



*Statement of Condition
June 30, 2008*

Beach Community Bancshares, Inc. and Subsidiary

Member FDIC



Dear Shareholders and Friends,

Enclosed is our report to you of the unaudited results of Beach Community Bancshares, Inc.'s operations from January 1, 2008, to June 30, 2008. Beach Community Bancshares, Inc. is the parent company of Beach Community Bank.

The report includes our Statement of Condition as of June 30, 2008, and June 30, 2007; our Statement of Operations through June 30, 2008, and June 30, 2007; Changes in the Allowance for Loan Loss Reserves; the Statement of Loans Past Due over 90 days and Non-Accruing; and our Capital Ratios for both the parent company and the bank as of June 30, 2008.

Total Assets increased just over 10% during the past year. Almost \$27 million of this increase was in our most liquid assets of Cash, Securities and Fed Funds Sold as we sought to actively increase our already strong liquidity resources. Total Loans increased 3% year over year, reflecting the weakness in our local real estate market. Total Deposits increased almost \$74 million to \$590 million, a 14.3% increase while other Borrowed Money decreased over \$8.6 million.

We continued to aggressively address asset quality. We recorded a provision for additional loan losses of just over \$4.5 million in the second quarter and charged off loan impairments totaling \$4.7 million. We continue to monitor our loan portfolio closely for further weakness and impairments. Our Allowance for Loan Loss Reserves stands at \$6.06 million (1.29% of our Total Loan Portfolio) and while there will undoubtedly be further losses in the loan portfolio, we believe the Reserve is adequately funded at this time.

We also continued to feel the pricing pressure of a relatively low interest rate environment on the loan side while local retail deposit rates have increased. While we are proud of the liquidity levels we achieved this quarter, it has come at a cost to our net interest margin. The reduction in our net interest income coupled with the provision for loan losses we recorded caused us to lose \$2.103 million (-\$.88 per share) through the first six months of the year. All of our Capital Ratios continue to far exceed "well-capitalized" regulatory definitions for both the Bank and the parent company. Book value per share continues to exceed \$20 per share.

The economy of Northwest Florida is and continues to be challenged, especially that portion of the economy associated with the real estate industry in our area. The real estate industry is large and diverse. It is not only the developers and builders who are struggling but also the subcontractors, the real estate agents, the suppliers, the real estate attorneys, the title companies, the management companies, the mortgage

companies. And all of their employees feel the pain as well. Then, throw in all of the completely unrelated businesses that do business with these real estate oriented businesses and their employees, and you get the bigger picture of the issues facing our local markets.

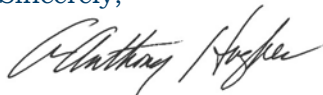
As I mentioned in the March 31, 2008 Statement of Condition, certain parts of our market area appeared to be softer than others. These areas are primarily in the eastern edge of our footprint. Roughly 75% of the \$5.879 million in impairment charge offs and charge downs we have incurred so far this year have taken place on properties in Walton, Bay and Gulf Counties. Of the total amount of Other Real Estate Owned and Non-Accrual Loans, 75% of those assets are properties in Walton, Bay and Gulf Counties. The bulk of our loan portfolio is centered in our primary market areas of Escambia, Santa Rosa and Okaloosa Counties. While ALL of our markets are feeling economic stress, our loan losses and non-performers are not evenly spread throughout the region. Our primary markets are holding up better than the fringe areas to our east. And while we cannot guarantee that we will not have further losses or deteriorations in these counties, we do believe that we have the problems in those counties identified, and the losses we are aware of have been written off. The economy is still in a tenuous state, and we will most likely continue to see impairments in our loan portfolio. However, we do not believe we will continue to see losses of the magnitude we incurred this quarter.

We have taken aggressive measures to deal with the level of non performing loans and other real estate owned. Our senior lender is personally leading a new special assets group whose primary function is to not only market our owned properties and manage the litigation process, but to also work with stressed borrowers in finding buyers for their properties before their issues become critical.

The good news is that Northwest Florida has not suffered as much as other areas of our state have. We are on track to have another outstanding tourism season and our military bases, which are major drivers of employment especially in Escambia, Santa Rosa and Okaloosa Counties, remain very strong and are poised for major growth over the next three years. So while short term issues are a well-defined drag on our local economy, our long term outlook is quite good.

