

SEACOAST BANKING CORP OF FLORIDA
Form 10-K
March 10, 2009

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

**Form 10-K
ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

- o** ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008
- o** TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 0-13660

SEACOAST BANKING CORPORATION OF FLORIDA
(Exact Name of Registrant as Specified in Its Charter)

Florida
*(State or Other Jurisdiction of
Incorporation or Organization)*

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

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

34994
(Zip Code)

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

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

Title of Each Class

Name of Each Exchange on Which Registered

**Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Par Value \$.10
*(Title of Class)***

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule-405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). YES NO

The aggregate market value of Seacoast Banking Corporation of Florida Common Stock, par value \$0.10 per share, held by non-affiliates, computed by reference to the price at which the stock was last sold on June 30, 2008, as reported on the Nasdaq Global Select Market, was \$149,140,317.

The number of shares outstanding of Seacoast Banking Corporation of Florida common stock, par value \$0.10 per share, as of February 27, 2009, was 19,171,779.

DOCUMENTS INCORPORATED BY REFERENCE

1. Certain portions of the registrant's 2009 Proxy Statement for the Annual Meeting of Shareholders to be held May 14, 2009 (the 2009 Proxy Statement) are incorporated by reference into Part III, Items 10 through 14 of this report. Other than those portions of the 2009 Proxy Statement specifically incorporated by reference herein pursuant to Items 10 through 14, no other portions of the 2009 Proxy Statement shall be deemed so incorporated.

2. Certain portions of the registrant's 2008 Annual Report to Shareholders for the fiscal year ended December 31, 2008 (the 2008 Annual Report) are incorporated by reference in Part II, Items 6 through 8 of this report. Other than those portions of the 2008 Annual Report specifically incorporated by reference herein pursuant to Items 6 through 8, no other portions of the 2008 Annual Report shall be deemed so incorporated.

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Certain statistical data required by the Securities and Exchange Commission are included on pages 10-56 of Exhibit 13.

**SPECIAL CAUTIONARY NOTICE
REGARDING FORWARD-LOOKING STATEMENTS**

Certain of the statements made herein under the captions Management's Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and elsewhere, including information incorporated herein by reference to other documents, are forward-looking statements within the meaning and protections of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act).

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

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

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

governmental monetary and fiscal policies;

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

changes in accounting policies, rules and practices;

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

credit risks of borrowers;

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

changes in the prices, values and sales volumes of residential and commercial real estate;

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

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

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

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

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

other factors and risks described under **Risk Factors** herein and in any of our subsequent reports that we make with the Securities and Exchange Commission (the **Commission** or **SEC**) under the Exchange Act.

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

Part I

Item 1. Business

General

We are a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and our principal subsidiary is Seacoast National Bank ("Seacoast National"). Seacoast National commenced its operations in 1933, and operated prior to 2006 as First National Bank & Trust Company of the Treasure Coast.

We and our subsidiaries offer a full array of deposit accounts and retail banking services, engage in consumer and commercial lending and provide a wide variety of trust and asset management services, as well as securities and annuity products. Seacoast National had 42 banking offices in 14 counties in Florida at year-end 2008.

We have 24 branches in the Treasure Coast, including the counties of Martin, St. Lucie and Indian River on Florida's southeastern coast. In April 2005, we acquired a bank with three offices in Orlando, Florida. In April 2006, we acquired a bank with nine offices in seven counties, including DeSoto, Glades, Hardee, Hendry, Highlands, Okeechobee, and St. Lucie Counties. De novo banking offices were opened in Palm Beach County in May 2006, Brevard County in February 2007 and April 2008, Broward County in October 2007, and St. Lucie County in March 2008. Seacoast National closed its Port St. Lucie Wal-Mart location in St. Lucie County in December 2007 and its operations were relocated to a nearby full-service branch, its Ft. Pierce Wal-Mart location in St. Lucie County in February 2008, and its Mariner Square and Juno Beach locations in Martin and Palm Beach County, respectively, in March 2008, and their operations moved to newer branches. Our Ft. Pierce and Rivergate locations in St. Lucie County and its Wedgewood location in Martin County were relocated to newly constructed buildings in close proximity to their original sites in June 2008, October 2008 and January 2009, respectively. We operate banking offices in the following locations:

