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PRESENTATION

Operator

Welcome to the Seacoast fourth-quarter earnings conference call. My name is Richard, and I will be your operator for today's call.

(Operator Instructions)

Please note that his conference is being recorded.

I would now turn the call over to Mr. Dennis Hudson. You may begin.

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

Thank you very much, and thank you all for joining us today for our fourth-quarter 2016 earnings conference call. Our press release issued yesterday after the market closed and an updated Investor Presentation with supplementary information are posted on the Investor portion of our website at Seacoastbanking com. You can find that information under Presentations.

Before we begin, as always I will direct your attention to the statement contained at the end of our press release regarding forward-looking statements that we will be making during the call. We will be discussing issues that constitute forward-looking statements within the meaning of the Securities and Exchange Act, and our comments today are intended to be covered within the meaning of that section of the Act.

With me today is Chuck Schaeffer, who will discuss our financial and operating results. Also joining us in the room is Steve Fowle, our Chief Financial Officer; Chuck Cross, our Commercial Banking Executive; David Houdeshell, our Chief Credit Officer; Jeff Lee, our Chief Marketing and Analytics Officer, as well.

Last week, we issued a press release describing a management transition that will drive our growth into 2017 and beyond. Effective on March 15, Chuck Schaeffer will assume the newly created position of CFO and Head of Strategy, a role for which he has the experience, the skill and vision for our business to lead our financial and strategic objectives.

Julie Kleffel, who is also on the call today, a homegrown Floridian who has headed our Small Business Banking Unit for the past two years will succeed Chuck as Head of our Community Banking Division, which includes Small Business Banking. In addition we announced last December the appointment of Jeff Bray as an Executive Vice President for Service and Operations. These appointments position us well for continued success as the community banking industry continues to undergo its rapid evolution.

Steve Fowle, our current CFO, will continue in that role until mid-March to ensure a smooth transition. I just want to say Steve has played an invaluable part in our transformation and fulfilled his mission to help put the Bank on a more robust growth trajectory. And we wish him well in his success as he moves onto his next endeavor. Chuck has the ideal expertise and experience to build on Steve's work and to take Seacoast to the next level of performance.

Looking at our financial and operating results, it is clear that 2016 was a breakout year for Seacoast. Our balanced growth strategy combining investments in organic growth with well-conceived acquisitions continued to deliver results for shareholders.

At the beginning of 2016, we set an aggressive adjusted earnings target of $1 per share. We achieved that target, and we achieved it despite interest rate environment related changes that we encountered along the way.

We responded to those changes by growing organically, executing smart M&A and exhibiting strong expense management. Our focus on executing our model, even during changing times like today, led to strong results.

For perspective, I'd like to share what we achieved in 2016 for our shareholders. During the year we increased our adjusted earnings per share 56% year on year.

We achieved an 880 basis point improvement in our adjusted efficiency ratio, which moved from 69.6% in our first quarter to 60.8% by year end. We increased our adjusted return on average assets up to 0.99%, almost a 1% return, up from 0.75% in the first quarter. And we increased our adjusted return on tangible common equity of 460 basis points to 13.1% in the quarter, the last quarter of this year, compared with 8.5% in the first quarter.

These results evidence a remarkable turnaround for Seacoast over the past three years. While these and other key metrics are clearly at more respectable levels than they were a few years ago, we believe our model still has plenty of room to run.

Before I go on, I would like to thank all of our associates for the role they played in getting us to this point. Their focus every day on serving our customers and helping them achieve their financial goals is what makes the difference.

Building on a strong third quarter, we continued our momentum, producing strong organic growth last quarter. Loan production continued at a record pace across all of our business lines, growing 16% annualized during the fourth quarter.

In particular commercial loan originations hit $145 million during the fourth quarter, up more than 81% over the year-ago number. Our investment four years ago in our innovative commercial banking delivery model, our Accelerate platform has certainly paid off. And it has grown to become a significant part of our business.

Our business units results continue to meet or exceed our expectation. In the fourth quarter consumer and small business originations totaled $83 million, up 38% year over year. Mortgage loan originations exceeded $119 million, up 98% year over year.

