Management's Discussion and Analysis for the Nine Months Ended September 30, 2017

Summary

Florida Capital Group, Inc. (the "Company") reported net income of $367 thousand for the nine months ended September 30, 2017. Exclusive of a non-recurring $500 thousand reduction in the provision for loan losses during the third quarter, the Company recorded a net loss of $133 thousand. Virtually all of the reported earnings were contributed by the Company's bank subsidiary Florida Capital Bank, N.A. (the "Bank"). Net income for the current period compares unfavorably to reported earnings of $1.0 million for the same period of 2016.

The Bank's mortgage operations have experienced significant declines in volume during 2017. These declines have been partially mitigated by increased production and balances in the Bank's warehouse lending portfolio. The increase in long-term interest rates (particularly the 10Y Treasury note yield) has dampened consumers' interest in refinance activity, and new purchase activity has not been as strong as anticipated. Mortgage loan production is projected to be approximately $720 million at year-end 2017 versus $965 million for 2016. The Bank's government guaranteed lending ("GGL") business has also reported decreased volume in 2017. This impact is primarily the result of an ongoing restructure of this business line and a focus on alternative production opportunities. Both initiatives are expected to favorably impact 2018 results.

Balance Sheet

Total assets increased $35 million or 13% annualized during the first nine months of 2017, and all of the growth was centered in the Bank's loan portfolio. Loans held for investment increased $61 million during 2017, while loans held for sale declined $21 million, reflecting the continued weakness in the national mortgage market. The majority of the increase in loans occurred late in the third quarter when the Bank acquired a $50 million portfolio of residential mortgage loans. This acquisition is part of management's initial strategic step toward utilizing the Company's existing capital base to increase the size of the bank's balance sheet. This strategy effectively deploys available bank capital to increase return on equity, and generate a more stable earnings stream to offset the volatility traditionally associated with mortgage banking. Other scalable portfolio acquisitions are also under consideration. The full income statement impact of this loan portfolio purchase will be achieved during the fourth quarter of 2017.

For the nine months ended September 30, 2017 core deposits increased $17 million or 12% annualized, and all of this growth occurred in lower cost non-interest bearing transaction accounts and money market and savings deposits. In addition, the electronic payments line of business has generated $29M in low cost core deposits as of September 30, 2017. This business line is a strategically important source of core funding for the mortgage operation at rates substantially less than FHLB advance rates. For the same period, wholesale deposit sources increased $30 million. This source of funds was used to acquire the residential mortgage loan portfolio in the third quarter. Other borrowings, primarily Federal Home Loan Bank advances declined $11 million. These funds are used almost exclusively to fund mortgage loan production, which has declined during 2017. The Bank's liquidity position is presently robust as the purchased residential mortgages were pledged to secure additional availability at the FHLB. Finally, capital remains strong as the consolidated tier 1 leverage and total risk-based capital ratios were 9.76% and 12.57%, respectively, and asset quality is stable with net recoveries recorded to date and with a minimal level of nonperforming assets.

Income Statement

For the nine months ended September 30, 2017, net interest income was $7.7 million, compared to $7.9 million for the comparable 2016 period. Management's balance sheet growth strategy will not begin to positively influence 2017 earnings until the fourth quarter. For 2017, interest income declined $400 thousand, while interest expense decreased approximately $200 thousand. Management anticipates continued improvements in the Bank's cost of funds as a result of the balances generated by the electronic payments line of business. For the comparable period, non-interest income declined $1.8 million or 11% annualized. This decrease is exclusively attributable to reduced "gain on sale" income from mortgage and GGL loan production – both areas declined $900 thousand for the year-over-year period. For the same period, non-interest expenses decreased $900 thousand. This decrease is attributable to expense savings associated with branch closures and lower compensation expenses associated with the decline in mortgage and GGL production.

Florida Capital Group, Inc.
Consolidated Statements of Financial Condition
(Unaudited September 30, 2017 - Audited December 31, 2016)