four in Stuart,

two in Palm City,

two in Jensen Beach,

one on Hutchinson Island,

one in Hobe Sound,

six in Vero Beach,

two in Sebastian,

five in Port St. Lucie,

one in Ft. Pierce,

four in northern Palm Beach County,

three in Orlando,

two in Okeechobee,

one in Arcadia,

one in Moore Haven,

one in Wauchula,

one in Clewiston,

one in Labelle,

one in Lake Placid,

two in Viera; and

one in Ft. Lauderdale

Loan production offices for our Seacoast Marine Finance Division are located in Ft. Lauderdale and Melbourne, Florida and in Alameda and Newport Beach, California.

Seacoast National opened five new banking offices in 2008, and five existing banking locations in Martin, St. Lucie and Palm Beach County were relocated to these new banking offices.

Most of our banking offices have one or more automated teller machine (ATMs) that provide customers with 24-hour access to their deposit accounts. We are a member of the Star System, the largest electronic funds transfer organization in the United States, which permits banking customers access to their accounts at 2.2 million participating ATM and retail locations throughout the United States.

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

In addition, customers may access information via Seacoast National s Customer Service Center (CSC). From 7 A.M. to 7 P.M., Monday through Friday, and on Saturdays from 9 A.M. to 4 P.M., our CSC staff is available to open accounts, take applications for certain types of loans, resolve account issues and offer information on other bank products and services to existing and potential customers.

We also offer Internet banking. Our Internet service allows customers to access transactional information on their deposit accounts, review loan and deposit balances, transfer funds between linked accounts and make loan payments from a deposit account, 24 hours a day, seven days a week.

We have operated an office of Seacoast Marine Finance Division, a division of Seacoast National, in Ft. Lauderdale, Florida since February 2000. Seacoast Marine is staffed with experienced marine lending professionals with a marketing emphasis on marine loans of \$200,000 and greater, with the majority of loan production sold to correspondent banks on a non-recourse basis. In November 2002, the Seacoast Marine Finance Division added offices and personnel in California to serve the western markets.

We have six indirect, wholly-owned subsidiaries:

FNB Brokerage Services, Inc. (FNB Brokerage), which provides brokerage and annuity services;

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

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

TCoast Holdings, LLC, which was formed to own and operate certain properties acquired through foreclosure;

BR West, LLC, which was formed in 2008 to hold foreclosed real estate, but which was inactive at year end 2008.

FNB Property Holdings, Inc., a Delaware holding company, whose primary asset is an investment in FNB RE Services, Inc.; and

FNB RE Services, Inc., a real estate investment trust that holds mortgage loans originated by Seacoast National.

We directly own all the common equity in five statutory trusts:

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

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

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

SBCF Statutory Trusts IV and V, formed on May 16, 2008 for the purpose of issuing additional preferred securities in the future. These have been inactive since their formation.

In addition, Big O RV, Inc. was also formed to own and operate certain properties acquired through foreclosure and was reactivated during 2008. It owned one asset that it sold in the Fourth Quarter of 2008, and it was dissolved at the end of 2008.

With the exception of FNB Property Holdings, Inc. and FNB RE Services, Inc., the operations of each of these direct and indirect subsidiaries contribute less than 10% of our consolidated assets and revenues.

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

As of December 31, 2008, we had total consolidated assets of approximately \$2,314 million, total deposits of approximately \$1,810 million, total consolidated liabilities, including deposits, of approximately \$2,098 million and consolidated shareholders' equity of approximately \$216 million. Our operations are discussed in more detail under Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations incorporated by reference from our 2008 Annual Report.

Our principal offices are located at 815 Colorado Avenue, Stuart, Florida 34994, and the telephone number at that address is (772) 287-4000. We and our subsidiary Seacoast National maintain Internet websites at www.seacoastbanking.com and www.seacoastnational.com, respectively. We are not incorporating the information on our or Seacoast National's website into this report, and none of these websites nor the information appearing on these websites is included or incorporated in, or is a part of, this report. We file annual, quarterly and current reports, proxy statements, and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for more information on the operation of the public reference rooms. Our SEC filings are also available to the public free of charge from the SEC's web site at www.sec.gov.