The transformation of our retail network continued during the quarter, highlighted by our momentum in moving routine transactions out of the branch and into our digital channels. The pace of customers choosing these convenient lower cost channels continues to accelerate. One proof point, in the fourth quarter nearly 37% of all paper checks were deposited remotely compared with just 22% in the fourth quarter of 2015.

Mobile adoption continues to rise, now up to 30% of eligible customers compared with 26% in last year's fourth quarter. Moreover, because we are able to serve customers more efficiently through non-branch channels, we were able to continue to rationalize our physical footprint, as shown by the deposits per branch which now exceeds $78 million at year end.

These metrics compare very favorably to top money center banks and are far ahead of most community banks. In fact, that increase was very substantial. I think at the beginning of the year that average number was down in the $50 millions.

I would add that we have achieved this performance while competing very differently than many of our Florida banking peers. We continue to maintain a very granular loan portfolio with very modest levels of CRE exposure.

Our M&A work during 2016 performed well, and as we expected in our playbook that we use is now proven and effective. We completed two transactions in Orlando in 2016, the Floridian and BMO Harris branch acquisition that built on top of our 2014 foothold which was completed with the acquisition of BankFirst. Combined all these acquisitions made us a Top-10 Bank in Orlando, Orlando being Florida's third-largest market by year end.

We've now taken the first step to executing the Orlando playbook in the Tampa market with the acquisition of GulfShore Bank announced last November. And we are on target to close sometime towards the end of this quarter. Our acquisition of Grand Bank, which strengthened our position in Palm Beach County in 2015 is going strong, with households up 9% to 10% since that deal was closed.

At Seacoast our aim is to be able to meet the financial needs of the customers we serve just like we did 90 years ago when this Bank was founded. We firmly believe that while the way we address customers' financial needs has changed dramatically, the needs themselves really haven't changed at all. We believe that a strong, locally relevant brand combined with a digitally enabled low-cost delivery structure combines really the best of both worlds, enabling us to generate consistent lower risk returns for our shareholders.

Let me share two final thoughts. The convenience of mobile always-on service is now expected by everyone, regardless of age or industry. From commercial businesses to small businesses to consumers, we now live in a world where everyone expects convenience, and they expect their bank and a banker to always be on demand.

For the past few years we've been methodically executing a digital transformation strategy that is now positioning us very well. The digital explosion certainly can't be denied.

It is not something that will happen in the distant future, it is really happening right now and we're seeing it in our numbers. And banks that aren't executing and showing progress both to their customers and shareholders, I believe are at serious risk.

This second point I'd like to make is that as I look across the State of Florida, now the nation's third-largest state and our position within it, I continue to see opportunity ahead for our franchise. Our legacy of establishing relationships with customers, understanding and meeting their financial service needs and serving them through cost effective distribution channels is very much relevant in the world ahead. And, as our experience with digital delivery continues to grow, I think it positions us well.

With all that said, after a lot of hard work and commitment to executing on our balanced growth strategy, we are entering 2017 we believe from a position of strength. We are proud of our financial performance that we delivered for our shareholders in 2016, and as we address in detail momentarily our expectations for the full-year 2017, I think we will underline the opportunity that lies ahead for Seacoast and what we believe we can achieve.

Finally before I hand off to Chuck to share a few financial highlights and take your questions, I want to invite all of you to attend our first Investor Day on February 22. It will be held in New York at the Westin on West 43rd Street and it will also be webcast.

We are also excited in that venue to be able to provide all of you with a much closer look at our differentiated business model, to discuss how we think about the future and to discuss the value-creating implications that we see for shareholders over the next couple of years. Thanks a lot for your attention. Now over to you, Chuck, for some financial highlights.

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

Thank you Denny, and thank you all for joining us this morning. As I provide my comments I will reference the slide deck which can be found at www.Seacoastbanking.com.

Let me open by congratulating all of our team members on helping achieve our $1 per share goal announced at the start of the prior year. This is a significant accomplishment, and was the result of our continued strategy of growing top-line revenue through better execution in our business units, the successful integration of two acquisition targets in 2016 and a disciplined and focused program to become a much more efficient organization.

