



Beach Community
Bancshares, Inc.

Statement of Condition

September 30, 2007

Dear Shareholders and Friends,

We are pleased to report to you the unaudited results of Beach Community Bancshares, Inc.'s operations for the year to date beginning January 1, 2007 and concluding September 30, 2007. Included with this report is our Statement of Condition as of September 30, 2007 and September 30, 2006; our Statement of Operations for the year to date through September 30, 2007 and 2006; Changes in the Allowance for Loan Loss Reserves; and the Statement of Loans Past Due over 90 days and Non-Accruing. Beach Community Bancshares, Inc. is the parent company of Beach Community Bank.

The third quarter of 2007 saw continued pressure from a struggling real estate market. We continued to show year over year growth in Total Loans (a \$41 million increase), Total Deposits (a \$40 million increase), and Total Assets (an \$80 million increase). Compared to our June 30, 2007 numbers, Total Loans increased \$14 million, Total Assets increased \$23 million, and Total Deposits decreased \$18 million as we allowed higher priced deposits to run off to be replaced by cheaper borrowed funds.

\$3.48 million was transferred into Other Real Estate Owned during the quarter and we are actively seeking a purchaser for this property. Total 90 day and over past due loans plus Non-accrual loans increased \$1.1 million to \$12.26 million.

Due to the uncertainty in the market, we added an additional \$487,000 to our Allowance for Loan Losses during the quarter. \$13,000 in loans were charged off for the quarter.

The interest rate environment continues to be very challenging and, when coupled with the loss of revenue from non performing loans and additions to our Allowance for Loan Losses, has negatively impacted our earnings both on a year to date basis compared to the third quarter of 2006 and on a quarterly basis. Earnings through the first nine months totaled \$4.32 million (\$1.82 per share) compared to \$5.485 million last year. For the third quarter of 2007, we earned \$988,000 after taxes.

We continue to monitor our loan portfolio and our problem assets very closely and will continue to make additional provisions to our reserves as conditions warrant.

This quarter we signed an agreement to buy a local mortgage company. Abwin Mortgage is one of the leading locally owned

mortgage lenders in our area. Not only did we already have a strong relationship with Abwin since they were formed, we also worked with most of their senior management team even before they formed Abwin. Abwin has served as our "back office processor" for the conventional mortgage products we offer our customers. There is still a healthy volume of prime real estate mortgages closing in our area and acquiring Abwin allows us to leverage their knowledge, reputation and expertise in this market with our capitalization and geographic footprint. The Abwin transaction closed in October. We formed a wholly owned subsidiary Beach Community Mortgage Services, Inc. to own Abwin. We will transition Abwin's name to Beach Community Mortgage by the first quarter in 2008.

We also will be opening our Davis Highway office in Pensacola in November and the Niceville Office in December. While we may experience a temporary pinch in increased overhead as these offices open, they are in prime locations for lower cost core deposits which should quickly negate any impact on earnings.

While we are all concerned about the real estate market in our area and across the nation, we remain very optimistic about our area's future. We benefit so much from the strong presence of our military at Eglin, Hurlburt, Duke, Pensacola NAS and Whiting. We were also blessed to have escaped yet another hurricane season unscathed. Our area remains a wonderful place to live, work and play.

As always, on behalf of the Directors, the Officers and the Staff of Beach Community Bancshares and Beach Community Bank, we thank you for your business, your investment and your continued support.

Sincerely,

A handwritten signature in cursive script, appearing to read "A. Anthony Hughes".

A. Anthony Hughes
President & Chief Executive Officer

Assets

(unaudited)

	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Cash & Due from Banks	\$ 7,913,000	\$ 4,199,000
Securities.	147,878,000	119,007,000
Federal Funds sold	0	3,963,000
Investment in Equity Securities. . .	372,000	372,000
Loans Receivable	470,851,000	429,108,000
Less: Allowance for Loan Losses. . .	<u>(4,712,000)</u>	<u>(4,352,000)</u>
Loans Net of Unearned Income and Allowance	466,139,000	424,756,000
Premises and Fixed Assets, net. . . .	15,331,000	10,178,000
Other Real Estate Owned	3,480,000	0
Other Assets	<u>9,998,000</u>	<u>8,446,000</u>
Total Assets	\$ 651,111,000	\$ 570,921,000

Liabilities

(unaudited)

Non-interest-Bearing Deposits.	\$ 29,510,000	\$ 30,636,000
Interest-Bearing Deposits.	<u>468,541,000</u>	<u>427,350,000</u>
Total Deposits.	\$ 498,051,000	\$ 457,986,000
Federal Funds Purchased.	18,346,000	0
Other Borrowed Money.	68,141,000	53,742,000
Subordinated Debentures.	12,372,000	12,372,000
Other Liabilities.	<u>3,991,000</u>	<u>2,861,000</u>
Total Liabilities	\$ 600,901,000	\$ 526,961,000

Minority Interest	\$ 14,000	\$ 153,000
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Equity Capital

(unaudited)

Common Stock	\$ 11,914,000	\$ 11,880,000
Surplus	20,916,000	20,793,000
Retained Earnings.	17,540,000	11,511,000
Unrealized Gain (Loss) on Securities Available for Sale.	<u>(174,000)</u>	<u>(377,000)</u>
Total Equity Capital.	\$ 50,196,000	\$ 43,807,000
Total Liabilities and Equity Capital .	\$ 651,111,000	\$ 570,921,000