In addition, we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC.

Employees

As of December 31, 2008, we and our subsidiaries employed 446 full-time equivalent employees. We consider our employee relations to be good, and we have no collective bargaining agreements with any employees.

Expansion of Business

We have expanded our products and services to meet the changing needs of the various segments of our market, and we presently expect to continue this strategy. Prior to 1991, we had expanded geographically primarily through the addition of branches, including the acquisition of a branch in St. Lucie County. We also from time to time have acquired banks, bank branches and deposits, and have opened new branches and loan production offices.

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

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

Florida law permits statewide branching, and Seacoast National has expanded, and anticipates future expansion, by opening additional bank offices and facilities, as well as by acquisition of other financial institutions and branches. Since 2002, we have opened and acquired 17 net new offices in 14 Counties of Florida. The Seacoast Marine Finance Division operates loan production offices, or LPOs , in Ft. Lauderdale, Florida, Newport Beach and Alameda, California, and Melbourne, Florida. See Item 2. Properties .

We regularly evaluate possible mergers, acquisitions and other expansion opportunities.

Seasonality: Cycles

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

Deposits can increase due to hurricanes as insurers disburse insurance proceeds and hurricane-related damage is repaired. No major hurricanes occurred in 2006, 2007, or 2008 and deposits were more normal than 2004 and 2005, when major hurricanes hit our coastal areas.

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

Competition

We and our subsidiaries operate in the highly competitive markets of Martin, St. Lucie, Indian River, Brevard, Palm Beach and Broward Counties, in southeastern Florida and in the Orlando metropolitan statistical area. We also operate in six competitive counties in central Florida near Lake Okeechobee. Seacoast National not only competes with other banks in its markets, but also competes with various other types of financial institutions for deposits, commercial, fiduciary and investment services and various types of loans and other financial services. Seacoast National also competes for interest-bearing funds with a number of other financial intermediaries and investment alternatives, including mutual funds, brokerage and insurance firms, governmental and corporate bonds, and other securities.

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

other business decisions quickly and locally.

Supervision and Regulation

Bank holding companies and banks are extensively regulated under federal and state law. This discussion is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below and is not intended to be an exhaustive description of the statutes or regulations applicable to us and our bank subsidiary's business. Supervision, regulation, and examination of us and Seacoast National and our respective subsidiaries by the bank regulatory agencies are intended primarily for the protection of bank depositors rather than holders of our capital stock. Any change in applicable law or regulation may have a material effect on our business.

We are required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as new rules and regulations adopted by the SEC, the Public Company Accounting Oversight Board and Nasdaq. In particular, we are required to include management and independent auditor reports on internal controls as part of our annual report on Form 10-K in order to comply with Section 404 of the Sarbanes-Oxley Act. We have evaluated our controls, including compliance with the SEC rules on internal controls, and have and expect to continue to spend significant amounts of time and money on compliance with these rules. Our failure to comply with these internal control rules may materially adversely affect our reputation, ability to obtain the necessary certifications to financial statements, and the values of our securities. The assessments of our financial reporting controls as of December 31, 2008 are included elsewhere in this report with no material weaknesses reported.

Bank Holding Company Regulation

We are a bank holding company subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve) under the BHC Act. Bank holding companies generally are limited to the business of banking, managing or controlling banks, and other activities that the Federal Reserve determines to be closely related to banking, or managing or controlling banks and a proper incident thereto. We are required to file with the Federal Reserve periodic reports and such other information as the Federal Reserve may request. The Federal Reserve examines us, and may examine our non-bank subsidiaries.

