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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the transition period from _______________ to __________________.

Commission File No. 0-13660

Seacoast Banking Corporation of Florida

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

Yes x 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 x No ¨

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

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

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

Yes ¨ No x

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

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SEACOAST BANKING CORPORATION OF FLORIDA

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

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

Federal Home Loan Bank (FHLB) borrowings	305,000	50,000
Subordinated debt	70,171	69,961
Other liabilities	25,058	44,974
	4,078,415	3,181,327
SHAREHOLDERS' EQUITY		
Common stock, par value $0.10 per share, authorized 60,000,000 shares, issued 38,068,701 and outstanding 38,025,020 shares at September 30, 2016 and issued 34,356,892 and outstanding 34,351,409 shares at December 31, 2015	3,799	3,435
Other shareholders' equity	431,720	350,018
TOTAL SHAREHOLDERS' EQUITY	435,519	353,453
	$4,513,934	$3,534,780

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

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

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

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

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

See notes to condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

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

See notes to condensed consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

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

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Seacoast Banking Corporation of Florida and Subsidiaries

NOTE A — BASIS OF PRESENTATION

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

Use of Estimates

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

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

Early Adoption of Accounting Standard Update

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

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

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

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

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

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

In March 2016, under ASU 2016-04, "Liabilities – Extinguishments of Liabilities, Breakage for Certain Prepaid Stored-Value Products" the FASB intends for entities to recognize liabilities for the sale of prepaid stored value products redeemable for goods, services, or cash. This guidance aligns recognition of breakage for these liabilities in a way consistent with how gift card breakage will be recognized. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements. Effective date for implementation is for annual periods after December 15, 2018.

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

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

NOTE C — BASIC AND DILUTED EARNINGS PER COMMON SHARE

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

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

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

NOTE D — SECURITIES

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

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	September 30, 2016			
(Dollars in thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
U.S. Treasury securities and obligations of U.S. Government Sponsored Entities	$12,485	$ 333	$ 0	$12,818
Mortgage-backed securities of U.S. Government Sponsored Entities	165,802	3,268	(96)	168,974
Collateralized mortgage obligations of U.S. Government Sponsored Entities	251,419	2,043	(979)	252,483
Private mortgage backed securities	32,720	0	(688)	32,032
Private collateralized mortgage obligations	73,371	617	(860)	73,128
Collateralized loan obligations	124,663	437	(676)	124,424
Obligations of state and political subdivisions	61,798	2,688	(52)	64,434
Corporate and other debt securities	75,552	1,125	(39)	76,638
Commercial mortgage backed securities	60,624	1,301	(243)	61,682
	$858,434	$ 11,812	$ (3,633)	$866,613
SECURITIES HELD FOR INVESTMENT				
Mortgage-backed securities of U.S. Government Sponsored Entities	$183,507	$ 4,306	$ 0	$187,813
Collateralized mortgage obligations of U.S. Government Sponsored Entities	160,377	1,618	(405)	161,590
Collateralized loan obligations	41,494	183	(465)	41,212
Private collateralized mortgage obligations	6,760	1	(112)	6,649
	$392,138	$ 6,108	$ (982)	$397,264

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

	$798,575	$ 3,027	$ (10,836)	$790,766
SECURITIES HELD FOR INVESTMENT				
Mortgage-backed securities of				
U.S. Government Sponsored Entities	$64,993	$ 574	$ (16)	$65,551
Collateralized mortgage obligations of				
U.S. Government Sponsored Entities	89,265	581	(406)	89,440
Collateralized loan obligations	41,300	0	(1,360)	39,940
Private collateralized mortgage obligations	7,967	0	(85)	7,882
	$203,525	$ 1,155	$ (1,867)	$202,813

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

In 2014, approximately $158.8 million of investment securities available for sale were transferred into held for investment. The unrealized holding losses at the date of transfer totaled $3.1 million. For the securities transferred into the held for investment category from available for sale, unrealized holding losses at the date of the transfer will continue to be reported in other comprehensive income, and will be amortized over the remaining life of these securities as an adjustment of yield in a manner consistent with the amortization of a discount. The amortization of unrealized holding losses reported in equity will offset the effect on interest income of the amortization of the discount. At September 30, 2016, the remaining unrealized holding losses totaled $1.9 million.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company also holds 11,330 shares of Visa Class B stock, which following resolution of Visa litigation will be converted to Visa Class A shares (the conversion rate was 1.6483 shares of Class A stock for each share of Class B stock) for a total of 18,675 shares of Visa Class A stock with a value of $1.5 million. Our ownership is related to prior ownership in Visa's network, while Visa operated as a cooperative. This ownership is recorded on our financial records at a zero basis.

