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PRESENTATION

Operator

Welcome to the Seacoast Banking Corporation third quarter 2017 earnings conference call. My name is Paulette, and I will be your operator for today's call. (Operator Instructions.] Please note that this conference is being recorded.

I will now turn the call over to Dennis Hudson, CEO. You may begin.

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

Thank you, Paulette, and before we begin, I want to direct everyone's attention to the statement contained at the end of our company's press release regarding forward-looking statements. Seacoast 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 Act.

Thanks again, everybody, for joining us today for Seacoast's third quarter 2017 conference call. Our press release, which we released yesterday, I think, after the market closed, and our investor presentation can be found on the Investor portion of our website under the title Presentations. With us today is Chuck Shaffer, our Chief Financial Officer and Head of Strategy, who will discuss our financial and operating results. Also with us today, Julie Kleffel, our Community Banking Executive; Chuck Cross, our Commercial Banking Executive; David Houdeshell, our Chief Risk and Credit Officer; and Jeff Lee, our Chief Marketing and Analytics Officer.

Our third quarter results show that the investments we've made over the past 2 years continue to produce results for shareholders. Building on our 90-year-old history, the strength of our brands and our transformed customer service platform, we generated record commercial loan growth and solid organic growth overall. We possess one of the top-performing banking franchises in Florida, which is one of the nation's most economically robust states, with solid positions in 4 of our state's most attractive markets. We continue to strengthen that franchise through our balanced growth strategy of organic growth, prudent risk management and selective, value-creating acquisitions.

Turning to our financial results, third quarter net revenue increased 5% over the prior quarter and 21% over the second quarter last year. Adjusted net income rose 20% sequentially and 37% compared with last year's third quarter. We reported adjusted net income per share of $0.25, up 21% sequentially and year-over-year.

We're clearly on pace to achieve our ambitious Vision 2020 goals, and I'd like to remind you what those goals are: In the medium term, to produce a 1.30% return on assets, to produce a 14% to 16% return on tangible common equity and to push our overhead ratio down into the low 50s. We believe by 2020 and beyond, we'll exceed some of those numbers, and we'll push our overhead ratio below 50%.

Well, this quarter we, as I said, we're on pace to achieve our ambitious goals, and we recorded an adjusted average return on tangible assets of 1.16%, adjusted return on average tangible shareholders' equity of 12.8% and adjusted efficiency ratio of 57.7%. We achieved these results without compromising the granularity of our loan portfolio and while maintaining a risk profile that is below the industry average. We have built an integrated loan production and credit underwriting platform that is performing effectively and that is built to add high-quality assets over the long haul.

Turning to our operations, third quarter loan production continued strong, with record high commercial loan originations. Our loan pipelines are near record levels entering the fourth quarter despite the impact of Hurricane Irma, about which I will say more in a moment, but we saw that normalize after the storm.

In the past we've mentioned Seacoast's digital transformation. We continue -- I mean, our focus on that, not because our focus on that, not because we value digital and analytical innovation for its own sake, but because it has enabled us and will continue to enable us in the future to stay on top of consumers' massively and rapidly changing expectations for what they want from their financial services partner.

We continue to benefit from the rapid migrations of transactions outside of the branch. Total transactions completed outside of the branch rose in September to 52% compared with 43% in September just 2 years ago. 40% of checks were deposited outside branches in September compared to 35% in September of last year. Mobile penetration during the quarter increased to more than 32% of eligible primary consumer checking customers, up from 29% in September just last year. And the proportion of new deposit accounts opened outside of our branches rose to 13.3% of all deposit accounts this quarter.

We continue to invest in modernizing our retail and small business sales strategy as we focus on enhancing customer lifetime value, a property metric that we unveiled at last February's Investor Day. We are also developing a commercial analytics portal that will connect our commercial bankers with the analytics and the insights that we are currently providing our retail and small business teams. Overall, we focus relentlessly on leveraging our position as Florida's leading community bank by addressing a larger share of our customers' banking needs.

