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SEACOAST BANKING CORP OF FLORIDA
Form 10-Q/A
August 19, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q/A

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended
MARCH 31, 2003

Commission file
No. 0-13660

SEACOAST BANKING CORPORATION OF FLORIDA
(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

59-2260678
(IRS employer
identification number)

815 Colorado Avenue, Stuart FL
(Address of principal executive offices)

34994
(Zip code)

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of March 31, 2003:

Common Stock, \$.10 Par Value - 13,928,951 shares

Seacost Banking Corporation of Florida (the "Company") filed its Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (the "Form 10-Q") with the Securities and Exchange Commission on May 14, 2003. This amendment to the Form 10-Q is being filed to include certain certifications as separate exhibits

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(Exhibits No. 99-1, 99-2, 99-3, and 99-4). In the original filing, the certifications herein referred to as Exhibits No. 99-1 and 99-2 were not filed as separate documents and the certifications herein referred to as Exhibits No. 99-3 and 99-4 were inadvertently omitted. For the convenience of the reader, the Company is refiling the entire Form 10-Q. No modifications have been made to the Form 10-Q except as described above.

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SEACOAST BANKING CORPORATION OF FLORIDA

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Part I. FINANCIAL INFORMATION CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

Seacoast Banking Corporation of Florida and Subsidiaries

| (Dollars in thousands) | March 31, 2003 | December 31, 2002 |
|------------------------|-------------------|----------------------|
|------------------------|-------------------|----------------------|

ASSETS

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| | | |
|--|-------------|-------------|
| Cash and due from banks | \$ 63,534 | \$ 49,571 |
| Federal funds sold and interest bearing deposits | 30,990 | 251 |
| Securities: | | |
| Trading (at fair value) | 43,719 | 0 |
| Held for sale (at fair value) | 440,185 | 466,278 |
| Held for investment (fair values: \$20,605 at March 31, 2003 and \$33,168 at December 31, 2002) | 19,998 | 32,181 |
| | ----- | ----- |
| TOTAL SECURITIES | 503,902 | 498,459 |
| Loans sold and available for sale | 11,696 | 13,814 |
| Loans | 661,536 | 688,161 |
| Less: Allowance for loan losses | (6,546) | (6,826) |
| | ----- | ----- |
| NET LOANS | 654,990 | 681,335 |
| Bank premises and equipment, net | 16,036 | 16,045 |
| Other assets | 16,678 | 21,822 |
| | ----- | ----- |
| | \$1,297,826 | \$1,281,297 |
| | ===== | ===== |
| LIABILITIES | | |
| Deposits | \$1,060,591 | \$1,030,540 |
| Federal funds purchased and securities sold under agreements to repurchase, maturing within 30 days | 65,241 | 102,967 |
| Other borrowings | 65,000 | 40,000 |
| Other liabilities | 6,468 | 7,043 |
| | ----- | ----- |
| | 1,197,300 | 1,180,550 |
| | | |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock, par value \$1.00 per share, authorized 4,000,000 shares, none issued or outstanding | 0 | 0 |
| Common stock, par value \$0.10 per share, authorized 22,000,000 shares, issued 15,549,378 and outstanding 13,928,951 shares at March 31, 2003, issued 15,549,378 and outstanding 13,890,001 at December 31, 2002 | 1,555 | 1,555 |
| Additional paid-in capital | 26,994 | 26,994 |
| Retained earnings | 90,533 | 89,960 |
| Less: Treasury stock | | |
| 1,620,427 shares at March 31, 2003 | | |
| 1,659,377 shares at December 31, 2002 | (17,916) | (18,578) |
| | ----- | ----- |
| | 101,166 | 99,931 |
| Other comprehensive income (loss) | (640) | 816 |
| | ----- | ----- |
| TOTAL SHAREHOLDERS' EQUITY | 100,526 | 100,747 |
| | ----- | ----- |
| | \$1,297,826 | \$1,281,297 |
| | ===== | ===== |

Note: The balance sheet at December 31, 2002 has been derived from the audited

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financial statements at that date. See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited) Seacoast Banking Corporation of Florida and Subsidiaries

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| (Dollars in thousands, except per share data) | 2003 | 2002 |
| Interest and dividends on securities | \$ 4,074 | \$ 3,308 |
| Interest and fees on loans | 11,982 | 14,768 |
| Interest on federal funds sold | 21 | 285 |
| TOTAL INTEREST INCOME | 16,077 | 18,361 |
| Interest on deposits | 903 | 1,346 |
| Interest on time certificates | 2,701 | 4,388 |
| Interest on borrowed money | 873 | 850 |
| TOTAL INTEREST EXPENSE | 4,477 | 6,584 |
| NET INTEREST INCOME | 11,600 | 11,777 |
| Provision for loan losses | 0 | 0 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 11,600 | 11,777 |
| Noninterest income | | |
| Securities gains (losses) | (1,157) | 66 |
| Other income | 5,371 | 3,983 |
| TOTAL NONINTEREST INCOME | 4,214 | 4,049 |
| TOTAL NONINTEREST EXPENSES | 10,875 | 9,768 |
| INCOME BEFORE INCOME TAXES | 4,939 | 6,058 |
| Provision for income taxes | 1,716 | 2,372 |
| NET INCOME | \$ 3,223 | \$ 3,686 |
| PER SHARE COMMON STOCK: | | |
| Net income diluted | \$ 0.23 | \$ 0.26 |
| Net income basic | 0.23 | 0.26 |
| Cash dividends declared | 0.11 | 0.10 |
| Average shares outstanding - Diluted | 14,248,755 | 14,304,921 |
| Average shares outstanding - Basic | 13,923,795 | 14,007,291 |

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) Seacoast Banking Corporation of Florida and Subsidiaries