As shown on slide 5 of the deck, our results signal a significant improvement in performance over the past year accomplished without taking outside lending or operational risk. On an adjusted bases our return on assets ended the year at 0.99%, up from 0.75% at the end of the prior year.

Adjusted return on tangible common equity entity ended the year at 13.1%, up from 8.9% at the end of the prior year. And our adjusted efficiency ratio declined to 60.8%, reflecting the additional operating leverage and efficiency gains created throughout 2016. We believe we are now operating at a level of performance that is in line or ahead of most peers with a trajectory to improve this performance into 2017.

Looking more deeply at the quarter, moving to slide 6, net interest income remained roughly in line with the third quarter and up $8.4 million from the prior year's fourth quarter, reflecting the full impact of integrating BMO and Floridian and strong loan demand throughout the year. Net interest margin declined 13 basis points from the prior quarter, largely due to [life] loan accretion and additional balance sheet leverage.

Looking forward we expect the net interest margin to be in a high 3.50%s and likely increase to the mid-3.60%s by year-end 2017. The NIM trend will be dependent on where interest rates head in 2017, and we remain moderately asset sensitive, with a 100 to 200 basis point increase in rates equating to approximately 2% to 4% improvement in net interest income.

Moving to slide 7, adjusted noninterest income remained relatively in line with the third quarter and is up $2.1 million from the prior year's fourth quarter, the result of stronger service charges on deposits primarily due to the acquisition of BMO's operations in Orlando, better performance in our wealth and mortgage banking units, expansion of our BOLI program and continued increases in interchange income, the result of driving spend and activation using our automated marketing tools, and continued household acquisition. As a reminder, our operating markets were impacted by Hurricane Matthew, negatively impacting our transactional fee categories during the quarter.

Moving to slide 8, adjusted noninterest expense was down $1.3 million from the prior quarter and up $3.7 million from the prior year's fourth quarter. The fourth quarter realized the full benefit of cost savings executed from the Floridian and BMO mergers, as we finalized and closed 10 locations in the Central Florida market during the third quarter.

The year-over-year increase reflects ongoing costs associated with two bank acquisitions, investments in technology, and investments to drive our franchise's growth. And as a reminder, salary and wages should increase by approximately 10% from the fourth quarter of 2016 to the first quarter of 2017 as seasonal increases in 401(k) and related payroll taxes begin to reappear at the start of a new year and accrual levels for compensation return to more normalized levels. We'll continue to carefully manage expenses as a move forward and become more efficient in our retail network.

We believe branches are still valuable to our customers for more complex transactions, but simple tasks such as depositing or withdrawing funds are rapidly migrating to a digital world. During the fourth quarter, deposits outside the branch network increased to 37% from 22% in the same quarter one year prior.

We expect to close 20% of our locations over the next 24 to 36 months, and some of this operational expense savings will be reinvested into technology and talent to deliver products and services in new, more convenient ways. We will continue to carefully balance our investments in growth to bottom-line performance as we move forward.

Moving to slide 9, our adjusted efficiency ratio improved to 60.8%, evidencing that our transformation continues to get meaningful traction. We remain highly focused on driving shareholder value by executing a transformative strategy, meeting our customer needs with digital offerings and reducing our traditional cost to serve.

We recorded a $5.3 million income tax provision in the fourth quarter of 2016 compared to $4.3 million in the third quarter of 2016 and $3.7 million in the prior year. The fourth- and third-quarter 2016 tax provisions benefited from the early adoption of ASU2016-9, improvements to employee share-based payment accounting.

As a result the Company recorded a benefit of $383,000 and $418,000 in the fourth and third quarter, respectively adding $0.01 per diluted share to each quarter. Looking forward we expect our effective tax rate to be 36%.

Turning to slide 10, loan outstandings again grew at record pace during the fourth quarter, up $110 million from the third quarter, or 16% annualized. Loan outstandings grew $723 million, or 34% from the fourth quarter in the prior year.

Four years ago we made an investment in an innovative commercial banking platform we called Accelerated Business Banking. This platform has matured and is now producing over $100 million per quarter in commercial loan originations, with production increasing from approximately $200 million in 2013 to $432 million in 2016.

