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PRESENTATION

Operator

Welcome to the Seacoast Second Quarter Earnings Conference Call. My name is Cynthia and I'll be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

I will now turn the call over Dennis Hudson. Mr. Hudson, you may begin.

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

Thank you for joining us today in our second quarter 2016 earnings conference call. Our press release issued yesterday after the market close and updated investor presentation slides with supplementary information are posted on the Investor portion of our website at seacostbanking.com, and you can find that information under Investor Services at the top of the page, and then drop down to Presentation.

Before we begin, I'll direct your attention, as always, to the statement contained at the end of our press release regarding forward-looking statements that we'll be making during the call. We'll 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 the Act.

With me in the room today is Steve Fowle, our Chief Financial Officer who is going to discuss our financial and operating results. Also in the room are Chuck Shaffer, who heads our Community Banking Division; Chuck Cross, who heads our Commercial Banking Division; David Houdeshell, our Chief Risk Officer; Jeff Lee, Marketing and Analytic. All of us will be available to answer your questions following the conclusion of our prepared remarks.

The second quarter results show that Seacoast balanced growth strategy combining investments in our digital transformation to power a stronger organic growth, and reduce our costs and the benefits, from our recent strategic acquisition, are all on track and producing results for shareholders.

The second quarter featured a year-on-year revenue growth of 26%, and a 28% growth in adjusted fully diluted earnings per share. Seacoast data-driven multi-channel approach to cross selling drove strong results contributing to record-high consumer, small business and mortgage quarterly loan production, as well as record-breaking debit card volumes.

We've been implementing Seacoast methodical transformation for the last eight quarters, and it is continuing as planned. While we benefit from the internet, our strategy is not to be an internet bank; rather it's to be a community bank that has been remade for success in the digitally-enabled consumer centric banking environment we see in the 21st century.

Our performance metrics underscore the value we're creating for shareholders. Our return on assets improved 9 basis points to 0.84% compared with 0.75% in the last year's second quarter. Our return on tangible common equity reached 10.6%, a 190 basis point improvement from 8.7% last year, and a 210 basis point improvement over the 8.5% in the first quarter, and we have reduced our efficiency ratio this quarter to 65% compared to 70% during the first quarter.

We expect these metrics to continue to improve as the quarters roll out over the balance of this year. Our cross sell model is meaningfully deepening our relationships with customers. Consumer loans sold to existing households continues to grow with a Q2 annualized growth rate of 81% in consumer loans over the comparable quarter in 2015, and 175% growth over the same quarter one year earlier in 2014.

New deposit accounts sold to existing households continues to grow as well, with Q2 annualized growth rate of 32% over the second quarter of last year, and 75% growth over the 2014 second quarter. Seacoast balanced growth strategy confines organic investments in acquired growth from our acquisitions. Q2 organic growth, household growth, was right around 1%, or around 2.6% annualized. Our pace slowed this quarter as we saw attrition from some of the branch closures in some of our rural markets.

We welcomed our new households from BMO in the second quarter bringing our household growth inclusive of the acquisition to a little over 8%. The former BankFirst and Grand Bank franchises continue to show strong household growth at 2.5% for the quarter, or around 10% annualized.

Through our acquisitions, we have strengthened our presence in Central Florida. We're now Orlando's largest Florida-based bank and are a top-ten bank in that market, one of the nations' fastest growing markets. In fact, Orlando led the U.S. in job creation in 2015.

We are also now number one in terms of our market share in the fast growing Port St. Lucie MSA, which includes the city of Port St. Lucie, which is now Florida's eighth largest city. We now have an enviable position in Central Florida, which as you know, has a diversified economy and a thriving business services, technology, health care and education sectors.

At its simplest, Seacoast's digital transformation is focused on three things: Modernizing how we sell with an intense focus on cross sell; Lowering our cost to serve by driving routine transactions to lower-cost channels; and driving improvements in how our business operates by using analytics and technology.

I'd like to give shareholders an update on cost reduction and profit improvement to show the progress we're making. When we completed the acquisition of the BMO branches on June 6th, we added 14 BMO locations to our six Floridian locations and eight existing branches in the Central Florida market.

Because we have deep information on customer-use patterns and highly effective lower-cost distribution channels, we have great flexibility as we reshape our branch network. And by the end of the third quarter of this year, we anticipate that we will have reduced our Orlando branch footprint from 28 to 15 locations.

