent years have been difficult for the U.S. economy and for the financial services industry generally. The Company's earnings have been negatively impacted by the Great Recession resulting in higher credit costs, stemming from ongoing deterioration in real estate values, as well as increased unemployment and other negative economic factors. Located in Florida, our markets experienced significant property value declines, which began in late 2007 and continued through 2011. These values began to stabilize in 2012 and have improved over the last year. While the Company did not have material exposure to the investments and products that originally plagued the industry (e.g., sub-prime loans, structured investment vehicles and collateralized debt obligations), the Company's loan portfolio exposure to construction and land development and the residential housing sectors pressured our loan portfolio, resulting in increased credit costs and foreclosed asset expenses. As the economic downturn continued, consumer confidence and weak economic conditions began to impact areas of the economy outside of the housing sector and restrained new loan demand from credit worthy borrowers. Throughout this difficult operating environment, the Company proactively positioned 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.

As a result of this focused effort, the year ended December 31, 2013 marked an important turning point for the Company because of both quantitative and qualitative improvements in our business. For 2013, pretax earnings were substantially improved over the prior year due to our ongoing investments in loan production personnel, digital technology and the effects of asset quality improvements and expense management. As a result, the Company during 2013 was able to

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

successfully raise \$75 million in common equity

terminate the Bank's formal agreement with the OCC

redeem 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

We believe these important accomplishments better position the Company to increase net income to common shareholders in 2014 and in the future. We believe our targeted plan to grow our customer and commercial franchise is the best way to build shareholder value. Net interest income increased during 2013 with increased loan production and lower core deposit costs offsetting the lower spreads earned due to the Federal Reserve's quantitative easing programs. Noninterest income also increased in 2013, as a result of growth in mortgage banking, fees earned from households and business deposit relationships and from wealth management services. These successes were a direct result of the successful execution of our strategic initiatives and our improved condition supporting better growth for both consumer household and commercial relationships.

The Company reduced noninterest expenses by \$7.4 million, or, during 2013, while absorbing increases in core operating expenses totaling \$3.7 million related to new investments, including five new business

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loan production offices in Ft. Lauderdale, Boca Raton and Orlando, Florida (Accelerate offices) (see our Form 10-K for December 31, 2013, Part I, Item 2 Properties for more detail), and costs associated with faster customer adoption of our digital product offerings. Through the Accelerate offices, the Company continues to focus on reaching customers in unique ways, creating a path to achieve higher customer satisfaction. The Accelerate offices provide our customers with talented, results-oriented staff, specializing in the 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 s intends to build customer relationships with depth that surpass traditional commercial lending, and open opportunities into other areas in which we provide services.

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, 2013, approximately 43% of our online customers have adopted mobile product offerings, and mobile users grew by over 90% during 2013. 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. Revenue growth improved throughout the year as our new investments began to produce results and our legacy franchise experienced continued organic growth.

The Company s risk profile improved in 2013, with higher earnings, lower nonperforming assets and associated costs, additional capital, a recovery of the valuation allowance for net deferred tax assets, and improving loan originations and core funding growth. During the last two quarters of 2012, management s plan to improve earnings for 2013 began with the implementation of a combination of actions, including additional office consolidations, revenue enhancements, an acceleration of growth initiatives and a variety of cost-saving opportunities. Problem loan liquidation activities during the last half of 2012 were part of this larger initiative to support earnings growth in 2013. As a result, net income for 2013 totaled \$51,989,000, compared to a net loss of \$710,000 for 2012 and net income of \$6,667,000 for 2011. Adjustments to expense associated with branch consolidations, severance and organizational changes to restore higher levels of profitability totaled \$1,562,000 and impacted the Company s reported net loss of \$710,000 for 2012. Net income available to common shareholders (after preferred dividends and accretion of preferred stock discount) for 2013 totaled \$47.9 million or \$2.44 per average common diluted share, compared to a net loss of \$4.5 million or \$(0.24) per average common diluted share for 2012, and net income available to common shareholders of \$2.9 million, or \$0.16 per average common diluted share, in 2011. 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.

Additional cost reductions of approximately \$1.2 million are expected during the first quarter of 2014 and include lower compensation expenses related to less mortgage banking production in 2014. In addition, 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, and we also expect the provision for loan losses will be lower for 2014. Our successful retail and business deposit growth initiatives continue to be emphasized and we expect further increases in households served, margins and fees for 2014.

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 County in the north) as well as Florida s interior around Lake Okeechobee and up through Orlando. The Company had 34 full service offices at December 31, 2013, compared to 36 offices at December 31, 2012, with two full service offices closed and consolidated with

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other locations during January 2013. Two other full service offices were closed and consolidated in December 2012. During 2013, five new loan production 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, 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 year and expect these markets to continue to improve because these areas in Florida remain attractive markets in which to live. As the Company continues to focus on growth initiatives, the Company will likely consider strategic acquisitions as part of the Company's overall future growth plans in complementary and attractive markets within the state of Florida.

Strategic Review

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 and Okeechobee County, which is contiguous to these coastal counties. Our core markets contain 23 of our 34 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 is favorable with 83% of average deposit balances comprised of NOW, savings, money market and noninterest bearing transaction customer accounts. The cost of deposits averaged 0.16% for 2013 (compared to 0.32 percent for 2012 and 0.65 percent for 2011), 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 due to the Federal Reserve's reduction in interest rates. 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 decreased 7 basis points to 3.15% during 2013 from 2012. This follows the prior year's trend with net interest margin decreasing from 3.42% in 2011 to 3.22% in 2012. In 2013, net interest income was higher as a result of improved deposit mix and loan growth, but lower loan and investment security yields partially offset this increase. In 2012, a portion of the securities portfolio was sold to reduce interest rate and price risk, and this reduced interest income from investment securities compared to the prior year. In addition, net interest income was lower in 2012 as a result of higher cash liquidity. Both commercial and residential loan production improved during 2013 and 2012. In 2013, the Company had commercial/commercial real estate loan production of \$200 million, compared to more limited production of \$111 million and \$63 million, respectively, for 2012 and 2011. The Company closed \$251 million in residential loans during 2013, slightly higher than the \$250 million in 2012, and an improvement over \$191 million in 2011. Stabilizing home values and lower interest rates have improved the Company's residential loan production in each of the past three years. Higher interest rates beginning in the third quarter of 2013 have recently slowed residential loan production. However, we expect improved commercial loan production, which we anticipate will be accomplished by increasing market share through our growing presence in the Orlando and Palm Beach markets. There should also be additional growth opportunities as Florida's economy improves.

As of December 31, 2013 and 2012, our commercial real estate (CRE) loans were \$553.7 million and \$508.6 million, respectively, up 8.9% and down 4.2% from the respective prior years. Under regulatory guidelines for commercial real estate concentrations, Seacoast National's total commercial real estate loans

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outstanding at December 31, 2013 (as defined in guidelines) represented 172 percent of risk-based capital, which is below the regulatory threshold. Our construction and land development loans were \$67.5 million at December 31, 2013, up \$6.8 million from \$60.7 million at December 31, 2012, which was up \$11.5 million from \$49.2 million at December 31, 2011. The size of our average commercial construction and land development loan at December 31, 2013, 2012 and 2011 was \$416,000, \$496,000 and \$418,000, respectively.

The Board of Governors of the Federal Reserve System (the Federal Reserve) has made a historic effort over the past six years to rejuvenate the economy and limit the effect of the recession by lowering interest rates to between 0 and 25 basis points and expanding various liquidity programs. Recently, while indicating a reduction of securities purchases under their quantitative easing program, the Federal Reserve reaffirmed its forecast for a moderate economic recovery through 2014 and into 2015. As a result of the slow economic recovery, the Federal Reserve has reaffirmed that it will maintain key interest rates at record lows at least through 2014. While rates have been at historic lows, it is not expected to continue indefinitely. Our net interest margin for the fourth quarter 2013 was successfully managed to 3.08%, down 17 basis points compared to third quarter 2013 when a \$505,000 recovery of interest related to nonaccrual loans was recorded. 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 expected to continue over the next year.

Our local economy in Florida appears to be in recovery. 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, and while the unemployment rate remains relatively high it has been improving. We are hopeful that this economic cycle's negative impacts are diminishing, and the Congress and President of the United States will collaborate to avert any further dampening to the economy prospectively. The recession and banking crisis significantly impacted community banks in Florida and our primary competitors now are the mega-banks, and there are fewer of them to compete with today. Many of these large institutions are struggling with higher capital requirements and new restrictions and regulations that are requiring difficult choices regarding the business models that they operated under for years. We continue to believe we have entered a period of opportunity to achieve meaningful market share gains from our mega-bank competition.

Loan Growth and Lending Policies

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. While no bulk loan sales were transacted during 2013, the Company utilized loan sales in the past to better control the level of these assets and other commercial real estate loans. In 2012, we had \$9 million in loan sales and \$28 million in loan sales during 2011. 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 \$11 million or 0.8 percent at December 31, 2013.