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| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| (Dollars in thousands, except per share data) | 2003 | 2002 |
| ----- | | |
| Increase (Decrease) in Cash and Cash Equivalents | | |
| Cash flows from operating activities | | |
| Interest received | \$ 18,399 | \$ 19,142 |
| Fees and commissions received | 5,432 | 4,073 |
| Interest paid | (4,468) | (6,801) |
| Cash paid to suppliers and employees | (12,494) | (10,025) |
| Income taxes paid | (81) | (2) |
| | ----- | |
| Net cash provided by operating activities | 6,788 | 6,387 |
| Cash flows from investing activities | | |
| Proceeds from maturity of securities held for sale and trading | 104,142 | 67,463 |
| Proceeds from maturity of securities held for investment | 12,217 | 1,334 |
| Proceeds from sale of securities held for sale | 57,061 | 21,571 |
| Purchase of securities held for sale | (184,698) | (151,155) |
| Net new loans and principal repayments | 28,463 | 39,334 |
| Proceeds from the sale of other real estate owned | 10 | 0 |
| Additions to bank premises and equipment | (462) | (214) |
| Net change in other assets | 5,837 | 457 |
| | ----- | |
| Net cash provided by (used in) investing activities | 22,570 | (21,210) |
| Cash flows from financing activities | | |
| Net increase in deposits | 30,058 | 25,026 |
| Net decrease in federal funds purchased and repurchase agreements | (37,726) | (950) |
| Net increase in other borrowings | 25,000 | 0 |
| Exercise of stock options | 661 | 413 |
| Treasury stock issued (acquired) | (1,117) | 19 |
| Dividends paid | (1,532) | (1,390) |
| | ----- | |
| Net cash provided by financing activities | 15,344 | 23,118 |
| | ----- | |
| Net increase in cash and cash equivalents | 44,702 | 8,295 |
| Cash and cash equivalents at beginning of period | 49,822 | 92,114 |
| | ----- | |
| Cash and cash equivalents at end of period | \$94,524 | \$100,409 |
| | ===== | |

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| (Dollars in thousands) | 2003 | 2002 |
| ----- | | |
| Reconciliation of Net Income to Cash Provided by Operating Activities | | |
| Net Income | \$ 3,223 | \$ 3,686 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |

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| | | |
|---|----------|----------|
| Depreciation and amortization | 2,884 | 1,587 |
| Securities losses (gains) | 1,157 | (66) |
| Loss (gain) on sale and write down of foreclosed assets | (2) | 1 |
| Loss (gain) on disposition of fixed assets | 4 | (5) |
| Change in interest receivable | 29 | (178) |
| Change in interest payable | 9 | (217) |
| Change in prepaid expenses | 76 | 11 |
| Change in accrued taxes | 1,728 | 2,454 |
| Change in other liabilities | (2,320) | (886) |
| ----- | | |
| Total adjustments | 3,565 | 2,701 |
| ----- | | |
| Net cash provided by operating activities | \$ 6,788 | \$ 6,387 |
| ===== | | |

Supplemental disclosure of noncash investing activities:

| | | |
|--|---------|---------|
| Transfers from loans to other real estate owned | \$ 0 | \$ 74 |
| Market value adjustment to securities | (2,383) | (2,683) |
| Transfers from loans to securities held for sale | 0 | 6,075 |

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) SEACOAST BANKING CORPORATION OF FLORIDA AND SUBSIDIARIES

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2003, are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2002.

Use of Estimates: The preparation of these financial statements required the use of certain estimates by management in determining the Company's assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Trading Securities: Securities classified as trading are carried at estimated fair values based on quoted market prices or third party sources. Trading income includes realized and unrealized gains and losses from trading positions and is included in securities gains (losses) in the consolidated financial statements.

Loan Commitments: The Company enters into mortgage forward delivery contracts, which are accounted for as free standing derivatives, to economically hedge its exposure to changes in interest rates in its mortgage loan origination activity. The notional amount of the forward delivery contracts, along with the underlying rate and terms of the contracts, are equivalent to the unpaid principal amount

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of the mortgage loan commitments being economically hedged, hence the forward delivery contracts effectively fix the forward sales price and thereby substantially eliminate interest rate and price risk to the Company.

Mortgage loan commitments can include interest rate locks that have been extended to borrowers who have applied for loan funding and meet certain defined credit and underwriting criteria. The Company classifies and accounts for the interest rate locks as free-standing derivatives with changes in fair value included in current earnings. Gains (losses) on interest rate lock commitments, which economically are offset by the mortgage forward delivery contracts, represent the change in value from rate-lock inception to the balance sheet date. The net gain of these instruments was \$337,000.

Hedging Activities: Hedging derivatives that qualify for hedge accounting are recognized on the balance sheet at fair value as either derivative product assets or liabilities with an offset to either current earnings or other comprehensive income, as appropriate. Hedge ineffectiveness, if any, is

calculated and recorded in current earnings. The Company is exposed to credit risk in the event of nonperformance by the counterparty which is controlled with credit monitoring procedures.

NOTE B - COMPREHENSIVE INCOME

Under FASB Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," the Company is required to report a measure of all changes in equity, not only reflecting net income but certain other changes as well. At March 31, 2003 and 2002, comprehensive income was as follows:

| (Dollars in thousands) | Three Months Ended March 31, | |
|---|---------------------------------|---------|
| | 2003 | 2002 |
| Net Income | \$3,223 | \$3,686 |
| Unrealized loss on cash flow hedge (net of tax) | (58) | -- |
| Unrealized gains (losses) on securities (net of tax) | (1,105) | (1,645) |
| Net reclassification adjustment for prior unrealized security gains | (293) | -- |
| | ----- | ----- |
| Comprehensive Income | \$1,767 | \$2,041 |

NOTE C - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments, such as interest rate swaps and forward contracts are valued at quoted market prices or the discounted cash flow method. The estimated fair value and carrying value of the Company's interest rate swaps and financial derivatives, utilized for asset and liability management purposes, were included in the condensed consolidated balance sheet at March 31, 2003, as follows:

| | Carrying Value | Fair Value |
|--|----------------|------------|
| Derivative Product Assets | | |
| Interest rate swap which qualify for hedge accounting | \$200,000 | \$200,000 |
| Derivative Contracts which do not qualify for hedge accounting | 337,000 | 337,000 |

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Derivative Product Liabilities

| | | |
|---|--------|--------|
| Cash Flow interest rate swap which does qualify for hedge accounting | 92,000 | 92,000 |
|---|--------|--------|

The above derivative financial instruments had no effect on net interest income. A total of \$92,000 was recorded to other comprehensive income, net of taxes of \$34,000.

NOTE D - EARNINGS PER SHARE DATA

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------------|
| (Dollars in thousands, except per share data) | 2003 | 2002 |
| Basic: | | |
| Net Income | \$3,223 | \$3,686 |
| Average shares outstanding | 13,923,795 | 14,007,291 |
| Basic EPS | \$ 0.23 | \$ 0.26 |
| Diluted: | | |
| Net Income | \$3,223 | \$3,686 |
| Average shares outstanding | 13,923,795 | 14,007,291 |
| Net effect of dilutive stock Options - based on treasury Stock method | 324,960 | 297,630 |
| Total | 14,248,755 | 14,304,921 |
| Diluted EPS | \$ 0.23 | \$ 0.26 |

NOTE E - ACCOUNTING STANDARDS

In April 2003, the Financial Accounting Standards Board (FASB) issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments and hedging activities under FASB Statement 133. The Company believes that the effect of the amendments, generally effective for after June 30, 2003, will not be material.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

FIRST QUARTER 2003

The following discussion and analysis is designed to provide a better understanding of the significant factors related to the Company's results of operations and financial condition. Such discussion and analysis should be read in conjunction with the Company's Condensed Consolidated Financial Statements and the notes attached thereto.

