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 QI 2018 vs. $4.6 million for QI 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	3,699,017	13,607,241
INTEREST EXPENSE:		
Deposits	489,277	1,424,355
Other	434,047	1,275,904
Total interest expense	923,324	2,700,259
NET INTEREST INCOME	2,775,693	10,906,982
PROVISION FOR LOAN LOSSES	0	0
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,775,693	10,906,982
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	4,280,518	19,533,450
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	7,201,696	29,846,016
Income Before Income Taxes	(145,485)	594,416
Income Taxes	2,456	-
Net Income	$ (147,941)	$ 594,416

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.

Management's Discussion and Analysis for the Year Ended December 31, 2018

Summary

Florida Capital Group, Inc. (the "Company") reported net income of $5.65 million for the year ended December 31, 2018 compared to net income of $594 thousand for 2017. Current year earnings include a $4.6 million deferred tax benefit (and related deferred tax asset) representing the estimated tax benefits associated with the future utilization of the Company's financial crisis net operating losses. Net of this tax effect, reported net income was $1.05 million compared to $594 thousand reported in 2017. This modest earnings improvement does not reflect the full year impact of the numerous steps the board and management took last year to improve profitability and generate greater shareholder returns. Management anticipates these actions will manifest themselves in improved earnings and returns for 2019.

The following notable activities were undertaken during 2018 with the goal to improve operating results: 1) measuring and managing the financial results of the bank by line of business – mortgage, warehouse lending, government guaranteed lending (GGL), electronic banking and the community bank; 2) reducing staffing levels significantly and continuing to add technology where appropriate to improve operating efficiencies; and 3) establishing an internal working group to assess and make recommendations relative to improving earnings and managing risk in all lines of business.

Mortgage Line of Business

As 2018 began, substantial mortgage market headwinds were underway with predictions of lower origination activity reinforced by a pricing war that continues to see key mortgage market participants exiting the business entirely. For the year, mortgage production (wholesale and retail channels) was $747 million, which was slightly in excess of the budgeted level and comparable to 2017; however, from a pricing perspective, the margin of 1.38% trailed the budgeted margin of 1.55%. Management has reduced staff, and is assessing several opportunities to reduce fixed costs or to convert fixed costs to variable costs. An internal mortgage cost study has provided the data required to analyze profitability at a very granular level. Higher interest rates and structural impediments – declining new home construction and sales along with higher home prices – continue to contribute adversely to a very challenging mortgage market.

Warehouse Line of Business

Warehouse lending reported total production in excess of $2.0 billion, which exceeded 2017 production. For the same period, average year-to-date warehouse lending balances exceeded budget by $12 million or 23% and this line of business remains a significant contributor to overall profitability. Activity accelerated at the end of 2018 with year-end balances of $89 million, and this level of activity has continued in 2019 during which warehouse is anticipated to do $2.0 billion of production again in spite of the projected weaker mortgage market. Gross commitments are approximately $300 million and utilization rates have been running between 25% and 30% recently.

Government Guaranteed Lending (GGL)

The restructuring of this business line that began in 2017 successfully paved the way for $29 million in originations and a solid contribution to overall bank profitability in 2018. A "direct to backroom" approach for smaller SBA 7(a) originations was refined during the year. This approach uses referral sources to create activity which is then directly credit-scored and underwritten in the bank's credit administration area. This approach does not use traditional business development officers, and is highly efficient and cost effective. The bank also originated several larger USDA-guaranteed loan relationships. The guaranteed portion of production is generally sold in the secondary market and the bank reported $1.6 million of secondary market gains on sale in 2018.

Florida Capital Group, Inc.

Electronic Banking

This emerging line of business is comprised of three sub-lines – fee-based ACH third party payment processing, money service business relationships that require cash handling, and a deposit generating, card-based program. In less than three years, electronic banking has generated in excess of $100 million (as of February 2019) of non-interest bearing deposits, and has become a strategic source of very low cost funding for both the mortgage and warehouse lines of business. During 2018, management made the strategic choice to focus more on deposit generation and less on fee generation, which has dramatically reduced the bank's cost of funds at a time when market-based sources have become increasingly expensive.