For 2013, balances in the loan portfolio increased 6.4 percent, compared with an increase of 1.5 percent for 2012 and a decline of 2.6 percent for 2011, reflecting an improvement from the recessionary climate, significantly lower loan demand and loan sales for prior years. Loan growth accelerated and built momentum during 2013, as the local economy improved and we opened our new loan production offices. The Company expects loan growth opportunities for all types of lending in 2014, including commercial lending to targeted customer segments and 1-4 family agency conforming residential mortgages, although we anticipate residential loan production during 2014 to be in line with our 2013 results. During the past year, we continued to expand our business banking teams, adding new commercial loan officers in the newly opened offices. 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 2014.

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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 \$98.7 million or 12.0 percent in 2013, and \$97.7 million or 13.5 percent in 2012, 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 2013 and 2012, but growth in core deposit relationships more than offset such declines. At December 31, 2013 and 2012, CDs declined \$39.8 million and \$150.1 million, respectively, compared to prior year. 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 2013. In 2013, the cost of deposits was 0.16 percent, decreasing 16 basis points from 0.32 percent for the prior year, which was a 33 basis point decrease from 0.65 percent in 2011.

During 2013, total deposits increased \$47 million or 2.7 percent and sweep repurchase agreements increased \$15 million or 10.6 percent, versus 2012. In comparison, during 2012 total deposits increased \$40 million or 2.3 percent and sweep repurchase agreements increased \$1 million or 0.4 percent when compared to 2011. 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. 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;

other than temporary impairment of securities;

realization of deferred tax assets; and

contingent liabilities.

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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 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 2013 we recorded a lower provision for loan losses of \$3.2 million, which compared to provisioning for 2012 of \$10.8 million. Net charge-offs of \$5.2 million for 2013 compared to net charge-offs of \$14.3 million for 2012, and were 0.41 and 1.16 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 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 \$2,036,000 to \$20,068,000 at December 31, 2013, compared to \$22,104,000 at December 31, 2012. The allowance for loan losses (ALLL) framework has two basic elements: specific allowances for loans individually evaluated for impairment, and a formula-based component for pools of homogeneous loans within the portfolio that have similar risk characteristics, which are not individually evaluated.

The first element of the ALLL analysis involves the estimation of allowance specific to individually evaluated impaired 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, 2013, the specific allowance related to impaired loans individually evaluated totaled \$5.4 million, compared to \$7.3 million as of December 31, 2012.

The second element of the ALLL analysis, the general allowance for homogeneous 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

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the various 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.

In addition, 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 is 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.

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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 charge-offs for the year ended December 31, 2013 totaled \$5,224,000, compared to net charges-offs of \$14,257,000 for the year ended December 31, 2012 (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, 2013 and 2012. 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 loans outstanding was 1.54 percent at December 31, 2013, compared to 1.80 percent at December 31, 2012. 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 and lower classified loans (special mention and substandard grades) contributed to a lower risk of loss and the lower allowance for loan losses as of December 31, 2013. 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 reductions in income producing commercial real estate and construction and land development loans over the last several years. Prospectively, we anticipate that the allowance will continue to decline as a percentage of loans outstanding as we continue to see improvement in our credit quality, with some offset to this perspective for 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, 2013, the Company had \$1.181 billion in loans secured by real estate, representing 90.5 percent of total loans, up from \$1.117 billion but

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lower as a percent of total loans (versus 91.1 percent) at December 31, 2012. 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 (NPA s) at December 31, 2013 totaled \$34,532,000 and were comprised of \$27,672,000 of nonaccrual loans and \$6,860,000 of other real estate owned (OREO), compared to \$52,842,000 at December 31, 2012 (comprised of \$40,955,000 in nonaccrual loans and \$11,887,000 of OREO). At December 31, 2013, approximately 98.0 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, 2013, nonaccrual loans have been written down by approximately \$9.6 million or 27.9 percent of the original loan balance (including specific impairment reserves).

As anticipated, the Company closed a number of OREO sales during 2012 and 2013 that reduced OREO outstanding. Compared to December 31, 2012, OREO was \$5.0 million or 42.3 percent lower at December 31, 2013. This represents the lowest level of OREO since 2008 and is reflective of our improving credit quality.

During 2013, \$10.0 million in loans were moved to nonperforming compared to \$58.9 million for all of 2012. Most of the loans are collateralized by real estate. Inflows to nonperforming loans during 2012 included a \$14.4 million performing troubled debt restructure (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, 2013, management believes that future inflows to nonperforming loans will be reduced.

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The table below shows the nonperforming inflows by quarter for 2013, 2012 and 2011:

New Nonperforming Loans (In thousands)	2013	2012	2011
First quarter	\$ 2,868	\$ 20,207	\$ 11,349
Second quarter	2,949	17,291	19,874
Third quarter	2,019	14,521	4,137
Fourth quarter	2,167	6,891	4,349

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 \$25.1 million at December 31, 2013 compared to \$41.9 million at December 31, 2012. The tables below set forth details related to nonaccrual and restructured loans.

December 31, 2013 (In thousands)	Nonaccrual Loans			Accruing Restructured Loans
	Non- Current	Per- forming	Total	
Construction & land development				
Residential	\$ 403	\$ 73	\$ 476	\$ 2,157
Commercial	0	384	384	0
Individuals	61	381	442	222
	464	838	1,302	2,379
Residential real estate mortgages	2,243	18,462	20,705	14,866
Commercial real estate mortgages	2,831	2,280	5,111	7,307
Real estate loans	5,538	21,580	27,118	24,552
Commercial and financial	13	0	13	153
Consumer	46	495	541	432
	\$ 5,597	\$ 22,075	\$ 27,672	\$ 25,137

At December 31, 2013 and 2012, total TDRs (performing and nonperforming) were comprised of the following loans by type of modification:

(Dollars in thousands)	2013		2012	
	Number	Amount	Number	Amount
Rate reduction	113	\$ 19,843	124	\$ 25,895
Maturity extended with change in terms	81	10,620	87	22,677
Forgiveness of principal	1	1,838	1	2,103
Chapter 7 bankruptcies	55	2,594	58	3,007
Not elsewhere classified	10	5,602	11	10,416
	260	\$ 40,497	281	\$ 64,098

During the first, second, third and fourth quarters of 2013, newly identified TDRs totaled \$4.4 million, \$4.1 million, \$1.7 million and \$0.5 million, respectively, compared to \$18.0 million for all of 2012. 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

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performing based on the terms of the restructuring agreements. Accruing loans that were restructured within the twelve months preceding December 31, 2013 and defaulted during the twelve months ended December 31, 2013 summed to \$1,948,000, compared to \$913,000 for 2012. 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, 2013, loans totaling \$52,969,000 were considered impaired (comprised of total nonaccrual, loans 90 days or more past due, and TDRs) and \$5,446,000 of the allowance for loan losses was allocated for potential losses on these loans, compared to \$82,901,000 and \$7,269,000, respectively, at December 31, 2012.

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.

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, 2013, outstanding securities designated as available for sale totaled \$641,611,000. The fair value of the available for sale portfolio at December 31, 2013 was less than historical amortized cost, producing net unrealized losses of \$16,847,000 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 2013 and 2012. The fair value of each security available for sale was obtained from independent pricing sources utilized by many financial institutions. 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.

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The credit quality of the Company's securities holdings are primarily investment grade. As of December 31, 2013, the Company's available for sale investment securities, except for approximately \$0.7 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 \$525.8 million, or 82.0 percent of the total available for sale portfolio. The remainder of the portfolio includes \$76.8 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 the second and third quarters of 2013, the Company also invested \$32.2 million in uncapped 3-month Libor floating rate collateralized loan obligations. Collateralized loan obligations are special purpose vehicles that purchase loans as assets that provide a steady stream of income and possible capital appreciation. The collateral for the securities is first lien senior secured corporate debt. The Company has purchased senior tranches rated AAA or AA and performed stress tests, which indicated that the senior subordination levels are sufficient and no principal loss is forecast, verifying the independent rating.

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 \$4.9 million as of December 31, 2013, \$0.7 million less than the balance at year-end 2012. 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, 2013 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, 2013, the Company had net deferred tax assets (DTA) of \$66.9 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, 2012 the Company had a net DTA of \$18.0 million.

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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 resulted in the Company's conclusion that recovery of its net deferred tax assets was more likely than not from future earnings and therefore the deferred tax valuation allowance of \$44.8 million was no longer needed. At September 30, 2013, the allowance was entirely reversed. The most important factors that supported this conclusion were:

Income before tax (IBT) had increased over the past five quarters as credit costs improved,

Credit costs improved and overall credit risk was reduced to a level which decreased the impact on future taxable earnings,

Credit processes, policies and governance had been improved and enhanced,

IBT results for the third quarter of 2013 and for the nine months ended September 30, 2013 indicated an annualized steady state income before tax of \$13-\$16 million per year, assuming a normalized loan loss provision and no improvement in economic conditions which recovered the net operating loss carry-forwards before expiration,

Since 2008 the Company made steady improvements in asset quality, loan growth, core deposit business and personal accounts, noninterest income and maintained strong capital ratios throughout the challenging economic environment,

At September 30, 2013, the Company no longer had a three year cumulative loss, and

The OCC, Seacoast National's primary regulator, terminated its formal agreement in 2013.