The following year we invested in a data-driven lead program and automated marketing which begin to fuel our consumer and small business franchise, increasing total aggregate consumer and small business lending from $31 million in 2013 to $300 million in 2016. We believe we are still early on the growth curve in this business and expect productivity to continue to improve as we move into 2017.

Our mortgage banking business has also grown substantially in 2016, growing overall originations to $403 million, up from $251 million in 2013. The expansion into Orlando, South Florida and ultimately Tampa with the GulfShore acquisition should continue to provide opportunity for our mortgage business.

We also continue to focus on building a well-diversified loan book. Our average commercial loan size is $339 million, our Top-10 relationships as a percentage of total capital is 40%, up from 36% at the end of the prior year. Looking forward we expect organic loan growth to continue to be in the mid-to-high teens.

Turning to slide 11, deposit outstandings grew modestly during the fourth quarter, up $13 million from the third quarter and up $679 million from the fourth quarter in the prior year. Deposits per branch increased to $78 million from $66 million one year ago.

Core customer funding, which excludes CDs, increased $63 million, or 8% annualized. Rates paid on deposits remained stable quarter over quarter, and looking ahead we expect to grow deposit outstandings in the 7% range with some minor increases in deposit rates paid to customers.

Turning to slide 12, credit quality range continues to be strong and our risk profile well maintained. In the legacy portfolio, the A-LLL ended the quarter at 0.96% of loan outstandings, down from 1% at the end of the prior quarter, net charge-offs were $283,000 for the quarter compared to $1.4 million in recoveries in the prior quarter and charge-offs of $569,000 in the fourth quarter of the prior year. Looking forward the provision for credit losses will continue to be influenced by loan growth.

Turning to slide 13, our capital position remains strong. The common equity Tier 1 capital ratio was 12.6%, total capital ratio was 13.3%, and the Tier 1 leverage ratio was 9.2% at December 31, 2016. Our ratios increased slightly as earnings outpaced the balance sheet growth.

We are issuing guidance for adjusted earnings per share of $1.24 to $1.28 for FY17. This assumes the yield curve remains unchanged and continued forward progress in our Florida economy.

We are excited about the year ahead, and we worked diligently to improve our ability to execute. We've made investments in technology and talent in prior years that's now paying off. We believe we are operating in some of the best markets of Florida. I'll turn the call back over to Denny.

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

Thank you, Chuck, and I appreciate your hitting a few of the highlights for the quarter. Just again, I'd like to remind everybody we're going to take a deeper dive into our go-forward strategy at our Investor Day which is scheduled to be in New York on February 22. During that meeting we will be having a greater number of our key team players presenting different sections of the discussion during that morning, and I think it will give investors an opportunity to, again, take a deeper dive into the business model that we are creating here and the implications looking forward for value creation out in the median term. So we look forward to seeing you then.

Like to open the floor to any questions that we might have. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question online comes from Mr. Michael Young from SunTrust Robinson Humphrey. Please go ahead.

Michael Young - *SunTrust Robinson Humphrey - Analyst*

Wanted to start, Chuck, I think you mentioned you were going to close 10 branches in 2017. Is that the right number?

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

We closed 10 branches in the third quarter in the Orlando market, and looking forward we plan to close 20% in the next 24 to 36 months.

Michael Young - *SunTrust Robinson Humphrey - Analyst*

Over two or three years, Okay, got it. Maybe just backing that up and hold. Then on the expense line item for next year, do you expect continued sort of net declines, maybe absent the first quarter from the first quarter run rate?

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

The first quarter, as I mentioned in my comments, we should expect that to go back up due to normalized compensation type issues. But looking forward through the remainder of the year, I would expect noninterest income to remain relatively flat to down. We will continue to focus on efficiency throughout the year, and as we continue to work through some of that consolidation work we should see some benefit.

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

You're speaking of noninterest expenses flat to down?

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

Yes, right.

Michael Young - *SunTrust Robinson Humphrey - Analyst*

Also on the deposit side, I think earlier this year you guys were hoping for maybe about $80 million in deposits per branch, we are a little light of that. I just wasn't sure. Was there more deposit outflow maybe from the BMO branches, or did you decide to keep a couple of extra branches that maybe you weren't planning on originally?