Shifting briefly to the M&A part of our strategy, last week we closed on the acquisition of NorthStar Bank in Tampa. Combined with our acquisition of GulfShore Bank, we now have a strong and growing presence in Tampa, Florida's second-largest MSA. Then next month we'll close on the acquisition of Palm Beach Community Bank, which strengthens our position in Palm Beach County and extends our network further south into Palm Beach County. We continue to look for opportunities to complete prudent acquisitions that strengthen our existing franchise in Florida's top 4 markets and expand our position across the state.

I'd like to say a few words about Hurricane Irma. Late August and early September was, as everyone knows, a difficult time for Floridians. The entire state prepared for this Category 5 hurricane, which caused 2 full weeks of business interruption with 1 week or preparation and another week of recovery. Being part of the communities in which we operate is not just something we say' it is vital to all of us. Seacoast has been part of Florida for 90 years, and it is our mission to help our local communities bounce back.

To assist our borrowers, we rolled out a number of programs to provide them with assistance. In the days following the storm, we conducted site visits and inquiries with commercial customers in our most significantly impacted areas to help assess potential recovery needs. I'm proud to say that our dedicated and committed staff spoke to around 70% of our commercial customer base.

The financial impact of Hurricane Irma on the quarter was approximately $0.01 a share, and Chuck's going to provide some detail in his remarks. But while the financial impact was minimal, I think the emotional impact as far greater, and I suspect longer lasting. I'm gratified and relieved by the resilience of the Seacoast family in that our disaster planning and backup site, which we created for eventualities like this, performed so well.

Finally, given our momentum exiting Q3 and strong pipelines, despite the impact of Hurricane Irma, we're affirming our full-year adjusted EPS guidance of $1.28 to $1.32.

So in summary, Seacoast a carefully balanced strategy that build loan granularity, strong organic customer acquisition, and digital customer engagement in combination with smart, accretive acquisitions, as seen from this and previous quarters' results, the strategy is working, creating real and long-lasting value for shareholders.

With that, I'd like to turn the call over to Chuck, who's going to review this quarter's financials, after which we'd be happy to take a few questions. Chuck?

Charles M. Shaffer - *Seacoast Banking Corporation of Florida - CFO, Head of Strategy, EVP and Community Banking Executive*

Thank you, Denny, and thank you all for joining us this morning. As I provide my comments, I'll reference a slide deck, which can be found at wwww.seacoastbanking.com.

I'll start this morning on Slide 5, discussing some of the highlights for the quarter. Net revenue increased 21% year-over-year to $57.2 million, and adjusted net income was up 37% to $15.1 million. Sequentially, net revenue increased 5% or $2.5 million, and adjusted net income was up 20% or $2.5 million. Adjusted return on tangible common equity ended the quarter at 12.8%. Adjusted return on tangible assets was 1.16% for the quarter. And the adjusted efficiency ratio declined to 57.7%.

All three ratios have improved meaningfully form 1 year ago, and this improvement evidences our continued progress towards our Vision 2020 objectives and commitments to creating value for shareholders. Unlike prior quarters, the impact of acquisitions and branch reductions were more modest in Q3, highlighting the underlying earnings momentum and the outlook to continue to build tangible book value per share.

In early 2017 we engaged in a $200 million equity transaction that included the issuance of $50 million in new equity to support growth. Over the course of the year, this capital has been employed in a productive manner, already offsetting most of the initial EPS dilution from the share issuance. Additionally, we've increased tangible book value per share from $9.37 at the start of the year to $10.95 at the current quarter. That's a 17% increase in 9 months. By year end, we will have closed on 3 accretive acquisitions, extending the Seacoast franchise into Tampa with the GulfShore and NorthStar purchases and strengthening our presence in south Florida with the Palm Beach Community Bank acquisition.

Moving forward on slide to Slide 6, Denny mentioned the third quarter was impacted by Hurricane Irma. The storm caused 2 full weeks of business interruptions, as 1 week was spent on preparation and 1 week spent on recovery. The impact of Irma on the quarter was approximately $0.01 per share. Revenue was impacted in the form of waived service charges, slower activity in wealth management and delayed closing on loans. We incurred direct expenses of $0.4 million, primarily compensation for staff working throughout the storm to ensure our customers had digital and Web access at all times, remote support from our backup site in Nashville, Tennessee, and recovery expenses to bring our branch network back online. We removed these direct incremental expenses from the presentation of adjusted results. No adjustment has been made for the revenue impacts.

