



Risk Management

Presented by: David Houdeshell

A CORE COMPETENCY

- Risk management practices are woven throughout the company to serve customers and create value for shareholders

CREDIT RISK IS DISCIPLINED

- Building a high-quality lending portfolio to outperform through business cycles
- Lower risk profile through disciplined growth

PORTFOLIO IS DIVERSIFIED

- Balanced growth across all portfolios without compromising credit standards
- Guardrails promote granularity to diversify systemic risks

RISK ANALYTICS CREATE VALUE

- Risk analytics balance risk / reward evaluations to make informed decisions and may create revenue while enhancing controls

The Management of Risk Is Foundational to Seacoast's Success



RISK AWARE, NOT RISK AVOIDANCE

Active participation throughout the bank in risk management processes ensures consistency with risk-taking activities.



ACCOUNTABLE

Business units are responsible for managing risks and risk management provides guidance and assessments to ensure risk taken are thoroughly vetted and addressed.



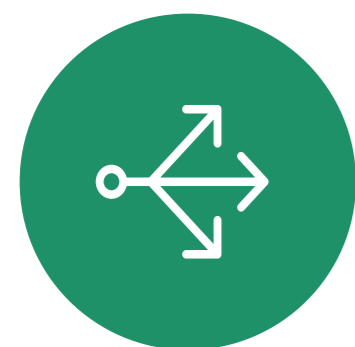
TONE AT THE TOP

The Board approves risk strategies, policies and parameters, and receives regular updates on the key risks.



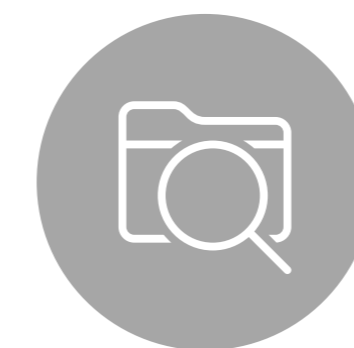
INDEPENDENCE

All significant risk-taking activities are subject to oversight by units independent of the business lines that generate the risk.



DECISION-MAKING

Risk considerations embedded into decision-making to ensure alignment of business objectives, risk tolerance, and investments.



AUDIT REVIEW

Internal Audit reports on the effectiveness of risk management processes.

Risk Management Is Integrated into Strategies and Operations to Serve Customers and Create Shareholder Value



Seacoast Manages Risk Through Disciplined Programs and Practice




CREDIT RISKS




CYBER RISKS



REGULATORY COMPLIANCE



CAPITAL PLANS & STRESS TESTS



VENDOR, THIRD-PARTY RISKS



FINANCIAL CRIMES & FRAUD RISKS



ALCO, MARKET & INTEREST RATE RISKS



OPERATIONAL RISKS



BUSINESS CONTINUITY PROGRAMS

Seacoast Has a Well Defined Credit Philosophy



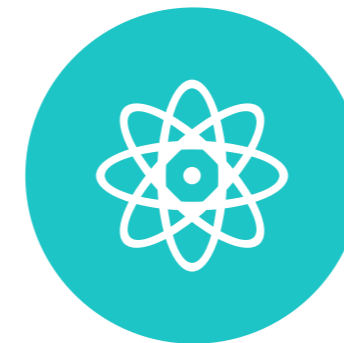
PRINCIPLES

- Know our customers and strive to deepen relationships
- Exceed expectations in accessibility and responsiveness
- Offer a competitive product mix
- Earn the business and ask for more
- Deliver value and price product to return a fair profit
- Professional and knowledgeable advisors



PROTECT HIGH-QUALITY BALANCE SHEET

- Selective commercial real estate financing
- Low criticized and classified asset ratios
- Appropriate Allowance for Loan & Lease Losses
- On target for CECL implementation compliance as of Q1 2020



DIVERSIFY CREDIT RISK PRINCIPLES

- Maintain granularity
- Balance growth and mix of Retail, Business and CRE loans
- Balancing risk vs reward trade-offs through long run loss assessments



ORGANICALLY GROW CUSTOMERS AND LOANS

- Only accept risks consistent with our strategy and within our capability to manage
- Underwriting is moderate-to-conservative
- 2x weekly preflight meetings to quickly focus on strong lending opportunities and filter away weaker opportunities

This Philosophy Is Executed Through a Disciplined Credit Culture Focused on Six Key Tenets



1

DIVERSIFIED

- Focus on consumers and businesses with revenue under \$50 million
- Granular and borrower quality targeted in lower PD strata
- House limits substantially lower than Legal Lending Limit

2

BALANCED

- Well-defined portfolio limits and active portfolio management avoid concentrations
- Total CRE below 230% and Construction below 65%
- AD&C loans are less than 10% of total loans

3

MEASURED

- Rigorously monitor for signs of stress individual loans and portfolio as a whole
- Risk Ratings generated by objective calculation
- Stress tests linked to capital plan

4

SKILLED

- Continuously recruiting high quality teammates
- Specialized units for construction loan administration, portfolio management and collections
- Distributed Regional Credit Officers for commercial lending, who report to Credit
- Centralized underwriting and approval for all consumer credit

5

ASSURED

- Weekly credit committees
- Continuous independent Loan Review
- Quarterly reviews of portfolio limits, concentration and performance

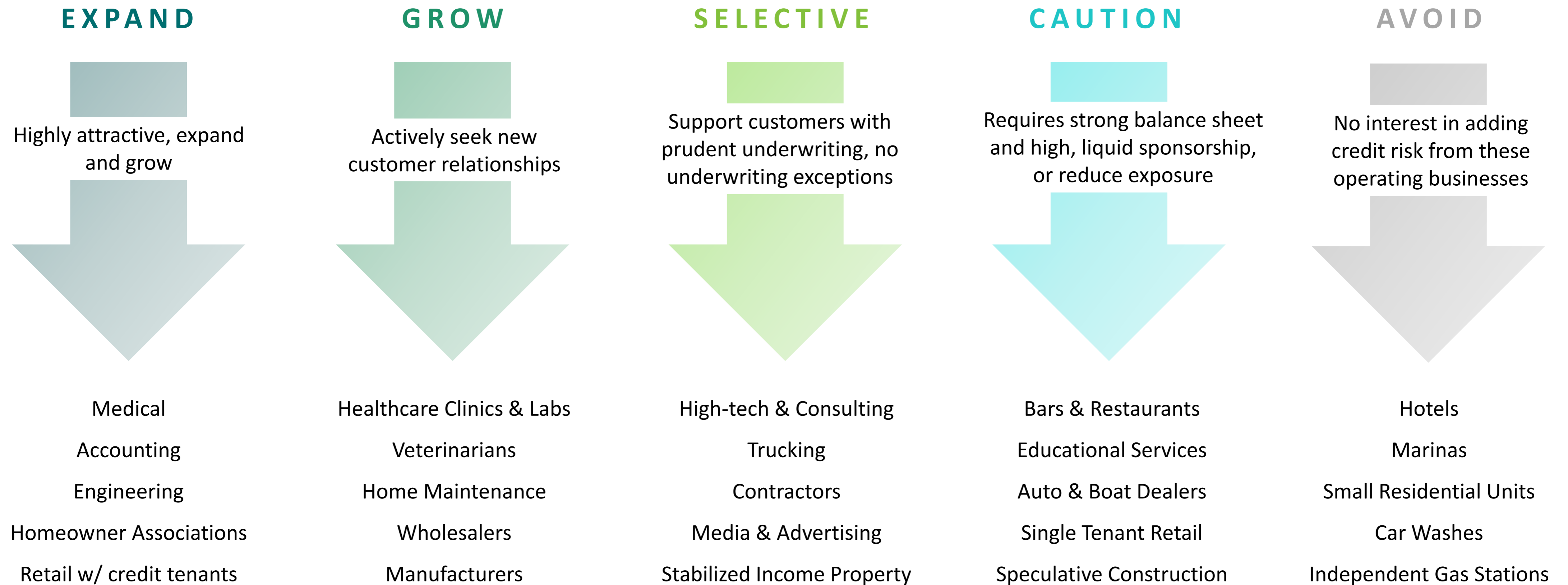
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INGRAINED