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

If you look at our core customer funding, it continued to grow quarter over quarter. One of the things that did impact that number is we purposely about some of the higher rate CDs acquired through some of the acquisitions to run off, the core deposits underneath that continued to grow. The two acquisitions have performed basically in line with what we expected on the customer side of the transactions, as well as we were impacted a little bit on public funds.

We chose not to compete for some public funds as rates have increased here. The public funds market has gotten more competitive, and we saw some money move up to the State of Florida SBA fund as well as some competition come in there at some prices and some rates that we were unwilling to pay.

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

In fact that dragged down our deposit growth rate on a total basis in Q4. If you ex that out, I think our deposit growth was actually right in line with what we expected, in a 6% or 7% range.

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

Correct.

Michael Young - *SunTrust Robinson Humphrey - Analyst*

All right. Maybe lastly hitting on M&A. Obviously you've got the Tampa deal that is going to close kind of midyear, but I assume you are still kind of in the market looking selectively for new acquisitions. Do you still bias towards market expansion at this point?

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

Good question. We continue to focus our attention on organic growth as you've heard through most of the call and we look for selected M&A opportunities when we see value in the customer base, a customer base that we can further monetize and create revenue growth on. So we are continuing to look for those opportunities and when we see one, we get excited about it and try to tackle it. I wouldn't say it's our primary goal but it's an important part of the balanced growth strategy.

Michael Young - *SunTrust Robinson Humphrey - Analyst*

Okay. Congrats on the good quarter, and good luck to Steve and Chuck and everyone else.

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

Thanks, Mike.

Operator

Thank you. Our next question online comes from Mr. Bob Ramsey from FBR. Please go ahead.

Bob Ramsey - *FBR & Co. - Analyst*

Good morning, guys. Just wanted to follow up a little bit on the deposit conversation there. It sounds like there were some areas you pulled back on.

I'm curious if you see ongoing pressure in those areas. Obviously you grew some of the wholesale funding this quarter. How you're thinking about funding loan growth as we go forward, where the opportunities and challenges are?

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

Thanks, Bob. We have a strong retail bank. We will continue to use that retail bank to produce low-cost retail deposits, and that will be our first source as we move forward. It is, you are right, the deposit environment is changing here, particularly the yield curve increases, and as banks fill up on loan to deposit ratio.

That being said, we've been a good deposit gatherer over time. We will begin to focus more of our attention there, and focus on growing small business and retail. And the public fund market is there for us if we want to go into that to fund loan growth.

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

As we said earlier, the underlying deposit trend actually was quite positive during the quarter. The big impact was the reduction in some of the balances we might have expected in the public funds area, and that was directly related to what has happened with some of that funding, as some of our excess deposits that we would normally get out of that class at year end and in the fourth quarter moved over into SBA funds, which are invested in mortgage-backs and things like that.

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

Bob, just to add onto that, too. If you think about the full balance sheet, the investment portfolio runs off about $180 million in cash over the next 12 months. We don't expect to rebuild that investment portfolio, so that helps fund loan growth as we move forward as well.

Bob Ramsey - *FBR & Co. - Analyst*

Okay, that's helpful. I guess somewhat related, could you provide an update for us on where you stand in terms of interest rate sensitivity, particularly in light of the Fed's December move and what further moves may mean for you?

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

Sure. I made a comment in my -- I addressed it there, but I will repeat it. We are moderately asset sensitive, 100 to 200 basis point increase in rates basically equates to 2% to 4% improvement in net interest income, and I think that's the best way to think about it. If we do see the Fed increase rates throughout the year, depending on how the yield curve reacts, that's assuming kind of the parallel shift. But we are asset sensitive and any increase in rates does work to our benefit.

Bob Ramsey - *FBR & Co. - Analyst*

Okay. All right, great. I think I did not quite pull that out of intro comments. I think at the same time you were talking about margin guidance for the year. Did I catch you correct that you expect high 3.5%s this quarter and maybe low 3.6%s by year end?

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

The exact language was mid-3.6%s, but the driver to that is as we allow the investment portfolio to decline and fund loan growth as we move forward that should positively impact the margin.