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, 2013 and 2012, 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 2013 totaled \$47,916,000, or \$2.44 per average common diluted share, compared to a net loss of \$4,458,000, or \$(0.24) per average common diluted share, in 2012 and net income of \$2,919,000, or \$0.16 per average common diluted share, in 2011. Per share amounts reflect the Company's 1 for 5 reverse stock split effective December 13, 2013.

Net Interest Income

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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. 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

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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 following table details net interest income and margin results (on a tax equivalent basis) for the past five quarters:

(Dollars in thousands)	Net Interest Income (tax equivalent)	Net Interest Margin (tax equivalent)
Fourth quarter 2012	\$ 16,254	3.22%
First quarter 2013	16,055	3.15
Second quarter 2013	16,172	3.12
Third quarter 2013	16,872	3.25
Fourth quarter 2013	16,336	3.08

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.

(Dollars in thousands)	Total Year 2013	Fourth Quarter 2013	Third Quarter 2013	Second Quarter 2013	First Quarter 2013	Total Year 2012	Fourth Quarter 2012
Non-taxable interest income	\$ 432	\$ 112	\$ 107	\$ 108	\$ 105	\$ 346	\$ 87
Tax Rate	35%	35%	35%	35%	35%	35%	35%
Net interest income (TE)	\$ 65,435	\$ 16,336	\$ 16,872	\$ 16,172	\$ 16,055	\$ 64,990	\$ 16,254
Total net interest income (not TE)	65,206	16,277	16,815	16,114	16,000	64,809	16,208
Net interest margin (TE)	3.15%	3.08%	3.25%	3.12%	3.15%	3.22%	3.22%
Net interest margin (not TE)	3.14	3.06	3.24	3.11	3.14	3.21	3.21

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

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 a year ago. Average securities as a percentage of average earning assets increased from 29.2 percent a year ago 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) (see Loan Portfolio).

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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 following table details the yield on earning assets (on a tax equivalent basis) for the past five quarters:

	Fourth Quarter 2013	Third Quarter 2013	Second Quarter 2013	First Quarter 2013	Fourth Quarter 2012
Yield	3.33%	3.52%	3.39%	3.43%	3.53%

The yield on loans decreased 27 basis points to 4.49 percent over the last twelve months 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 year over year 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 a year ago.

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. Our strategy has been focusing on hiring commercial lenders for the larger metropolitan markets in which the Company competes, principally in Orlando and Palm Beach. With commercial production improving during 2013, period-end total loans outstanding increased by \$78.1 million or 6.4 percent since December 31, 2012. At December 31, 2013, the Company's total commercial and commercial real estate loan pipeline was \$28 million, compared to \$63 million, \$47 million and \$55 million at the end of the first, second and third quarters of 2013. Business activity is normally slower in the fourth quarter resulting in a decline in loan pipelines.

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. In comparison, closed residential mortgage loan production for the first, second, third and fourth quarters of 2012 totaled \$48 million, \$66 million, \$63 million and \$72 million, respectively, of which \$20 million, \$26 million, \$34 million and \$39 million was sold servicing-released. Applications for residential mortgages totaled \$378 million during 2013, compared to \$387 million for 2012. Much of our loan production had been focused on residential home mortgages in 2012, which continued during 2013, with existing home sales and home mortgage loan refinancing activity in the Company's markets remaining fairly stable, and some demand for new home construction emerging. Higher interest rates in the fourth quarter of 2013 dampened residential loan production, and production is expected to remain at 2013 levels in 2014.

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 2013 and 2012 have been conducted principally to reinvest funds from maturities and principal repayments, as well

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as to reinvest excess funds (in an interest bearing deposit) at the Federal Reserve Bank, and the proceeds from sales. During 2013, maturities (principally pay-downs of \$150.3 million) totaled \$155.6 million and securities portfolio purchases totaled \$230.1 million. In comparison, 2012 maturities totaled \$140.0 million (including \$139.0 million in pay-downs) and securities portfolio purchases totaled \$384.6 million.

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. The following table details the cost of average interest bearing liabilities for the past five quarters:

	Fourth Quarter 2013	Third Quarter 2013	Second Quarter 2013	First Quarter 2013	Fourth Quarter 2012
Rate	0.35%	0.36%	0.36%	0.38%	0.42%

During 2013, 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 2013 (and last several quarters) reduced the overall cost of total deposits to 0.14 percent for the fourth quarter of 2013, 6 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 76.9 percent of total average interest bearing deposits for 2013, an improvement compared to the average of 70.6 percent a year ago. The average rate for lower cost interest bearing deposits for 2013 was 0.08 percent, down by 8 basis points from 2012. 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. Prospectively, with interest rates predicted to remain low through 2014, reductions in interest bearing deposit costs will be more challenging to produce due to more limited re-pricing opportunities.

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. 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 \$9.3 million during 2013, 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 increased \$13.6 million to \$155.2 million or 9.6 percent for 2013 as compared to 2012. 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. Other than to test lines, during 2013, 2012 and 2011, we did not utilize any federal funds purchased. Other borrowings are comprised of subordinated debt of \$53.6 million related to trust preferred securities issued by subsidiary trusts of the Company, and advances from the FHLB of \$50.0 million. No changes have occurred to other borrowings since year-end 2009 (see Note I Borrowings to the Company's consolidated financial statements).

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Prospectively, we expect our net interest margin to grow as lending initiatives produce improved results and our problem loan liquidation activities are concluded. We are positioned for stronger earnings performance as we return to a more typical yield curve and as excess liquidity is deployed into higher earning assets. Our recent focus on achieving increased household growth year over year should 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 2012 totaled \$64,990,000, decreasing by \$2,069,000 or 3.1 percent as compared to 2011. Net interest margin on a tax equivalent basis for 2012 decreased 20 basis points to 3.22 percent compared to 3.42 percent in 2011. 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, reduced 2012's net interest income.

The earning asset mix changed in 2012 from 2011. For 2012, average loans (the highest yielding component of earning assets) as a percentage of average earning assets totaled 60.9 percent, compared to 62.1 percent a year ago. Average securities as a percentage of average earning assets decreased from 29.6 percent a year ago to 29.2 percent during 2012 and interest bearing deposits and other investments increased to 9.9 percent in 2012 from 8.3 percent in 2011. While average total loans as a percentage of earning assets was generally unchanged, the mix of loans changed, with volumes related to commercial real estate representing 41.5 percent of total loans at December 31, 2012 (compared to 43.9 percent at December 31, 2011). Residential loan balances with individuals (including home equity loans and lines, and personal construction loans) represented 49.6 percent of total loans at December 31, 2012 (versus 47.4 percent at December 31, 2011) (see [Loan Portfolio](#)).

The yield on earning assets for 2012 was 3.64 percent, 50 basis points lower than for 2011, a reflection of the lower interest rate environment and earning asset mix. The yield on loans decreased 38 basis points to 4.76 percent year over year, with nonaccrual loans totaling \$41.0 million or 3.3 percent of total loans at December 31, 2012 (versus \$28.5 million or 2.4 percent of total loans at December 31, 2011). The yield on investment securities was lower, decreasing 67 basis points year over year to 2.39 percent for 2012, due primarily to securities sold to reduce interest rate risk and reinvestment at lower yields.

Average earning assets for 2012 increased \$58.6 million or 3.0 percent compared to 2011's average balance. Average loan balances for 2012 increased \$11.3 million or 0.9 percent to \$1,227.5 million, average interest bearing deposits and other investments increased \$36.6 million or 22.4 percent to \$200.0 million, and average investment securities increased \$10.7 million or 1.8 percent to \$589.5 million. Remaining proceeds from the sale of securities during 2012, held in interest bearing deposit accounts, were deployed to lending activities or additional investment securities purchases in 2013.

Commercial and commercial real estate loan production for 2012 totaled approximately \$109 million, compared to production for 2011 of \$63 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 increased by \$18.0 million or 1.5 percent from December 31, 2011. In comparison, loans decreased by \$32.5 million or 2.6 percent at December 31, 2011, year over year.

Closed residential mortgage loan production for 2012 totaled \$249 million, of which \$119 million was sold servicing-released. In comparison, closed residential mortgage loan production for 2011 totaled \$191 million, of which \$69 million was sold servicing-released. Applications for residential mortgages totaled \$387 million during 2012, compared to \$311 million for 2011. Much of the loan production was focused on residential home mortgages, which continued to show signs of strengthening in 2012 in our markets and across Florida. Existing home sales and home mortgage loan refinancing activity in the Company's markets increased during 2012, but demand for new home construction remained soft. Inventory levels for existing homes in many markets dropped to a three- or four-month supply by year-end 2012, some of the lowest levels since pre-recession.

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For 2012, the cost of average interest-bearing liabilities decreased 34 basis points to 0.55 percent from 2011, reflecting the lower interest rate environment and improving deposit mix. During 2012, the Company's retail core deposit focus continued to produce strong growth in core deposit customer relationships when compared to 2011's result. An improving deposit mix and lower rates paid on interest bearing deposits during 2012 reduced the overall cost of total deposits to 0.20 percent for the fourth quarter of 2012, 36 basis points lower than the fourth quarter of 2011. Average balances of lower cost interest bearing deposits (NOW, savings and money market) totaled 70.6 percent of total average interest bearing deposits for 2012, compared to an average of 62.1 percent for 2011. The average rate for lower cost interest bearing deposits for 2012 was 0.16 percent, down by 12 basis points from 2011's rate. CD rates paid were also lower during 2012, averaging 1.03 percent, a 65 basis point decrease compared to 2011. Average CDs (the highest cost component of interest bearing deposits) were 29.4 percent of interest bearing deposits for 2012, compared to 37.9 percent for 2011, with ending balances down to 23.4 percent for CDs as of December 31, 2012.