We've continued our momentum in moving routine servicing transactions out of the branch; 32% of checks were deposited via mobile, ATMs and scanners, compared to 30% in Q1 and 24% a year ago. Checks deposited via our mobile app are nearing a total of 10% of total checks deposited. This equates to annualized number of over 280,000, or a little less than 1 million basic check transactions that are currently being driven through our mobile app and our ATM.

Consumer loans booked outside of the branch grew to 22% during the second quarter compared with 16% last year. Second-quarter deposit accounts opened outside of the branch grew to 11% compared with 6% a year ago. 28% of our eligible primary consumer checking accounts are actively engaged with mobile banking, an 18% increase in users in just the last six months alone.

And we're automating a portion of our back office processes with more than 40% of new consumer loan applications, now being closed using E-time on the internet and benefiting from our automated underwriting.

We are convinced that future success will come from continuing to take the best of community banking, our strong and well-recognized local brand, our reputation for service and our commitment to our communities, and combining it with digital analytics and marketing to deliver banking services through a mobile online ATM, and our 24/7 Florida-based call center channels.

These are convenient, always-on channels, that customers overwhelmingly want, and are lower cost than our Legacy cash transaction-based brick and mortar network. Moreover, when customers do want to see us face to face, we want them to be met by well trained and highly motivated branch personnel, who again benefit from ready-access to data on customers they're serving.

In that regard, I want to mention that during the quarter, we implemented our Living Wage Program bringing all of our associates up to at least $14 per hour. This affected about 1/6th of our associates who earned less than this level. Although the financial impact to the company is minimal, the impact on our brand and our commitment to our communities and to our associates is enormous.

As a result of this strong, affirmative step, we'll be better able to attract and retain the well-qualified associates who are committed to building a career in financial services and who can deliver the highly-customized service that our business model increasingly requires. It's with some pride that Seacoast implemented this system on April 15th, actually two months before J. P. Morgan's well-publicized similar initiative.

We're now midway through the 2016 fiscal year; results this quarter show that shareholders are benefiting from the effective implementation of our balance growth strategy. We've completed four acquisitions in the past three years, and Seacoast is now a major player in the attractive Florida geography. We have demonstrated our ability to convert these banks smoothly, and by using digital analytics and digital channels, we've retained their customers and have grown the services we sell to them.

We believe that our reputation as a seasoned aggregator of banks will benefit us in completing additional carefully considered acquisitions going forward. At the same time, we've nearly doubled deposits in the past few years, while adding only a few -- relatively few branches.

The final plank of our digital strategy, helping to rationalize our cost structure, is now gearing up and has much further to run. As a result, this quarter show we're improving our return on tangible common equity and our efficiency ratios, while we're growing a low-risk loan book and investing in transforming the bank. We're on track to achieving our guidance of $1 per adjusted share in diluted EPS this year.

One final note before I pass the baton over to Steve Fowle; we are not increasing our assets by overly emphasizing commercial real estate. Seacoast CRE loans, as a percentage of risk-based capital, are a little bit under 200%, and this compares with a median of a little under 300% for our peer banks in the state.

Our growth in CRE is deliberate and it's controlled. Rapid expansion of a bank's CRE portfolio is a way to grow quickly, but with substantial risk when the cycle changes. We have put into place, and are following mechanisms and policies, and ensure this will not happen at Seacoast.

With that, I'd like to turn the call over to Steve who is going to discuss, in a little more detail, the results that we posted for the quarter, and afterwards, as always, we look forward to taking a few questions. Steve?

Steve Fowle - *Seacoast Banking Corporation of Florida - EVP, CFO*

Thank you, Denny, and thanks to all of you for taking the time to join us this morning. Second quarter growth reflect continued execution of our business strategy, the transformation Denny just discussed, and a step towards our 2016 goal of $1 adjusted earnings per share.

We reported GAAP earnings of $5.3 million, or $0.14 per diluted share, compared to $4 million, or $0.11 per share in the first quarter of this year, and $5.8 million, or $0.18 per diluted share, in the year-ago period.