EARNINGS SUMMARY

Net income for the first quarter of 2003 totaled \$3,223,000 or \$0.23 per share diluted, lower than the \$4,044,000 or \$0.28 per share diluted recorded in the fourth quarter of 2002 and lower than the \$3,686,000 or \$0.26 per share diluted reported in the first quarter of 2002. Included in first quarter 2003's earnings is the impact of investment securities losses totaling \$1,157,000 or \$0.05 per share diluted, reflecting efforts to restructure the Company's investment

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portfolio for better performance in the current interest rate environment. Note that earnings per share results for prior periods reflect the three-for-one stock split on Common Stock effective July 15, 2002 for shareholders of record on July 1, 2002.

Return on average assets was 1.02 percent and return on average shareholders' equity was 13.07 percent for the first quarter of 2003, compared to fourth quarter 2002's performance of 1.32 percent and 16.24 percent, respectively, and the prior year's first quarter results of 1.18 percent and 15.45 percent, respectively.

NET INTEREST INCOME

Net interest income (on a fully taxable equivalent basis) for 2003 totaled \$11,639,000, \$9,000 or 0.1 percent less than for the fourth quarter of 2002 and \$177,000 or 1.5 percent lower than for the first quarter of 2002.

Net interest margin on a tax equivalent basis declined 13 basis points to 3.89 percent for the first quarter of 2003 from 4.02 percent for the fourth quarter of 2002. Since December 2000, the Federal Reserve has been aggressive in reducing short-term interest rates. A 50 basis point reduction occurred in December 2000, followed by subsequent reductions totaling 400 basis points in 2001 and a 50 basis point reduction in November 2002.

During the second half of 2002, the yield curve flattened over 100 basis points. More recently, during the first quarter of 2003, the yield curve flattened again and resulted in accelerated principal repayments of loans and investment securities collateralized by residential properties. Management believed that the margin would decline in the first six months of 2003 in the range of 6-14 basis points. With a flatter yield curve, a negative impact on the margin can be expected as reinvestment rates are lower.

To manage margin compression, the Company transferred securities with significant amortizing premiums to trading and adjusted carrying values to fair market values, resulting in securities losses of \$1,157,000 for the quarter. Of the \$503,902,000 in securities at March 31, 2003, \$43,719,000 are classified as trading. Activity in the Company's securities portfolio was significant during the quarter, with maturities and sales of securities of \$116.4 million and \$57.1 million, respectively, and purchases totaling \$184.7 million. This compares to maturities, sales and purchases in the first quarter a year ago of \$68.8 million, \$21.6 million and \$151.2 million. Securities activity during the first quarter reflects an effort to invest funds for better performance, as well as manage excess funding and maintain a stable net interest margin.

Higher principal repayments of loans and investments combined with deposit and borrowing increases had to be invested in earning assets at lower rates. The yield on earning assets for the first quarter of 2003 declined 35 basis points to 5.39 percent from fourth quarter 2002. Decreases in the yield on loans of 9 basis points to 7.05 percent, the yield on securities of 36 basis points to 3.17 percent, and the yield on federal funds sold of 13 basis points to 1.27 percent were recorded during the first quarter of 2003. Average earning assets for the first quarter of 2003 increased \$62,106,000 or 5.4 percent when compared to prior year's fourth quarter. Average loan balances declined \$28,628,000 or 4.0 percent to \$690,022,000 and average federal funds sold decreased \$10,278,000 or 60.5% to \$6,723,000, while average investment securities increased \$101,012,000 or 24.3 percent to \$515,974,000. The decline in loans was principally in residential real estate credits, reflecting the low interest rate environment that has provided customers the opportunity to refinance. Consistent with its strategy to generate more fee income and reduce interest rate risks, a majority

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of residential mortgage loans were sold servicing released.

The cost of interest-bearing liabilities in the first quarter of 2003 decreased 30 basis points to 1.83 percent from fourth quarter, with rates for NOW, savings, money market accounts, certificates of deposit (CDs), and other borrowings decreasing 11, 18, 15, 42 and 152 basis points, respectively. The average balance for NOW, savings and money market balances (aggregated) increased \$20,899,000 or 4.5 percent from fourth quarter and noninterest bearing deposits increased \$5,850,000 or 3.2 percent, while certificates of deposit declined \$3,770,000 or 1.0 percent. Growth in low-cost/no cost funding sources reflects the Company's longstanding strategy of building core customer relationships and tailoring its products and services to satisfy customer needs.

During the latter part of 2002 and into the first quarter of 2003, the Company's interest rate risk position shifted to a more asset sensitive profile. To mitigate this, on January 3, 2003 the Company swapped fixed rate payments on CDs with varying maturities beginning in October 2005 and ending in October 2007 with a notional amount of \$54 million to floating (three month LIBOR). The swap with terms identical to the CD's has been 100 percent effective and reduced interest expense on CDs by \$194,000 during the first quarter. An additional \$25 million floating rate borrowing (tied to three month LIBOR with a 3-year term) was acquired on January 30, 2003 from the Federal Home Loan Bank (FHLB). This funding was invested in securities with 3- to 4-year duration, also reducing the Company's recent exposure to increasing asset interest rate sensitivity and leveraging to increase future earnings. A one-year forward contract to swap the

floating rate on the FHLB borrowing to a fixed rate (3.12 percent) was acquired, based on projections that asset sensitivity will decline in one year. The forward contract locks the spread in rate between the borrowing and purchased securities prospectively. (See Note C for further information)

For the first quarter of 2002, the net interest margin was 4.05 percent. The yield on average earning assets was 6.33 percent and rate on interest-bearing liabilities was 2.77 percent.

Year over year the mix of earning assets and interest bearing liabilities has changed. Loans (the highest yielding component of earning assets) as a percentage of average earning assets totaled 56.9 percent in the first quarter of 2003 compared to 66.9 percent a year ago, while securities increased from 27.2 percent to 42.5 percent and federal funds sold decreased from 5.9 percent to 0.6 percent. While total loans did not increase as a percentage of earning assets, the Company successfully changed the mix of loans, with commercial and consumer volumes increasing as a percentage of total loans and lower yielding residential loan balances declining. Average CDs (a higher cost component of interest-bearing liabilities) as a percentage of interest-bearing liabilities decreased to 37.6 percent, compared to 40.8 percent in the first quarter of 2002, reflecting diminished funding requirements and allowing for lower rates to be paid on CDs. Approximately \$82 million in CDs matured during the first quarter of 2003. An additional \$77 million in CDs will mature in the second quarter of 2003, providing further opportunity for these volumes to re-price to lower rates (assuming the Federal Reserve maintains short-term interest rates at existing levels). Lower cost interest bearing deposits (NOW, savings and money market balances) increased to 48.7 percent of interest bearing liabilities, versus 47.2 percent a year ago, favorably affecting deposit mix. Borrowings (including federal funds purchased, sweep repurchase agreements with customers of the Company's subsidiary, and other borrowings) increased to 13.7 percent of interest bearing liabilities in the first quarter from 12.0 percent a year ago, reflecting an increase in average balances maintained by customers utilizing sweep arrangements and the new FHLB borrowing.