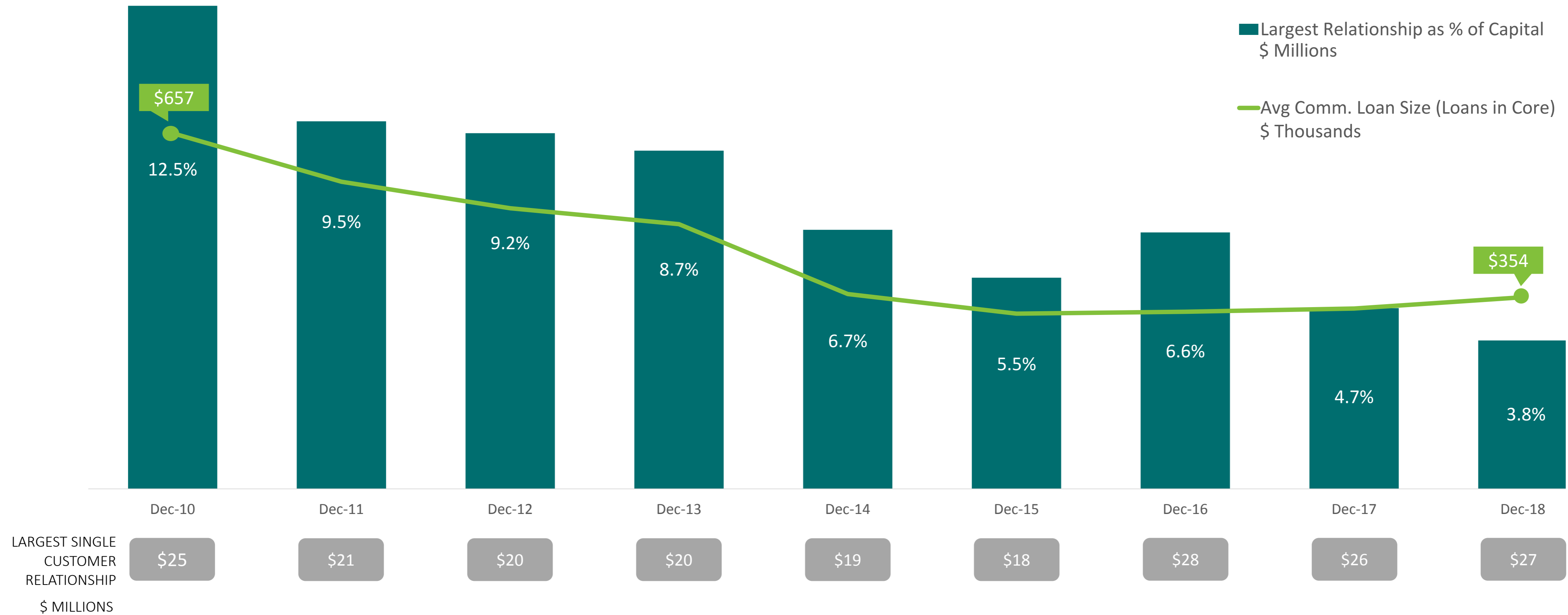
- Governance via Board of Directors Credit Risk Committee
- Credit Culture is documented and reinforced throughout organization
- Playbooks assimilate for new associates via M&A