The BHC Act requires prior Federal Reserve approval for, among other things, the acquisition by a bank holding company of direct or indirect ownership or control of more than 5% of the voting shares or substantially all the assets of any bank, or for a merger or consolidation of a bank holding company with another bank holding company. With certain exceptions, the BHC Act prohibits a bank holding company from acquiring direct or indirect ownership or control of voting shares of any company which is not a bank or bank holding company, and from engaging directly or indirectly in any activity other than banking or managing or controlling banks or performing services for its authorized subsidiaries. A holding company, may, however, engage in or acquire an interest in a company that engages in activities which the Federal Reserve has determined by regulation or order to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

The Gramm-Leach-Bliley Act of 1999 (the GLB) substantially revised the statutory restrictions separating banking activities from certain other financial activities. Under the GLB, bank holding companies that are well-capitalized and well-managed, as defined in Federal Reserve Regulation Y, whose depository institution subsidiaries which have and maintain satisfactory Community Reinvestment Act of 1977, as amended (the CRA) ratings, and meet certain other conditions, can elect to become financial holding companies. Financial holding companies and their subsidiaries are permitted to acquire or engage in activities such as insurance underwriting, securities underwriting, travel agency activities, a broad range of insurance agency activities, merchant banking, and other activities that the Federal Reserve determines to be financial in nature or complementary thereto. In addition, under the merchant banking authority added by the GLB and Federal Reserve regulation, financial holding companies are authorized to invest in companies that engage in activities that are not financial in nature, as long as the financial holding company makes its investment

with the intention of limiting the term of its investment and does not manage the company on a day-to-day basis, and the invested company does not cross-market with any of the financial holding company's controlled depository institutions. Financial holding companies continue to be subject to supervision and regulation of the

Federal Reserve, but the GLB applies the concept of functional regulation to the activities conducted by subsidiaries. For example, insurance activities would be subject to supervision and regulation by state insurance authorities. While we have not become a financial holding company, we may seek to do so in the future in order to exercise the broader activity powers provided by the GLB. Banks may also engage in similar financial activities through subsidiaries. The GLB also includes consumer privacy provisions, and the federal bank regulatory agencies have adopted extensive privacy rules implementing these statutory provisions.

We are a legal entity separate and distinct from Seacoast National and our other subsidiaries. Various legal limitations restrict our banking subsidiaries from lending or otherwise supplying funds to us or our non-bank subsidiaries. We and our banking subsidiaries are subject to Section 23A of the Federal Reserve Act and Federal Reserve Regulation W thereunder. Section 23A defines covered transactions to include extensions of credit, and limits a bank's covered transactions with any affiliate to 10% of such bank's capital and surplus. All covered and exempt transactions between a bank and its affiliates must be on terms and conditions consistent with safe and sound banking practices, and banks and their subsidiaries are prohibited from purchasing low-quality assets from the bank's affiliates. Finally, Section 23A requires that all of a bank's extensions of credit to its affiliates be appropriately secured by acceptable collateral, generally United States government or agency securities. We and our bank subsidiaries also are subject to Section 23B of the Federal Reserve Act, which generally requires covered and other transactions among affiliates to be on terms, including credit standards, that are substantially the same or at least as favorable to the bank or its subsidiary as those prevailing at the time for similar transactions with unaffiliated companies.

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

Federal Reserve policy requires a bank holding company to act as a source of financial and managerial strength and to preserve and protect its bank subsidiaries in situations where additional investments in a troubled bank may not otherwise be warranted. In addition, under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), where a bank holding company has more than one bank or thrift subsidiary, each of the bank holding company's subsidiary depository institutions are responsible for any losses to the Federal Deposit Insurance Corporation (FDIC) resulting from an affiliated depository institution's failure. Accordingly, a bank holding company may be required to loan money to its bank subsidiaries in the form of capital notes or other instruments that qualify as capital under bank regulatory rules. However, any loans from the holding company to such subsidiary banks likely will be unsecured and subordinated to such bank's depositors and perhaps to other creditors of the bank.

Bank and Bank Subsidiary Regulation

Seacoast National is subject to supervision, regulation and examination by the Office of the Comptroller of the Currency (the OCC), which monitors all areas of operations, including reserves, loans, mortgages, the issuance of securities, payment of dividends, establishing branches, capital adequacy, and compliance with laws. Seacoast National is a member of the FDIC and, as such, its deposits are insured by the FDIC to the maximum extent provided

by law. See FDIC Insurance Assessments .