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PROVISION FOR LOAN LOSSES

No provisioning was recorded in the first quarter of 2003 nor in any quarter in 2002 and 2001, reflecting the Company's exceptional credit quality, low nonperforming assets, and slower loan growth. Net charge-offs totaled \$280,000 for the first quarter of 2003 compared to \$124,000 in 2002. Net charge-offs annualized as a percent of average loans were at 0.16 percent for the first quarter of 2003, compared to 0.06 percent for the same quarter in 2002 and 0.03 percent for the total year in 2002. These ratios are much better than the banking industry as a whole.

The Company's loan portfolio mix has been changing. The Company intends to continue to vary its loan portfolio mix by emphasizing higher yield commercial and consumer credits. These changes may result in increased loan loss provisions should the increased exposure result in greater inherent losses in the loan portfolio. Besides loan mix, the overall level of net charge-offs can be impacted by a decline in economic activity. Management believes that its credit

granting process contains a disciplined approach that mitigates this risk and lowers the likelihood of significant increases in charge-offs and nonperforming loans during economic slowdowns.

Management determines the provision for loan losses charged to operations by constantly analyzing and monitoring delinquencies, nonperforming loans and the level of outstanding balances for each loan category, as well as the amount of net charge-offs, and by estimating losses inherent in its portfolio. While the Company's policies and procedures used to estimate the monthly provision for loan losses charged to operations are considered adequate by management and are reviewed from time to time by the Office of the Comptroller of the Currency (OCC), there exist factors beyond the control of the Company, such as general economic conditions both locally and nationally, which make management's judgment as to the adequacy of the provision necessarily approximate and imprecise. (See "Nonperforming Assets" and "Allowance for Loan Losses")

NONINTEREST INCOME

Noninterest income, excluding gains and losses from securities sales, totaled \$5,371,000 for the first quarter of 2003, \$1,388,000 or 34.8 percent higher than for the same period last year. Noninterest income was favorably impacted by growth in fee-based businesses. Noninterest income accounted for 31.6 percent of net revenue in the first quarter, compared to 25.3 percent a year ago.

Market turmoil began in late 2000 and carried through into 2001 affecting brokerage activities, with consumers shifting from the purchase of investment products to more conservative deposit products. Revenues rebounded somewhat in 2002, but for the first quarter of 2003 brokerage commissions and fees decreased \$123,000 or 22.7 percent to \$420,000, year over year. Trust income was lower as well, declining \$73,000 or 12.2 percent to \$524,000. Financial markets remain troubled. Even so, the Company believes it can be successful in its efforts to expand its customer relationships through sales of investment management and brokerage products, including insurance. When financial markets improve, revenue from these products will expand and contribute to future earnings results.

The Company is among the leaders in the production of residential mortgage loans in its market. In order to generate additional fee income and better manage interest rate risks, the Company produces loans for third party permanent investors. Changes in the fair value of mortgage loan interest rate lock commitments granted to customers, and the related derivative contracts entered

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into with permanent investors used to economically hedge this exposure, are recorded in income. At March 31, 2003, a change in fair value of \$337,000 was included in mortgage banking fees. In 2003, mortgage banking fees totaled \$1,638,000, an increase of \$862,000 or 111.1 percent more than a year ago for the first quarter. The Company expects to derive further revenue growth in the future by increasing its market penetration, market expansion and expanding sources of fees collected from this business. The Company intends to expand further into Palm Beach County (Florida's top wealth market, expected to grow at

20 percent over the next ten years). And, if interest rates remain relatively low, additional loan production is expected to support ongoing increases in mortgage banking fees, assuming the economic environment remains favorable.

Greater usage of check cards during the first quarter 2003 by core deposit customers and an increased cardholder base increased interchange income to \$289,000, an increase of \$66,000 or 29.6 percent from the prior year. VISA and Mastercard have agreed in principle to a reduction in check card interchange rates effective August 1, 2003, which most likely will result in lower fees and income for all financial institutions. Other deposit based electronic funds transfer income increased \$15,000 or 14.9 percent to \$116,000. Service charges on deposits were level year over year at \$1,217,000. Greater analysis fees collected from commercial customers, a result of reduced earnings credits in the current interest rate environment, were offset by lower overdraft fees.

Marine finance fees totaled \$807,000, an increase of \$640,000 from first quarter a year ago. The Company's marine financing division (Seacoast Marine Finance) produced \$44.9 million in boat loans, up \$31.1 million year over year. A total of \$44.5 million of production was sold. Seacoast Marine Finance is headquartered in Ft. Lauderdale, Florida with lending professionals in Florida and California. The Company continues to look for opportunities to expand its market penetration of its marine finance business and recently added seven employees to its production team in California to fully serve the western markets, including Washington and Oregon.

Losses from the sale of securities totaled \$1,157,000 in 2003, compared to gains of \$66,000 in 2002. Sales of investments in early 2003 were transacted to restructure the portfolio for the current interest rate environment. Sales in the first quarter of 2002 were transacted to realize appreciation on securities that management believed had reached their maximum potential total return.

NONINTEREST EXPENSES

When compared to 2002, noninterest expenses for the first quarter increased by \$1,107,000 or 11.3 percent to \$10,875,000. The Company's overhead ratio has decreased over the last several years. The 63.9 percent efficiency ratio for the first quarter of 2003 was slightly higher than the 62.6 percent ratio recorded a year ago.

Salaries and wages increased \$399,000 or 10.6 percent to \$4,159,000 compared to the prior year quarter. Commissions on revenue from mortgage banking were \$76,000 higher year over year and base salaries increased \$383,000 or 11.6 percent. The increase in base salaries included \$68,000 for branch personnel in two new offices opened in Palm Beach County in January of this year, \$38,000 for commercial lending personnel at the loan production office opened in Jupiter, Florida in August 2002, \$32,000 for the Port St. Lucie, Florida WalMart office opened in October 2002, and \$79,000 for personnel in California in the marine finance division added in November 2002. Employee benefits increased \$168,000 or

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16.0 percent to \$1,216,000 from the first quarter of 2002. Group health insurance costs were the primary cause for the increase in 2003, up \$148,000 year over year.