Average deposits totaled \$1,697.3 million during 2012, and were \$19.7 million higher compared to 2011. Average aggregate amounts for NOW, savings and money market balances increased \$82.3 million or 9.8 percent to \$924.1 million for 2012 compared to 2011, average noninterest bearing deposits increased \$65.6 million or 20.3 percent to \$388.7 million for 2012 compared to 2011, and average CDs decreased by \$128.3 million or 25.0 percent to \$384.5 million over the same period. Similarly, and as experienced for 2013, customers were more complacent during 2012, leaving more funds in lower cost deposit products that pay no interest or a lower interest rate.

Average short-term borrowings comprised principally of sweep repurchase agreements with customers of Seacoast National increased \$35.1 million to \$141.6 million or 33.0 percent for 2012 as compared to 2011. Public fund clients with larger balances have the most significant influence on average sweep repurchase agreement balances outstanding during the year.

Noninterest Income

Excluding securities gains for each year and the loss on sale of commercial loan for 2012, noninterest income for 2013 was \$2,875,000 or 13.4 percent higher than for 2012, increasing to \$24,319,000. For 2012, noninterest income of \$21,444,000 was \$3,099,000 or 16.9 percent higher than for 2011. Noninterest income accounted for 27.2 percent of total revenue (net interest income plus noninterest income, excluding securities gains), compared to 24.9 percent a year ago (excluding the loss on sale of commercial loan), and 21.5 percent for 2011.

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

For 2013, revenues from the Company's wealth management services businesses (trust and brokerage) increased year over year, by \$992,000 or 29.6 percent, and were higher in 2012 than 2011 by \$117,000 or 3.6 percent. Included in the \$992,000 increase from a year ago, trust revenue was higher by \$432,000 or 19.0 percent and brokerage commissions and fees were higher by \$560,000 or 52.3 percent. Economic uncertainty is the primary issue affecting clients of the Company's wealth management services. Higher estate, *inter vivos*, agency and employee benefit fees were the primary cause for the higher trust income versus 2012, as these fees increased \$215,000, \$80,000, \$106,000 and \$28,000, respectively during the first, second, third and fourth quarter of 2013. The \$560,000 overall growth in brokerage commissions and fees for 2013 included an increase of \$90,000 in aggregate brokerage and mutual fund commissions and \$466,000 in annuity income. Of the \$117,000 increase for 2012, trust revenue was higher by \$168,000 or 8.0 percent and brokerage commissions and fees were lower by \$51,000 or 4.5 percent.

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Service charges on deposits for 2013 were \$466,000 or 7.5 percent higher year over year, and were \$17,000 or 0.3 percent lower in 2012 when compared 2011. Overdraft fees declined \$117,000 or 2.5 percent year over year and represented approximately 67 percent of total service charges on deposits for 2013, lower than the average of 74 percent for 2012 and 76 percent for 2011. 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 \$583,000 or 36.2 percent to \$2,195,000 for 2013, compared to 2012. Service charge increases during 2013 reflect our growing base of core deposit relationships over the past twelve months, and our emphasis on providing products meeting the needs of each customer that generates appropriate fees for the services offered.

For 2013, fees from the non-recourse sale of marine loans totaled \$1,189,000, an increase of \$78,000 or 7.0 percent compared to 2012, and were lower for 2012 by \$98,000 or 8.1 percent compared to 2011. The Seacoast Marine Division originated \$82 million in loans during 2013, compared to \$79 million and \$83 million for 2012 and 2011, respectively. Of the loans originated during 2013, \$69 million were sold (84.1 percent of production), compared to \$68 million sold during 2012 (86.1 percent of production) and \$68 million for 2011 (81.9 percent of production). Approximately \$13 million of 2013's production has been placed in our loan portfolio, compared to \$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 Oregon.

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 2013, interchange income increased \$903,000 or 20.1 percent from 2012, and was \$693,000 or 18.2 percent higher for 2012, compared to 2011's income. Other deposit-based electronic funds transfer (EFT) income increased by \$6,000 or 1.8 percent in 2013 from 2012, after increasing \$18,000 or 5.7 percent in 2012 compared to 2011'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 is not expected to impact this source of fee revenue for Seacoast National materially, but has significantly reduced 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 2013 increased \$463,000 or 12.5 percent from 2012, and were \$1,570,000 or 73.4 percent higher for 2012 than for 2011. Mortgage banking revenue as a component of overall noninterest income was 17.2 percent for 2013, compared to 17.3 percent for 2012 and 11.7 percent for 2011. 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 2012 and carried over into 2013, with transactions increasing, prices firming and affordability improving. The Company was the number one originator of home purchase mortgages in Martin, St. Lucie and Indian River counties during 2011, 2012, and the first eleven months of 2013, based on the data available to date.

Other income for 2013 decreased \$33,000 or 1.5 percent compared to a year ago, and for 2012 increased \$816,000 or 59.3 percent. Included in the increase for 2012 compared to 2011 was merchant income, which was \$303,000 higher than a year ago, reflecting better volumes and additional incentive payments for surpassing sales thresholds.

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. For 2013, the expense ratio was 82.9 percent and total noninterest expenses were \$7,396,000 or 9.0 percent lower versus a year ago, totaling \$75,152,000. When compared to 2011, total noninterest expenses for 2012 increased by \$4,785,000 or 6.2 percent to \$82,548,000.

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Some of the increase in expenses in 2012 were related to the implementation of future cost reductions. During the 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 \$232,000 impacting overhead for the third quarter of 2012. An additional \$491,000 in organizational and branch consolidation costs impacted the fourth quarter of 2012. Through these decisions and other cost reduction measures that took effect in 2013, and our tactical plans to increase loan production in 2013, we have experienced improved earnings for 2013. Additional cost reductions totaling approximately \$1.2 million are expected to occur during the first quarter of 2014, including expenses related to slower growth anticipated for mortgage production in 2014.

Table 7 provides detail of noninterest expense components for the years ending December 31, 2013, 2012 and 2011.

Salaries and wages were \$1,071,000 or 3.6 percent higher for 2013 compared to 2012, and were \$2,647,000 or 9.7 percent higher for 2012 compared to the same period in 2011. Base salaries were higher for 2013 by \$2,201,000 or 8.4 percent, reflecting additional commercial relationship managers and credit support personnel hired during the past twelve months. 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. In comparison, higher commission and incentive payments of \$1,093,000 or 33.6 percent were included in the increase for salaries and wages for 2012 compared to 2011, with long-term stock incentives comprising \$208,000 of the increase and the remainder for revenues generated from wealth management and lending production. Stock awards issued to all employees of Seacoast National in August 2011 were the primary contributor to the \$208,000 increase for long term stock incentives. Base salaries were also higher for 2012 by \$1,174,000 or 4.7 percent, again reflecting additional commercial relationship managers hired and staff added to the compliance and risk management departments. Severance payments for positions eliminated during 2012 totaled \$688,000, and contributed \$219,000 to the increase compared to 2011. Executive cash incentive compensation was not paid in 2013, 2012 or 2011.

In 2013, employee benefits costs decreased by \$383,000 or 5.0 percent to \$7,327,000 from a year ago, but were higher by \$1,835,000 or 31.2 percent for 2012 when compared to 2011. For 2013, costs for our self-funded health care plan were \$565,000 lower than for 2012, due to lower claims and utilization. In comparison, these costs were much higher in 2012 when an increase of \$1,194,000 occurred year over year, reflecting a few large claims and higher utilization. For 2013, 2012, and 2011, profit sharing contributions for all associates were eliminated, but the Company match for employee salary deferrals, although limited, resulted in increases of \$36,000 and \$411,000 in 401K plan costs for 2013 and 2012, respectively, year over year. The Company has met with its self-funded plan provider and discussed possible impacts of the U.S. Health Care Reform and determined that costs are expected to increase related to implementation of new coverage. Management continues to discuss strategies to offset/reduce these cost increases, but is unable to estimate the amount of such increases at this time.

