

Management's Discussion and Analysis for the Quarter Ended March 31, 2018

Summary

Florida Capital Group, Inc. (the "Company") reported a net loss of \$148 thousand for the quarter ended March 31, 2018 compared to net income of \$112 thousand for the comparable quarter of 2017. Historically, the first quarter of the year is challenging for the Company and its bank subsidiary Florida Capital Bank, N.A. (the "Bank") due to the Bank's significant mortgage operations. From a 2018 operating budget perspective, the reported loss of \$148 thousand was slightly in excess of the budgeted loss of \$79 thousand.

As the year began, mortgage market headwinds were already underway with the Mortgage Bankers Association predicting a 6% decline in mortgage activity for the year. This anticipated weakness has been exacerbated by a pricing war that has seen several key mortgage market participants exit the business entirely. For the first quarter of 2018, mortgage production of \$196 million exceeded budget by 30%, while pricing deteriorated across both wholesale and retail channels, yet the Bank achieved its budgeted gain on sale numbers. Refinance activity remains weak, and new home construction has softened. For the same period, warehouse lending balances exceeded budget by 9%; however, commercial lending, which includes the government guaranteed lending business line, has weakened and negatively impacted first quarter operating results.

Balance Sheet

Total assets declined \$50 million or 12% during the first quarter due to seasonally lower mortgage-related loan balances. Loans receivable decreased \$32 million or 12% as warehouse balances declined from \$78 million to \$53 million, while mortgage loans held for sale decreased \$25 million to \$41 million. Although the decline in earning assets hampered earnings growth, the Bank's capital ratios improved. At March 31, 2018, the Bank's leverage ratio was 8.50% and total risk-based capital ratio was 13.3%.

During the first quarter of 2018, total deposits declined by \$10 million to \$263 million. The lower deposit level was primarily the result of maturities of retail certificates of deposit. Non-maturity core deposits remained relatively stable at \$164 million. Projected higher interest rates generally, and continued rate increases for market-based sources of funding, have resulted in the Bank undertaking a long-term effort to increase core deposits to reduce reliance on market-based sources of funding. Competition also began increasing deposit rates and during the first quarter of 2018 retail deposit rates increased by more than market-based deposit rates. Electronic banking – considered a low cost, core deposit generator – is expected to continue its growth trend during 2018. Other borrowings, primarily Federal Home Loan Bank advances, declined \$40 million reflecting the seasonally lower level of mortgage production. The Bank's liquidity position remains strong, capital is adequate, and asset quality trends remain stable.

Income Statement

For the quarter ended March 31, 2018, net interest income was \$2.8 million compared to \$2.5 million for the comparable 2017 period. The higher net interest income resulted from management's late 2017 balance sheet growth strategy to add earning assets to better utilize available capital resources. For quarter one 2018, interest income increased \$626 thousand or 20% to \$3.7 million, while interest expense rose \$359 thousand or 64% to \$923 thousand reflecting higher rates for market-based funding and intense competition for retail bank deposits. For the same period, non-interest income remained relatively stable (\$4.3 million for Q1 2018 vs. \$4.6 million for Q1 2017). For the comparable period, non-interest expenses increased \$200 thousand or 3% to \$7.2 million. The stabilization of non-interest expenses is primarily associated with reduced operating expenses associated with the recent branch reconfiguration, the conclusion of certain severance payments, and reduced regulatory compliance expenses.

Florida Capital Group, Inc.
Consolidated Statements of Financial Condition
(Unaudited March 31, 2018 - Audited December 31, 2017)