Occupancy expenses and furniture and equipment expenses, on an aggregate basis, increased \$129,000 or 9.5 percent to \$1,493,000, versus first quarter results last year. Costs related to new locations, specifically the new branches and loan production office in Palm Beach County, an office in California and the Port St. Lucie WalMart, added \$136,000 to occupancy expenses and furniture and equipment expenses in 2003 versus a year ago.

Outsourced data processing costs totaled \$1,286,000 for the first quarter of 2003, an increase of \$40,000 or 3.2 percent from a year ago. The Company utilizes third parties for its core data processing system and merchant services processing. Outsourced data processing costs are directly related to the number of transactions processed, which can be expected to increase as the Company's business volumes grow and new products such as bill pay, internet banking, etc. become more popular.

Costs associated with foreclosed and repossessed asset management and disposition totaled only \$10,000, a reflection of low nonperforming asset balances (see "Nonperforming Assets") in the first quarter 2003. Legal and professional costs increased \$83,000 or 25.5 percent to \$408,000 when compared to March 31, 2002. Additional legal costs and accounting fees associated with the establishment of a Real Estate Investment Trust (REIT) to more efficiently manage real estate assets and to reduce the Company's effective tax rate and tax provisioning were the primary cause for the increase in legal and professional fees for the first quarter.

Marketing expenses, including sales promotion costs, ad agency production and printing costs, newspaper and radio advertising, and other public relations costs associated with the Company's efforts to market products and services, increased by \$37,000 or 7.2 percent to \$550,000 when compared to a year ago. Included in first quarter costs were grand opening expenditures for the two new branches in Palm Beach County.

Amortization of other intangibles remained level at \$63,000.

Other expenses increased \$255,000 or 17.8 percent to \$1,690,000. The primary increase was in subcontractor fees paid to marine finance solicitors, which increased by \$148,000 from a year ago, principally due to the addition of sales staff in California.

INCOME TAXES

Income taxes as a percentage of income before taxes were 34.7 percent for the first quarter of this year, compared to 39.2 percent in 2002. Beginning in January 2003 the Company formed a subsidiary and transferred certain real estate assets to a real estate investment trust (REIT). As a result, the Company's state income tax liability was reduced.

FINANCIAL CONDITION

CAPITAL RESOURCES

The Company's ratio of average shareholders' equity to average total assets during the first quarter of 2003 was 7.81 percent, compared to 7.67 percent during the first quarter of 2002. The Company manages the size of its equity

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through a program of share repurchases of its outstanding Common stock. In treasury stock at March 31, 2003, there were 1,620,427 shares totaling \$17,916,000, compared to 1,533,504 shares or \$16,440,000 a year ago.

The risk-based capital minimum ratio for total capital to risk-weighted assets for "well-capitalized" financial institutions is 10%. At March 31, 2003, the Company's ratio was 13.95 percent.

LOAN PORTFOLIO

Total loans (net of unearned income and excluding the allowance for loan losses) were \$661,536,000 at March 31, 2003, \$92,999,000 or 12.3 percent less than at March 31, 2002, and \$26,625,000 or 3.9 percent less than at December 31, 2002. Higher prepayments of the residential mortgage loans has resulted in a decline in loan portfolio.

At March 31, 2003, the Company's mortgage loan balances secured by residential properties amounted to \$237,613,000 or 35.9 percent of total loans (versus \$330,730,000 or 43.8 percent a year ago).

During the first quarter of 2003, \$64.1 million in fixed rate residential mortgage loans were sold, compared to \$37.0 million during the first quarter a year ago. The Company also sold \$44.5 million in marine loans (generated by Seacoast Marine Finance), compared to \$11.7 million in the first quarter of 2002. Over the past twelve months, \$164.6 million in fixed rate residential loans and \$113.9 million in marine loans have been sold. The loan sales are without recourse.

The company's loan portfolio secured by commercial real estate has increased 4.9% over the last twelve (12) months.

The Company's commercial real estate lending strategy stresses quality loan growth from local businesses, professionals, experienced developers and investors. At March 31, 2003, the Company had funded commercial real estate loans totaling \$263,637,000 or 39.9 percent of total loans (versus \$251,267,000 or 33.3 percent a year ago). At March 31, 2003, this amount and unfunded commitments for commercial real estate were comprised of the following types of loans:

| (In millions) | Funded | Unfunded | Total |
|-------------------------------------|----------------|---------------|----------------|
| Office buildings | \$ 38.8 | \$ -- | \$ 38.8 |
| Retail trade | 34.5 | 1.8 | 36.3 |
| Land development | 36.8 | 26.6 | 63.4 |
| Industrial | 27.3 | 3.7 | 31.0 |
| Healthcare | 26.1 | 3.8 | 29.9 |
| Churches and educational facilities | 13.6 | 0.4 | 14.0 |
| Recreation | 11.8 | 0.5 | 12.3 |
| Multifamily | 7.4 | 5.2 | 12.6 |
| Mobile home parks | 4.0 | -- | 4.0 |
| Land | 5.9 | 1.0 | 6.9 |
| Lodging | 3.4 | -- | 3.4 |
| Restaurant | 3.4 | 0.1 | 3.5 |
| Miscellaneous | 50.6 | 5.9 | 56.5 |
| Total | \$263.6 | \$49.0 | \$312.6 |

Also increasing, commercial and industrial loans totaled \$41,809,000 at March 31, 2003, compared to \$38,779,000 a year ago. Commercial lending activities are directed principally towards businesses whose demand for funds are within the

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Company's lending limits, such as small to medium sized professional firms, retail and wholesale outlets, and light industrial and manufacturing concerns. Residential lot loans (for private and investor purposes) totaled \$12,528,000, residential construction loans totaled \$12,071,000 and home equity lines outstanding totaled \$11,390,000 at March 31, 2003.

The Company was also a creditor for consumer loans to individual customers (including installment loans, loans for automobiles, boats, and other personal, family and household purposes) totaling \$82,010,000 (versus \$99,946,000 a year ago).

The Treasure Coast is a residential community with commercial activity centered in retail and service businesses serving the local residents and seasonal visitors. Real estate mortgage lending is an important segment of the Company's lending activities. Exposure to market interest rate volatility with respect to mortgage loans is managed by attempting to match maturities and re-pricing opportunities for assets against liabilities and through loan sales. At March 31, 2003, approximately \$100 million or 42 percent of the Company's residential mortgage loan balances were adjustable, compared to \$123 million or 37 percent a year ago.