Bob Ramsey - *FBR & Co. - Analyst*

Got it. So mix shift is the biggest driver?

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

Yes.

Bob Ramsey - *FBR & Co. - Analyst*

In terms of the margin this quarter, I know you guys highlighted the 6 basis points hit from lower purchase accounting accretion. What was the amount of purchase accounting accretion this quarter, and is this a good level you think as we sort of run through next year?

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

I think this is an okay way to think about it this quarter, but a good way is it runs around 10 basis points, somewhere 10 to 15 basis points depending on the quarter. It is volatile. You've got to be careful and assuming that the loan payoffs and things that impact that meaningfully, but that is probably about the way to think about it.

Bob Ramsey - *FBR & Co. - Analyst*

And sorry, how much was it this quarter?

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

I don't have the exact number, but yes, you can think about 10 to 15 basis points is about what we have in loan accretion in any normalized quarter.

Bob Ramsey - *FBR & Co. - Analyst*

Okay. All right, fair enough. The last question and then I'll hop out. This was definitely a good quarter for loan growth, loan originations. Looked like the commercial pipeline was lower at period end. I'm curious, was there any element of pulling volume forward, or how you're thinking about that commercial pipeline headed into the first quarter?

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

Chuck Cross, you want to take a stab at that? I guess they must have dropped off or something.

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

I will take it since Cross has dropped off. I think we just cleared pipelines, as we normally do. The first quarter is the toughest quarter, and that is usually as we enter year end, pipelines get cleared. But we expect that to build here as we into Q1.

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

The other thing I would say is, what we disclosed is our -- the solid parts of the price -- the pipeline, I know the discovery and underway kind of parts of the pipeline have actually grown in January. And we have a pretty optimistic view of Q1, and it should be fine. We are actually looking for a pretty decent Q1.

But you are right, we did clear out a lot of the approved waiting at year end. And we will see that build back as we get in -- we are now seeing it build back as we have gotten further into Q1.

Bob Ramsey - *FBR & Co. - Analyst*

Okay great. Thank you, guys.

Operator

(Operator Instructions)

Our next question online comes from Mr. Stephen Scouten from Sandler O'Neill. Please go ahead.

Stephen Scouten - *Sandler O'Neill - Analyst*

Good morning. A question for you to maybe follow up on the loan growth conversation there. You guys noted that you have an opportunity to a degree with the CRE level at about [214] on risk-based capital. Is that something with competitors facing some constraints in your markets that you might look to pursue more aggressively? And within that, do you think you a shift away from any of the granularity of your portfolio and maybe start to take a stab at some larger deals on the CRE side?

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

I will take a stab at that. I would say we established guardrails covering credit risk back in 2009, and we haven't changed any of those guardrails nor do we have any intent to change those guardrails. One of the key metrics that we keep an eye on is granularity, and we are going to continue to focus on that.

We had built the loan growth that we have been talking about here across a whole host of asset classes on the balance sheet, and certainly CRE is one of those but it is by no means the only thing that we focus on. Having said that, I think we have an opportunity to have some focus there. It's not something that is currently underway nor that is really currently anticipated.

We also note that as we look at acquisitions, oftentimes we see larger CRE exposures in the smaller companies, and I think this provides some room for that. We can acquire those assets at the right marks, put them in the portfolio and white may increase our CRE exposure a little bit, it's the right kind of exposure with the right kind of marks and we feel pretty good about that. Having said that our guardrails are going to require us to keep a lower focus on CRE.

Chuck Cross, are you back online? Did you have any comments on that?

Chuck Cross - *Seacoast Banking Corporation of Florida - Commercial Market Executive*

My comment to Stephen would be we had 18% year-over-year growth last year, excluding acquisitions. The loan production last year was over $1 billion. It was about 50% consumer and residential, 25% C&I and 25% CRE.

Since that time we added BMO and Floridian about midyear. So we think we are going to have extra production capacity in 2017 in addition to the GulfShores acquisition in Tampa and the teams that we are building over in the Tampa market. So those new markets will help us continue with the loan production we've had in the past, but as Denny said, sticking to our guardrails.

