



*Statement of Condition  
September 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 September 30, 2008. Beach Community Bancshares, Inc. is the parent company of Beach Community Bank.

The report includes our Statement of Condition as of September 30, 2008 and September 30, 2007; our Statement of Operations through September 30, 2008 and September 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 September 30, 2008.

Comparing the third quarter of 2008 with 2007 saw a nominal increase in Total Assets from \$651.11 million in 2007 to \$663.36 million this year. Total Loans were up 1.68% to \$478.74 million. Total Deposits increased 12% to \$557.95 million. Reliance on Other Borrowed Money and Fed Funds Purchased was reduced significantly, declining from \$86.49 million to \$42.73 million, a 50.6% decrease.

The operating environment continues to be challenging. We saw truly historic events as the nation's financial system experienced turmoil not seen since the early 1900s. We were directly impacted by the fierce competition for retail deposits which caused higher interest rates on deposits, the continued decline in real estate values and the loss of interest revenue from the large drop in the prime rate. Our year to date after tax loss through September 30 was \$3.195 million, an increase of \$1.092 million over our June 30<sup>th</sup> YTD loss. This was driven by a Provision for Loan Losses totaling \$1.44 million for the quarter and charge-downs and expenses of approximately \$935,000 incurred since June associated with litigation and Other Real Estate Owned. For the year to date, our provision for loan losses, OREO charge-downs and expenses (including litigation)

associated with OREO totals just over \$8.24 million. Absent the asset quality issues (primarily provisions for loan losses), the bank continues to be profitable in our core operations.

We continue to address our non-performing loans, pressing for their collection or liquidation. It bears repeating that we hold no sub-prime mortgage loans or bonds secured by sub-prime mortgage loans. We also hold no common or preferred stock in either Freddie Mac or Fannie Mae, nor do we hold any 'credit default swaps' or similar toxic assets we hear so much about in the news today.

We continue to watch our markets closely and serve our customers. Our nation is undergoing economic stresses not seen previously by the current generation. We remain very confident in our local market to withstand the turbulence of today's economic disruptions. We are also closely following the government's efforts to stabilize the nation's financial system.

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 cursive script, appearing to read "A. Anthony Hughes".

A. Anthony Hughes  
President & Chief Executive Officer

## Assets

(unaudited)

	<u>September 30, 2008</u>	<u>September 30, 2007</u>
Cash & Due from Banks . . . . .	\$ 11,338,000	\$ 7,913,000
Securities . . . . .	128,076,000	147,878,000
Federal Funds sold . . . . .	516,000	0
Investment in Equity Securities. . .	372,000	372,000
Loans Held for Sale. . . . .	5,384,000	-
Loans Receivable . . . . .	\$ 478,748,000	\$ 470,851,000
Less: Allowance for Loan Losses. . .	(6,158,000)	(4,712,000)
<b>Loans Net of Unearned Income</b>		
and Allowance . . . . .	472,590,000	466,139,000
Premises and Fixed Assets, Net. . .	20,521,000	15,331,000
Other Real Estate Owned . . . . .	11,065,000	3,480,000
Other Assets . . . . .	13,504,000	9,998,000
<b>Total Assets . . . . .</b>	<b>\$ 663,366,000</b>	<b>\$ 651,111,000</b>

## Liabilities

(unaudited)

Non-interest-Bearing Deposits. . . . .	\$ 23,102,000	\$ 29,510,000
Interest-Bearing Deposits. . . . .	534,845,000	468,541,000
<b>Total Deposits. . . . .</b>	<b>\$ 557,947,000</b>	<b>\$ 498,051,000</b>
Federal Funds Purchased. . . . .	0	18,346,000
Other Borrowed Money. . . . .	42,731,000	68,141,000
Subordinated Debentures. . . . .	12,372,000	12,372,000
Other Liabilities. . . . .	3,264,000	3,991,000
<b>Total Liabilities . . . . .</b>	<b>\$ 616,314,000</b>	<b>\$ 600,901,000</b>
Minority Interest . . . . .	\$ 6,000	\$ 14,000

## Equity Capital

(unaudited)

Common Stock . . . . .	\$ 11,903,000	\$ 11,903,000
Surplus . . . . .	21,001,000	20,927,000
Retained Earnings. . . . .	13,851,000	17,540,000
Unrealized Gain (Loss) on Securities Available for Sale. . . . .	291,000	(174,000)
<b>Total Equity Capital. . . . .</b>	<b>\$ 47,046,000</b>	<b>\$ 50,196,000</b>
<b>Total Liabilities and Equity Capital .</b>	<b>\$ 663,366,000</b>	<b>\$ 651,111,000</b>

