

## **Management's Discussion and Analysis for the Year Ended December 31, 2017**

### **Summary**

Florida Capital Group, Inc. (the "Company") reported net income of \$594 thousand for the year ended December 31, 2017, which was an \$806 thousand or 58% decline from 2016 net income of \$1.4 million. The reduced earnings level was primarily attributable to a \$900 thousand or 5% decline in non-interest income related to our mortgage and guaranteed government lending operations. For the same period, the Bank reported net income of \$845 thousand, which was a \$550 thousand or 40% decline from 2016 net income of \$1.4 million.

The Bank's mortgage operations experienced declining volume during 2017, as long-term interest rates increased during the year relative to their 2016 levels. Mortgage loan production for 2017 was \$777 million compared to \$965 million for 2016, which is a \$188 million or 19% decline from 2016 levels. Refinance activity weakened, and this decline was not offset by new purchase lending. Wholesale channel pricing competition has been particularly acute; however, the Bank increased the volume of higher margin, retail production during the year, which mitigated some of the impact on earnings. In addition, the bank's warehouse lending division generated approximately \$2 billion of production during 2017, and was a net earnings contributor. As noted in the third quarter report, the Bank's government guaranteed lending ("GGL") division has been restructured, which impaired its growth prospects during the year.

### **Balance Sheet**

Total assets increased \$72 million or 21% during 2017, and this growth occurred in the Bank's loan portfolio. Loans held for investment increased \$67 million or 32% during 2017, while loans held for sale increased \$6 million or 11%. The loan growth was primarily the result of the acquisition of a \$50 million residential mortgage portfolio at the end of the third quarter. This strategic acquisition was undertaken to deploy the Company's existing capital base in order to improve return on equity and to reduce earnings volatility. At year end, total assets were \$417 million and the Bank's capital ratios were 8.1% leverage and 11.7% total risk-based.

During 2017, core deposits increased \$19 million or 10%, and this growth occurred across the board in all deposit captions. Also during 2017, the recently established electronic banking line of business – considered a core deposit generator - raised \$31 million in low-cost core deposits, which were used to fund the mortgage operation at less than market rates. For the same period, wholesale deposit sources increased \$26 million. Other borrowings, primarily Federal Home Loan Bank advances, which are used to fund mortgage and warehouse production, increased \$25 million. The Bank's liquidity position remains robust, capital remains adequate and appropriately deployed, and asset quality is satisfactory with a stable trend.

### **Income Statement**

For the year ended December 31, 2017, net interest income was \$10.7 million, compared to \$10.8 million for 2016. Management's balance sheet growth strategy began to generate additional net interest income in the fourth quarter, and this will continue into 2018. For 2017, interest income increased \$16 thousand reflecting the impact of additional balance sheet assets, while interest expense increased \$99 thousand.

For the same period, non-interest income declined \$900 thousand or 5%. This decrease is attributable to reduced "gain on sale" and fees from volume reductions in mortgage and GGL loan production. During 2017, non-interest expenses declined \$138 thousand. This decrease is associated with expense savings associated with branch closures and lower compensation expenses related to the decline in mortgage and GGL production.

**Florida Capital Group, Inc.**  
**Consolidated Statements of Financial Condition**  
**(Audited December 31, 2017 and December 31, 2016)**