		Unaudited September 30, 2017		Audited December 31, 2016
Assets:				
Cash and due from banks	$	7,336,580	$	15,031,452
Interest-bearing deposits in banks		11,964,572		11,936,345
Cash and cash equivalents		19,301,152		26,967,797
Securities available for sale		24,874,737		24,760,563
Restricted equity securities, at cost		4,030,000		4,801,850
Loans receivable, net of allowance for loan losses of $2,328,823 in 2017 and $2,598,169 in 2016		271,607,825		210,388,390
Loans held for sale		38,385,429		59,542,710
Accrued interest receivable		848,983		831,950
Foreclosed real estate		2,660,672		3,799,259
Premises and equipment, net		832,630		633,494
Cash surrender value of life insurance		10,247,003		10,061,815
Other assets		8,373,804		4,059,415
Total Assets	$	381,162,235	$	345,847,243
Liabilities:				
Noninterest-bearing demand deposits	$	65,944,054	$	54,101,089
Interest-bearing deposits		92,624,085		76,870,247
Savings deposits		3,939,496		4,790,423
Time deposits		111,970,622		91,805,745
Total Deposits		274,478,257		227,567,504
Federal Home Loan Bank advances		73,112,889		84,439,100
Repurchase agreements				431,929
Accrued interest payable		283,033		262,607
Accrued expense and other liabilities		2,487,583		2,915,161
Total Liabilities		350,361,762		315,616,301
Stockholders' Equity:				
Preferred stock Series A, 1,000,000 shares authorized; liquidation preference of $20 per share; 139,553 shares issued		2,791,060		2,791,060
Common stock, $.01 par value; 617,113,408 shares authorized, and 617,005,226 and 617,005,226 shares issued in 2017 and 2016		6,170,052		6,170,053
Additional paid-in capital		170,051,996		170,051,995
Accumulated deficit		(147,714,463)		(148,081,001)
Treasury stock, 144,726 and 144,726 shares at cost in 2017 and 2016		(1,447)		(1,448)
Accumulated other comprehensive loss		(496,725)		(699,717)
Total Stockholders' Equity		30,800,473		30,230,942
Total Liabilities & Stockholders' Equity	$	381,162,235	$	345,847,243

In the opinion of management, the unaudited condensed financial statements have been prepared on the same basis as the audited financial statements for the year ended December 31, 2016, and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's financial position at September 30, 2017, and statements of operations for the nine months ended September 30, 2017. Certain amounts have not been reclassified to conform to the presentation format of the Audited financial statements; however, in the opinion of management these reclassifications are not material to the fair presentation of the financial statements.

Florida Capital Group, Inc.
Consolidated Statements of Income
(Unaudited September 30, 2017 - Audited December 31, 2016)

	Unaudited For the Nine Months Ended September 30, 2017	Audited For The Twelve Months Ended December 31, 2016
INTEREST INCOME:		
Loans receivable and fees on loans	$ 8,804,223	$ 12,537,706
Investment securities	612,621	601,759
Interest-bearing deposits in banks		285,260
Total interest income	9,416,844	13,424,725
INTEREST EXPENSE:		
Deposits	953,485	1,498,276
Other	788,698	1,102,614
Total interest expense	1,742,183	2,600,890
NET INTEREST INCOME	7,674,661	10,823,835
REDUCTION IN PROVISION FOR LOAN LOSSES	(500,000)	0
NET INTEREST INCOME AFTER REDUCTION IN PROVISION FOR LOAN LOSSES	8,174,661	10,823,835
NONINTEREST INCOME:		
Service charges on deposit accounts	213,144	292,183
Mortgage banking income	Incl in Other income	16,594,150
Gain (loss) on sale of SBA Loans	Incl in Other income	1,953,494
Gain (loss) on sale of premises and equipment	Incl in Other income	22,080
Other income	13,780,277	1,478,888
Total noninterest income	13,993,421	20,340,795
NONINTEREST EXPENSE:		
Salaries and employee benefits	14,405,070	19,696,633
Occupancy and equipment expense	1,543,023	2,511,455
Data processing, communications and telephone	1,145,970	1,726,376
Loan related legal expense	Incl in Other expenses	664,339
Foreclosed real estate expense	Incl in Other expenses	280,211
Mortgage banking related expenses	Incl in Other expenses	1,243,405
Regulatory fees	78,186	446,345
Professional fees	Incl in Other expenses	457,918
Other expenses	4,619,277	2,734,203
Total noninterest expense	21,791,526	29,760,886
Income Before Income Taxes	376,556	1,403,745
Income Taxes	10,018	-
Net Income	$ 366,538	$ 1,403,745

In the opinion of management, the unaudited condensed financial statements have been prepared on the same basis as the audited financial statements for the year ended December 31, 2016, and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's financial position at September 30, 2017, and statements of operations for the nine months ended September 30, 2017. Certain amounts have not been reclassified to conform to the presentation format of the Audited financial statements; however, in the opinion of management these reclassifications are not material to the fair presentation of the financial statements.