## Statement of Operations

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

<b>Interest Income</b>	<b>2008</b>		<b>2007</b>	
Securities	\$	5,314,000	\$	5,142,000
Short Term Investments		355,000		396,000
Loans and Loan Fees		24,894,000		30,140,000
<b>Total Interest Income</b>	<b>\$</b>	<b>30,563,000</b>	<b>\$</b>	<b>35,678,000</b>
<b>Interest Expense</b>				
Int. Bearing Trans. Accts.	\$	3,088,000	\$	5,188,000
Certificates of Deposit		13,228,000		12,863,000
Other Borrowed Money		1,925,000		2,542,000
<b>Total Interest Expense</b>	<b>\$</b>	<b>18,241,000</b>	<b>\$</b>	<b>20,593,000</b>
<b>Net Interest Income</b>	<b>\$</b>	<b>12,322,000</b>	<b>\$</b>	<b>15,085,000</b>
Less: Provision for Loan Losses		6,762,000		509,000
Add: Non Interest Income		2,298,000		1,273,000
Less: Non Interest Expense		12,906,000		9,266,000
<b>Net Income Before Tax</b>	<b>\$</b>	<b>(5,048,000)</b>	<b>\$</b>	<b>6,583,000</b>
Minority Interest		62,000		90,000
Income Taxes		(1,915,000)		2,173,000
<b>Net Income</b>	<b>\$</b>	<b>(3,195,000)</b>	<b>\$</b>	<b>4,320,000</b>
<b>Per Share Earnings</b>	<b>\$</b>	<b>(1.34)</b>	<b>\$</b>	<b>1.82</b>
<b>Book Value</b>	<b>\$</b>	<b>19.76</b>	<b>\$</b>	<b>21.08</b>

## Capital Ratios

**As of September 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>
<b>Total Capital (to risk weighted assets)</b>						
Consolidated	\$ 64,505,000	12.20%	\$ 42,294,000	8%	N/A	N/A
Bank	\$ 61,859,000	11.70%	\$ 42,294,000	8%	\$ 52,868,000	10%
<b>Tier I Capital (to risk weighted assets)</b>						
Consolidated	\$ 58,347,000	11.04%	\$ 21,147,000	4%	N/A	N/A
Bank	\$ 55,701,000	10.54%	\$ 21,147,000	4%	\$ 31,721,000	6%
<b>Tier I Capital (to average assets)</b>						
Consolidated	\$ 58,347,000	8.56%	\$ 27,290,000	4%	N/A	N/A
Bank	\$ 55,701,000	8.17%	\$ 27,290,000	4%	\$ 34,113,000	5%

## Changes in Allowance for Loan Losses

Balance at January 1, 2008	\$	6,556,000
Recoveries		75,000
Loans Charged Off		7,235,000
Provision for Loan Losses	\$	<u>6,762,000</u>
Balance at September 30, 2008	\$	6,158,000

## Loans 90 Days Past Due and Non-Accrual Loans

		<u>Accruing</u>		<u>Non-accruing</u>
Real Estate Loans	\$	7,622,000	\$	28,048,000
Installment Loans	\$	0	\$	23,000
Commercial and All Other Loans	\$	<u>94,000</u>	\$	<u>328,000</u>
Balance at September 30, 2008	\$	7,716,000	\$	28,399,000

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](http://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

## ***Officers***

A. Anthony Hughes  
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

Keat Baker  
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

Elayne E. Jones  
Vice President

Suzanne B. Kelly  
Vice President

Daniel L. Kenan  
Vice President

Judith L. Winter  
Vice President

Karen J. Helms  
Assistant Vice President

Michael W. Howell  
Assistant Vice President

L. 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

Jennifer M. Bartz  
Banking Officer

Angela M. Cameron  
Banking Officer

Erin C. Charpentier  
Banking Officer

Rachael Doan  
Banking Officer

Terra Joplin  
Finance/HR Officer

Aileen M. Koon  
Marketing Officer

Sharmon Morris  
Operations Officer

Malinda E. Ritter  
Accounting Officer

Vicky D. Tucker  
Banking Officer

Linda G. Walker  
Banking Officer

Wanda J. Wallace  
Loan Operations Officer