Guardrails, Analytics and Credit Culture Playbook Guide

Execution Toward Building an Intentional Portfolio



Granularity & Lack of Concentration Are Hallmarks of the Seacoast Portfolio

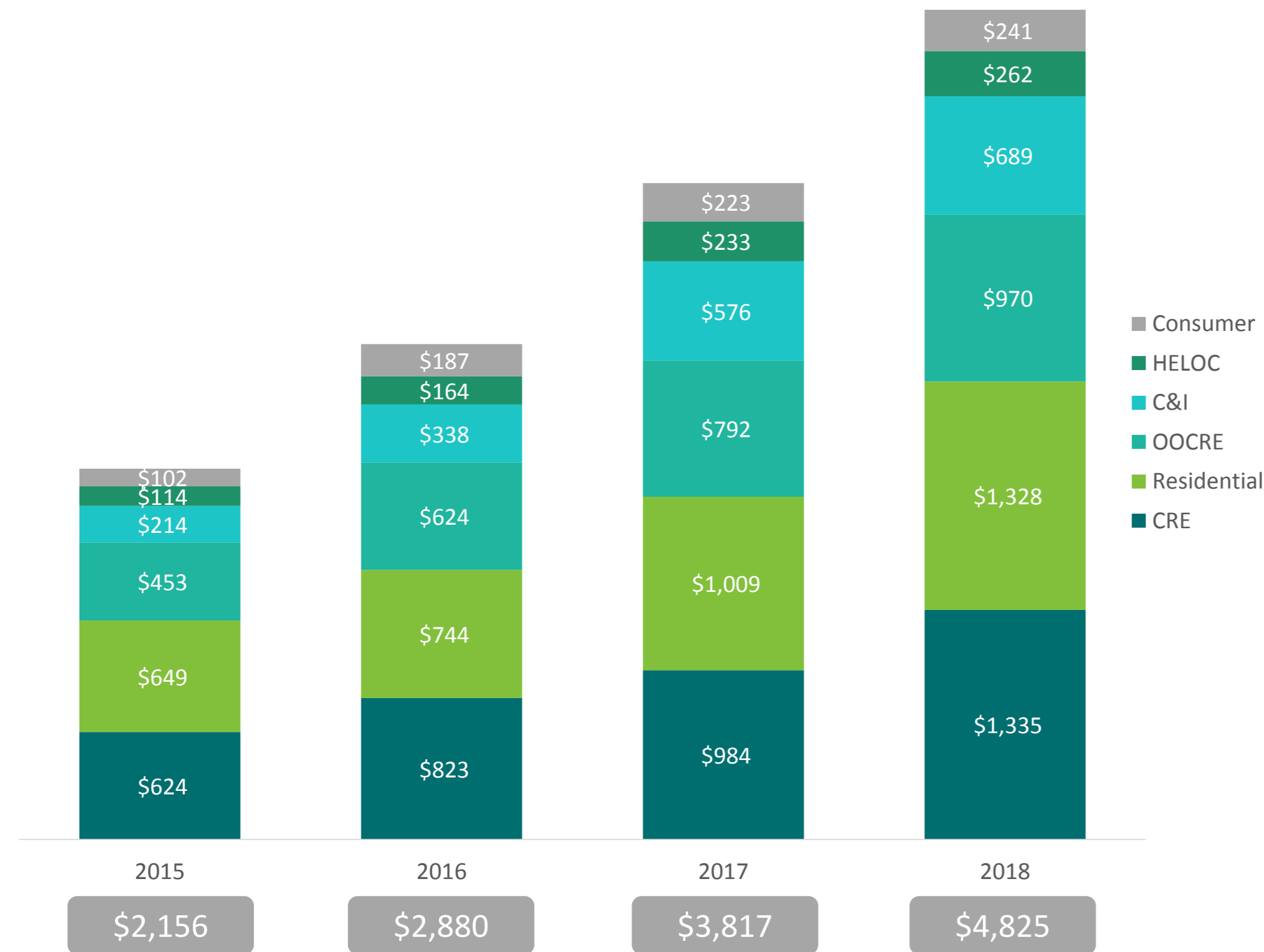


Disciplined Portfolio Management Continues to Deliver Sound Mix

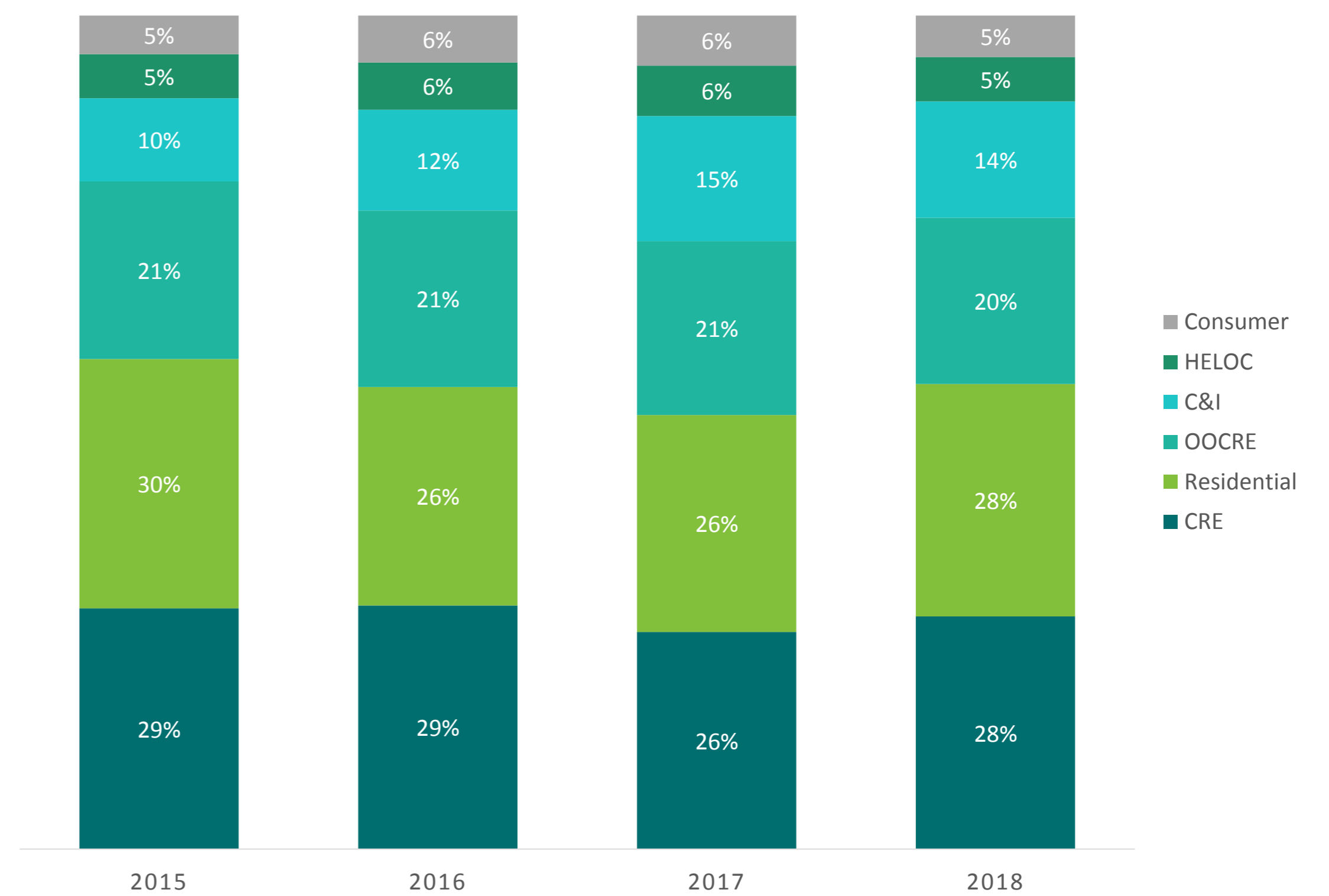


Focus on C&I built mix from 10% to 14% of total loans while CRE remained flat, delivered through a distinctive, relationship-focused business model

LOANS OUTSTANDING



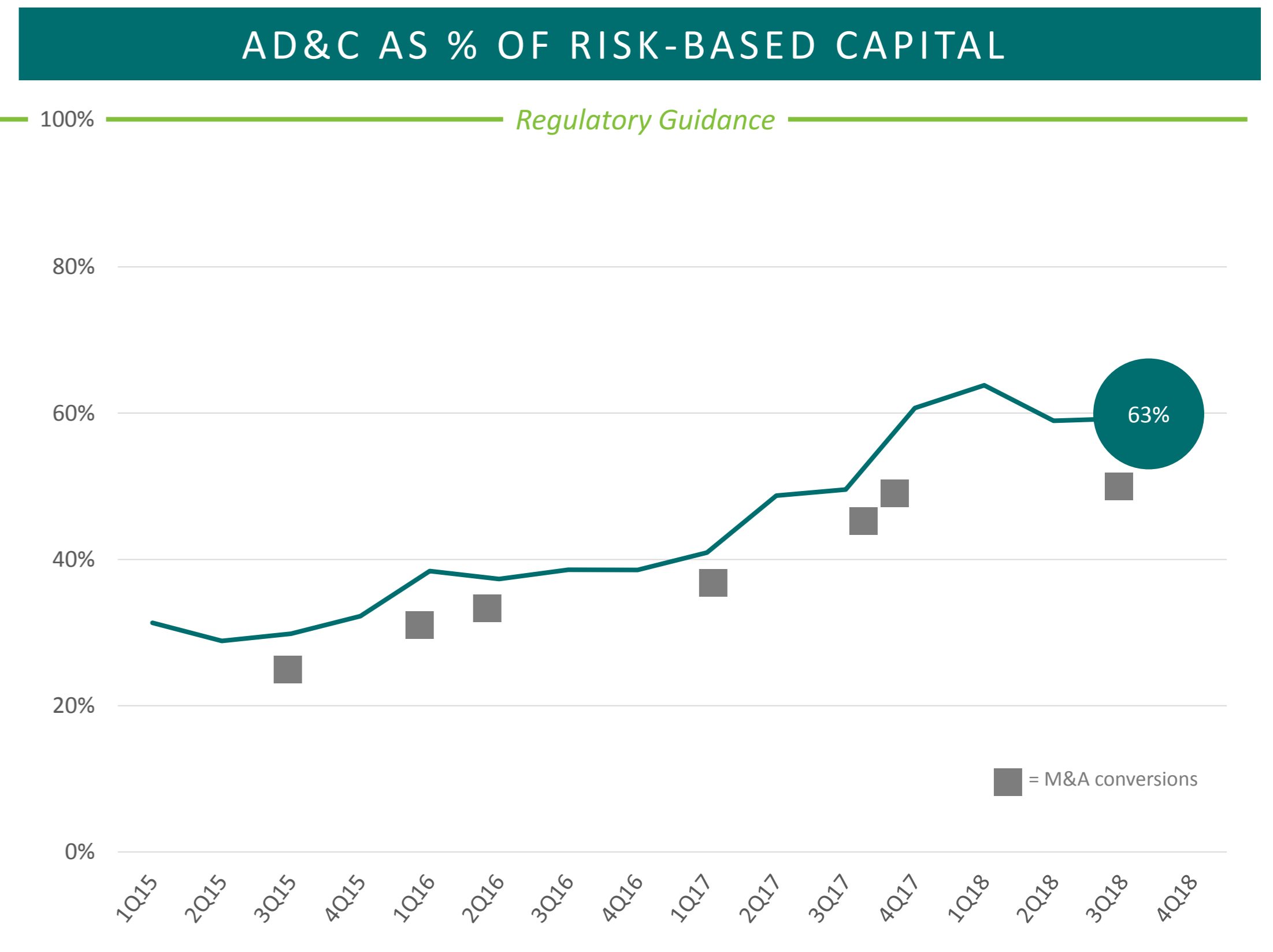
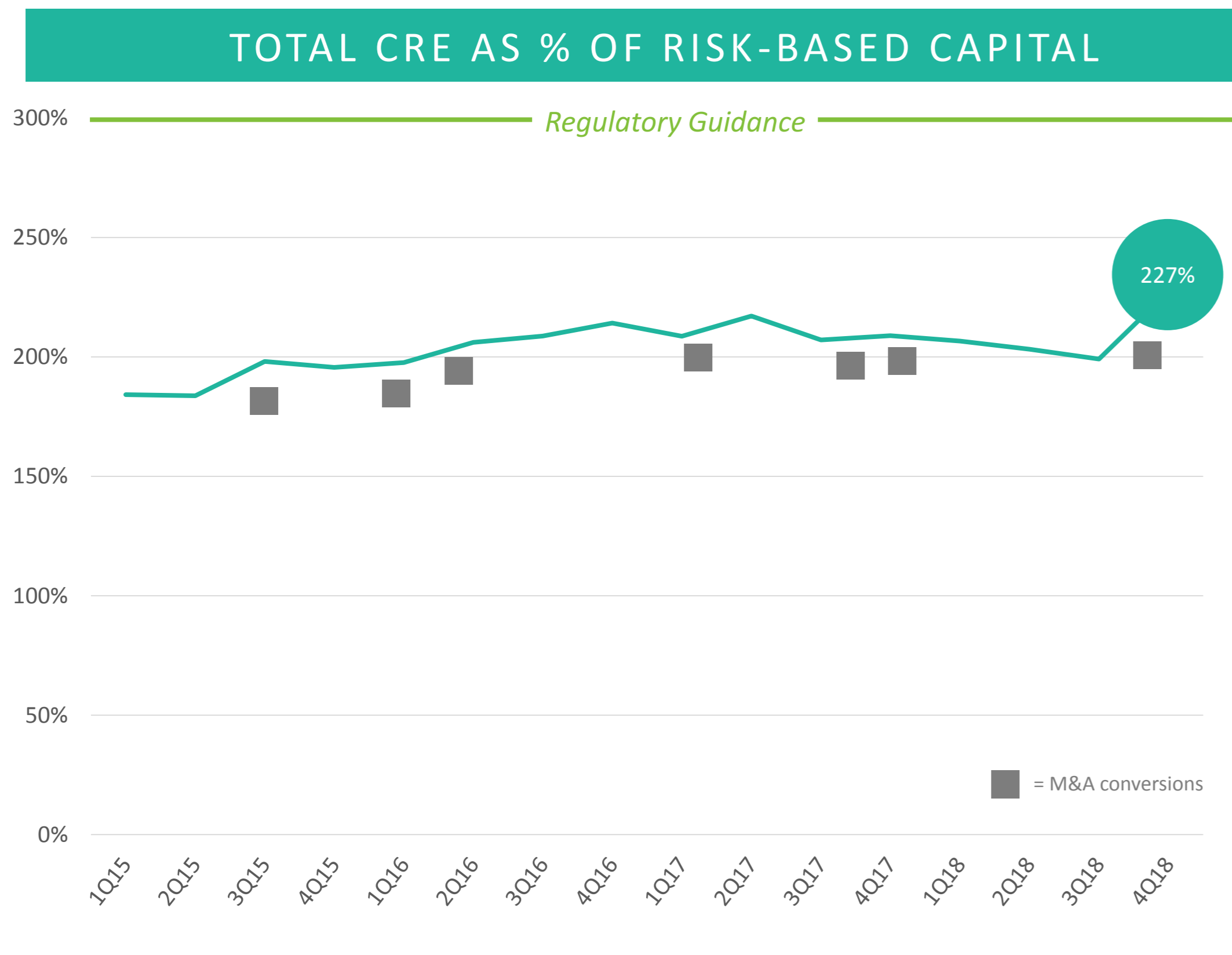
LOAN MIX