	<b>Audited</b> <b>December 31, 2017</b>	<b>Audited</b> <b>December 31, 2016</b>
<b>Assets:</b>		
Cash and due from banks	\$ 10,629,121	\$ 15,031,452
Interest-bearing deposits in banks	9,347,096	11,936,345
Cash and cash equivalents	19,976,217	26,967,797
Securities available for sale	27,687,911	24,760,563
Restricted equity securities, at cost	5,906,000	4,801,850
Loans receivable, net of allowance for loan losses of \$2,206,486 in 2017 and \$2,598,169 in 2016	275,651,953	209,392,449
Loans held for sale	66,454,593	59,542,710
Accrued interest receivable	970,723	831,950
Foreclosed real estate	2,602,172	3,799,259
Premises and equipment, net	796,672	633,494
Cash surrender value of life insurance	10,309,724	10,061,815
Loan servicing rights	1,917,149	704,409
Other assets	3,924,250	3,355,006
<b>Total Assets</b>	<b>\$ 416,197,364</b>	<b>\$ 344,851,302</b>
<b>Liabilities:</b>		
Noninterest-bearing demand deposits	\$ 63,809,686	\$ 54,101,089
Interest-bearing demand deposits	19,962,868	15,279,692
Money market and savings deposits	84,558,266	66,380,978
Time deposits	104,303,487	91,805,745
<b>Total Deposits</b>	<b>272,634,307</b>	<b>227,567,504</b>
Federal Home Loan Bank advances	109,950,000	84,439,100
Repurchase agreements	348,158	431,929
Accrued interest payable	347,177	262,607
Accrued expense and other liabilities	2,026,444	1,919,220
<b>Total Liabilities</b>	<b>385,306,085</b>	<b>314,620,360</b>
<b>Commitments and contingencies</b>	-	-
<b>Stockholders' Equity:</b>		
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 617,030,226 and 617,005,226 shares issued in 2017 and 2016	6,170,302	6,170,053
Additional paid-in capital	170,053,746	170,051,995
Accumulated deficit	(147,486,585)	(148,081,001)
Treasury stock, 221,442 and 144,726 shares at cost in 2017 and 2016	(1,648)	(1,448)
Accumulated other comprehensive loss	(635,596)	(699,717)
<b>Total Stockholders' Equity</b>	<b>30,891,279</b>	<b>30,230,942</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>\$ 416,197,364</b>	<b>\$ 344,851,302</b>

Florida Capital Group, Inc.  
Consolidated Statements of Income  
(Audited December 31, 2017 and December 31, 2016)

	Audited For the Year Ended December 31, 2017	Audited For The Year Ended December 31, 2016
<b>INTEREST INCOME:</b>		
Loans receivable and fees on loans	\$ 12,754,150	\$ 12,332,719
Investment securities	516,421	601,759
Interest-bearing deposits in banks	336,670	285,260
<b>Total interest income</b>	<u>13,607,241</u>	<u>13,219,738</u>
<b>INTEREST EXPENSE:</b>		
Deposits	1,424,355	1,498,276
Other	1,275,904	1,102,614
<b>Total interest expense</b>	<u>2,700,259</u>	<u>2,600,890</u>
<b>NET INTEREST INCOME</b>	<u>10,906,982</u>	<u>10,618,848</u>
<b>PROVISION FOR LOAN LOSSES</b>	<u>0</u>	<u>0</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>10,906,982</u>	<u>10,618,848</u>
<b>NONINTEREST INCOME:</b>		
Service charges on deposit accounts	434,862	292,183
Mortgage banking income	16,436,506	16,648,965
Gain on sale of SBA Loans	1,234,405	1,953,494
Gain on sale of premises and equipment	1,384	22,080
Other income	1,426,293	1,572,729
<b>Total noninterest income</b>	<u>19,533,450</u>	<u>20,489,451</u>
<b>NONINTEREST EXPENSE:</b>		
Salaries and employee benefits	20,419,752	20,192,353
Occupancy and equipment expense	1,949,215	2,511,455
Data processing, communications and telephone	1,955,255	1,834,687
Loan related expense	461,581	674,282
Foreclosed real estate expense	247,253	280,211
Mortgage banking related expense	1,148,910	1,241,883
Regulatory fees	171,186	446,345
Professional fees	626,750	457,918
Marketing expense	844,811	558,246
Other expenses	2,021,303	1,507,174
<b>Total noninterest expense</b>	<u>29,846,016</u>	<u>29,704,554</u>
<b>Income Before Income Taxes</b>	594,416	1,403,746
<b>Income Taxes</b>	-	-
<b>Net Income</b>	<u>\$ 594,416</u>	<u>\$ 1,403,745</u>