Our second quarter GAAP earnings include a number of noncore items as detailed in our press release, including expenses incurred from closing and integration of BMO Harris, our Orlando operations, and trailing expenses from last quarter's Floridian acquisition, expenses related to branch closures, including both Legacy Seacoast branches and acquired branches, the charge taken in conjunction with the early termination of Federal Home Loan bank borrowing.

These acquisitions will provide strong returns for Seacoast, including expected IRRs near 20% or better, while the FHLB advance prepayment and branch consolidations provide additional economic benefits for our company. As typical for the banking industry, we exclude securities gains from our adjusted earnings.

This quarter, we've revised our adjusted entries for this quarter and historically in response to the SEC's recent guidance on non-GAAP presentation. This change led us to eliminate adjustments for OREO expenses and asset disposition costs, which were relatively small dollar adjustments.

Adjusted net income increased $2 million, or 29%, from first quarter levels to $8.8 million. Adjusted earnings increased $2.7 million, or 45%, from the year-ago period. Adjusted diluted earnings per share increased to $0.23, up 21% linked-quarter, and 28% year-over-year.

Our operating metrics also reflect a step forward for our business model. Adjusted ROA improved 9 basis points to 84 basis points, and our adjusted efficiency ratio improved 490 basis points to 65.1%. Adjusted return on tangible common equity improved 210 basis points, eclipsing the double-digit mark to 10.6%.

This is remarkable improvement in a short period of time and shows the impact of our transformational efforts. We continue to build financial results on strong balance sheet growth. Our team drove record quarterly production in consumer mortgage and small business loans, and data-enabled cross sell complimented our community bank convenience and service model.

Our loan portfolio grew $679 million, or 35%, compared to the prior year, and $161 million, or 7%, not annualized, above the first quarter. Adjusting for acquired loans, we grew $234 million, or 12%, from the second quarter of 2015, and $97 million, or 4%, again not annualized, quarter-over-quarter. Pipelines were strong across business lines as we exited the quarter.

Amid this loan growth, we manage our portfolio with improving credit guard rails. Here's just two examples: First, we continue to maintain our commercial real estate portfolio to our internal guidelines, well below regulatory-suggested levels, holding steady at near 200% at total capital and well below Florida peers; and second, our ten largest relationships represent only 34% of capital, and these ten relationships aggregate to just $137 million, less than $14 million per relationship on average, evidencing a very granular portfolio.

Before talking about future expectations, let me take you through our income statement. Second quarter performance was a result of continued increases in top-line revenue growth reflecting organic household growth and cross sell augmented by focused acquisition activity.

Additionally, while the increase in expenses reflect growth from acquired franchises, we remain heavily focused on expense rationalization of these acquired companies, as well as further expense management within our Legacy business.

Revenue improved considerably, increasing $9.1 million, or 26%, over prior-year levels, and $4.2 million, or 11%, not annualized, above the first quarter. We built strong net interest income momentum as the benefits of recent acquisitions augmented by organic growth, as well as continued success in cross sell execution, as Denny noted in his remarks. This quarter we grew net interest income to $34.8 million, an $8.8 million or 34% increase compared to prior-year levels, and $4.3 million or 14% not annualized above the first quarter.

While the yield in costs of most asset and liability classes were relatively stable quarter-over-quarter, our margin percent decreased. This decrease is due to securities leverage and excess liquidity as we prepared for deposit from the BMO Harris branch acquisition. This leverage helped net interest income dollars, but decreased net interest margin. With that said, our margin has improved year-over-year due to loan portfolio growth, improved security deals and funding costs, as we effectively manage asset sensitivity and liability pricing.

With regards to provisions for loan losses, strong loan growth more than offset continued net recoveries and steadily improving asset-quality metrics this quarter to drive a $662,000 provision for loan losses, up from $199,000 in the first quarter of 2016, and down from $855,000 in the second quarter of 2015. Our allowance for loan loss in non-acquired loans increased slightly to 1.01%, but stayed above 1% of loans.

We also grew noninterest income as we continued to serve and cross sell into our growing household base. Overall fee income, excluding securities gains, grew nearly $500,000, or 6%, not annualized, quarter-over-quarter, to $9.1 million.

First quarter results included nearly $500,000 in unanticipated BOLI income, so adjusted, the income increased $945,000, or 11%, quarter-over-quarter. Noninterest income increased $23 million from year-ago levels. The second quarter of 2015 included a $725,000 gain on a participated loan, so adjusting for this loan, the income increased $1 million or 12%.