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

The OCC has adopted the Federal Financial Institutions Examination Council's (FFIEC) rating system and assigns each financial institution a confidential composite rating based on an evaluation and rating of six essential components of an institution's financial condition and operations including Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk, as well as the quality of risk management practices. For most institutions, the FFIEC has indicated that market risk primarily reflects exposures to changes in interest rates. When regulators evaluate this component, consideration is expected to be given to: management's ability to identify, measure, monitor, and control market risk; the institution's size; the nature and complexity of its activities and its risk profile, and the adequacy of its capital and earnings in relation to its level of market risk exposure. Market risk is rated based upon, but not limited to, an assessment of the sensitivity of the financial institution's earnings or the economic value of its capital to adverse changes in interest rates, foreign exchange rates, commodity prices, or equity prices; management's ability to identify, measure, monitor, and control exposure to market risk; and the nature and complexity of interest rate risk exposure arising from nontrading positions.

FNB Brokerage, a Seacoast National subsidiary, is registered as a securities broker-dealer under the Exchange Act and is regulated by the Securities and Exchange Commission (the Commission or SEC). It also is subject to examination and supervision of its operations, personnel and accounts by the Financial Industry Regulatory Authority, Inc. (FINRA). FNB Brokerage is a separate and distinct entity from Seacoast National, and must maintain adequate capital under the SEC's net capital rule. The net capital rule limits FNB Brokerage's ability to reduce capital by payment of dividends or other distributions to Seacoast National. FNB Brokerage is also authorized by the State of Florida to act as a securities dealer and an investment advisor.

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

The Internal Revenue Code of 1986 (the Code), as amended, provides requirements that must be met with respect to Seacoast National's indirect subsidiary, FNB RE Services, Inc., which has elected to be taxed as a real estate investment trust under the Code.

Community Reinvestment Act

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

Following the enactment of the GLB, CRA agreements with private parties must be disclosed and annual CRA reports must be made to a bank's primary federal regulator. A bank holding company will not be permitted to become or remain a financial holding company and no new activities authorized under GLB may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a satisfactory CRA rating in its latest CRA examination. Federal CRA regulations require, among

other things, that evidence of discrimination against applicants on a prohibited basis, and illegal or abusive lending practices be considered in the CRA evaluation.

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

Payments of Dividends

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

In addition, our company and Seacoast National are subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal bank regulatory authority may prohibit the payment of dividends where it has determined that the payment of dividends would be an unsafe or unsound practice. The OCC and the Federal Reserve have indicated that paying dividends that deplete a national or state member bank's capital base to an inadequate level would be an unsound and unsafe banking practice. The OCC and the Federal Reserve have each indicated that depository institutions and their holding companies should generally pay dividends only out of current operating earnings. In 2008, Seacoast National recorded a net loss and paid \$6.8 million in dividends to us. In 2007, Seacoast National paid 116% of its net profits in dividends to us.

Prior approval by the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the bank's profits, as defined, for that year combined with its retained net profits for the preceding two calendar years. Under this restriction, Seacoast National cannot distribute any dividends to us, without prior OCC approval, as of December 31, 2008.

Capital

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

In addition, the Federal Reserve and the OCC have established minimum leverage ratio guidelines for bank holding companies and national banks, which provide for a minimum leverage ratio of Tier 1 capital to adjusted average quarterly assets (leverage ratio) equal to 3%, plus an additional cushion of at least 1.0% to 2.0%, if the institution has less than the highest regulatory rating. The guidelines also provide that institutions

experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. All bank holding companies and banks are expected to hold capital commensurate with the level and nature of their risks, including the volume and severity of their problem loans, and higher capital may be required as a result of an institution's risk profile. Lastly, the Federal Reserve's guidelines indicate that the Federal Reserve will continue to consider a tangible Tier 1 leverage ratio (deducting all intangibles) in evaluating proposals for expansion or new activities. The OCC and Seacoast National have agreed by letter agreement that Seacoast National shall maintain specific minimum capital ratios by March 31, 2009 and subsequent periods, including a total risk based capital ratio of 12.0 percent and a Tier 1 leverage ratio of 7.50 percent. Recently, the federal bank regulatory agencies have begun seeking higher capital levels than the minimums due to market conditions and the OCC has indicated that Seacoast National, in light of risks in its loan portfolio and local economic conditions, especially in the real estate markets, should hold capital commensurate with such risks.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, requires the federal bank regulatory agencies to take prompt corrective action regarding depository institutions that do not meet minimum capital requirements. FDICIA establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. A depository institution's capital tier will depend upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation.