Community Bank

Management has recently focused efforts in this line of business toward core deposit retention after several years of shrinking the balance sheet through sales of branches. As market interest rates have increased, the competition for core deposits has become challenging with numerous bank and non-bank competitors offering rates and rate "teasers" that in many cases exceed the cost of wholesale funding. Management determined during 2018 that it would increase rates to the level required to retain deposits, but would not pay irrational rates to retain or attract deposits. Traditional community bank commercial lending – primarily real estate focused - continues in the bank's target markets.

Balance Sheet

Total assets of $406 million at year end 2018 approximated the $416 million reported at the end of 2017. Loans receivable declined $5 million to $270 million, but within the portfolio warehouse lending balances increased $10 million year over year, while commercial lending balances declined by the same amount. Commercial lending balances are expected to continue to decline due to the difficulty of retaining lending relationships in markets the bank has exited.

During 2018, total deposits declined $33 million to $240 million. The lower deposit level was primarily the result of declines in money market accounts, which tend to be volatile at year end, and continuing maturities of retail certificates of deposit. These declines were partially offset by a $22 million increase in non-interest bearing deposits associated with the electronic banking line of business, which has continued to exceed expectations in early 2019. Resources will be focused on future core deposit growth in the electronic banking business line. As a result, the bank has increased its deposit rates in light of higher market interest rates in order to retain deposits, but does not intend to participate in the present irrational deposit pricing war. Other borrowings peaked at $127 million at the end of 2018 compared to $110 million at year end 2017. This increase was exclusively associated with the significant increase in warehouse lending balances at year end 2018. For the first two months of 2019, growth in electronic banking deposits has allowed the bank to trim its Federal Home Loan Bank advances substantially, which has averaged only $47 million during the first quarter of 2019 versus $70 million for the comparable 2018 period. This trend has dramatically lowered the bank's overall cost of funds. The Bank's liquidity position remains strong, capital is adequate, and asset quality trends remain stable.

Income Statement

For the year ended December 31, 2018, net interest income increased $700 thousand to $11.4 million. For 2018, interest income increased $2.3 million or 17% to $15.8 million, while interest expense rose $1.6 million or 38% to $4.3 million reflecting the generally higher level of interest rates prevailing during 2018. For the same period, non-interest income declined $1.3 million or 6% primarily due to lower mortgage gain on sale associated with the weaker 2018 mortgage market margins. For the comparable period, non-interest expenses decreased $1.0 million or 4%; however, this figure does not represent the full year impact of staff reductions throughout the bank, which totals $3.0 million a full-year basis. This staffing reduction impact is reflected in a comparison of March 2019 bank only year-to-date earnings of $525 thousand compared to a loss of $148 thousand for the same period in 2018.

Florida Capital Group, Inc. and Subsidiary
Consolidated Statements of Financial Condition
December 31, 2018 and 2017

	Audited December 31, 2018	Audited December 31, 2017
Assets:		
Cash and due from banks	$ 9,077,903	$ 10,629,121
Interest-bearing deposits in banks	15,539,877	9,347,096
Cash and cash equivalents	24,617,780	19,976,217
Securities available for sale	27,038,291	27,687,911
Restricted equity securities, at cost	5,661,741	5,906,000
Loans receivable, net of allowance for loan losses of $1,956,613 in 2018 and $2,206,486 in 2017	270,007,044	275,133,890
Loans held for sale	52,197,104	66,972,656
Accrued interest receivable	1,215,632	970,723
Foreclosed real estate	3,703,158	2,602,172
Premises and equipment, net	572,076	796,672
Cash surrender value of life insurance	10,559,325	10,309,724
Loan servicing rights, net	1,975,602	1,917,149
Deferred tax asset	4,600,170	-
Other assets	3,927,656	3,924,250
Total Assets	$ 406,075,579	$ 416,197,364
Liabilities:		
Noninterest-bearing demand deposits	$ 86,062,135	$ 63,809,685
Interest-bearing demand deposits	16,169,168	19,962,868
Money market and savings deposits	56,255,437	84,558,266
Time deposits	81,062,111	104,303,487
Total Deposits	239,548,851	272,634,306
Federal Home Loan Bank advances	102,000,000	109,950,000
Fed funds purchased	24,000,000	-
Repurchase agreements	1,472,021	348,158
Notes payable	150,000	-
Accrued interest payable	420,441	347,177
Accrued expense and other liabilities	2,006,931	2,026,444
Total Liabilities	369,598,244	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 issued in 2018 and 2017	6,170,303	6,170,303
Additional paid-in capital	170,053,745	170,053,745
Accumulated deficit	(141,838,540)	(147,486,585)
Treasury stock, 375,763 and 221,422 shares at cost in 2018 and 2017, respectively	(3,191)	(1,648)
Accumulated other comprehensive loss	(696,042)	(635,596)
Total Stockholders' Equity	36,477,335	30,891,279
Total Liabilities & Stockholders' Equity	$ 406,075,579	$ 416,197,364