Significant contributors to fee income growth include transaction-based items like deposit service charges and interchange income, which increased 5% and 17% respectively. Mortgage banking revenue also increased a respectable 32% from prior year reflecting a record quarter production despite adding a greater percentage of our mortgage production to our portfolio.

Expenses also increased year-over-year and sequentially, driven by acquisition and a heightened level of noncore, especially merger-related costs. Noninterest expense increased $10.5 million from the second quarter of 2015 to $34.8 million. Excluding merger-related and other noncore expenses in both periods, adjusted noninterest expense increased $5.1 million from prior-year levels.

The year-over-year increase in adjusted expense reflects ongoing costs related to three bank acquisitions made over this period, as well as investment in growth, including Accelerate business lenders, mortgage and wealth businesses, and expansion of our outbound call center. The most significant increases came in salary and benefits costs, occupancy and equipment, and data processing expense, where you'd expect acquisition activity to impact expenses. As we indicated in our earnings release, while adjusted noninterest expense grew 21% compared to prior-year levels, revenues excluding securities gains grew 26% providing 500 basis points of operating leverage.

Noninterest expense increased $2.5 million on a linked-quarter basis. Adjusted noninterest expense grew $1.7 million, or 6%, contributing to the higher-adjusted noninterest expense during the second quarter of 2015, where salary and benefits costs, occupancy and equipment, and data processing expenses, attributed to ongoing costs from acquired businesses.

Now let me turn to expectations for the remainder of the year. In January of this year, we introduced our dollar adjusted earnings per share goal for 2016 based on our expectations that steady loan growth, expense management, acquisition, and a rising-rate scenario as implied by the forward rate curve as we exited last year.

As you know, the external environment has changed, which has weighed on both Seacoast and the banking industry. However, we take our goals seriously and we're actively managing our company to respond to market conditions. We believe, based on the actions we've taken and will take during the second half of the year, our $1 adjusted EPS goal is still achievable.

As I mentioned earlier, we accelerated securities purchases ahead of our initial timing and made essentially all of our purchases by the early part of June, completing it before rates took their last sharp step downward. As a result, we were able to maintain our securities portfolio yield at prior-quarter levels. We completed our BMO acquisition in a net [borrower] position, as we are also preparing for seasonal public fund inflows anticipated in late third and early fourth quarters.

Going forward, we expect a slowly rising in that interest margin as we improve balance sheet note mix built by a combination of low double-digit organic loan growth, acquired loans from BMO, and decreased levels of higher-cost wholesale borrowing. As a reminder, we added more than $60 million in loans and well over $300 million in deposits through the BMO Harris acquisition during June, which will be a positive in Q3, the first full quarter following the acquisition.

Fee income should also provide an outside lift. First, we already had begun to see contribution from BMO customers on transaction-related and treasury business. We also anticipate further benefit from our mortgage business as production continues to show strength, and as we sell a greater percent of our loans. And we anticipate Seacoast trademark customer, analytics-driven cross sell, will continue to benefit us, not only in strong loan growth, but also in fee income improvement.

Despite some seasonality working against us, we anticipate the income growth sequentially, similar to what we saw during the second quarter before slowing to a more normal and seasonally positive fourth quarter.

With regards to expenses, I do want to mention that we anticipate additional nonrecurring expenses related to our acquisition, mostly as we close branches during the upcoming quarter. My comments on expenses then will relate to earnings adjusted for such noncore items.

Acquisition activity has added ongoing operating expense. While some of the operating expense will continue in support of acquired businesses, much will be eliminated as we progress through the year and consolidate branches. The BMO acquisition and a full quarter of Floridian added about $2 million to $2.5 million of expense over the first quarter levels in the second quarter, and we would expect savings as we continue to consolidate locations.

The timing of these acquisitions and the timing of branch consolidations make it hard to verbally explain the expense dynamics. However, the chart on slide 49 of our Investor Deck, posted on our website, will give you a feel for the timing of expense increases and eliminations from the two acquisitions.

You'll see from that graphic on slide 49 that the bulk of the overall expense increase from the two acquisitions is reflected in Q2 expense figures. This is the case, as non-branch costs added with Floridians were carried for the full second quarter and that the average branch counts which I think of as variable costs for Q2 and Q3 are approximately the same. These variable, or branch costs, are eliminated by the fourth quarter.