Outsourced data processing costs totaled \$6,372,000 for 2013, a decrease of \$1,010,000 or 13.7 percent from a year ago. In comparison, for 2012 outsourced data processing costs increased \$799,000 or 12.1 percent from 2011. Seacoast National utilizes third parties for its core data processing systems. Outsourced data processing costs are directly related to the number of transactions processed. Prior to the Company's contract with its core data processor expiring on December 31, 2012, proposals from select third party processors (including the Company's existing processor) were received by management, comparatively reviewed for efficiency, technological enhancement, and performance, and resulted in a

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renegotiated contract with our existing provider as of January 1, 2013 for a term of 5 1/2 years. As expected, outsourced data processing costs were \$861,000 lower for 2013 under the renegotiated terms. In addition, software licensing, software maintenance, and other EFT processing costs were lower by \$53,000, \$63,000 and \$151,000, respectively, during 2013 compared to a year ago. Increasing year over year were interchange processing costs, \$118,000 higher in 2013 due to rising transaction volumes. For 2012, core data processing, software licensing, and software maintenance costs were \$595,000, \$44,000 and \$46,000 higher for 2012, versus a year ago, as were interchange processing and other electronic funds transfer costs (aggregated), higher by \$114,000 for 2012. Outsourced data processing costs can be expected to increase as the Company's business volumes grow. We are anticipating further improvements and enhancements to mobile remote deposit capture, and other digital products and services through our core data processor during 2014, which will increase our outsourced data processing costs as customers adopt the new digital products. In 2013, nearly one half of our customers that use online services adopted our mobile banking products. Nearly half of our customer base use online services.

Telephone and data line expenditures, including electronic communications with customers and between branch locations and personnel, as well as third party data processors, increased \$75,000 or 6.4 percent to \$1,253,000 for 2013 when compared to 2012, and such expenses for 2012 were nominally higher than for 2011. Improved systems and monitoring of services utilized has reduced our communication costs, and these costs should reflect moderate fluctuations prospectively.

Total occupancy, furniture and equipment expenses for 2013 decreased year over year versus 2012, by \$953,000 or 9.1 percent to \$9,512,000. For 2012, these costs were \$547,000 or 5.5 percent higher. For 2012, branch consolidation costs of \$232,000 and \$407,000 were recorded during the third and fourth quarters of 2012, respectively, and were the primary contributor to the increase for 2012 compared to 2011. These branch consolidations favorably impacted expense for 2013 and will continue to prospectively, but are partially offset by the opening of five new, smaller loan production offices during 2013 in the Orlando, Ft. Lauderdale and Palm Beach markets (see Form 10K dated December 31, 2012, Item 2, Properties for a complete description). The fifth of these five offices opened in the fourth quarter of 2013.

For 2013, 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, decreased by \$756,000 or 24.4 percent to \$2,339,000 when compared to 2012. For 2012, marketing expenses increased by \$178,000 or 6.1 percent when compared to 2011. Our marketing expenditures reflect a tailored, focused campaign in our markets targeting the customers of competing financial institutions and promoting our brand. For 2013, direct mail activities, media costs for newspaper, television and radio advertising, sales promotions, and printing costs were all reduced, by \$398,000, \$187,000, \$98,000 and \$94,000, respectively, compared to a year ago. For 2012, direct mail activities, donations (and sponsorships), sales promotions, and market research were ramped up versus 2011, increasing \$341,000, \$176,000, \$50,000, and \$36,000, respectively. New marketing efforts initiated in 2012 to promote lending in Orlando and Palm Beach were incremental, and costs for such marketing totaled \$79,000 in 2012. Partially offsetting, media costs (newspaper, television and radio advertising) and public relations costs were \$370,000 and \$127,000 lower for 2012, compared to 2011.

Legal and professional fees continue to trend lower, decreasing by \$2,783,000 or 53.1 percent from a year ago to \$2,458,000 for 2013, and by \$896,000 or 14.6 percent for 2012 compared to 2011. Overall, legal fees in 2013 and 2012 were \$1,515,000 and \$1,165,000 lower, respectively, year over year. Each year includes a recovery of fees from prior years, \$650,000 and \$350,000 in the second and fourth quarters of 2013, respectively, and \$500,000 in the third quarter of 2012. These amounts were recovered from single creditors in each case. Professional fees for 2013 and 2012 were \$1,023,000 and \$341,000 lower year over year, respectively, but for 2012 were more than offset by higher CPA fees of \$589,000, with amounts for the Company outsourcing most internal audit activities as the primary cause, and additional CPA fees incurred for the U.S. Treasury's sale of its investment in Series A Preferred Stock, auctioned

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and concluded on April 3, 2012. For 2013, CPA fees were \$156,000 lower than in 2012, and OCC regulatory examination fees declined \$89,000, alleviated by the release from our regulatory agreement.

The FDIC assessment for the first, second, third and fourth quarters of 2013 totaled \$717,000, \$720,000, \$713,000 and \$451,000, respectively, compared to first, second, third and fourth quarter 2012's assessments of \$706,000, \$707,000, \$695,000 and \$697,000, respectively. For 2011, FDIC assessments summed to \$3,013,000. As of April 1, 2011, the FDIC's calculation of assessments changed, utilizing total assets less Tier 1 risk-based capital as a base for calculation, versus average total deposits. Applicable premium rates have been adjusted for the change in the base, with specific adjusting risk factors deemed important by the FDIC utilized in the determination of applicable premium rates. Seacoast National's assessments under the FDIC's new methodology are lower, compared to the prior methodology, and the release from the formal regulatory agreement improved our assessed rate further as evidenced by fourth quarter's lower premium. 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 \$857,000, \$604,000, \$388,000 and \$180,000 for the first, second, third and fourth quarters of 2013, respectively, and totaled \$2,029,000 for the year (declining \$2,897,000 when compared to 2012). In comparison, these costs totaled \$2,486,000, \$1,158,000, \$925,000 and \$357,000 for the first, second, third and fourth quarters of 2012, and totaled \$4,926,000 for 2012 (declining \$1,106,000 when compared to 2011). These costs moderated in 2011 and declined steadily quarter to quarter over 2012 and 2013, with OREO balances declining by 42.5 percent and 43.2 percent respectively, during 2013 compared to 2012 and 2012 compared to 2011. OREO totals \$6.9 million at December 31, 2013. Of the \$2,029,000 total for 2013, asset disposition costs summed to \$740,000 and losses on OREO and repossessed assets totaled \$1,289,000. The Company expects these costs to continue to be lower prospectively, as property values are improving.

Other noninterest expenses increased \$444,000 or 4.5 percent to \$10,255,000 for 2013 when compared to 2012, and were \$990,000 or 11.2 percent higher when comparing 2012 to 2011. 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 [for directors] (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). For 2012, more significant changes year over year from 2011 included employee placement and relocation costs (up \$262,000), director meeting fees (up \$144,000), miscellaneous lending fees, appraisal fees and credit information costs (up \$126,000, \$100,000 and \$108,000, respectively, and reflecting improved loan production in 2012), stationery and supplies expenditures (up \$103,000), and bank meeting costs (up \$94,000), but were partially offset by a reversal of accrued VISA litigation and settlement costs of \$203,000. A favorable reversal of \$184,000 during 2011 for a brokerage settlement (accrued in a prior year) contributed to the increase in other noninterest expenses year over year for 2012.

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.

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Senior management regularly reviews the overall interest rate risk position and evaluates strategies to manage the risk. The Company's fourth quarter 2013 Asset and Liability Management Committee (ALCO) model simulation indicates net interest income would increase 5.3 percent if interest rates increased 200 basis points up over the next 12 months and 3.1 percent if interest rates increased 100 basis points. This compares with the Company's fourth quarter 2012 model simulation, which indicated net interest income would increase 12.0 percent if interest rates were increased 200 basis points up over the next 12 months and 7.4 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 9.5 percent at December 31, 2013. 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

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model estimates of EVE for higher rates. Based on our fourth quarter 2013 modeling, an instantaneous 100 basis point increase in rates is estimated to increase the EVE 8.7 percent versus the EVE in a stable rate environment, while a 200 basis point increase in rates is estimated to increase the EVE 14.5 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

<i>(In thousands)</i>	Total	December 31, 2013			
		One Year or Less	Over One Year Through Three Years	Over Three Years Through Five Years	Over five Years
Deposit maturities	\$ 1,806,045	\$ 1,719,945	\$ 60,390	\$ 25,710	\$ 0
Short-term borrowings	151,310	151,310	0	0	0
Borrowed funds	50,000	0	0	50,000	0
Subordinated debt	53,610	0	0	0	53,610
Operating leases	23,197	3,304	5,209	3,352	11,332
TOTAL	\$ 2,084,162	\$ 1,874,559	\$ 65,599	\$ 79,062	\$ 64,942

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, 2013, Seacoast National had available unsecured lines of \$29 million and lines of credit under current lendable collateral value, which are

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subject to change, of \$560 million. Seacoast National had \$334 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 \$163 million in residential and commercial real estate loans available as collateral. In comparison, at December 31, 2012, the Company had available unsecured lines of \$35 million and lines of credit of \$535 million, and had \$376 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 \$161 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 \$191,624,000 on a consolidated basis at December 31, 2013 as compared to \$174,987,000 at December 31, 2012. The composition of cash and cash equivalents has changed from a year ago. Over the past twelve months, cash and due from banks increased \$2,941,000 to \$48,561,000 and interest bearing deposits increased to \$143,063,000 from \$129,367,000. 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. Our intent is to reinvest excess liquidity into our loan and securities portfolios, as market opportunities and conditions meet expectations.

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, 2013, Seacoast National can distribute dividends to the Company of approximately \$60.1 million. At December 31, 2013, the Company had cash and cash equivalents at the parent of approximately \$1.7 million. In comparison, at December 31, 2012, the Company had cash and cash equivalents at the parent of approximately \$7.0 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.