Stephen Scouten - *Sandler O'Neill - Analyst*

That's great. That makes a lot of sense. Maybe if I could go back to the NIM here for a second. I know Chuck, you kind of give a range for 1Q there, but I'm wondering with the puts and takes are there? Do you have a way to quantify what the benefit of the recent rate hike is into 1Q numbers? Will that provide a little bit of life?

And then with the wholesale funding, you mentioned not reinvesting in securities. So should we see those wholesale fundings come down throughout the year?

Chuck Cross - *Seacoast Banking Corporation of Florida - Commercial Market Executive*

I think to answer the question, start with the wholesale fundings. I don't think from this point forward we may see a small build in wholesale funding, but we don't plan to continue to build that as we move through the remainder of the year. That is kind of the approach to wholesale funding.

On the NIM drivers there, the three biggest issues there is going to be loan growth as that builds throughout the year as the investment portfolio declines, as well as the volatility around accretion in that 10 to 15 basis points. But we generally should see it improve as we move through the year.

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

That's assuming flat rates. So an up-rate environment would only benefit us from there.

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

Around the increase in the most recent Fed, that'll benefit us. I don't have the number here to talk about today, but it is beneficial and it is worked into the guidance that we provided for 2017.

Stephen Scouten - *Sandler O'Neill - Analyst*

Okay. So the mid-3.5% in 1Q and mid-3.6% by year end, that all assumes no further rate hikes?

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

Correct, great. That's good to know. Last one for me, just on the expense front. I know this quarter there was obviously a big move down in salary. Some of that was an accrual reversal. A big move down in occupancy, and a big move up in the other noninterest expense.

I know there is some color in the release, but maybe a good starting point for a 1Q expense run rate, or how those -- any unusual items that was within there that we are not aware of? The best way to think about Q3 to Q4 is the biggest change there was the consolidation of the 10 branches in Orlando and the final closure to the Floridian and BMO mergers.

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

And a full quarter impact of everything that had happened in Q3 and a little bit in Q2.

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

The only line item that I think it reflects the real trend, except for salary and wages, we should that increase payroll and 401(k) as well as some more normalized compensation accruals will come back in. The way to think about salaries and wages is we should expect it to go up about 10% Q4 to Q1. Outside of that, the rest of the line items are pretty normalized.

Stephen Scouten - *Sandler O'Neill - Analyst*

Okay. So that jump from -- to $3.7 million from $1.6 million in the other, that's going to be something that'll stick around?

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

We had some unusual --

Chuck Shaffer - *Seacoast Banking Corporation of Florida - EVP & Community Banking Executive*

The other expenses were flat, Stephen, flat to slightly down quarter to quarter.

Stephen Scouten - *Sandler O'Neill - Analyst*

All right. I will have to go back and look at my numbers. Maybe that's me. Sorry about that.

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

As a reminder, Q1, I think we've said this already. As a reminder, like for the rest of the industry, Q1 is a tough quarter. Less days to earn fees on, less days to earn net interest income on and expenses pop up with the salary and benefits dynamics Chuck talked about. Thanks, Steve.

Operator

(Operator Instructions)

Our question online comes from David Feaster from Raymond James. Please go ahead, your line is open.

David Feaster - *Raymond James - Analyst*

Good morning, guys. I'd like to talk about fee income for a second. It was up nicely in 2016. As we head into 2017, obviously mortgage is going to be under some pressure.

But could you give us some color on your expectations for fee income businesses and how you think about trends? And would you consider doing some non-bank M&A to supplement your trust or wealth lines of business?

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

Thanks, David. The way to think about it is you think about the components of our noninterest income. Our services on deposits are largely correlated with growth in the organization and household growth. So continuing our focus on organic growth should benefit that as we move through the year. And our trust and wealth businesses, we began to reinvest in that in 2016. Looking forward into 2017, we would like to see that continue to grow. We have considered all kinds of options. Things are always on the table, we are always considering M&A in various ways. So that's out there. There is nothing, M&A or nothing, that's being worked on currently, but we are open to it.