Commercial Real Estate Exposure Is Moderate and Well Below Regulatory Thresholds¹



CRE and AD&C ratios remain well below regulatory limits



Proven ability to consistently reduce exposure after increases created via M&A activity

Florida's business growth and housing markets creating opportunities to selectively grow construction loans

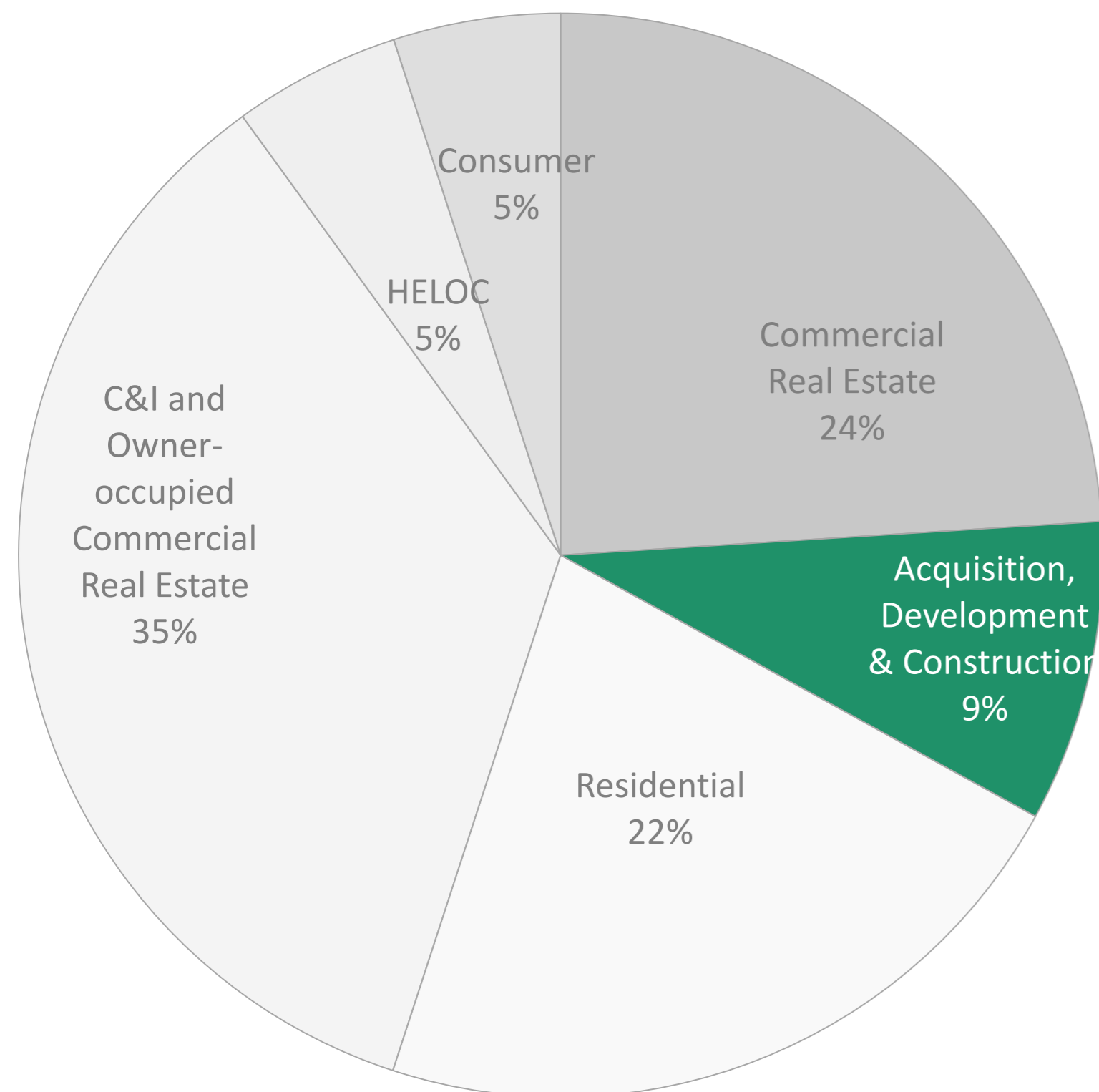


1. Acquisition, Development and Construction (AD&C) is defined as loans used for construction, land development and land acquisition. CRE is defined as loans secured by multifamily nonfarm nonresidential and loans for construction, land development and land acquisition.