Additionally, our digital capabilities provide opportunity for further automation in streamlining. We continually review opportunities to improve our spend structure and are particularly keen on managing expenses in light of the current environment. So combined with the ongoing expense management to Seacoast, our normalized expenses should see only slight increase as we move through Q3 and Q4, so that we will end the year with an efficiency ratio in the low 60's.

Additionally, based on the current activity, we're expecting an increase in net recoveries in the upcoming quarter that we expect to lead to a lower provision during the third quarter, while still allowing us to maintain our proven coverage of non-acquired loans.

Finally, this lower-for-longer environment has served as another reminder of the urgency of the transformation that is underway at Seacoast. With our focus on our 2016 goal, and expectations for continued momentum beyond 2016, we also become even more focused on accelerating our transformation. We look forward to further updates as we progress through this year and continue to focus on growing value for our share.

I'll now return the call back to Denny.

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

Thanks, Steve. And the operator we would be pleased to take a few questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Steven Scouten; Sandler O'Neill

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Peter Reeson - *Sandler O'Neill - Analyst*

This is actually Peter Reeson for Steven. Just -- I wanted to get your thoughts on the comments that you made in your prepared remarks and also in the press release where you were talking about the commercial real estate as a percent of total capital. That's obviously been our theme this earning season, so I was just wondering, have you seen any increased comments from regulators or is there is any additional pressure from that, or is this just a homegrown concern?

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

We have no concern about CRE, and if you interpreted our comments to suggest we're slowing our growth in CRE, that's not what we're saying. What we're saying is that we are executing a plan to grow our loan portfolio that is balanced, and we were making the point that our CRE exposure is quite low compared with other companies, and so we will continue to grow CRE, but we will grow it in careful manner as we go forward, and we'll grow it within our guard rails that have pretty significant impacts on the granularity and the diversity of that portfolio. So you're going to continue to see overall loan growth, and we'll have nice CRE growth.

I'm not sure if I captured your question or concern.

Peter Reeson - *Sandler O'Neill - Analyst*

Yes, absolutely; that's great. Thanks for that color. I guess, just kind of switching gears a little bit, this might be for Steve, but obviously the NIM was lower on some of that excess liquidity from the branch acquisitions and preparing for those. So, would you assume that, given a little bit of deployment with that liquidity, maybe in the second half, that you could see a stable NIM from here, maybe in 3Q and 4Q?

Steve Fowle - *Seacoast Banking Corporation of Florida - EVP, CFO*

Yes, I think that combined with the nice loan growth we've got, and the ability to change the makeup of our balance sheet as a result, that it should be stable, just slightly increasing as we move forward, and I lean toward slightly increasing from what our modeling is showing us.

Peter Reeson - *Sandler O'Neill - Analyst*

Okay, that's great. That's it for me.

Operator

Michael Young; Sun Trust

Michael Young - *Sun Trust - Analyst*

Steve, I appreciate all the color on the branch numbers and deposit rates, and everything in slide 49. It's very helpful. I just wanted to maybe start off with kind of what you're seeing in terms of deposit retention from the branch acquisition at this point.

Chuck Shaffer - *Seacoast Banking Corporation of Florida - Head of Community Banking*

So far, everything has gone right according to plan, particularly in the Orlando market, in the consolidated Floridian franchises as well as BMO, we've seen very little runoff and it's gone extremely well.

Out in some of the branch locations in the middle of the state that we consolidated, where we have vast different distances between branches, we've seen a little more runoff, but it's about exactly where we expected. So nothing abnormal and it's actually all performing quite well.

Michael Young - *Sun Trust - Analyst*

Okay, great. And I just wanted to also ask, going forward, given how that's done and the Floridian deal, are we -- should we be expecting additional acquisitions? Are you seeing a decent pipeline in Florida or is it going to be more focused on the Accelerate initiative from here? Just kind of what your thoughts are on organic versus inorganic growth?

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

Yes, well we continue to say and continue to execute a very balanced strategy around growth, and I've said many times that we lead with organic growth. If we can't be growing this company organically, then we probably shouldn't be doing this. And we've had some very strong organic growth numbers, as you heard, in terms of loan growth, particularly this quarter. And as you look across the last couple of years, we've had very strong organic growth.