Looking more deeply at the quarter, let's move to Slide 7, net interest income. Net interest income was up $1.6 million sequentially, and as anticipated, the net interest margin was down 10 basis points sequentially, the result of lower accretion on both securities and loans when compared to the prior quarter as well as higher interest expense on deposits and borrowings. This is in line with the guidance we provided last quarter of a net in margin in the low to mid 370s. And as a reminder, the prior quarter benefited from accretion that was above our normal run rate for both loans and securities.

Looking forward and inclusive of NorthStar and Palm Beach Community Bank, we expect the net interest margin to be in the mid-370s in the fourth quarter, an increase to the high 370s by the second quarter of 2018, assuming no change in short- or long-term interest rates. This includes 11 basis points of accretion, which will remain volatile as we move forward.

Both NorthStar and Palm Beach Community Bank will be modestly accretive to NIM, primarily the result of higher-yielding loan portfolios. And looking forward to a changing mix from securities to loan outstandings over the coming quarters should offset modest increases in the deposit rates based on our loan production targets.

We remain asset sensitive, with a 100- to 200-basis-point parallel increase in rates would equate to approximately to 4% to 7% improvement in net interest income over the next 12 months, and a 7% to 13% in net interest income on a 12- to 24-month period. We'll continue to manage through an asset-sensitive balance sheet, which is bolstered by a very valuable, low-cost deposit portfolio. A 25-basis-point increased in the Fed funds rate results in approximately #0.02 per share increase in earnings on an annualized basis. We do not expect the two acquisitions to meaningfully impact our asset-sensitive interest rate risk position.

Moving to Slide 8, adjusted noninterest income increased $1 million over the prior quarter and is up $1.7 million from the prior year's third quarter. Of the $1 million increase over the prior quarter, mortgage banking fees represented $866,000, in large part due to the $57.7 million sale of conforming residential mortgages that were originated in prior periods. The sale was transacted to manage on-balance-sheet liquidity and monetize gains, given the fall in long-term rates during the quarter. Looking forward, we'll continue to take advantage of these types of opportunities if they arise.

The increase in bank-owned life insurance was the result of a $30 million investment made late in the third quarter, with a first-year expected return of approximately 6.2% on a tax equivalent basis.

Of note, service charges on deposits, interchange income and wealth management fees were impacted by Hurricane Irma due to the 2 weeks' business disruption I mentioned previously. The continued higher results in other income is a result of pricing changes we implemented in the second quarter, increased demand for interest rate swaps by our commercial borrowers and, more modestly, gains on sale from SBA-related production. Looking forward, we expect both swap-related income and the gain on sale from SBA-related production to continue to improve into 2018.

Moving 1 slide forward to Slide 9, adjusted noninterest expense was down $1 million from the prior quarter and up $2.7 million from the prior year's third quarter. The quarter-over-quarter decrease was a result of the full impact of consolidation of 5 branches in 2017, improved expense discipline and the benefit of a net gain on other real estate owned and repossessed assets. The adjusted noninterest expense to average tangible asset ratio declined to 2.50% for the quarter from 2.76% in the third quarter of 2016. This quarter highlights the underlying adjusted expense run rate for Seacoast exclusive of the 2 acquisitions pending. In aggregate, the 2 acquisitions will add approximately $1.6 million of noninterest expense to the fourth quarter and approximately $2 million per quarter to 2018. We continue to carefully balance investments with current earnings and anticipate making investments of approximately $4.5 million in 2018 to improve our processes and tools for commercial banking, invest in talent and tools for enterprise risk management and technology functions and further upgrade our analytics and digital marketing capabilities. These investments will help scale our organization appropriately and set the stage for sustainable, high-quality earnings growth in 2019 and beyond. These investments are not expected to impact our objective of exiting 2018 with a tangible efficiency ratio in the low 50s.

Our continued growth in top line revenue, in combination with continued expense discipline throughout the franchise, creates opportunities to make investments necessary to achieve our Vision 2020 targets. We're well on our way to our previously announced goal of closing 20% of our retail locations in the next 24 to 36 months. We have consolidated 5 branches year-to-date and we'll be targeting another 2 to 3 branches in 2018 and 2 to 3 in 2019. In addition, we'll consolidate 3locations as part of our acquisitions of NorthStar and Palm Beach Community Bank. Branches are still valuable to customers for more complex transactions and keep our brand visible to customers and prospects, but simple tasks such as depositing funds are rapidly migrating to a digital world.