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.

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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 \$135 million at December 31, 2013, and \$119 million at December 31, 2012 (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 2013, benefit for net loss for 2012, and provision for income taxes for 2011 totaled \$4.4 million, \$0.1 million and \$2.9 million, respectively. The deferred tax valuation allowance was decreased or increased by a like amount for 2012 and 2011, and therefore there was no change in the carrying value of deferred tax assets during those years (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, 2013 totaled \$198.6 million and the ratio of shareholders' equity to period end total assets was 8.75 percent, compared with 7.62 percent at December 31, 2012, and 7.96 percent at December 31, 2011. 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, which we expect will increase net income available to common shareholders in 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 16.88 percent at December 31, 2013, lower than December 31, 2012's ratio of 18.33 percent and 18.77 percent at December 31, 2011. Reinvestment of cash and cash equivalents with a zero percent risk weight into securities and 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, 2013. With the additional \$25.0 million received in 2014 from the common stock issuance, this ratio increased to 18.73 percent. As of December 31, 2013, the Bank's leverage ratio was 9.51 percent, compared to 9.72 percent at December 31, 2012 and 9.79 percent at December 31, 2011.

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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 \$60.1 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.

Since May 19, 2009, based on discussions with the Federal Reserve and a review of adopted Federal Reserve policies related to dividends and other distributions, cash dividends on our outstanding common stock have been suspended (and continue to be suspended at this time). At December 31, 2013, the Company redeemed its Series A Preferred Stock and is no longer obligated to pay dividends, and is current on all interest payments on its trust preferred securities. The Company is no longer required to consult with the Federal Reserve or seek approval before making dividend payments.

The Company has two 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. 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 \$52.0 million of trust preferred securities as Tier 1 capital. For regulatory purposes, the trust preferred securities are added to the Company's tangible common shareholders' equity to calculate Tier 1 capital. The weighted average interest rate of our outstanding subordinated debt related to trust preferred securities was 1.74 percent during 2013, compared to 1.93 percent during 2012. The Company also formed SBCF Capital Trust IV and SBCF Capital Trust V in 2008, however both are currently inactive.

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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 \$95,011,000 or 4.4 percent to \$2,268,940,000 at December 31, 2013, after increasing \$36,554,000 or 1.7 percent to \$2,173,929,000 in 2012.

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 \$1,304,207,000 at December 31, 2013, \$78,126,000 or 6.4 percent more than at December 31, 2012, and were \$1,226,081,000 at December 31, 2012, \$18,007,000 or 1.5 percent more than at December 31, 2011.

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 two years have increased loan growth, and will continue to do so prospectively. Loan production of \$354 million and \$287 million was retained in the loan portfolio during the twelve months ended December 31, 2013 and 2012, respectively. In comparison, overall loan growth was negative prior to 2012, a result of the economic recession, including lower demand for commercial loans, and the Company's successful divestiture of specific problem loans (including residential construction and land development loans) through loan sales. No problem loan sales occurred in 2013, compared to \$9 million and \$28 million in 2012 and 2011, respectively. These sales were necessary to reduce our exposure to CRE loans and to improve the Company's overall risk profile.

As shown in the supplemental loan table below, construction and land development loans (excluding individuals) increased \$11.5 million to \$33.3 million at December 31, 2013. Primary to the increase were loans for retail trade, church and educational, and healthcare facilities, which were partially offset by a reduction in loans collateralized by land. Construction and land development loans to individuals for personal residences were lower, decreasing \$4.7 million or 12.1 percent from December 31, 2012.

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Construction and land development loans, including loans secured by commercial real estate, were comprised of the following types of loans at December 31, 2013 and 2012:

December 31 (In millions)	2013			2012		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Construction and land development						
Residential:						
Condominiums	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Town homes	0.0	1.5	1.5	0.0	0.0	0.0
Single family residences	2.0	3.0	5.0	0.0	0.0	0.0
Single family land and lots	4.9	0.0	4.9	5.6	0.0	5.6
Multifamily	3.7	0.0	3.7	4.3	0.0	4.3
	10.6	4.5	15.1	9.9	0.0	9.9
Commercial:						
Office buildings	0.0	0.0	0.0	0.0	0.0	0.0
Retail trade	7.7	1.3	9.0	0.0	0.0	0.0
Land	4.9	1.4	6.3	9.6	0.0	9.6
Industrial	0.0	0.0	0.0	0.0	0.0	0.0
Healthcare	5.4	3.8	9.2	1.8	8.9	10.7
Churches and educational facilities	3.8	0.2	4.0	0.5	2.3	2.8
Lodging	0.9	6.3	7.2	0.0	0.0	0.0
Convenience stores	0.0	0.0	0.0	0.0	0.0	0.0
Marina	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
	22.7	13.0	35.7	11.9	11.2	23.1
Total residential and commercial construction and land development	33.3	17.5	50.8	21.8	11.2	33.0
Individuals:						
Lot loans	12.9	0.0	12.9	16.7	0.0	16.7
Construction	21.3	18.0	39.3	22.2	17.7	39.9
	34.2	18.0	52.2	38.9	17.7	56.6
Total	\$ 67.5	\$ 35.5	\$ 103.0	\$ 60.7	\$ 28.9	\$ 89.6

Commercial real estate mortgages were higher by \$33.6 million or 6.9 percent, totaling \$520.4 million at December 31, 2013. The Company's ten largest commercial real estate funded and unfunded loan relationships at December 31, 2013 aggregated to \$104.1 million (versus \$115.5 million a year ago) and for the 26 commercial real estate relationships in excess of \$5 million the aggregate funded and unfunded totaled \$198.0 million (compared to 24 relationships of \$208.3 million a year ago).

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Commercial real estate mortgage loans, excluding construction and development loans, were comprised of the following loan types at December 31, 2013 and 2012:

December 31 (In millions)	2013			2012		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Office buildings	\$ 118.7	\$ 2.5	\$ 121.2	\$ 104.7	\$ 1.1	\$ 105.8
Retail trade	130.6	2.4	133.0	126.7	0.0	126.7
Industrial	81.1	0.7	81.8	72.6	0.4	73.0
Healthcare	45.5	1.0	46.5	40.7	1.0	41.7
Churches and educational facilities	25.3	0.0	25.3	28.6	0.0	28.6
Recreation	2.5	0.0	2.5	2.7	0.1	2.8
Multifamily	16.8	0.0	16.8	9.0	0.0	9.0
Mobile home parks	1.9	0.0	1.9	2.0	0.0	2.0
Lodging	17.1	0.0	17.1	18.7	0.0	18.7
Restaurant	3.7	0.0	3.7	3.5	0.0	3.5
Agriculture	7.0	0.8	7.8	6.1	1.3	7.4
Convenience stores	20.8	0.1	20.9	20.5	0.0	20.5
Marina	21.3	0.0	21.3	21.2	0.0	21.2
Other	28.1	0.1	28.2	29.8	0.0	29.8
Total	\$ 520.4	\$ 7.6	\$ 528.0	\$ 486.8	\$ 3.9	\$ 490.7

Fixed rate and adjustable rate loans secured by commercial real estate, excluding construction loans, totaled approximately \$350 million and \$170 million, respectively, at December 31, 2013, compared to \$313 million and \$174 million, respectively, at December 31, 2012.

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. For the first, second, third, and fourth quarters of 2013, closed residential mortgage loan production 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 while adjustable products were added to the portfolio. In comparison, closed residential mortgage loan production totaled \$48 million, \$66 million, \$63 million and \$73 million during the first, second, third and fourth quarters of 2012, respectively, of which \$20 million, \$26 million, \$34 million and \$39 million of fixed rate loans were sold.

Adjustable rate residential real estate mortgages were higher at December 31, 2013, by \$30.9 million or 8.6 percent, and fixed rate residential real estate mortgages were lower, by \$7.9 million or 7.9 percent, compared to a year ago. At December 31, 2013, approximately \$392 million or 66 percent of the Company's residential mortgage balances were adjustable, compared to \$361 million or 63 percent at December 31, 2012. Loans secured by residential properties having fixed rates totaled approximately \$91 million at December 31, 2013, of which 15- and 30-year mortgages totaled approximately \$22 million and \$69 million, respectively. The remaining fixed rate balances were comprised of home improvement loans, most with maturities of 10 years or less, that increased \$4.1 million or 7.1 percent since December 31, 2012. In comparison, loans secured by residential properties having fixed rates totaled approximately \$99 million at December 31, 2012, with 15- and 30-year fixed rate residential mortgages totaling approximately \$24 million and \$75 million, respectively. The Company also has a small home equity line portfolio totaling approximately \$48 million at December 31, 2013, slightly lower than the \$51 million that was outstanding at December 31, 2012.

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Reflecting the impact of improved economic conditions, commercial loans increased \$16.7 million or 27.0 percent year over year and totaled \$78.6 million at December 31, 2013, compared to \$61.9 million at December 31, 2012. 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, and indirect loans through dealers to finance automobiles) which decreased \$2.2 million or 4.7 percent year over year and totaled \$44.7 million (versus \$46.9 million a year ago). In addition, real estate construction loans to individuals secured by residential properties totaled \$21.3 million (versus \$22.2 million a year ago), and residential lot loans to individuals which totaled \$12.9 million (versus \$16.7 million a year ago).