Florida Capital Group, Inc. and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2018 and 2017

	Audited For The Year Ended December 31, 2018	Audited For the Year Ended December 31, 2017
INTEREST INCOME:		
Loans receivable and fees on loans	$ 14,709,846	$ 12,588,068
Investment securities	554,131	516,421
Interest-bearing deposits in banks	492,453	336,670
Total interest income	15,756,430	13,441,159
INTEREST EXPENSE:		
Deposits	2,285,663	1,424,355
Other	2,060,567	1,275,904
Total interest expense	4,346,230	2,700,259
NET INTEREST INCOME	11,410,200	10,740,900
PROVISION FOR LOAN LOSSES	0	0
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,410,200	10,740,900
NONINTEREST INCOME:		
Service charges on deposit accounts	648,161	434,862
Mortgage banking income	13,825,851	16,436,506
Gain on sale of SBA Loans	1,626,398	1,234,405
Other income	2,319,943	1,593,759
Total noninterest income	18,420,353	19,699,532
NONINTEREST EXPENSE:		
Salaries and employee benefits	18,878,618	20,419,752
Occupancy and equipment expense	1,461,874	1,949,215
Data processing, communications and telephone	2,571,803	1,955,255
Loan related expense	220,646	461,581
Foreclosed real estate expense	359,290	247,253
Mortgage banking related expense	1,294,309	1,148,910
Regulatory fees	357,107	171,186
Professional fees	896,026	626,750
Marketing expense	1,128,545	844,811
Other expenses	1,614,460	2,021,303
Total noninterest expense	28,782,678	29,846,016
Income Before Income Taxes	1,047,875	594,416
Income Tax Benefit	4,600,170	-
Net Income	$ 5,648,045	$ 594,416

Florida Capital Group, Inc.

2018 LETTER TO SHAREHOLDERS

April 26, 2019

Dear Shareholder,

The year 2018 commenced with a sense of unbridled enthusiasm and opportunity, and concluded with the achievement of substantial progress toward generating attractive returns to shareholders. The Company's long-term strategic objectives were advanced during the year through the careful pursuit of two key initiatives – growth of lower cost deposits and expense reductions.

A simple comparison of year over year earnings does not adequately reflect the progress that occurred; however, recent results are indicative of management's efforts and are discussed below in more detail. This earnings improvement has occurred in spite of the back drop of a very difficult mortgage banking environment. Further, these favorable trends and recent history of sustained profitability allowed the Company to record a $4.6 million deferred tax asset on its books at year end. This asset represents the estimated future tax benefits associated with the utilization of the Company's financial crisis net operating losses. More importantly, this asset represents the successful culmination of the board and management's efforts to recapitalize the Company after the financial crisis, and to begin the process of restoring shareholder value.

Florida Capital Group, Inc. (the "Company") reported net income of $5.65 million for the year ended December 31, 2018. Net of the rebooked deferred tax asset, the Company reported net income of $1.05 million, which was a $453 thousand or 76% increase from 2017 net income of $594 thousand. The improved earnings level was primarily attributable to a $1.06 million decrease in non-interest expenses. For the same period, Florida Capital Bank, N.A. (the "Bank") reported net income of $1.01 million compared to $845 thousand for 2017, which was a $164 thousand or 19% increase. A more detailed discussion of the 2018 results of operations, including line of business and related financial activity can be found at floridacapitalbank.com.