We're clearly building an integrated approach to meeting our customers' needs. We now provide a full suite of mobile products, online technology, remote ATM locations, call center convenience and rebranded retail locations for our customers. We believe this integrated approach aligns with today's customers' expectations. As we move forward, we'll continue to monitor the ever-increasing rotation of customer preference to digital and react accordingly.

We benefited -- we recorded a $7.9 million income tax provision in the third quarter of 2017. The quarter tax provision benefited from the adoption of ASU 2016-9, improvements in employee shared-based payment accounting. As a result, we recorded a benefit of $137,000 for the quarter. And looking ahead, we expect our effective tax rate to be approximately 35.5% in the fourth quarter and 35% in 2018.

Moving to Slide 10, our adjusted efficiency ratio decreased to 57.7%, in line with our internal objective. Our target is to exit 2017 with an adjusted efficiency ratio near the mid-50s as we continue to build a streamlined organization and generate strong growth in top line revenue. We expect this ratio to continue to improve into 2018, excluding seasonal impacts of the first quarter. Our 2018 target is to exit the year with an efficiency ratio in the low 50s.

Turning to Slide 11, loans outstanding continued to grow during the third quarter, increasing $55 million. Excluding the impact of the conforming mortgage sale, loans grew organically $112 million or 3.4% sequentially or 14% annualized. Excluding acquisitions, organic loans grew 13% over the prior year. Record production from our commercial team in this quarter as offset somewhat by elevated paydowns. Looking forward, we expect loan production to continue to reflect the underpinnings of a strong Florida economy and continued customer receptivity to our relationship base and convenience-based approach to helping meet client needs.

Our pipelines remain very strong at quarter end and are in near-record levels despite Hurricane Irma. The commercial pipeline ended the quarter at $155 million, residential at $64 million and consumer small business at aggregated $4 million. During 2017 we will have added to teams at GulfShore Bank, lending teams at GulfShore Bank, Palm Beach Community Bank, NorthStar Bank and the commercial equipment team in Tampa.

We continue to focus on building a well diversified loan book. Our average commercial loan size is $369,000. Our top 10 relationships as a percentage of total capital are 31% at the end of the third quarter, down from 39% at the end of the third quarter of 2016.

Those who attended our Investor Day will remember that our credit and underwriting functions are able to process the volume that small loan granularity requires. The upside, of course, is a less risky portfolio. Looking forward, we expect organic loan growth to continue in the mid-teens, and the loan yields should remain stable in the high 460s to low 470s. This includes the impact of the 2 acquisitions and excludes any outside noncash accretion effects from loans included in purchased credit-impaired or acquired loan pools.

Turning to Slide 12, deposit outstandings grew by $138 million quarter-over-quarter or up $603 million from the third quarter in the prior year. Excluding the impact of acquired deposits, total deposits increased 1% from 1 year prior. Deposit growth across all markets was partially offset by outflow associated with public fund money market accounts. Without this outflow, organic deposit growth was 3% year-over-year. Rates paid on deposits increased 5 basis points to 22 basis points quarter-over-quarter, reflecting the lag effect of short-term rates -- increase in short-term rates. Looking ahead, we expect to grow deposit outstandings in the 6% range with a modest increase in deposit rates paid to customers as we compete more aggressively for funding.

Turning to Slide 13, credit quality continues to be strong, benefiting from rigorous credit selection that emphasizes through the cycle orientation and builds on customer relationships and well understand, known markets and sectors as well as maintaining diversity in loan mix and granularity. The allowance to the total loans was 77 basis points at quarter end, down 1 basis point from the prior quarter. In the nonacquired loan portfolio, the ALLL ended the quarter at 91 basis points of loans outstanding, down 4 basis points from the prior quarter. The decline in coverage in the nonacquired loan ALLL was a result of improved credit quality and loan mix as well as another quarter of nominal losses in the portfolio. Additionally, commercial and commercial real estate concentration risk continues to decline as we continue to maintain a well diversified and granular portfolio.