On behalf of the Directors, Officers and Staff, we thank you again for your business, your investment and your continued support.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Anthony Hughes". The signature is fluid and cursive, written over a light blue horizontal line.

A. Anthony Hughes
President & Chief Executive Officer

Assets

(unaudited)

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash & Due from Banks	\$ 8,560,000	\$ 6,392,000
Securities.	126,192,000	145,104,000
Federal Funds sold	45,461,000	1,830,000
Investment in Equity Securities. . .	372,000	372,000
Loans Held for Sale.	6,774,000	-
Loans Receivable	\$ 469,878,000	\$ 456,090,000
Less: Allowance for Loan Losses. . .	(6,062,000)	(4,235,000)
Loans Net of Unearned Income		
and Allowance	463,816,000	451,855,000
Premises and Fixed Assets, Net. . . .	18,774,000	12,708,000
Other Real Estate Owned	11,186,000	0
Other Assets	11,653,000	9,691,000
Total Assets	\$ 692,788,000	\$ 627,952,000

Liabilities

(unaudited)

Non-interest-Bearing Deposits.	\$ 27,096,000	\$ 31,899,000
Interest-Bearing Deposits.	562,950,000	484,170,000
Total Deposits.	\$ 590,046,000	\$ 516,069,000
Federal Funds Purchased.	0	0
Other Borrowed Money.	38,927,000	47,557,000
Subordinated Debentures.	12,372,000	12,372,000
Other Liabilities.	2,982,000	3,814,000
Total Liabilities	\$ 644,327,000	\$ 579,812,000
Minority Interest	\$ 36,000	\$ 62,000

Equity Capital

(unaudited)

Common Stock	\$ 11,903,000	\$ 11,914,000
Surplus	20,986,000	20,916,000
Retained Earnings.	14,943,000	16,553,000
Unrealized Gain (Loss) on Securities Available for Sale.	593,000	(1,305,000)
Total Equity Capital.	\$ 48,425,000	\$ 48,078,000
Total Liabilities and Equity Capital .	\$ 692,788,000	\$ 627,952,000

Statement of Operations

For the Year to Date Ended, June 30, 2008 and June 30, 2007
(unaudited)

	2008		2007	
Interest Income				
Securities	\$	3,737,000	\$	3,336,000
Short Term Investments		177,000		338,000
Loans and Loan Fees		17,035,000		20,167,000
Total Interest Income	\$	20,949,000	\$	23,841,000
Interest Expense				
Int. Bearing Trans. Accts.	\$	2,238,000	\$	3,544,000
Certificates of Deposit		8,676,000		8,456,000
Other Borrowed Money		1,481,000		1,555,000
Total Interest Expense	\$	12,395,000	\$	13,555,000
Net Interest Income	\$	8,554,000	\$	10,286,000
Less: Provision for Loan Losses		5,322,000		22,000
Add: Non Interest Income		1,483,000		935,000
Less: Non Interest Expense		8,025,000		6,035,000
Minority Interest		56,000		77,000
Net Income Before Tax	\$	(3,366,000)	\$	5,087,000
Income Taxes		(1,263,000)		1,755,000
Net Income	\$	(2,103,000)	\$	3,332,000
Per Share Earnings	\$	(.88)	\$	1.40
Book Value	\$	20.34	\$	20.20

Capital Ratios

As of June 30, 2008

	Actual		Minimum Capital Requirement		Minimum to be well capitalized under prompt corrective action provisions	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Total Capital (to risk weighted assets)						
Consolidated	\$ 65,516,000	12.75%	\$ 41,093,000	8%	N/A	N/A
Bank	\$ 62,808,000	12.23%	\$ 41,093,000	8%	\$ 51,366,000	10%
Tier I Capital (to risk weighted assets)						
Consolidated	\$ 59,454,000	11.57%	\$ 20,546,000	4%	N/A	N/A
Bank	\$ 56,746,000	11.05%	\$ 20,546,000	4%	\$ 30,819,000	6%
Tier I Capital (to average assets)						
Consolidated	\$ 59,454,000	8.78%	\$ 27,096,000	4%	N/A	N/A
Bank	\$ 56,746,000	8.38%	\$ 27,096,000	4%	\$ 33,870,000	5%