At December 31, 2013, the Company had commitments to make loans of \$135.1 million, compared to \$118.9 million at December 31, 2012 and \$106.2 million at December 31, 2011 (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 \$324.9 million to \$64.2 million at December 31, 2013 compared with year-end 2008.

December 31	2013	2012	2011	2010	2009	2008
Performing	\$ 64,224	\$ 77,321	\$ 84,610	\$ 112,469	\$ 145,797	\$ 374,241
Performing TDR*	0	10,431	25,494	28,286	31,152	0
Nonaccrual	0	0	0	20,913	28,525	14,873
Total	\$ 64,224	\$ 87,752	\$ 110,104	\$ 161,668	\$ 205,474	\$ 389,114
Top 10 Customer Loan Relationships	\$ 104,145	\$ 115,506	\$ 128,739	\$ 151,503	\$ 173,162	\$ 228,800

* 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 27.9 percent at December 31, 2013, compared with 37.5 percent at year-end 2012, 45.8 percent at year-end 2011, 66.5 percent at year-end 2010, 85.9 percent at year-end 2009, and 162.1 percent at the end of 2008.

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.

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December 31	2013	2012	2011	2010	2009	2008
Construction and land development loans to total risk based capital	30%	28%	22%	39%	81%	206%
CRE loans to total risk based capital	172%	164%	174%	218%	274%	389%

Deposits and Borrowings

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 \$47,084,000, or 2.7 percent, to \$1,806,045,000 at December 31, 2013 compared to one year earlier, and increased \$40,220,000, or 2.3 percent, to \$1,758,961,000 at December 31, 2012 when compared to December 31, 2011. Declining single service time deposits have been more than offset by increasing low cost or no cost deposits. Since December 31, 2012, interest bearing deposits (NOW, savings and money markets deposits) increased \$45,721,000 or 4.5 percent to \$1,063,963,000, noninterest bearing demand deposits increased \$41,173,000 or 9.7 percent to \$464,006,000, and CDs decreased \$39,810,000 or 12.5 percent to \$278,076,000.

Securities sold under repurchase agreements increased over the past twelve months by \$14,507,000 or 10.6 percent to \$151,310,000 at December 31, 2013. Repurchase agreements are offered by Seacoast National to select customers who wish to sweep excess balances on a daily basis for investment purposes. Funds from local government entities comprise a significant amount of the outstanding balance, with safety a major concern for these customers.

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.

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At December 31, 2013, the Company had no trading securities or securities held for investment, and \$641,611,000 in securities available for sale (representing 100 percent of the total portfolio). Securities held for investment totaled only 2.1 percent of total securities at year-end 2012, and were transferred to available for sale during the first quarter of 2013. Overall, the securities had appreciation with a favorable impact to other comprehensive income when transferred. The Company's total securities portfolio decreased \$15.3 million or 2.3 percent from December 31, 2012, primarily as a result of improved loan growth. During 2012, the securities portfolio decreased \$11.5 million or 1.7 percent from December 31, 2011, as a result of securities sold during the first and second quarters of 2012 and principal repayments.

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, 2013 was 4.0 years, compared to 2.6 years at December 31, 2012. The increase in duration resulted from a steeper yield curve as interest rates increased approximately 80 to 100 basis points for 5 and 10 year maturities in 2013. The Company's investments do not extend beyond an average duration of 5.0 years if interest rates increase in the future. Management believes the effective average duration of the portfolio will decline to 3.0 years over 2014 if the yield curve remains unchanged.

Cash and due from banks and interest bearing deposits (aggregated) totaled \$191,624,000 at December 31, 2013, compared to \$174,987,000 at December 31, 2012. 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, 2013, the higher balance for cash and cash equivalents reflects additional deposits and securities sold under agreements to repurchase garnered at year-end.

At December 31, 2013, available for sale securities had gross losses of \$20,003,000 and gross gains of \$3,156,000, compared to gross losses of \$1,902,000 and gross gains of \$7,012,000 at December 31, 2012. All of the securities with unrealized losses are reviewed for other-than-temporary impairment at least quarterly. As a result of these reviews during the first, second, third and fourth quarters of 2013 and all four quarters of 2012, 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

Net income available to common shareholders (after preferred dividends and accretion of preferred stock discount) for the fourth quarter of 2013 totaled \$588,000 or \$0.03 per average common diluted share, and compared to third, second and first quarter 2013's net income of \$44,204,000 or \$2.34 per average common diluted share, \$2,017,000 or \$0.11 per average common diluted share, \$1,107,000 or \$0.06 per average common diluted share, respectively. Third quarter 2013's net income included the reversal of the valuation allowance for net deferred tax assets which resulted in a tax benefit of \$41.6 million recorded for the quarter. The net income available to common shareholders in the fourth quarter of 2013 compared to a loss in 2012's fourth quarter of \$697,000 or \$(0.04) per average common diluted share. The performance for the fourth quarter of 2012 included organizational and branch consolidation costs of \$491,000 and a loss on sale of a commercial loan of \$1,238,000. The loan sale was settled shortly after year-end in 2012.

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Our net interest margin of 3.08 percent decreased 17 basis points during the fourth quarter of 2013 from the third quarter of 2013, and was 14 basis points lower when compared to fourth quarter 2012's result. Third quarter 2013's result included \$505,000 of interest recoveries on nonaccrual loans that improved net interest margin by 10 basis points. The Company has continued to benefit 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, but even with an improving earning assets mix declining yields have been more than offsetting. The average cost of interest bearing liabilities was 1 basis point lower for the fourth quarter 2013 compared to the third quarter of 2013, and 7 basis points lower compared to the fourth quarter of 2012. The yield on earning assets declined by 19 basis points during the fourth quarter of 2013, compared to the third quarter of 2013, and was 20 basis points lower than for the fourth quarter of 2012. Loan demand was better during 2013 compared to 2012, but loan production was weaker during the fourth quarter of 2013, year over year primarily as a result of lower residential loan production. We expect loan growth will continue in 2014, but we anticipate higher interest rates are likely to dampen production. Meaningful reductions in rates paid for deposits are not predicted for 2014, although deposit growth is expected to continue and be a good source of funds for expected loan production.

Noninterest income (excluding the change in fair value on loan available for sale and securities gains) totaled \$6.0 million for the fourth quarter of 2013, compared to \$6.1 million for the third quarter of 2013, \$6.3 million for the second quarter of 2013, \$5.9 million for the first quarter of 2013, and \$5.6 million for the fourth quarter of 2012. Although home prices have stabilized, higher interest rates reduced transaction volumes during the fourth quarter 2013, resulting in fee income from residential real estate mortgage production decreasing by \$302,000 from fourth quarter a year ago, and \$347,000 from third quarter 2013's result. The decline in demand for residential loans is expected to remain lower in 2014, and we have reduced operational costs related to mortgage banking for the first quarter of 2014. Service charges on deposit accounts were \$101,000 higher when compared to fourth quarter 2012 and interchange income increased \$237,000 over the same period. Service 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. Revenue from wealth management services was \$270,000 higher when compared to fourth quarter 2012, but marine finance fees were \$43,000 lower over the same period.

Noninterest expenses increased by \$0.1 million versus third quarter 2013's result, and were \$1.1 million lower when compared to the fourth quarter of 2012. For the fourth quarter 2013, overhead was lower for employee benefits (\$292,000, better health claims experience), outsourced data processing (\$318,000, impact of renegotiated contract with our core data processor), occupancy and furniture and equipment (on an aggregate basis, by \$467,000 and reflecting the closing and consolidation of offices the third and fourth quarters of 2012), legal and professional fees (\$625,000, fewer expenditures for problem assets in general, a specific recovery of a legal fee for a single creditor of \$350,000, and lower OCC examination fees), FDIC assessments (\$246,000, reflecting a lower assessment rate, for the fourth quarter and prospectively), and asset dispositions expense and losses on OREO and repossessed assets (on an aggregate basis, \$177,000 and reflecting lower foreclosure activity and OREO on hand to be managed and sold). Increases to overhead for the fourth quarter of 2013 were primarily for salary additions (\$735,000, principally commercial relationship managers added to our Orlando, Ft. Lauderdale and Palm Beach Accelerate locations) and other expenses (up \$176,000, including a one-time miscellaneous charge-off of \$190,000).

A provision for loan losses of \$0.5 million was recorded in the fourth quarter of 2013. Provisions for loans losses have been declining as credit quality has improved and were significantly lower during 2013, compared to 2012. Net charge-offs for the fourth quarter of 2013 were lower by \$1.3 million compared to the fourth quarter of 2012. While the allowance for loan losses to loans outstanding ratio at December 31, 2013 was lower, 1.54 percent compared to 1.80 percent a year earlier, the coverage ratio (the allowance for loan losses to nonaccrual loans) was 72.5 percent at December 31, 2013 compared to 54.0 percent at December 31, 2012, reflecting the improvement in credit quality.

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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, 2013 based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, management has concluded as of December 31, 2013, the Company's internal control over financial reporting was not effective due to the material weakness described in Item 9A of this annual report. Management is actively addressing this issue and has developed a new control procedure for this purpose.