Our allowance for loan losses to nonperforming, nonacquired loans during the quarter was 237% compared to 245% in the prior quarter and 210% in the same period 1 year prior. Nonperforming loans continue to be nominal, totaling only $14.4 million. Net charge-offs were $279,000 for the quarter compared to net recoveries of $101,000 in the prior quarter and net recoveries of $1.5 million in the third quarter of the prior year. Looking forward, the provision for credit losses will continue to be influenced by loan growth.

And lastly, turning to Slide 14, our capital position remains strong. Our common equity Tier 1 capital ratio was 12.4%, total risk-based capital ratio was 14.8% and our Tier 1 leverage ratio was 10.2% at September 30. The tangible common equity to tangible asset ratio was 9.1% at quarter end.

We expect to achieve our adjusted earnings per share guidance for 2017 of $1.28 to $1.32 per share, and our goal to exit the year was an efficiency ratio in the mid-50s. We continue to expand our analytic and digital capabilities, generate organic and acquisition-related loan growth and continue to capitalize on our strong position in the robust Florida economy.

We look forward to your questions. I'll now turn the call back over to Denny.

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

Thanks, Chuck, and we'd be happy to take a few questions. Operator?

++ q-and-a

Operator

[Operator Instructions.] And our first question comes from Michael Young from SunTrust. Please go ahead.

Michael Masters Young - *SunTrust Robinson Humphrey, Inc., Research Division - VP and Analyst*

Q: I wanted to start off on the NIM commentary, Chuck, kind of to the mid-375, I think you said, by 2Q next year. Correct me if is misheard that. But embedded within that, do you expect some continued positive balance sheet remix towards loans from deposits and the loan to deposit ratio moving higher, or do you expect to get a little more aggressive on deposit pricing to kind of push deposit growth higher? Maybe just help me to understand some of the puts and takes there.

Charles M. Shaffer - *Seacoast Banking Corporation of Florida - CFO, Head of Strategy, EVP and Community Banking Executive*

A: Sure. The way I think about it is the guidance really is, for fourth quarter is mid-370s, and then that should climb to the high 370s by Q2 of next year. Part of what's coming on there is the new -- that's inclusive of the 2 acquisitions in Q4. And I think when you look forward, there will be a positive mix shift from a declining securities portfolio and a growing loan book. And we will compete a little more aggressively for deposits moving forward. And we put out guidance. The guidance that we provided is a 6% deposit growth. So assuming we achieve our objective there at growing deposits, we should see NIMs remain stable to slightly growing over the next couple of quarters.

Michael Masters Young - *SunTrust Robinson Humphrey, Inc., Research Division - VP and Analyst*

Q: Okay, great. And maybe just sticking with the deposits, in terms of maybe where you're seeing pressure at this point, if any, other than sort of the public funds piece, could you maybe characterize it geographically at all? Is it more in kind of the major MSAs -- Orlando, Tampa -- versus the legacy deposit base? Just curious, any color there.

Charles M. Shaffer - *Seacoast Banking Corporation of Florida - CFO, Head of Strategy, EVP and Community Banking Executive*

A: Yes, no. Definitely the more urban markets is more competitive, and the pricing pressure is in the public funds arena. In the larger commercial client type customers' wholesale funding is where the pricing pressure is. If you look at over our last 12 months, our public fund money market balances are down about $102 million over the year. So when you take that out, our deposit growth was about 3%, and it's one of our key focuses moving forward. But the competitive pressure is primarily in the urban markets.

Michael Masters Young - *SunTrust Robinson Humphrey, Inc., Research Division - VP and Analyst*

Q: Okay, and maybe just last one for Denny. It seems like we're kind of past a lot of the restructuring charges related with just kind of improving the efficiency ratio and expense base going forward, so tangible book value growth is increasing. Do you think you need to retain, still, all of that capital to support growth, or do you think there's opportunities to maybe reinstitute a dividend or other capital management actions that maybe we're not thinking of?

Charles M. Shaffer - *Seacoast Banking Corporation of Florida - CFO, Head of Strategy, EVP and Community Banking Executive*

A: And I think we'll be looking at that. You asked the right question, and we still see some opportunities for growth from an M&A perspective, so I think it's important to maintain continued strength in those capital ratios. But I would say that is an evolving conversation and something probably have more to talk about next year.