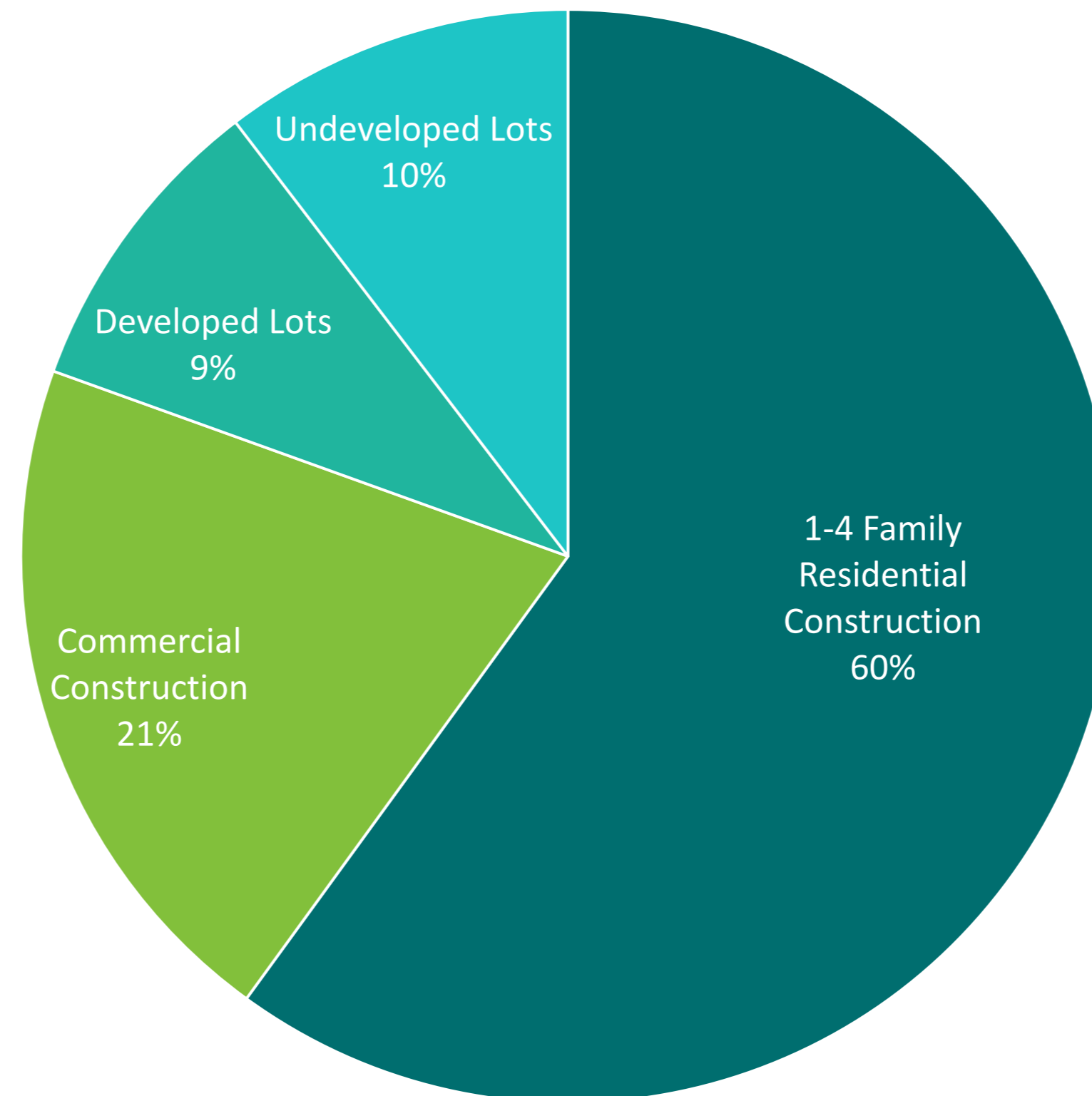
Land Acquisition, Development & Construction (AD&C) Is a Small Part of Seacoast's Portfolio, and Is Tightly Managed