We look for acquisitions to supplement that growth where it really makes sense, and so the really key attribute for us is focusing on the customers that we're acquiring, and determining whether they fit into our strategy going forward. And thus far, we've done -- we've been quite -- the acquisitions have significantly improved some of our performance metrics as we've integrated them into this larger issue of transformation. So they're very impactful and we'll continue to look for opportunities.

As we stated earlier, that continues to be a component of our value creation, and when we see opportunities to do that, we certainly want to take advantage of them. So I wouldn't say we lead with M&A; we do use it to supplement our organic growth. We'll continue to see that.

I think the environment out there, right now, a lot of smaller banks that are -- that maybe have questionable value that we've seen out there, and we'll just continue to stay alert to opportunities.

Michael Young - *Sun Trust - Analyst*

And I guess going back to the CRE hot topic in the industry. Would you be reticent to acquire a bank -- I mean obviously the banks in Florida are a little more heavy-CRE, given the market. Would you be reticent to acquire on that was -- maybe had higher concentrations there?

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

That's a good question. And the advantage of M&A, vis-a-vis, the whole CRE question, is purchase accounting and the ability to really look carefully at those portfolios. The good news is depending on the acquisition candidate, they tend to be far more granular, that's a good thing for us, and they tend to give you more exposure or a more balanced exposure to other markets in some cases.

So it would just all depend on the situation. We are receiving no concerns. In fact, I've had great conversation with our regulators about this, and because of the ways we drive our growth, particularly being careful around CRE, I think we have capacity there for some growth. You're right; it could be a limiting factor depending on the situation. We'd have to think that -- that would be one of the many factors we'd consider.

But we -- I think, suffice it to say, I think that the primary point here and the headline around this conversation would be that we, today, operate with an extraordinarily low concentration in CRE, which provides us -- you could look at it the other way, provides us with some opportunity.

Michael Young - *Sun Trust - Analyst*

Okay, great. And Steve, just one last one the securities book; from here, do you -- obviously I would expect those balances to come down with loan growth, but how should we think about earning asset growth, maybe relative to loan growth, if that's an easy way to characterize it?

Steve Fowle - *Seacoast Banking Corporation of Florida - EVP, CFO*

Yes, so I think you're right. We leveraged the balance sheet to the point we thought was appropriate through the end of the year, so the growth in the balance sheet will come from loan originations as we move forward.

Is that what you're asking?

Michael Young - *Sun Trust - Analyst*

Yes, yes. All right, thanks. That's all for me.

Operator

Bob Ramsey; FBR & Co.

Bob Ramsey - *FBR & Co. - Analyst*

I just wanted to clarify around margin. I think you guys said earlier you expect it to be stable to slightly increasing, and I thought there would be some compression from the BMO branch acquisition and securities around that. Is that already what we see in the second quarter, or is there a little bit of pressure from the full-quarter impact, that deal in the third quarter and then from there you're stable, or if you could just clarify a little bit?

Steve Fowle - *Seacoast Banking Corporation of Florida - EVP, CFO*

I think a lot of its behind us, maybe not all of it, but a lot of its behind us, because we did do the bulk of the securities purchases before the middle of the quarter. And the compression the margin really had to do with those securities purchases, as well as a little bit of excess liquidity, right around the acquisition time.

So again, our model is showing that we've got upside opportunity as we move forward, which means that dynamics from the acquisition, like replacing Federal Home Loan bank borrowings with their lower-cost deposits, adding their loans onto our balance sheet, the loan growth that we had at the end of the quarter, other factors, are going to more than outweigh both the additional compression from securities and the overall competiveness interest in the rating department.

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

Also the deposit book we acquired there was extraordinary. I think over 56%, 57% of checking accounts. We're talking a lot of zero-cost acquisitions of deposits there, so it was a solid move we thought.

Michael Young - *Sun Trust - Analyst*

Okay, great. That's helpful. And then shifting to expenses, with the full quarter impact to BMO, do you end up a little bit above $29 million to $30 million end of the third quarter? I'm just trying to get sense what the run rate is before you get some of those savings in there.

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

Let me give a few general comments about the dynamics that are at work here just to kind of clarify, and then maybe Steve could weigh in. But how do we get -- there's been a lot of questions about how we get to the dollar, and we've published that dollar as a goal in January.