Operator

[Operator Instructions.] Our next question comes from Steve Moss from FBR. Steve, please go ahead.

Stephen M. Moss - *FBR Capital Markets & Co., Research Division - SVP*

Q: On the margin I was wondering, does your guidance include a Fed hike in those numbers?

Michael Masters Young - *SunTrust Robinson Humphrey, Inc., Research Division - VP and Analyst*

A: Yes, thanks, Steve, no. That assumes rates remain where they are today -- no change in short-term or long-term rates.

Stephen M. Moss - *FBR Capital Markets & Co., Research Division - SVP*

Q: Okay. And in terms of asset sensitivity, started to think about 3 to 4 basis points in terms of margin expansion from a hike?

Michael Masters Young - *SunTrust Robinson Humphrey, Inc., Research Division - VP and Analyst*

A: Correct. That's exactly the right number.

Stephen M. Moss - *FBR Capital Markets & Co., Research Division - SVP*

Q: Okay, and on the deposit side, a little bit of an increase here in broker deposits. Wondering if your deposit growth includes some component of that as well.

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

A: I think at this point, there may be very minor increases in that looking forward, but the deposit growth guidance we're giving in what we want to get accomplished would come from our retail, small business and commercial teams, and probably much less so on broker deposits. We've got about what we want in that bucket.

Stephen M. Moss - *FBR Capital Markets & Co., Research Division - SVP*

Q: Okay, that's helpful. In terms of -- and just one other clarification on the margin. On loan yields, the 460s to 470s number -- that was inclusive or exclusive of purchase accounting?

Michael Masters Young - *SunTrust Robinson Humphrey, Inc., Research Division - VP and Analyst*

A: That includes purchase accounting. Yes, that includes the accretion.

Stephen M. Moss - *FBR Capital Markets & Co., Research Division - SVP*

Q: Okay, that's helpful. And just on the M&A front, Denny, you said you still see opportunities to do deals. Wondering if there's been any increase in discussions or activity, or is that a little further out?

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

A: Increase in what activity?

Stephen M. Moss - *FBR Capital Markets & Co., Research Division - SVP*

Q: In M&A discussions.

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

A: Oh, okay. I really don't like talking about all of that, and I just would suffice it to say that we are continuously alert to opportunities. We continuously talk with folks across the state, and when we see an opportunity that makes sense for us, that we think can add real value to what we've created here, we engage. And so I think those opportunities still exist. They're still out there, and over the next year, you'll continue to see more of that develop as we go through time. But I don't have anything specific to talk about in terms of that. But they continue to be there.

Operator

And our next question comes from David Feaster from Raymond James. Please go ahead.

David Feaster

Q: Loan growth was a bit lighter than expected, and I suspect, as you talked about, there's business interruption from the storm. Could you just try and quantify that and maybe what you're seeing thus far early in the fourth quarter that gives you confidence that you'll get back to that mid-teens run rate?

Michael Masters Young - *SunTrust Robinson Humphrey, Inc., Research Division - VP and Analyst*

A: Yes, I think when you look at the storm specifically delayed closings towards the engine of the month, and our mortgage pipeline as well was certainly impacted by it. Early, right out the chute here coming into Q4, we've seen good, strong production. Teams are back online. Things that got pushed are getting closed. And so we feel confident we're sort of back on track with our run rate.

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

A: And I'll just add, we saw record commercial originations this quarter. We hit a record in residential production this quarter. We had a little bit of elevated payoffs in the commercial book, which was a little bit of a surprise. And as we ended the quarter, our pipelines are pretty much very close to a record number. So when we look into Q4, we see continued really solid growth, solid organic growth in loans. So I think just a reminder, we had a mortgage sale that occurred this quarter that impacted the growth rate. When you take that out, I think our growth rate was up closer to maybe expectation. And frankly, we see a very, very positive market out there in terms of continued loan growth.