The environment for banking remains attractive and the local economies in which the Bank conducts business – Jacksonville (headquarters), Orlando, Tampa and Gainesville – continue to exhibit growth opportunities. Although interest rates have moved higher since this time last year, economists project modest, but sustainable economic growth and inflation expectations are minimal. The currently inverted yield curve has some prognosticators grumbling about an economic downturn, but to date the economy remains resilient. Banking regulation remains a costly burden on the industry, but most banks seem to have adapted to the current regulatory regime.

Higher interest rates have generated significant headwinds in the national mortgage market, in which the Bank is an active originator, seller and servicer of mortgage loans. During 2018, a number of prominent mortgage bankers exited the business as higher rates created an environment of cutthroat pricing, which compressed margins and reduced profitability. Pundits have forecast an 11% reduction in industry-wide originations for 2019. In addition, structural and sociological changes have been occurring for years, and are manifested in less new home construction, more expensive "starter" homes, debt-plagued first home buyers, and other structural and societal issues that act as impediments to increased mortgage origination volume. In spite of these issues, the Bank generated approximately $747 million of mortgage originations in 2018, which approximated the 2017 level.

During 2018, the board adopted a 2019 – 2021 Strategic and Capital Plan and confirmed the Bank's existing lines of business, which are: Mortgage Banking, Warehouse Lending, Government Guaranteed Lending, Electronic Banking and Community Banking. The Bank also revised its approach to measuring line of business profitability, and the relative contribution of each business line to overall Bank profitability is now measured and managed on a quarterly basis. This allows management to more effectively allocate capital and manage human resources and technology. In addition, incentive compensation plans for key managers have been revised to focus more on the profitability of a business unit and less on production numbers. This objective aligns each individual manager's goals with those of the Company's shareholders.

Two additional activities were undertaken during 2018 that have coalesced in the first quarter of 2019 to generate significantly improved operating results. The Bank will report quarter one 2019 earnings of $525 thousand and core operating earnings before credit-related charges of $838 thousand. The first initiative involves the Bank's emerging electronic banking unit, which has increased very low or no cost deposits from $31 million at the end of 2017 to $55 million at year end 2018, and at March 31, 2019 the balances stood at $79 million. This strategic deposit growth has enabled the Bank to migrate from wholesale funding sources – currently costing approximately 2.50% - and dramatically reduce its cost of funds. Management anticipates further growth in electronic banking deposits and a continued reduction in wholesale funding sources and costs. Electronic banking is expected to be the primary source of future liquidity for our mortgage banking and warehouse lending operations, which will greatly enhance these business lines' relative contribution to earnings.

The second key strategic initiative undertaken in 2018 was a profit performance review by an internal working group that began in May 2018, and that continues to be active. The group focused on staffing levels, process improvements and technology assessments. This group's efforts combined with active cost management of the Bank's mortgage operations resulted in a $3 million expense reduction in compensation and benefits expenses from the first quarter of 2018 through the first quarter of 2019. The full year impact of this effort was not realized during 2018 due to the timing of work, and certain charges associated with the staff reductions.

Mortgage operations experienced stable production volume during 2018, in spite of higher long-term interest rates and seriously compressed margins. Mortgage loan production for 2018 was $747 million compared to $777 million for 2017. In addition, the Bank's warehouse lending business generated approximately $2 billion of production during 2018, which was consistent with its 2017 production level.

Our commercial banking business continues to focus on attracting quality borrowers and generating low cost core deposits. During 2018, the Bank established a treasury management position and management anticipates that over time this role will complement the Bank's lending and deposit generation activities. The Bank's government guaranteed lending business line continues to focus on both SBA and USDA-guaranteed opportunities, and fully implemented during 2018 a "direct to backroom" channel for smaller balance loans. Management expects continued growth of this business line during 2019.

As the last remaining community bank headquartered in Jacksonville, we remain enthusiastic about our business strategy and its many opportunities, and are committed to the board's vision to create a first class banking organization that generates exceptional shareholder returns. Finally, we wish to thank our employees for their commitment to our shared endeavor, and our shareholders and other stakeholders for their continued support.

W. Andrew Krusen, Jr.
Chairman of the Board

J. Malcolm Jones, Jr.
Vice Chairman and CEO