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.

See Item 9A - Controls and Procedures in this annual report for a more detailed description of the material weaknesses in the Company's internal controls identified by management and the remediation measures being taken by the Company to address this weakness.

Table of Contents**Table 1 - Condensed Income Statement***

	2013	2012	2011
	(Tax equivalent basis)		
Net interest income	2.99%	3.07%	3.25%
Provision for loan losses	0.15	0.51	0.10
Noninterest income			
Securities gains, net	0.02	0.36	0.06
Change in fair value of loan held for sale	0.00	(0.06)	0.00
Other	1.11	1.01	0.89
Noninterest expense	3.43	3.89	3.77
Income (loss) before income taxes	0.54	(0.02)	0.33
Provision (benefit) for income taxes including tax equivalent adjustment	(1.84)	0.01	0.01
Net income (loss)	2.38%	(0.03)%	0.32%

* As a Percent of Average Assets

Table of Contents**Table 2 - Changes in Average Earning Assets**

	Increase/(Decrease) 2013 vs 2012		Increase/(Decrease) 2012 vs 2011	
	(Dollars in thousands)			
Securities:				
Taxable	\$ 63,886	10.9%	\$ 12,068	2.1%
Nontaxable	(371)	(18.7)	(1,373)	(41.0)
Federal funds sold and other investments	(47,192)	(23.6)	36,589	22.4
Loans, net	44,905	3.7	11,321	0.9
TOTAL	\$ 61,228	3.0	\$ 58,605	3.0

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

	2013 vs 2012			2012 vs 2011		
	Due to Change in:		Total	Due to Change in:		Total
Volume	Rate	Volume		Rate	Total	
(Dollars in thousands)						
Amount of increase (decrease)						
EARNING ASSETS						
Securities						
Taxable	\$ 1,390	\$ (2,498)	\$ (1,108)	\$ 327	\$ (3,863)	\$ (3,536)
Nontaxable	(23)	6	(17)	(86)	(6)	(92)
	1,367	(2,492)	(1,125)	241	(3,869)	(3,628)
Federal funds sold and other investments	(247)	162	(85)	175	(19)	156
Loans, net	2,076	(3,342)	(1,266)	560	(4,632)	(4,072)
TOTAL EARNING ASSETS	3,196	(5,672)	(2,476)	976	(8,520)	(7,544)
INTEREST BEARING LIABILITIES						
NOW	42	(273)	(231)	61	(370)	(309)
Savings deposits	23	(77)	(54)	30	(12)	18
Money market accounts	(3)	(452)	(455)	69	(627)	(558)
Time deposits	(744)	(1,278)	(2,022)	(1,739)	(2,907)	(4,646)
	(682)	(2,080)	(2,762)	(1,579)	(3,916)	(5,495)
Federal funds purchased and other short term borrowings	29	(83)	(54)	87	(23)	64
Other borrowings	0	(105)	(105)	0	(44)	(44)
TOTAL INTEREST BEARING LIABILITIES	(653)	(2,268)	(2,921)	(1,492)	(3,983)	(5,475)
NET INTEREST INCOME	\$ 3,849	\$ (3,404)	\$ 445	\$ 2,468	\$ (4,537)	\$ (2,069)

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

Table of Contents**Table 4 - Changes in Average Interest Bearing Liabilities**

	Increase/(Decrease) 2013 vs 2012		Increase/(Decrease) 2012 vs 2011	
	(Dollars in thousands)			
NOW	\$ 35,603	8.3%	\$ 32,033	8.0%
Savings deposits	29,002	19.0	28,239	22.6
Money market accounts	(2,591)	(0.8)	22,064	6.9
Time deposits	(88,101)	(22.9)	(128,263)	(25.0)
Federal funds purchased and other short term borrowings	13,630	9.6	35,097	33.0
Other borrowings	0	0.0	0	0.0
TOTAL	\$ (12,457)	(0.8)	\$ (10,830)	(0.7)

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

	2013			2012			2011		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
(Dollars in thousands)									
EARNING ASSETS									
Securities									
Taxable	\$ 651,368	\$ 12,856	1.97%	\$ 587,482	\$ 13,964	2.38%	\$ 575,414	\$ 17,500	3.04%
Nontaxable	1,608	105	6.53	1,979	122	6.16	3,352	214	6.38
	652,976	12,961	1.98	589,461	14,086	2.39	578,766	17,714	3.06
Federal funds sold and other investments	152,816	868	0.57	200,008	953	0.48	163,419	797	0.49
Loans, net (2)	1,272,447	57,163	4.49	1,227,542	58,429	4.76	1,216,221	62,501	5.14
TOTAL EARNING ASSETS	2,078,239	70,992	3.42	2,017,011	73,468	3.64	1,958,406	81,012	4.14
Allowance for loan losses	(21,133)			(24,352)			(32,228)		
Cash and due from banks	36,423			34,215			30,502		
Bank premises and equipment	34,806			34,502			35,146		
Other assets	58,422			55,699			71,858		
	\$ 2,186,757			\$ 2,117,075			\$ 2,063,684		
INTEREST BEARING LIABILITIES									
NOW	\$ 466,680	401	0.09%	\$ 431,077	632	0.15%	\$ 399,044	941	0.24%
Savings deposits	182,039	101	0.06	153,037	155	0.10	124,798	137	0.11
Money market accounts	337,395	280	0.08	339,986	735	0.22	317,922	1,293	0.41
Time deposits	296,402	1,947	0.66	384,503	3,969	1.03	512,766	8,615	1.68
Federal funds purchased and other short term borrowings	155,222	286	0.18	141,592	340	0.24	106,495	276	0.26
Other borrowings	103,610	2,542	2.45	103,610	2,647	2.56	103,610	2,691	2.60
TOTAL INTEREST BEARING LIABILITIES	1,541,348	5,557	0.36	1,553,805	8,478	0.55	1,564,635	13,953	0.89
Demand deposits	451,776			388,685			323,044		
Other liabilities	10,329			9,204			10,709		
	2,003,453			1,951,694			1,898,388		
Shareholders equity	183,304			165,381			165,296		
	\$ 2,186,757			\$ 2,117,075			\$ 2,063,684		
Interest expense as % of earning assets			0.27%			0.42%			0.71%
Net interest income/yield on earning assets		\$ 65,435	3.15%		\$ 64,990	3.22%		\$ 67,059	3.42%

(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 of Contents**Table 6 - Noninterest Income**

	Year Ended			% Change	
	2013	2012	2011	13/12	12/11
	(Dollars in thousands)				
Service charges on deposit accounts	\$ 6,711	\$ 6,245	\$ 6,262	7.5%	(0.3)%
Trust fees	2,711	2,279	2,111	19.0	8.0
Mortgage banking fees	4,173	3,710	2,140	12.5	73.4
Brokerage commissions and fees	1,631	1,071	1,122	52.3	(4.5)
Marine finance fees	1,189	1,111	1,209	7.0	(8.1)
Interchange income	5,404	4,501	3,808	20.1	18.2
Other deposit based EFT fees	342	336	318	1.8	5.7
Other	2,158	2,191	1,375	(1.5)	59.3
	24,319	21,444	18,345	13.4	16.9
Loss on sale of commercial loan	0	(1,238)	0	n/m	n/m
Securities gains, net	419	7,619	1,220	(94.5)	524.5
TOTAL	\$ 24,738	\$ 27,825	\$ 19,565	(11.1)	42.2

n/m = not meaningful

Table of Contents**Table 7 - NonInterest Expense**

	Year Ended			% Change	
	2013	2012	2011	13/12	12/11
	(Dollars in thousands)				
Salaries and wages	\$ 31,006	\$ 29,935	\$ 27,288	3.6%	9.7%
Employee benefits	7,327	7,710	5,875	(5.0)	31.2
Outsourced data processing costs	6,372	7,382	6,583	(13.7)	12.1
Telephone / data lines	1,253	1,178	1,179	6.4	(0.1)
Occupancy	7,178	8,146	7,627	(11.9)	6.8
Furniture and equipment	2,334	2,319	2,291	0.6	1.2
Marketing	2,339	3,095	2,917	(24.4)	6.1
Legal and professional fees	2,458	5,241	6,137	(53.1)	(14.6)
FDIC assessments	2,601	2,805	3,013	(7.3)	(6.9)
Amortization of intangibles	783	788	847	(0.6)	(7.0)
Asset dispositions expense	740	1,459	2,281	(49.3)	(36.0)
Net loss on other real estate owned and repossessed assets	1,289	3,467	3,751	(62.8)	(7.6)
Other	9,472	9,023	7,974	5.0	13.2
TOTAL	\$ 75,152	\$ 82,548	\$ 77,763	(9.0)	6.2

n/m = not meaningful

Table of Contents**Table 8 - Capital Resources**

	2013	December 31 2012	2011
(Dollars in thousands)			
TIER 1 CAPITAL			
Common stock (2)	\$ 2,364	\$ 1,897	\$ 1,894
Preferred stock	0	48,746	47,497
Warrant for purchase of common stock	0	0	3,123
Additional paid in capital (2)	277,290	230,438	226,500
Accumulated (deficit)	(70,695)		