On the deposit side, we've seen tremendously positive organic growth. Again, as we pointed out earlier on the call, we saw a little bit of a cutback in that growth due to the loss of some higher-yielding liabilities, primarily out of the municipal portfolio that we have. But when you X that out, 3% growth, which wasn't bad. This is one of our seasonal -- this is the seasonally weakest quarter that we typically have, and we're expecting those growth rates to come back, as we stated earlier, as we look forward. So actually, we couldn't be happier with our loan growth this quarter.

David Feaster

Q: Terrific. Could you just talk about your hiring plans going forward? Last quarter you hired a team in Tampa. How are conversations going? Are you still having good conversations to kick off new teams and maybe what markets you're most focused on? Any detail you have there.

Charles K. Cross - *Seacoast Banking Corporation of Florida - EVP, Commercial Banking Executive and EVP of Commercial Banking for Seacoast National Bank*

A: Hey, David, this is Chuck Cross. The only comment there is that we continually talk to people around the state, both individuals and teams, and we're opportunistic when they're ready to move or see this as an opportunity.

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

A: But as Chuck said earlier, we've added substantially to the team this quarter with the acquisitions that will quote both in Tampa and in Palm Beach County. And the number count there is actually pretty impressive, and very impressed with the people that are joining us on that team. In particular, it helps us build out a much stronger team, I think, or a deeper team in the Tampa market, which is just now starting to produce some growth for us. And when you add the impact of that incredible market in Tampa -- Tampa-St. Pete -- it gives us a much greater capacity to continue to focus on growth.

David, when you look back over the last several years, we have dramatically shifted our loan production into deeper metro areas across the state. And that is what will continue to drive positive results for us, both in terms of loan growth and in terms of, in particular, commercial deposit growth out of those markets.

David Feaster

Q: Great. On your expense guidance, is that -- you talked about adding $2 million of expenses, I believe, in the first quarter. Is that off the 3QQ run rate, and would imply kind of that $35.5 million to $36 million -- I'm assuming it's inclusive cost savings, is kind of a good base for quarterly expenses next year?

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

A: Yes.

Operator

Our next question comes from Jeff Cantwell from Guggenheim. Please go ahead.

Jeffrey Brian Cantwell - *Guggenheim Securities, LLC, Research Division - VP and Analyst*

Q: I just wanted to talk about your improvement in the efficiency ratio and the extent to which that's tied to the increase in mobile penetration. I guess clearly the argument would be some of the improvement in your efficiency ratio is ascribed to your digital strategies, so just trying to get a better feel for the extent by which mobile penetration should increase further as you start to think about 2018 and how much of a driver that would be with respect to the efficiency ratio. Thanks.

Michael Masters Young - *SunTrust Robinson Humphrey, Inc., Research Division - VP and Analyst*

A: Yes, I think the way to think about it is there's certainly an interlink between the third-party providers and the expense associated with digital penetration. That being said, the cost to service a relationship via mobile or digital is far, far lower than it is on a traditional basis. So it's up to us to make sure, as customers migrate to a more digital platform and as customer preferences change, that we take action across our network and rotate expenses out of the network, which is what we've done over the last 2 to 3 years and as we've seen customers migrate to digital. And as that continues, we'll continue to allow that to happen. So I think net-net, it's actually a positive. The more customers migrate to digital, and it's something we encourage and are driving towards, and it's up to us to execute against that opportunity. Really important, really a little more complicated, of course, in terms of really trying -- that was well said, Chuck, and as we -- I guess what I'm trying to say is as we begin to make those connections and connect them into actual dollar reductions and overhead, the processes we use to understand how fast we can move become increasingly critical. And that's been a big part of our success, I think, in bringing that ratio down, is being able to have that -- build those connections between the behavioral change and reducing what was our fixed infrastructure cost. And so that's really the key to this whole thing.

And when we rolled out the 2020 Vision in February of this year, that was one big piece of it, but there are many other pieces of that 2020 Vision that rest on top of those same concepts as we continue to improve the efficiency of being able to deliver and fulfill, for example, our lending products across the line. So it's an interesting time, but there's tremendous opportunity, as you point out, to bring those expense ratios down in the world we see ahead.

Operator

And we are showing no further questions. I'll now turn the call back to Dennis Hudson for closing remarks.

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

A: Great. Thank you, operator, and thank you, everybody, for attending today. We look forward to talking with you again after the first of the year. Thank you.

Operator

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