NOTE E — LOANS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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September 30, 2016

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

December 31, 2015

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

NOTE F — IMPAIRED LOANS AND ALLOWANCE FOR LOAN LOSSES

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

The Company’s TDR concessions granted generally do not include forgiveness of principal balances. Loan modifications are not reported in calendar years after modification if the loans were modified at an interest rate equal to the yields of new loan originations with comparable risk and the loans are performing based on the terms of the restructuring agreements. When a loan is modified as a TDR, there is not a direct, material impact on the loans within the consolidated balance sheet, as principal balances are generally not forgiven. Most loans prior to modification were classified as an impaired loan and the allowance for loan losses is determined in accordance with Company policy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Allowance for Loan Losses for the Three Months Ended September 30, 2016					
(Dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-Offs	Recoveries	Net Recoveries	Ending Balance
Construction & land development	$1,160	$ 48	$ 0	$ 25	$ 25	$1,233
Commercial real estate	7,192	1,450	(78)	169	91	8,733
Residential real estate	8,299	(662)	0	272	272	7,909
Commercial and financial	2,591	(550)	(283)	1,278	995	3,036
Consumer	1,483	264	(18)	44	26	1,773
	$20,725	$ 550	$ (379)	$ 1,788	$ 1,409	$22,684

	Allowance for Loan Losses for the Nine Months Ended September 30, 2016					
(Dollars in thousands)	Beginning Balance	Provision for Loan Losses	Charge-Offs	Recoveries	Net (Charge-Offs) Recoveries	Ending Balance
Construction & land development	$1,151	$ (132)	$ 0	$ 214	$ 214	$1,233

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

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

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

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

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

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

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

	At December 31, 2015					
	Individually Evaluated for Impairment		Collectively Evaluated for Impairment		Total	
(Dollars in thousands)	Carrying Value	Associated Allowance	Carrying Value	Associated Allowance	Carrying Value	Associated Allowance
Construction & land development	$942	$ 84	$107,731	$ 1,067	$108,673	$ 1,151
Commercial real estate	9,450	429	989,938	6,327	999,388	6,756
Residential real estate	21,703	1,964	701,160	6,093	722,863	8,057
Commercial and financial	17	0	227,417	2,042	227,434	2,042
Consumer	615	40	85,248	1,082	85,863	1,122
	$32,727	$ 2,517	$2,111,494	$ 16,611	$2,144,221	$ 19,128

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

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

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

NOTE G — SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

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

NOTE H – NONINTEREST INCOME AND EXPENSE

Details of noninterest income and expense follow:

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

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

NOTE I — EQUITY CAPITAL

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

NOTE J — CONTINGENCIES

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

NOTE K — FAIR VALUE

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

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

(1) *See Note D for further detail of fair value of individual investment categories.*
(2) *Recurring fair value basis determined using observable market data.*
(3) *See Note F. Nonrecurring fair value adjustments to loans identified as impaired reflect full or partial write-downs that are based on the loan's observable market price or current appraised value of the collateral in accordance with ASC 310.*
(4) *Fair value is measured on a nonrecurring basis in accordance with ASC 360.*

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

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

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

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

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

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

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

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

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

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

Financial Liabilities				
Deposit liabilities	3,510,493	0	0	3,512,632
Subordinated debt	70,171	0	52,785	0
At December 31, 2015:				
Financial Assets				
Securities held to maturity (1)	$203,525	$ 0	$ 202,813	$ 0
Loans, net	2,129,691	0	0	2,147,024
Financial Liabilities				
Deposit liabilities	2,844,387	0	0	2,843,800
FHLB advances, maturing in 2017 (2)	50,000	0	51,788	0
Subordinated debt	69,961	0	52,785	0

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

(2) *Redemption in April 2016 and no longer outstanding*

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

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

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

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

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

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

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

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

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

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

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

NOTE L — BUSINESS COMBINATIONS

Acquisition of Grand Bankshares, Inc.

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

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

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

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

Acquisition of Floridian Financial Group, Inc.

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

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

This transaction closed on March 11, 2016.

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

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

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

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

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

For the loans acquired we first segregated all acquired loans with specifically identified credit deficiency factor(s). The factors we considered to identify loans as Purchase Credit Impaired (“PCI”) loans were all acquired loans that were nonaccrual, 60 days or more past due, designated as Trouble Debt Restructured (“TDR”), graded “special mention” or “substandard.” These loans were then evaluated to determine estimated fair values as of the acquisition date. As required by generally accepted accounting principles, we are accounting for these loans pursuant to ASC Topic 310-30. The table below summarizes the total contractually required principal and interest cash payments, management's estimate of expected total cash payments and fair value of the loans as of March 11, 2016 for purchased credit impaired loans. Contractually required principal and interest payments have been adjusted for estimated prepayments.

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

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

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

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

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

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

Acquisition of BMO Harris Central Florida Offices, Deposits and Loans

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

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

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

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

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

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

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

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

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

NOTE M — SUBSEQUENT EVENT

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

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

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

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion and analysis is to aid in understanding significant changes in the financial condition of Seacoast Banking Corporation of Florida and its subsidiaries (the "Company") and their results of operations. Nearly all of the Company's operations are contained in its banking subsidiary, Seacoast Bank ("Seacoast Bank" or the "Bank"). Such discussion and analysis should be read in conjunction with the Company's Condensed Consolidated Financial Statements and the related notes included in this report. For purposes of the following discussion, the words the "Company," "we," "us," and "our" refer to the combined entities of Seacoast Banking Corporation of Florida and its direct and indirect wholly owned subsidiaries.

THIRD QUARTER 2016

Strategic Overview

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

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

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

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

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

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

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

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

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

Financial Condition

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

Loan Portfolio

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

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

September 30, 2016	Portfolio Loans	PCI Loans	PUL's	Total
	(Dollars in thousands)			
Construction and land development	$129,239	$114	$24,548	$153,901
Commercial real estate	947,612	11,281	334,619	1,293,512
Residential real estate	772,579	685	60,149	833,413
Commercial and financial	278,065	977	63,459	