Approximately \$70.2 million of new residential loans were originated in the first quarter 2003 and \$64.1 million were sold. Loans secured by residential properties having fixed rates totaled approximately \$137 million at March 31, 2003, of which 15- and 30-year mortgages totaled approximately \$62 million and \$43 million, respectively. Remaining fixed rate balances were comprised of home improvement loans, most with maturities of 10 years or less. In comparison, 15-

and 30-year fixed rate residential mortgages at March 31, 2002 totaled approximately \$91 million and \$74 million, respectively.

The Company's historical charge-off rates for residential real estate loans have been minimal, with \$9,000 in net recoveries for the first quarter of 2003 compared to \$22,000 in net recoveries for all of 2002. The Company considers residential mortgages less susceptible to adverse effects from a downturn in the real estate market.

Fixed rate and adjustable rate loans secured by commercial real estate, excluding construction loans, totaled approximately \$90 million and \$114 million, respectively, at March 31, 2003, compared to \$105 million and \$93 million, respectively, a year ago.

At March 31, 2003, the Company had commitments to make loans (excluding unused home equity lines of credit) of \$136,242,000, compared to \$100,732,000 at March 31, 2002.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses totaled \$6,546,000 at March 31, 2003, \$364,000 lower than one year earlier and \$280,000 lower than at December 31, 2002. During the first quarter of 2003, net charge-offs of \$181,000 on commercial loans and \$131,000 on consumer loans were partially offset by recoveries on residential real estate loans, commercial real estate loans, and credit cards of \$9,000, \$12,000, and \$10,000, respectively. A year ago, net charge-offs of \$124,000 were recorded during the first quarter.

Although the allowance balance declined \$364,000 over the last twelve months, the ratio of the allowance for loan losses to net loans outstanding increased 7 basis points to 0.99 percent at March 31, 2003. This ratio was 0.92 percent at March 31, 2002 and 0.99 percent at December 31, 2002. The allowance for loan

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losses as a percentage of nonaccrual loans and loans 90 days or more past due was 344.2 percent at March 31, 2003, compared to 447.0 percent at the same date in 2002.

The model utilized to analyze the adequacy of the allowance for loan losses takes into account such factors as credit quality, loan concentrations, internal controls, audit results, staff turnover, local market economics and loan growth. The resulting allowance is also reflective of the subsidiary bank's favorable and consistent delinquency trends, historical loss performance, and the decline in loans outstanding over the last twelve months. The size of the allowance also reflects the large amount of residential loans held by the Company whose historical charge-offs and delinquencies have been favorable and the growth in commercial real estate loans over the last few years.

These performance results are attributed to conservative, long-standing and consistently applied loan credit policies and to a knowledgeable, experienced and stable staff. The allowance for loan losses represents management's estimate of an amount adequate in relation to the risk of future losses inherent in the loan portfolio.

Concentration of credit risk may affect the level of the allowance and typically involve loans to one borrower, an affiliated group of borrowers, borrowers engaged in or dependent upon the same industry, or a group of borrowers whose loans are predicated on the same type of collateral. The Company's significant

concentration of credit is a collateral concentration of loans secured by real estate. At March 31, 2003, the Company had \$537 million in loans secured by real estate, representing 81.2 percent of total loans, down slightly from 81.6 percent at March 31, 2002. In addition, the Company is subject to a geographic concentration of credit because it operates in southeastern Florida. Although not material enough to constitute a significant concentration of credit risk, the Company has meaningful credit exposure to real estate developers and investors. Levels of exposure to this industry group, together with an assessment of current trends and expected future financial performance, are carefully analyzed in order to determine an adequate allowance level. Problem loan activity for this exposure needs to be evaluated over the long term to include all economic cycles when determining an adequate allowance level.

While it is the Company's policy to charge off in the current period loans in which a loss is considered probable, there are additional risks of future losses that cannot be quantified precisely or attributed to particular loans or classes of loans. Because these risks include the state of the economy as well as conditions affecting individual borrowers, management's judgment of the allowance is necessarily approximate and imprecise. It is also subject to regulatory examinations and determinations as to adequacy, which may take into account such factors as the methodology used to calculate the allowance for loan losses and the size of the allowance for loan losses in comparison to a group of peer companies identified by the regulatory agencies.

NONPERFORMING ASSETS

At March 31, 2003, the Company's ratio of nonperforming assets to loans outstanding plus other real estate owned ("OREO") was 0.29 percent, compared to 0.22 percent one year earlier.

At March 31, 2003, there were \$1,000 in accruing loans past due 90 days or more and no OREO was outstanding. In 2002 on the same date, there were \$69,000 in accruing loans past due 90 days or more and OREO balances of \$192,000 were outstanding.

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Nonaccrual loans totaled \$1,901,000 at March 31, 2003, compared to a balance of \$1,478,000 at March 31, 2002. Nonaccrual loans outstanding at March 31, 2003 that were performing with respect to payments totaled \$1,225,000. The performing loans were placed on nonaccrual status because the Company has determined that the collection of principal or interest in accordance with the terms of such loans is uncertain. Of the amount reported in nonaccrual loans at March 31, 2003, 73 percent is secured with real estate, the remainder by other collateral. Management does not expect significant losses for which an allowance for loan losses has not been provided associated with the ultimate realization of these assets.

Nonperforming assets are subject to changes in the economy, both nationally and locally, changes in monetary and fiscal policies, and changes in conditions affecting various borrowers from the Company's subsidiary bank. No assurance can be given that nonperforming assets will not in fact increase or otherwise change.

SECURITIES

At March 31, 2003, the Company had \$43,719,000 or 8.7 percent of total securities designated as trading, \$440,185,000 or 87.4 percent of total securities available for sale and securities held to maturity were carried at an amortized cost of \$19,998,000, representing 3.9 percent of total securities. The Company's securities portfolio increased \$140,339,000 or 38.6 percent from March 31, 2002 and \$5,443,000 or 1.1 percent from December 31, 2002. Maturities and sales of securities of \$116.4 million and \$57.1 million, respectively, and purchases totaling \$184.7 million were transacted during the first quarter of 2003. Securities activity reflects an effort to restructure the Company's investment portfolio for better performance in the current interest rate environment. The restructuring was necessary due to increased prepayments of collateralized mortgage obligations, which resulted in unacceptable asset sensitivity, accelerated premium amortization and a decline in investment portfolio yield.

Management controls the Company's interest rate risk by maintaining a low average duration for the securities portfolio and with securities returning principal monthly that can be reinvested. At March 31, 2003, the duration of the portfolio was 1.8 years.

Unrealized net securities losses of \$442,000 at March 31, 2003, compared to net gains of \$236,000 at March 31, 2002 and \$2,320,000 at December 31, 2002. A shifting yield curve affected the market value of the securities portfolio during the quarter.