Statement of Operations
For the Year to Date ended September 30, 2007
(unaudited)

Interest Income	2007	2006
Securities	\$ 5,142,000	\$ 3,102,000
Short Term Investments	396,000	198,000
Loans and Loan Fees	<u>30,140,000</u>	<u>26,652,000</u>
Total Interest Income	\$ 35,678,000	\$ 29,952,000
Interest Expense		
Int. Bearing Trans. Accts.	\$ 5,188,000	\$ 4,482,000
Certificates of Deposit	12,863,000	8,258,000
Other Borrowed Money	<u>2,542,000</u>	<u>1,327,000</u>
Total Interest Expense	\$ 20,593,000	\$ 14,067,000
Net Interest Income	\$ 15,085,000	\$ 15,885,000
Less: Provision for Loan Losses	509,000	897,000
Add: Non Interest Income	1,273,000	1,480,000
Less: Non Interest Expense	<u>9,266,000</u>	<u>7,551,000</u>
Minority Interest	90,000	302,000
Net Income Before Tax	\$ 6,493,000	\$ 8,615,000
Income Taxes	<u>2,173,000</u>	<u>3,130,000</u>
Net Income	\$ 4,320,000	\$ 5,485,000
Per Share	\$ 1.82	\$ 2.31



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Member FDIC

Changes in Allowance for Loan Losses

Balance January 1, 2007	\$ 4,508,000
Recoveries	70,000
Loans Charged Off	375,000
Provision for Loan Losses	<u>\$ 509,000</u>
Balance September 30, 2007	\$ 4,712,000

Loans 90 days Past Due and Non-accrual Loans

	<u>Accruing</u>	<u>Non-accruing</u>
Real Estate Loans	\$ 657,000	\$11,551,000
Installment Loans	32,000	0
Commercial and All Other Loans	<u>\$ 22,000</u>	<u>\$ 0</u>
Total	\$ 711,000	\$11,551,000

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

Officers

A. Anthony Hughes	President & Chief Executive Officer
Kathleen A. Pritchard	Executive Vice President & Senior Lending Officer
William E. Bassett	Executive Vice President & Pensacola Area President
Gary E. Johns	Executive Vice President & Chief Financial Officer
Kimberly A. Cox	Executive Vice President/Branch Administration
Brian P. Bell	Senior Vice President
W. Scott McCormick	Senior Vice President
J. Scott McManus	Senior Vice President
Keith D. Parks	Senior 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	Vice President
Judith L. Winter	Vice President
Karen J. Helms	Assistant Vice President
Michael W. Howell	Assistant Vice President
Laura Michelle Johnson	Assistant Vice President
Cecilia M. McAdams	Assistant Vice President
Deborah A. Patzig	Assistant Vice President
Gary A. Pelham	Assistant Vice President
Cathy V. Ricks	Assistant Vice President
Charles L. Wilbur	Assistant Vice President
Angela M. Cameron	Banking Officer
Erin C. Charpentier	Banking Officer
Cheryl J. Corsten	Banking Officer
Linda G. Walker	Banking Officer
Malinda E. Ritter	Accounting Officer

Mailing Address

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Toll free 866-36BEACH

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Email: contact_us@beachcommunitybank.com

Directors

W. Todd Schweizer	<i>Chairman of the Board, Real Estate Investments</i>
Senator Charles W. Clary, III	<i>Principal, DAG Architects Former Florida State Senator</i>
Julian B. MacQueen	<i>Chairman and CEO Innisfree Hotels</i>
A. Anthony Hughes	<i>President & Chief Executive Officer Beach Community Bank</i>
Dr. James R. "Bob" Richburg	<i>President Okaloosa-Walton College</i>
Kathleen A. Pritchard	<i>Executive Vice President & Senior Lending Officer Beach Community Bank</i>
Art Schweizer	<i>Retired, Former Owner Art's TV & Appliance</i>
Joseph W. Henderson	<i>Vice-Chairman of the Board Partner, O'Sullivan, Creel, LLP CPA's</i>
Major General A. Bowen Ballard (ret.)	<i>United States Air Force CEO ,The Ballard Companies</i>
C. LeDon Anchors	<i>Partner, Anchors, Smith, Grimsley</i>

Office Locations

17 SE Eglin Parkway Fort Walton Beach, FL 32548 850.244-9900
412 Mary Esther Cutoff Fort Walton Beach, FL 32548 850.244-9160
3 N.E. Racetrack Road, Fort Walton Beach, FL 32547 850.315.3500
33 West Garden Street Pensacola, FL 32502 850.202-9900
4465 Bayou Blvd. Pensacola, FL 32503 850.202-9000
60 Northcliff Drive Gulf Breeze, FL 32561 850.916-5100
9329 N. Palafox Hwy. Pensacola, FL 32534 850.202-9109
601 Harbor Blvd. Destin, FL 32541 850.650-9041
90 Trista Terrace Ct. Destin, FL 32541 850.269-2585
3925 W. Hwy 30A, Suite J Santa Rosa Beach, FL 32459 850.267-9910

New Offices Coming Soon to:

***Davis Highway, Pensacola, FL
John Sims Parkway, Niceville, FL
Highway 98, Navarre, FL
Highway 85, Crestview, FL***