In mortgage banking, we expect a good year as we continue to build out in Orlando and continue to build out into South Florida. And we should continue to see check and debit card interchange continuing to perform well. Some of the investments we made in the talent and the automation and the marketing team we have brought in over the past few years has led to good results there that's driving spend. And we continue to focus on that line item moving forward as well. I think you'd continue to see positive trends throughout 2017.

David Feaster - *Raymond James - Analyst*

That's helpful. On provision expense, it was a bit higher than expected. You actually saw some charge-offs after several quarters of net recoveries. Do you think we're kind of ending the credit cycle -- or entering the credit cycle and that reserve releases should slow and that we should start to see more normalized levels of provisionings and charge-offs going forward?

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

I would just say that you are right, we didn't have the recoveries this quarter. We have had kind of an unusual series of recoveries during a good part of 2016 that kind of went to basically nothing, or very low this quarter. And I think that was certainly impactful, but of course the driver to provision in the quarter, and really throughout the year has been loan growth and it's been covered to some degree with unusual levels of recoveries, those recoveries did not occur this quarter.

I think we would expect to see those recoveries continue to remain a little more modest going forward than they were in 2016. So we are counting on generally higher provisioning in 2017 then we would have seen in 2016, primarily driven -- totally driven by more aggressive loan growth.

David Feaster - *Raymond James - Analyst*

That's helpful. Last one from me, more of a high level question. You've got a pretty wide footprint across Florida's West Coast. Could you give us a pulse of the Florida the economy, it is still 1,000 people moving here a day. Are you seeing increased optimism in your clients? And after the election and increased willingness to grow and invest in their businesses? What are some notable trends that you are seeing in the Florida economy?

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

I think there is no doubt that we are now seeing increased optimism on the part of our customer base as we talk with small businesses, as we talked with larger commercial clients. What I see and some of the things that we are working are folks more willing to invest and grow. But I think it is more fundamental than that, I think the economy in Florida continues to perform extremely well.

I think the thing that is kicked in in the last quarter or two, which I've been talking about all year, is a return of broader-based construction, primarily around residential and that is being driven by a lack of inventory for new product across the State. So whether it be Orlando or South Florida or Tampa, we are seeing much higher levels of construction spend. I'm not talking high-rise, I'm talking more broad-based type construction, which is certainly helping with the employment situation and -- there was the structure component to GDP growth is back.

So I think we will continue to see positive things there. Any insights Chuck or Julie, that you've noticed?

Julie Kleffel - *Seacoast Banking Corporation of Florida - Head of Small Business Banking Unit*

Denny, this is Julie. I would echo your comments. As we spend a lot of time with small business owners optimism is very high and investments in their business continue, both in expansion and in innovation. So I believe that it's a forward-looking positivity across the State of Florida.

David Feaster - *Raymond James - Analyst*

That's helpful, thanks.

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

Optimism got huge. (Laughter). But I think it's more fundamental than that, and I really have a pretty positive outlook. I think we have some nice runway ahead of us over the next couple of years in the State as things have fully come back online. The other thing that is no surprise to any of us is the number of folks moving to the State is back up to a pretty high level now and we're seeing it pretty consistently across the State.

I guess one other final comment I will make is, amazed at some of the industrial growth, we are seeing industrial warehouse really advancing very quickly, particularly around the center part of the State. And I think it's a function of what is happening to a great degree in the way the business model is changing for retailing and other things like that. We see tremendous growth there.

That is not something I'm interested in having us participate in very strongly, it tends to be more speculative and not something that fits our risk profile. And they also tend to be larger than our risk appetite in terms of size. But that's driving a lot -- been a big delta, I'd say, over the last 12 months in those markets.

David Feaster - *Raymond James - Analyst*

That's very helpful. Thank you. Great. Thanks, David.

Operator

At this time I see we have no further questions in queue. I'd like to turn the call back over to Mr. Dennis Hudson for closing remarks.

Dennis Hudson - *Seacoast Banking Corporation of Florida - Chairman & CEO*

Thank you all for joining us today. Again, we look forward to seeing you hopefully on February 22 in New York where we are going to be talking more deeply about our go-forward strategy and implications in the medium term.

Thank you for attending today. Look forward to seeing you then and on next quarter's call.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.