Company management considers the overall quality of the securities portfolio to be high. No securities are held which are not traded in liquid markets.

DEPOSITS AND BORROWINGS

Total deposits increased \$20,421,000 or 2.0 percent to \$1,060,591,000 at March 31, 2003, compared to one year earlier. Certificates of deposits decreased \$13,656,000 or 3.5 percent to \$373,626,000 over the past twelve months, lower cost interest bearing deposits (NOW, savings and money markets deposits) increased \$16,869,000 or 3.6 percent to \$490,976,000, and noninterest bearing demand deposits increased \$17,208,000 or 9.6 percent to \$195,989,000. The Company's success in marketing desirable products in this environment, in particular its tiered money market and Money Manager product offerings, enhanced growth in lower cost interest bearing deposits.

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Repurchase agreement balances decreased over the past twelve months by \$5,513,000 or 7.8 percent to \$65,241,000 at March 31, 2003. Repurchase agreements are offered by the Company's subsidiary bank to select customers who wish to sweep excess balances on a daily basis for investment purposes. The number of sweep repurchase accounts declined from 109 a year ago to 101 at March 31, 2003, with some customers closing sweep repurchase relationships due to the low interest rate environment and diminished benefit of utilizing a sweep

repurchase agreement, and choosing to maintain balances in traditional deposit products.

During the first quarter of 2003, a \$25 million adjustable rate borrowing tied to LIBOR with a three-year term (maturing on January 30, 2006) was acquired. As a result, at March 31, 2003, other borrowings were \$25,000,000 or 62.5 percent higher than a year ago. Totaling \$65,000,000, these borrowings are entirely comprised of funding from the Federal Home Loan Bank (FHLB).

INTEREST RATE SENSITIVITY

Fluctuations in rates may result in changes in the fair market value of the Company's financial instruments, cash flows and net interest income. This risk is managed using simulation modeling to calculate a most likely impact for interest rate risk utilizing estimated loan and deposit growth. The objective is to optimize the Company's financial position, liquidity, and net interest income while limiting their volatility.

Senior management regularly reviews the overall interest rate risk position and evaluates strategies to manage the risk. The Company has determined that an acceptable level of interest rate risk would be for net interest income to fluctuate no more than 6 percent given a parallel change in interest rates (up or down) of 200 basis points. The Company's most recent ALCO model simulation indicated net interest income would decrease 2.0 percent if interest rates would gradually rise 200 basis points over the next twelve months. While management places a lower probability on significant rate declines after the 50 basis point reduction on November 6, 2002, the model simulation indicates net interest income would decrease 0.1 percent and 2.3 percent over the next twelve months given a gradual decline in interest rates of 100 and 200 basis points, respectively. It has been the Company's experience that non-maturity core deposit balances are stable and subjected to limited re-pricing when interest rates increase or decrease within a range of 200 basis points.

On March 31, 2003, the Company had a negative gap position based on contractual and prepayment assumptions for the next twelve months, with a negative cumulative interest rate sensitivity gap as a percentage of total earning assets of 3.4 percent.

The computations of interest rate risk do not necessarily include certain actions management may undertake to manage this risk in response to changes in interest rates. Derivative financial instruments, such as interest rate swaps, options, caps, floors, futures and forward contracts are utilized as components of the Company's risk management profile.

CRITICAL ACCOUNTING ESTIMATES

Management after consultation with the audit committee believes that the most critical accounting estimates which may affect the Company's financial status and involve the most complex, subjective and ambiguous assessments are as follows:

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The allowance and provision for loan losses, securities trading and available for sale valuation and accounting, the value of goodwill, and the fair market value of mortgage servicing rights at acquisition and any impairment of that value.

Disclosures intended to facilitate a reader's understanding of the possible and likely events or uncertainties known to management which could have a material impact on the reported financial information of the Company related to the most critical accounting estimates are as follows:

Allowance and Provision for Loan Losses

The information contained on pages 13-14 and 17-20 related to the "Provision for Loan Losses", "Loan Portfolio", "Allowance for Loan Losses" and "Nonperforming Assets" is intended to describe the known trends, events and uncertainties which could materially impact the company's accounting estimates.

Securities Trading and Available for Sale

The fair value of trading securities at March 31, 2003 was \$43,719,000. The fair value of the available for sale portfolio at March 31, 2003 was less than historical amortized cost, producing unrealized losses of \$1,049,000. The fair value of each security was obtained from independent pricing sources utilized by many financial institutions. However, actual values can only be determined in an arms-length transaction between a willing buyer and seller which can, and often do, vary from these reported values. Furthermore, significant changes in recorded values due to changes in actual and perceived economic conditions can occur rapidly, producing greater unrealized losses in the available for sale portfolio and realized losses for the trading portfolio.

The credit quality of the Company's security holdings is such that negative changes in the fair values, as a result of unforeseen deteriorating economic conditions, should only be temporary. Further, management believes that the Company's other sources of liquidity, as well as the cash flow from principal and interest payments from the securities portfolios, reduces the risk that losses would be realized as a result of needed liquidity from the securities portfolio.

Value of Goodwill

Beginning January, 1, 2002, the Company's goodwill is no longer amortized, but tested for impairment. The amount of goodwill at March 31, 2003 totaled approximately \$2.5 million and was acquired in 1995 as a result of the purchase of a community bank within the Company's dominant market. The Company has a commercial bank deposit market share of approximately 35 percent in this market, which had a population increase of over 25 percent during the past ten years.

The assessment as to the continued value for goodwill involves judgments, assumptions and estimates regarding the future.

The population is forecast by the Bureau of Economic and Business Research at the University of Florida to continue to grow at a 20 percent plus rate over the next ten years. Our highly visible local market orientation, combined with a wide range of products and services and favorable demographics, has resulted in increasing profitability in all of the Company's markets. There is data available indicating that both the products and customers serviced have grown since the acquisition, which is attributable to the increased profitability and

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supports the goodwill value at March 31, 2003.

Mortgage Servicing Rights

A large portion of the Company's loan production involves loans for 1-4 family residential properties. As part of its efforts to manage interest rate risk, the Company securitizes pools of loans and creates U.S. Agency-guaranteed mortgage-backed securities. As part of the agreement with the agency, the Company is paid a servicing fee to manage the loan and collect the monthly loan payments. In accordance with FAS No. 140, the Company records an asset (mortgage servicing rights) at the fair value of those rights. At March 31, 2003, the total estimated fair value of those rights was \$538,000. The fair value of the mortgage servicing rights is based on judgments, assumptions and estimates as to the period the fee will be collected, current and future interest rates, and loan foreclosures. These judgments, assumptions and estimates are initially made at the time of securitization and reviewed at least quarterly. Impairment, if any, is recognized through a valuation allowance and charged against current earnings.