All of the federal bank regulatory agencies have adopted regulations establishing relevant capital measures and relevant capital levels for federally insured depository institutions. The relevant minimum capital measures are the total risk-based capital ratio, Tier 1 capital ratio, and the leverage ratio. Under the regulations, a national bank will be (i) well capitalized if it has a total risk-based capital ratio of 10% or greater, a Tier 1 capital ratio of 6% or greater, and a leverage ratio of at least 5%, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive by a federal bank regulatory agency to meet and maintain a specific capital level for any capital measure, (ii) adequately capitalized if it has a total risk-based capital ratio of 8% or greater, a Tier 1 capital ratio of 4% or greater, and a leverage ratio of 4% or greater (3% in certain circumstances), (iii) undercapitalized if it has a total risk-based capital ratio of less than 8%, a Tier 1 capital ratio of less than 4% (3% in certain circumstances), (iv) significantly undercapitalized if it has a total risk-based capital ratio of less than 6% or a Tier I capital ratio of less than 3%, or a leverage ratio of less than 3%, or (v) critically undercapitalized if its tangible equity is equal to or less than 2% of average quarterly tangible assets. The federal bank regulatory agencies have authority to require additional capital.

As of December 31, 2008, the consolidated capital ratios of the Seacoast and Seacoast National were as follows:

	Regulatory Minimum	Seacoast (Consolidated)	Seacoast National
Tier 1 capital ratio	4.0%	14.0%	11.0%
Total risk-based capital ratio	8.0%	12.8%	12.2%
Leverage ratio	3.0-5.0%	9.6%	9.1%

Seacoast National has agreed with the OCC to maintain a Tier 1 leverage capital ratio of at least 7.50% and a total risk-based capital ratio of at least 12.0% as of March 31, 2009.

FDICIA

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

FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to growth limitations and are required to submit a capital restoration plan for approval. For a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of 5% of the depository institution's total assets at the time it became undercapitalized and the amount necessary to bring the institution into compliance with applicable capital standards. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. If the controlling holding company fails to fulfill its obligations under FDICIA and files (or has filed against it) a petition under the federal Bankruptcy Code, the claim for such liability would be entitled to a priority in such bankruptcy proceeding over third party creditors of the bank holding company. Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator. Because our company and Seacoast National exceed applicable capital requirements, the respective managements of our company and Seacoast National do not believe that the provisions of FDICIA have had any material effect on our company and Seacoast National or our respective operations.

FDICIA also contains a variety of other provisions that may affect the operations of our company and Seacoast National, including reporting requirements, regulatory standards for real estate lending, truth in savings provisions, the requirement that a depository institution give 90 days prior notice to customers and regulatory authorities before closing any branch, and a prohibition on the acceptance or renewal of brokered deposits by depository institutions that are not well capitalized, or are adequately capitalized and have not received a waiver from the FDIC. Seacoast National was well capitalized at December 31, 2008, and brokered deposits are not restricted.

Enforcement Policies and Actions

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

Seacoast National entered into a formal agreement with the OCC on December 16, 2008 to improve Seacoast National's asset quality. Under the formal agreement, Seacoast National's board of directors has appointed a compliance committee to monitor and coordinate Seacoast National's performance under the formal agreement in December 2008. The formal agreement provides for the development and implementation of written programs to reduce Seacoast National's credit risks, monitor and reduce the level of criticized assets, and manage commercial real estate (CRE) loan concentrations in light of current adverse CRE market conditions.

The International Money Laundering Abatement and Anti-Terrorism Funding Act of 2001 specifies know your customer requirements that obligate financial institutions to take actions to verify the identity of the account holders in connection with opening an account at any U.S. financial institution. Banking regulators will consider compliance with the Act's money laundering provisions in acting upon acquisition and merger proposals, and sanctions for violations