Total Loans



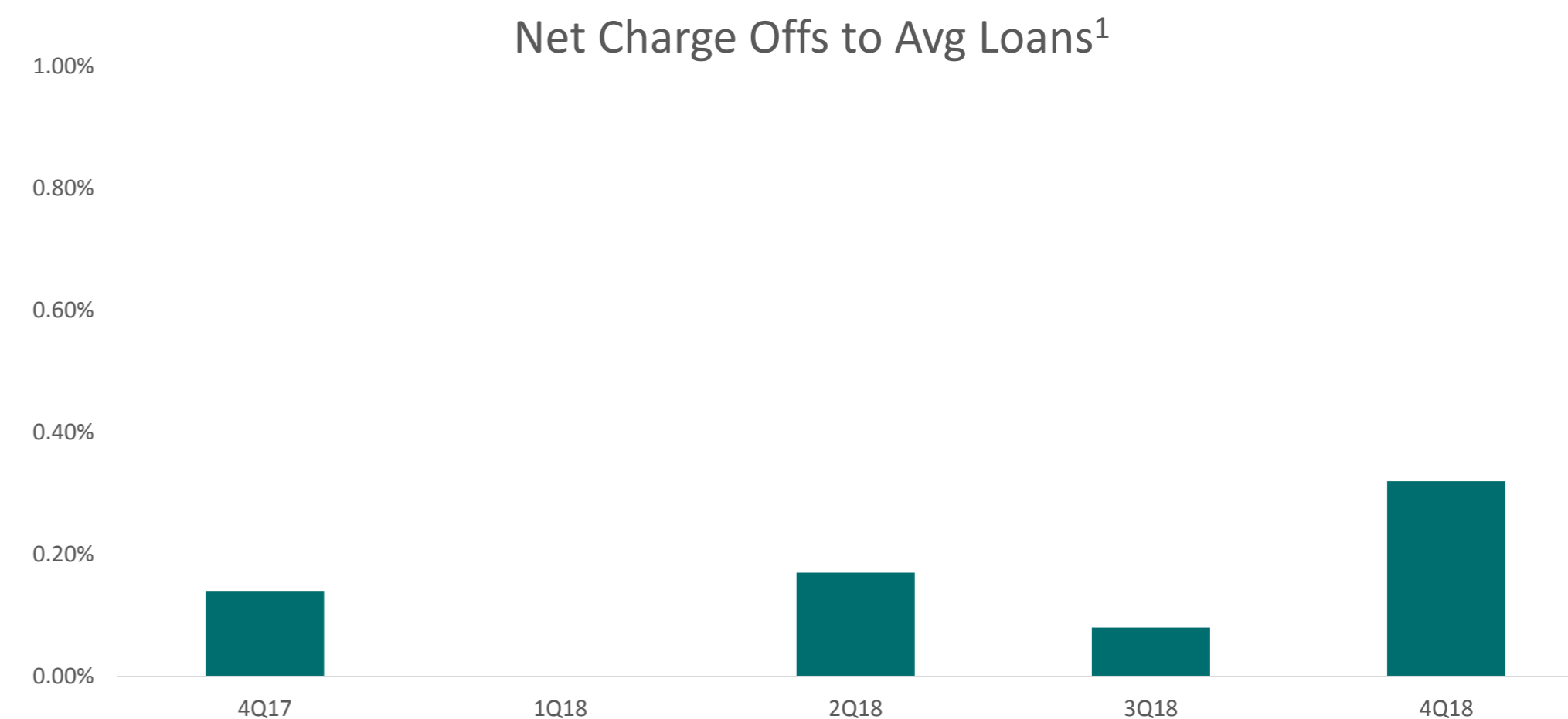
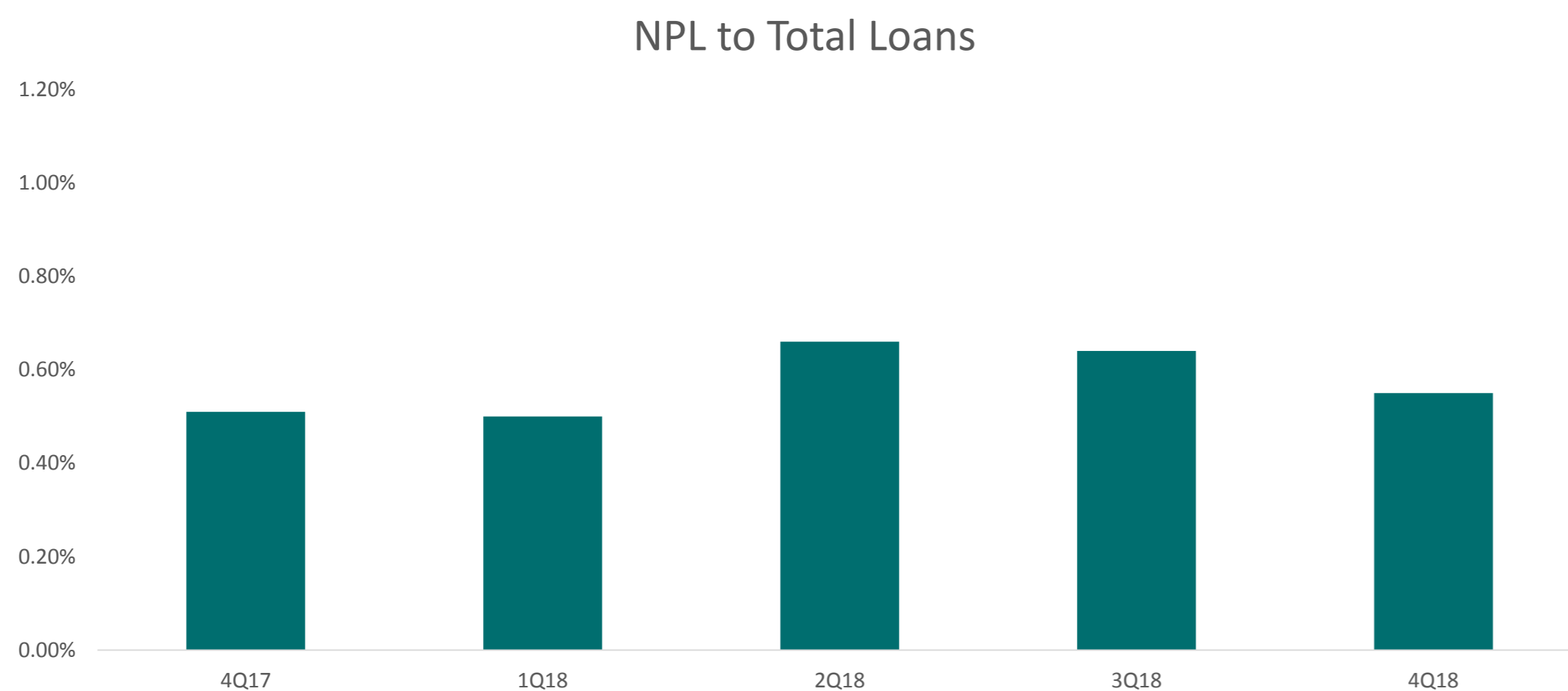
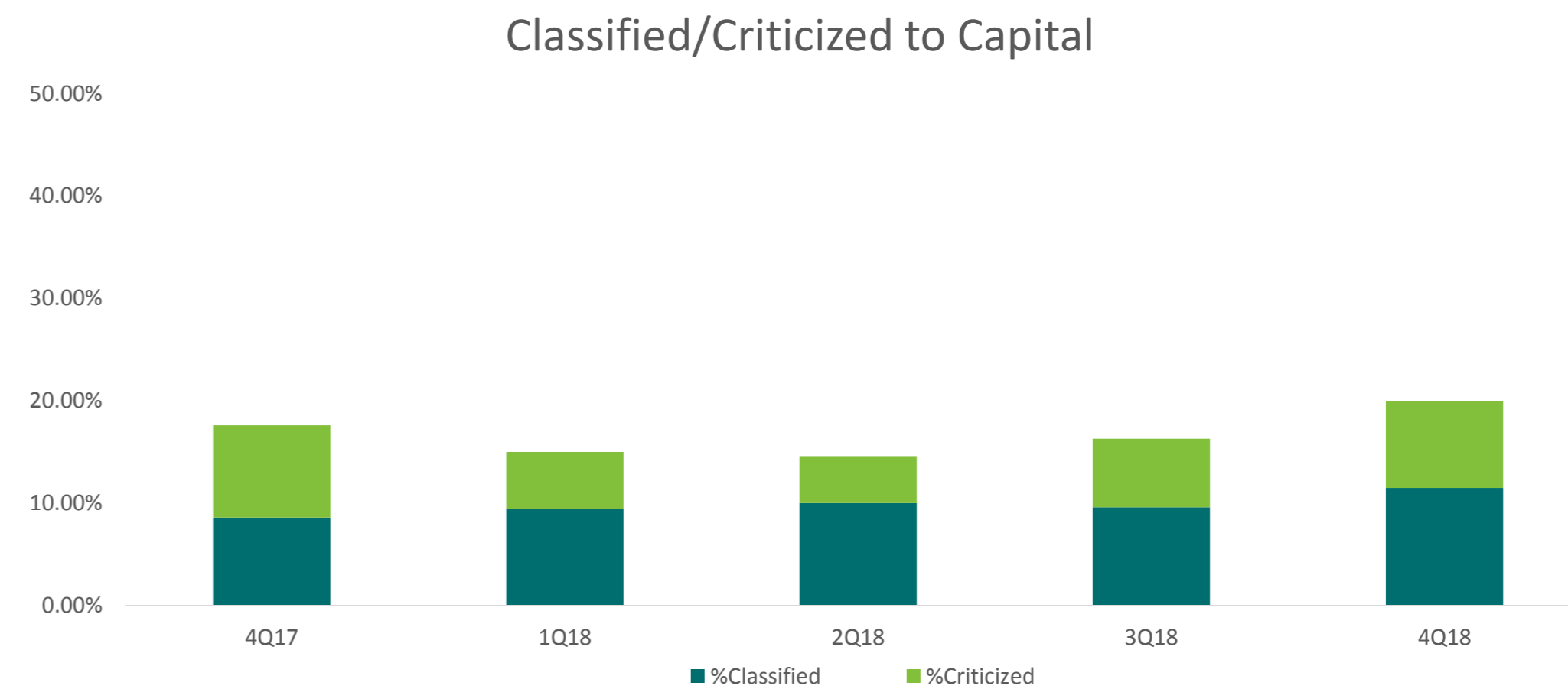
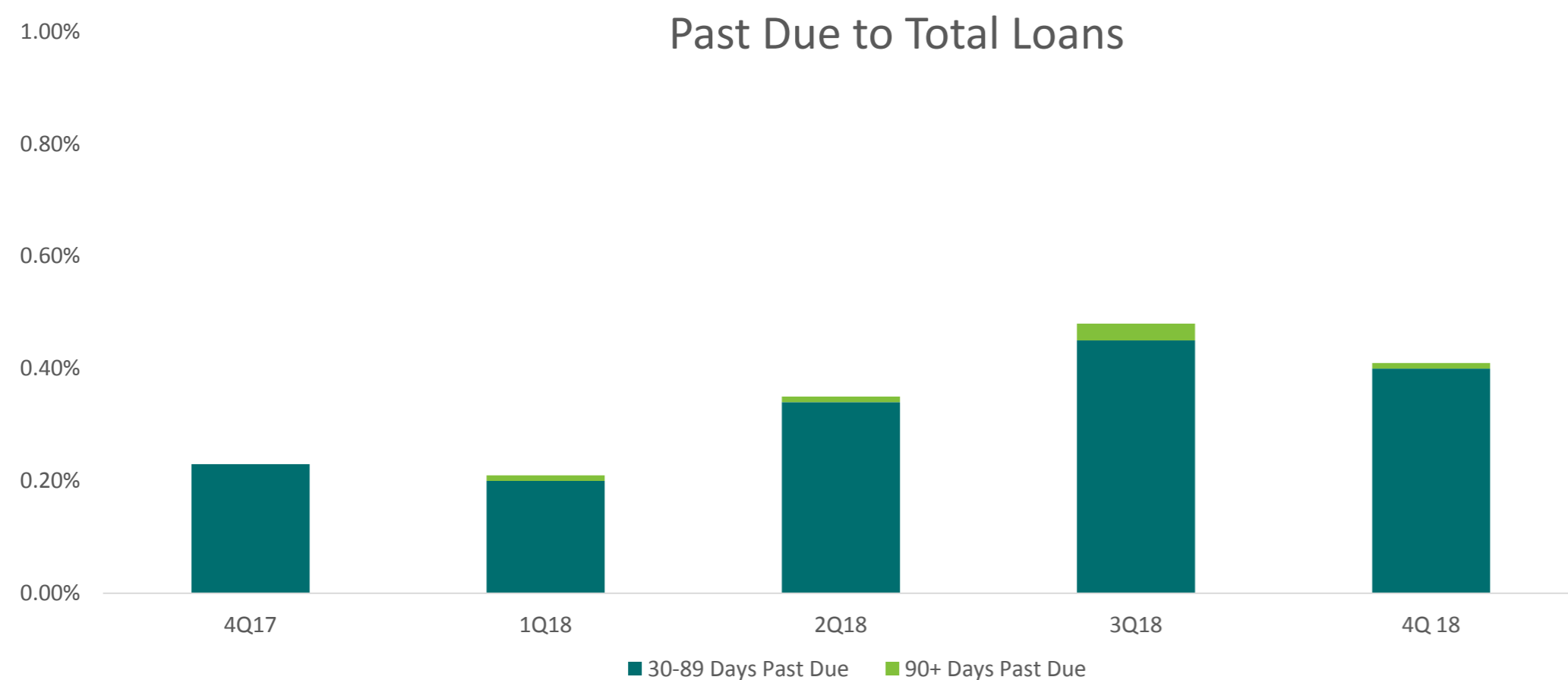
Construction Mix