Changes in Allowance for Loan Losses

Balance at January 1, 2008	\$	6,556,000
Recoveries		63,000
Loans Charged Off		5,879,000
Provision for Loan Losses	\$	<u>5,322,000</u>
Balance at June 30, 2008	\$	6,062,000

Loans 90 Days Past Due and Non-Accrual Loans

	<u>Accruing</u>	<u>Non-accruing</u>
Real Estate Loans	\$ 279,000	\$ 25,569,000
Installment Loans	\$ 18,000	0
Commercial and All Other Loans	<u>\$ 0</u>	<u>\$ 289,000</u>
Balance at June 30, 2008	\$ 297,000	\$ 25,858,000

The financial information contained in this report has not been audited, nor has it been reviewed or approved by the Federal Reserve.

Mailing Address

**P.O Box 4400, Fort Walton Beach, FL 32549
Toll Free 866.36BEACH
(866.362.3224)
www.beachcommunitybank.com**

Office Locations

**17 SE Eglin Parkway, Fort Walton Beach, FL 32548 850.244.9900
3 NE Racetrack Road, Fort Walton Beach, FL 32547 850.315.3500
412 Mary Esther Cutoff, Mary Esther, FL 32548 850.244.9160
100 Armstrong Avenue, Niceville, FL 32578 850.678.3990
661 Harbor Boulevard, Destin, FL 32541 850.650.9041
90 Trista Terrace Court, Destin, FL 32541 850.269.2585
3925 W Hwy 30A, Suite J, Santa Rosa Beach, FL 32459 850.267.9910
33 West Garden Street, Pensacola, FL 32502 850.202.9900
4465 Bayou Boulevard, Pensacola, FL 32503 850.202.9000
9329 N Palafox Highway, Pensacola, FL 32534 850.202.9109
7828 N Davis Highway, Pensacola, FL 32514 850.475.7840
60 Northcliff Drive, Gulf Breeze, FL 32561 850.916.5100
9290 Navarre Parkway, Navarre, FL 32566 850.515.1344**

***New Office Coming Soon to:
Highway 85, Crestview, FL***

Directors

Joseph W. Henderson
Chairman of the Board
Partner, O'Sullivan, Creel, LLP CPA's

A. Anthony Hughes
President & CEO
Beach Community Bank

Kathleen A. Pritchard
Executive Vice President &
Senior Lending Officer
Beach Community Bank

Charles W. Clary, III
Principal, DAG Architects

Art Schweizer
Retired Retail Store Owner

Major General A. Bowen Ballard, USAF (Ret.)
CEO, The Ballard Companies

Dr. James R. "Bob" Richburg
President, Northwest Florida State College

C. LeDon Anchors
Partner, Anchors, Smith, Grimsley

Julian B. MacQueen
Chairman & CEO Innisfree Hotels

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President
& Chief Executive Officer

Kathleen A. Pritchard
Executive Vice President
& Senior Lending Officer

Gary E. Johns
Executive Vice President
& Chief Financial Officer

Kimberly A. Cox
Executive Vice President
Branch Administration

William E. Bassett
Executive Vice President

Brian P. Bell
Senior Vice President

W. Scott McCormick
Senior Vice President

Keith D. Parks
Senior Vice President

Lloyd Paul
Senior Vice President

Pam Woodall
Senior Vice President
President,
Beach Community Mortgage

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Vice President

Karen J. Bennett
Vice President

Allison M. Cochran
Vice President

Richard G. Dalehite
Vice President

Matthew S. Hamilton
Vice President

Caroline A. Hartnett
Vice President

Suzanne B. Kelly
Vice President

Daniel L. Kenan
Vice President

Elayne E. Jones
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Erin C. Charpentier
Banking Officer

Rachael Doan
Banking Officer

Vicky D. Tucker
Banking Officer

Linda G. Walker
Banking Officer

Malinda E. Ritter
Accounting Officer

Terra Joplin
Finance/HR Officer

Wanda J. Wallace
Loan Operations Officer

Aileen M. Koon
Marketing Officer

Sharmon Morris
Operations Officer