	Unaudited March 31, 2018	Audited December 31, 2017
Assets:		
Cash and due from banks	\$ 9,552,844	\$ 10,629,121
Interest-bearing deposits in banks	16,354,419	9,347,096
Cash and cash equivalents	25,907,263	19,976,217
Securities available for sale	25,911,579	27,687,911
Restricted equity securities, at cost	4,242,800	5,906,000
Loans receivable, net of allowance for loan losses of \$2,007,472 in 2018 and \$2,206,486 in 2017	243,832,220	275,651,953
Loans held for sale	41,394,396	66,454,593
Accrued interest receivable	867,464	970,723
Foreclosed real estate	2,672,460	2,602,172
Premises and equipment, net	1,880,358	796,672
Cash surrender value of life insurance	10,371,038	10,309,724
Loan servicing rights	1,999,324	1,917,149
Other assets	6,590,867	3,924,250
Total Assets	\$ 365,669,769	\$ 416,197,364
Liabilities:		
Noninterest-bearing demand deposits	\$ 69,111,458	\$ 63,809,686
Interest-bearing demand deposits	17,035,565	19,962,868
Money market and savings deposits	78,285,191	84,558,266
Time deposits	98,106,753	104,303,487
Total Deposits	262,538,967	272,634,307
Federal Home Loan Bank advances	69,300,000	109,950,000
Repurchase agreements	299,075	348,158
Accrued interest payable	262,551	347,177
Accrued expense and other liabilities	2,713,219	2,026,444
Total Liabilities	335,113,812	385,306,085
Commitments and contingencies	-	-
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 617,030,226 shares issued in 2018 and 2017	6,170,302	6,170,302
Additional paid-in capital	170,053,746	170,053,746
Accumulated deficit	(147,634,526)	(147,486,585)
Treasury stock, 221,422 shares at cost in 2018 and 2017	(1,648)	(1,648)
Accumulated other comprehensive loss	(822,977)	(635,596)
Total Stockholders' Equity	30,555,957	30,891,279
Total Liabilities & Stockholders' Equity	\$ 365,669,769	\$ 416,197,364

In the opinion of management, the March 31, 2018 unaudited condensed financial statements have been prepared on the same basis as the audited financial statements for the year ended December 31, 2017, and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's financial position at March 31, 2018, and statement of operations for the three months ended March 31, 2018. 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 March 31, 2018 - Audited December 31, 2017)

	Unaudited For The Period Ended March 31, 2018	Audited For the Year Ended December 31, 2017
INTEREST INCOME:		
Loans receivable and fees on loans	\$ 3,488,104	\$ 12,754,150
Investment securities	110,525	516,421
Interest-bearing deposits in banks	100,388	336,670
Total interest income	<u>3,699,017</u>	<u>13,607,241</u>
INTEREST EXPENSE:		
Deposits	489,277	1,424,355
Other	434,047	1,275,904
Total interest expense	<u>923,324</u>	<u>2,700,259</u>
NET INTEREST INCOME	<u>2,775,693</u>	<u>10,906,982</u>
PROVISION FOR LOAN LOSSES	<u>0</u>	<u>0</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>2,775,693</u>	<u>10,906,982</u>
NONINTEREST INCOME:		
Service charges on deposit accounts	73,913	434,862
Mortgage banking income	Incl in Other income	16,436,506
Gain on sale of SBA Loans	Incl in Other income	1,234,405
Gain on sale of premises and equipment	Incl in Other income	1,384
Other income	4,206,605	1,426,293
Total noninterest income	<u>4,280,518</u>	<u>19,533,450</u>
NONINTEREST EXPENSE:		
Salaries and employee benefits	4,714,586	20,419,752
Occupancy and equipment expense	381,558	1,949,215
Data processing, communications and telephone	433,732	1,955,255
Loan related expense	Incl in Other expense	461,581
Foreclosed real estate expense	Incl in Other expense	247,253
Mortgage banking related expense	Incl in Other expense	1,148,910
Regulatory fees	102,064	171,186
Professional fees	Incl in Other expense	626,750
Marketing expense	Incl in Other expense	844,811
Other expenses	1,569,756	2,021,303
Total noninterest expense	<u>7,201,696</u>	<u>29,846,016</u>
Income Before Income Taxes	(145,485)	594,416
Income Taxes	<u>2,456</u>	<u>-</u>
Net Income	<u>\$ (147,941)</u>	<u>\$ 594,416</u>

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