- 1** Focused on lower-risk properties and majority are residential or properties owner occupied
- 2** 74% of 1-4 Family is presold or owner-occupied
- 3** Balanced throughout Florida's larger metropolitan and growth areas

Geography	
Orlando Area	26%
Palm Beach	17%
Miami-Ft. Laud. Area	11%
Brevard County	10%
Treasure Coast	9%
Tampa Area	8%
All Other	19%

Seacoast's Portfolio Is Operating at Healthy Levels



Seacoast's Model Is Built to Perform Through Business Cycles



SELECTIVE on new construction projects (Residential and Commercial)

Requiring more pre-sales and pre-leasing requirements on construction

AVOID lending on **HIGH RISK** industries

Increasing borrower equity requirements

STRICTER COVENANTS on new deals

Effectively shut down speculative construction

CONTINUOUS active portfolio **MONITORING** for risk deterioration

Deeper acquisition discounts using an adverse economic forecast

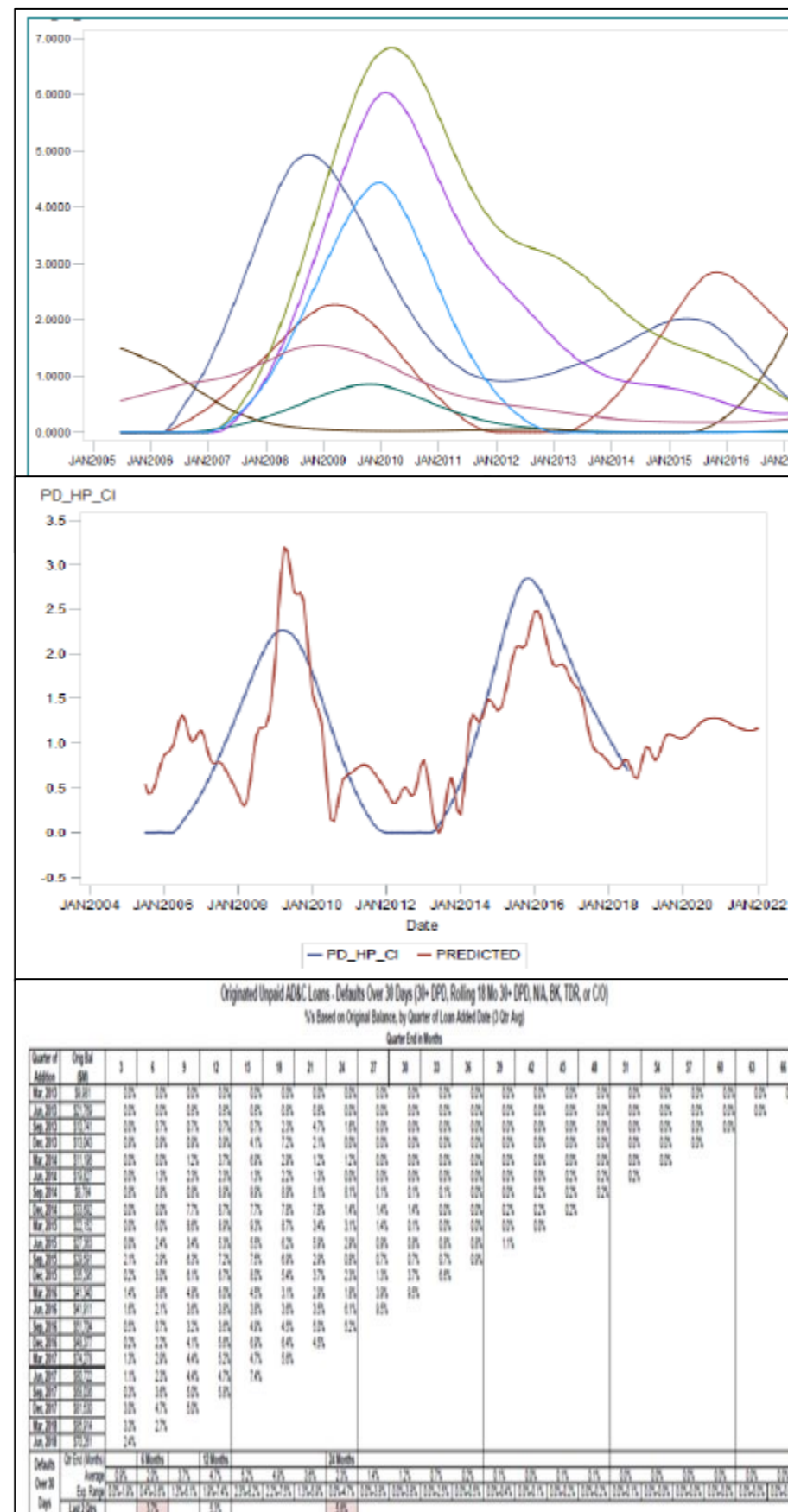
Seacoast Continues to Strengthen Its Credit Risk Analytics Competency



Data analytics capabilities expanding throughout risk organization to drive actionable decisions based on objective analytics

INVESTMENTS

- Vintage Analysis to review origination strategies with like outcomes for quality comparisons
- Roll Rate Analysis evaluates credit quality and collection effectiveness
- Quarterly performance updates with scores, indexed LTV and behavioral performance
- Predictive PD/LGD on every customer at any point in time
- External correlations for loan level PD/LGD benchmarks
- Exploring uses of behavioral data set



VALUE CREATION

- Origination and pricing strategy
- Dynamic risk grading migration quarterly
- Portfolio management
- Collection strategies
- Develop loss forecasting models for budget and strategic management
- Acquisitions/portfolio sales
- Capital management
- CECL and stress testing scenario forecasts

More Broadly, Seacoast Views Risk Analytics as a Differentiator



Risk analytics help the business better manage risk, drive greater transparency, enhance the customer experience, and contribute to profitability

LOAN PRICING

Analytics drive credit and pricing strategies



REWARDS

Changes increased net portfolio margins by **30-40 basis points** in Consumer and business banking portfolios while improving approval rates by **10%**

RISK ASSESSMENTS

Annual assessments guide business areas to proactively identify risks before problems arise



PREVENTION

We aim to take action before problems arise, reducing operational losses and surprises

FRAUD RISK

Risk analytics reduce online bill pay fraud while providing greater limits for bill pay customers