And we've talked a little bit earlier -- Steve gave some good comments about that, but I look at it as being driven by acquisition dynamics and transformation dynamics. And starting with the acquisition dynamics, this is kind of how I think about it. In Q2, we had the impact of BMO in terms of the revenue impact, really for one month, as we closed at the tail end of Q2, and we had virtually none of the cost-outs. We also absorbed in Q2, most of the impact of the Floridian cost-outs in a full quarter, a full load of Floridian revenue.

As we flip ahead to Q3, we begin to absorb all of the Floridian cost-outs, full quarter impact of those cost-outs, and just some of the BMO cost-outs, combined with all of the BMO revenue impact for the quarter.

And then finally, as we get into Q4, we pick up the full revenue and the full cost-out impact of both BMO and Floridian with, actually, little to no cost adds back in the rest of the enterprise then.

And then when I look at transformation dynamics, we're speeding up our transformation dynamics in response to the rate challenge, and those dynamics are driving operating leverage, and it's around greater revenue momentum and greater efficiency as we scale up some of the automation that we put in place over the last couple of years to create much greater operating margins. And that continues as we look out and lay that out into our forecast in Q3 and in Q4.

So while we could look at the environmental changes as a real challenge and a headwind, I view it more as a catalyst for us to move much faster as we go forward. And I'd also just encourage people on the phone, we've developed a lot of proprietary tools to drive our business model, and invite all of you to come down and spend some time with us here in our facility, so that we could show you some of the things we're doing again to drive revenue momentum and create the sufficiency as we leverage up and drive operating margin.

Did you have anything to add?

Steve Fowle - *Seacoast Banking Corporation of Florida - EVP, CFO*

Yes, just hang on to that. Again, we remain focused as well on expense management in our Legacy Organization. As an example, from Q1 to Q2, see our adjusting expenses increased by $1.7 million, and that came despite operating expenses from BMO and Floridian, that added, we think, about $2 million to $2.5 million, so our Legacy costs actually came down quarter-to-quarter.

Now with our strong organic growth, you can't expect that every quarter, but I think that's just an example of the focus that we do have, and the opportunity we do have on a continuing basis for expense management.

Bob Ramsey - *FBR & Co. - Analyst*

Okay, great. Thank you. And then one other question, we're shifting gears; I wonder if you could comment on the relationship with CapGen. They obviously publicly expressed some frustration about tangible book-value growth and GAAP profitability; just curious if they've expressed specific targets for those or other measures, and any thoughts there.

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

Well, it's kind of silly to talk about GAAP as a driver for investors in a period where we did four acquisitions. It's hard to make sense of that. So we'll continue to focus on adjusted, as I think it's very helpful to investors to understand the underlying core or results of the company.

We're quite pleased with the results we've produced and the growth that we've produced. We're on target. We've had some of the highest growth, or the most significant growth we've seen, and we think the opportunities in this market are tremendous for us to continue those trends.

So when you stand back and look at it, and kind of look forward to where we're headed, we're actually quite pleased. And as we look into 2017, we'll continue to feel the full-year impact of all of those acquisition dynamics that were evident in 2016 and the deeper effects of the transformation dynamics that we talked about earlier in the call, as we speed our processes up.

And so these dynamics, I think, were -- will continue to drive value as we look forward. I think we'll -- investors including CapGen should be pleased with the results that we're producing, and that we see us beginning to deliver even out into 2017. Growing evidence out there that speeds the transformation is an important key to becoming a growth company.

Bob Ramsey - *FBR & Co. - Analyst*

Okay. And the differences GAAP and non-GAAP will shrink in the third quarter and it should be pretty negligible fourth quarter and beyond. Is that right?

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

Yes, I think that's an accurate portrayal.

Bob Ramsey - *FBR & Co. - Analyst*

Okay, great. Thank you.

Operator

(Operator Instructions)

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

Well, thank you very much for attending today. We really look forward to meeting with you again in the next quarter to talk about our Q3 results. Again, as I said earlier, we invite all of you to come down and visit us, and take a look at some of the things that we're developing and implementing in terms of changes in business model to help us as we drive even better organic growth and operating leverage over the next couple of quarters. Thank you.

Operator

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