LIQUIDITY MANAGEMENT

Contractual maturities for assets and liabilities are reviewed to adequately maintain current and expected future liquidity requirements. Sources of liquidity, both anticipated and unanticipated, are maintained through a portfolio of high quality marketable assets, such as residential mortgage loans, securities available for sale and federal funds sold. The Company has access to federal funds and Federal Home Loan Bank (FHLB) lines of credit and is able to provide short term financing of its activities by selling, under an agreement to repurchase, United States Treasury and Government agency securities not pledged to secure public deposits or trust funds. At March 31, 2003, the Company had available lines of credit of \$90,600,000. The Company had \$327,351,000 of United States Treasury and Government agency securities and mortgage backed securities not pledged and available for use under repurchase agreements. At March 31, 2002, the amount of securities available and not pledged was \$244,486,000.

Liquidity, as measured in the form of cash and cash equivalents (including federal funds sold), totaled \$94,524,000 at March 31, 2003 as compared to \$100,409,000 at March 31, 2002. Cash and cash equivalents vary with seasonal deposit movements and are generally higher in the winter than in the summer, and

vary with the level of principal repayments and investment activity occurring in the Company's securities portfolio and loan portfolio. The Company believes its liquidity to be strong and stable.

EFFECTS OF INFLATION AND CHANGING PRICES

The financial statements and related financial data presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money, over time, due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the general level of inflation. However, inflation affects financial institutions' increased cost of goods and services purchased, the cost of salaries and benefits, occupancy expense, and similar items. Inflation and related increases

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in interest rates generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings, and shareholders' equity. Mortgage originations and refinancings tend to slow as interest rates increase, and likely will reduce the Company's earnings from such activities and the income from the sale of residential mortgage loans in the secondary market.

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

This discussion and analysis contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements, including statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause the actual results, performance or achievements of Seacoast Banking Corporation of Florida ("Seacoast" or the "Company") to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. You should not expect us to update any forward-looking statements.

You can identify these forward-looking statements through our use of words such as "may", "will", "anticipate", "assume", "should", "indicate", "would", "believe", "contemplate", "expect", "estimate", "continue", "point to", "project", "may", "intend", or other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation: the effects of future economic conditions; governmental monetary and fiscal policies, as well as legislative and regulatory changes; the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities, and interest sensitive assets and liabilities; interest rate risks; the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in the Company's market area and elsewhere, including institutions operating regionally, nationally, and internationally, together with such competitors offering bank products and services by mail, telephone, computer and the Internet; the failure of assumptions underlying the establishment of reserves for possible loan losses, and the risks of mergers and acquisitions, including, without limitation, the related costs, including integrating operations as part of these transactions, and the failure to achieve the expected gains, revenue growth and/or expense savings from such transactions.

All written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by this Cautionary Notice including, without limitation, those risks and uncertainties, described in the Company's annual report on Form 10-K for the year ended December 31, 2002 under "Special Cautionary Notice Regarding Forward Looking Statements", and otherwise in the Company's Securities and Exchange Commission (SEC) reports and filings. Such reports are available upon request from Seacoast, or from the SEC, including the SEC's website at <http://www.sec.gov>.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Management's discussion and analysis "Interest Rate Sensitivity".

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Market risk refers to potential losses arising from changes in interest rates, and other relevant market rates or prices.

Interest rate risk, defined as the exposure of net interest income and Economic Value of Equity (EVE) to adverse movements in interest rates, is Seacoast's primary market risk, and mainly arises from the structure of the balance sheet (non-trading activities). Seacoast is also exposed to market risk in its investing activities. The Asset and Liability Management Committee (ALCO) meets regularly and is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit exposure to interest rate risk. The policies established by ALCO are reviewed and approved by the Company's Board of Directors. The primary goal of interest rate risk management is to control exposure to interest rate risk, within policy limits approved by the Board. These limits reflect Seacoast's tolerance for interest rate risk over short-term and long-term horizons.

Seacoast also performs valuation analysis, which is used for discerning levels of risk present in the balance sheet that might not be taken into account in the net interest income simulation analysis. Whereas net interest income simulation highlights exposures over a relatively short time horizon, valuation analysis incorporates all cash flows over the estimated remaining life of all balance sheet positions. The valuation of the balance sheet, at a point in time, is defined as the discounted present value of asset cash flows minus the discounted value of liability cash flows, the net of which is referred to as EVE. The sensitivity of EVE to changes in the level of interest rates is a measure of the longer-term repricing risk and options risk embedded in the balance sheet. In contrast to the net interest income simulation, which assumes interest rates will change over a period of time, EVE uses instantaneous changes in rates. EVE values only the current balance sheet, and does not incorporate the growth assumptions that are used in the net interest income simulation model. As with the net interest income simulation model, assumptions about the timing and variability of balance sheet cash flows are critical in the EVE analysis. Particularly important are the assumptions driving prepayments and the expected changes in balances and pricing of the indeterminate deposit portfolios. As of March 31, 2003, an instantaneous 100 basis point increase in rates is estimated to increase the EVE 6.0% versus the EVE in a stable rate environment. An instantaneous 100 basis point decrease in rates is estimated to decrease the EVE 12.7% versus the EVE in a stable rate environment.

While an instantaneous and severe shift in interest rates is used in this analysis to provide an estimate of exposure under an extremely adverse scenario, a gradual shift in interest rates would have a much more modest impact. Since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon, i.e., the next fiscal

year. Further, EVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could mitigate the adverse impact of changes in interest rates.

Item 4. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The management of the Company including Mr. Dennis S. Hudson, III as Chief Executive Officer and Mr. William R. Hahl as Chief Financial Officer have evaluated the Company's disclosure controls and procedures. Under rules promulgated by the SEC, disclosure controls and procedures are defined as those "controls or other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports filed or

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submitted by it under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms." Based on the evaluation of the company's disclosure controls and procedures, it was determined that such controls and procedures were effective as of May 13, 2003, the date of the conclusion of the evaluation.

Further, there were no significant changes in the internal controls or in other factors that could significantly affect these controls after May 13, 2003, the date of the conclusion of the evaluation of disclosure controls and procedures.

Part II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

Exhibit 31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

No reports on Form 8-K were filed for the three-month period ended March 31, 2003.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEACOAST BANKING CORPORATION OF FLORIDA

August 19, 2003

/s/ Dennis S. Hudson, III

DENNIS S. HUDSON, III
President & Chief Executive Officer

August 19, 2003

/s/ William R. Hahl

WILLIAM R. HAHL

Executive Vice President &
Chief Financial Officer