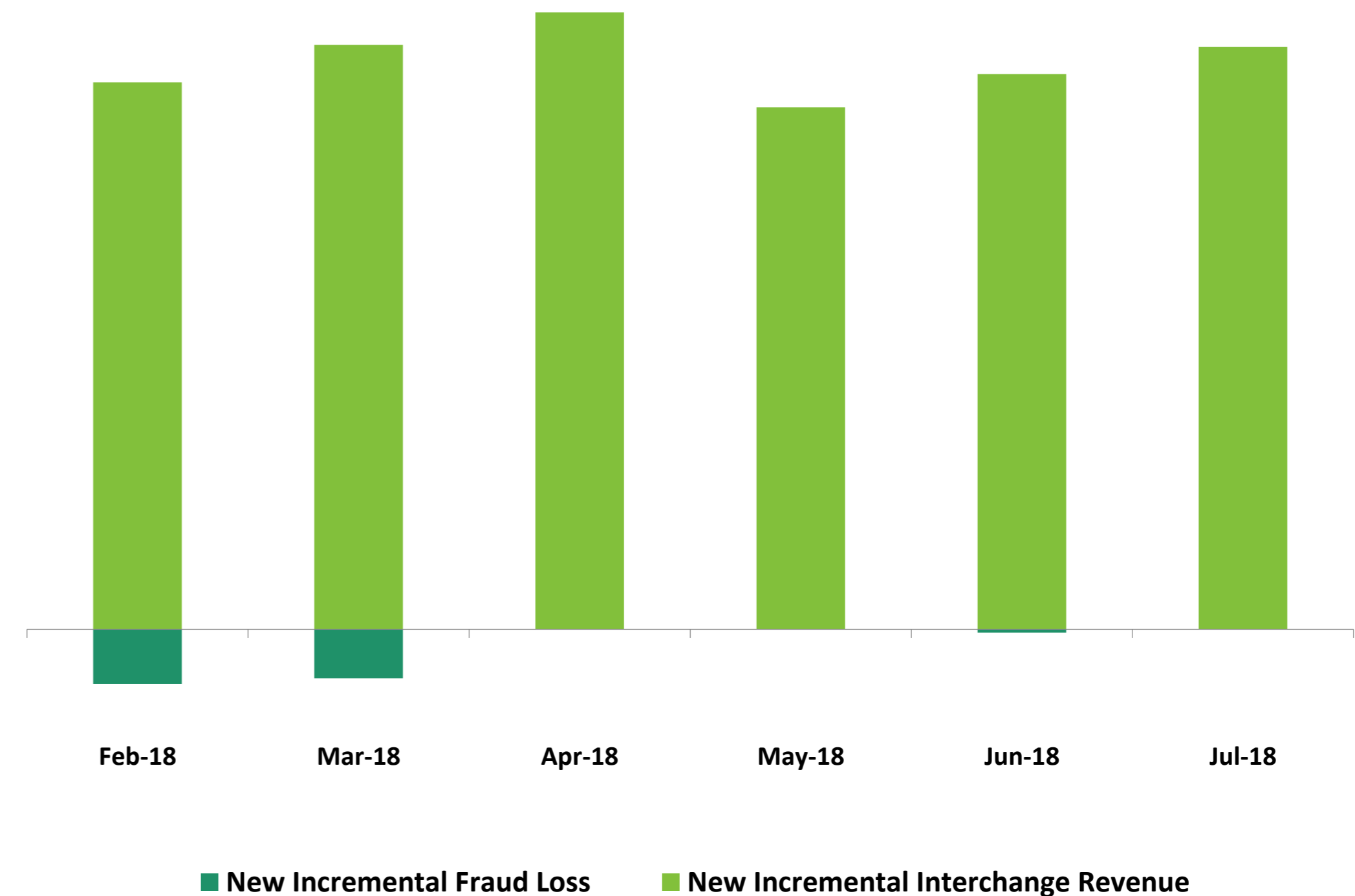


BALANCING

We use risk analytics to create value by intelligently correcting risk-reward imbalances

CASE STUDY – DEBIT PURCHASE LIMITS

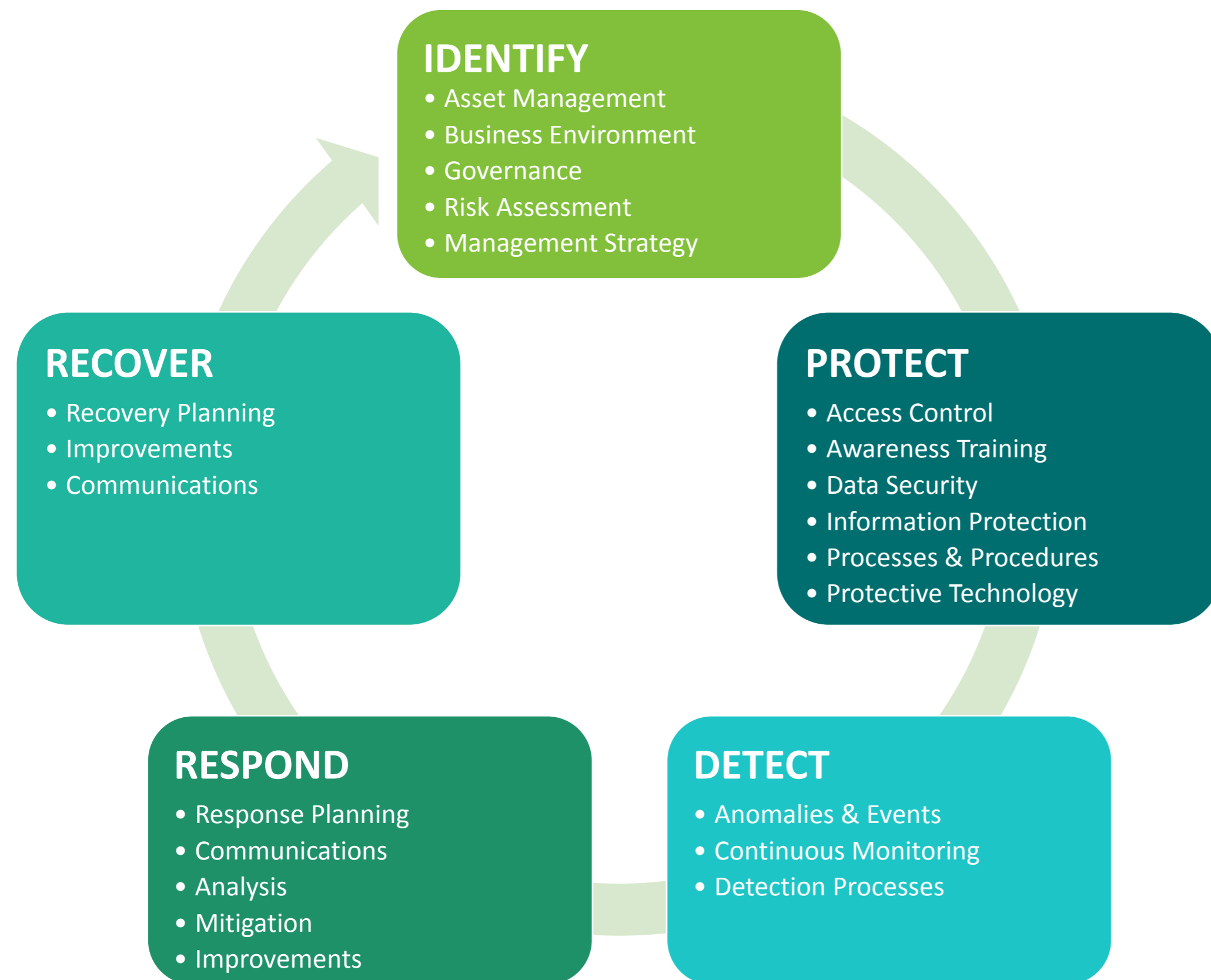
- Applying analytics methods, Operational Risk balances opportunities with prudent risk management to inform risk-aware decisions
- Risk analytics rebalances risk and reward by increasing consumer debit card purchase limits
- During first six months of implementation, \$32 of incremental interchange revenue generated for every \$1 of incremental fraud loss with no additional cost
- Customer experience improves by reducing volume of declined transactions by 43%



INCREMENTAL INTERCHANGE REVENUE

Loss/Gain from Risk-Aware Decision-Making

Seacoast Is Committed to Maintaining a Secure, Safe Environment



- Continuous threat landscape evaluation employing industry leading threat intelligence
- A.I. and machine learning leveraged to detect and eradicate today's modern threats
- Differentiated and innovative security architecture, employing layered security with maximum availability
- Comprehensive and tested incident detection, response and forensic capabilities
- Robust user awareness training, including real-time simulations using multi-vector attack techniques
- Continuous measurement and evaluation of cyber risks, using industry leading frameworks, best practices and internal methodologies
- Strong, established and effective third party risk management

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