

Statement of Condition *September 30, 2011*

Beach Community Bancshares, Inc. and Subsidiary



Member FDIC



Dear Shareholders and Friends,

Enclosed is our report of the unaudited results of Beach Community Bancshares, Inc.'s operations from January 1, 2011 to September 30, 2011. Beach Community Bancshares, Inc. is the parent company of Beach Community Bank. The report includes our Statement of Condition as of September 30, 2011 and September 30, 2010; our Statement of Operations through September 30, 2011 and September 30, 2010; 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, 2011.

Our markets in Northwest Florida saw a continuation of the economic challenges our area has faced since 2007, now combined with the continuing impact on our local economy from the Deepwater Horizon Oil Spill. We continue to work with our borrowers who have been adversely impacted by the Spill.

From all reports, Northwest Florida celebrated an outstanding summer in tourism although Labor Day was washed out due to a weak tropical system. Many of our local businesses continue to be stressed due to the lack of a meaningful tourist season in 2010, coupled with the well documented issues our local small businesses continue to have in getting their claims paid through the GCCF. Our consumer and commercial customers continue to deal with economic uncertainty coming from Washington, DC. As I have mentioned previously, probably the most negative economic driver is uncertainty; it literally affects every decision a family household or a small business makes.

Compared to September 30, 2010, our Total Assets have declined \$38.28 million, Total Loans have declined \$28.9 million and Total Deposits have declined \$30.79 million. Our pre-tax loss through the first nine months of 2011 improved from a loss of \$8.361 million in 2010 to a loss of \$4.466 million this year. That loss was driven by a provision for loan losses of \$3.321 million and write-downs and charge-offs on bank owned real estate of \$1.829 million. While these numbers are not great, it is noteworthy that these provisions


and charge-offs represent significant improvements from what we experienced in 2008, 2009 and 2010. Also, despite the reductions in our loan and total asset size, we are actively seeking to make good quality small business and consumer loans. As we transition our non-performing loans into cash, we want to re-deploy those funds back into our community in the form of soundly underwritten loans.

We continue to meet regulatory definitions of 'adequately capitalized.'

The US Army's 7th Special Forces Group has completed its move to Eglin AFB from Ft. Bragg, NC. It is an honor to see so many Army uniforms mixed in with our Air Force residents. We also continue to see more Marines and Navy personnel as the F-35 program continues to grow at Eglin.

On behalf of the Board of Directors, the Management and the Staff, we thank you again for your support, patience and investment.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Anthony Hughes". The signature is fluid and cursive, with the first name "Anthony" being more prominent than the last name "Hughes".

A. Anthony Hughes
President & Chief Executive Officer

Statement of Condition

Assets (unaudited)

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Cash & Due from Banks.....	\$ 23,274,000	\$ 10,421,000
Securities	78,592,000	100,745,000
Federal Funds Sold	0	0
Investment in Equity Securities	372,000	372,000
Loans Held for Sale	5,386,000	7,590,000
Loans Receivable.....	\$ 455,994,000	\$ 484,903,000
Less: Allowance for Loan Losses	(8,174,000)	(8,230,000)
Loans Net of Unearned Income and Allowance.....	\$ 447,820,000	\$ 476,673,000
Premises and Fixed Assets, Net.....	20,337,000	20,353,000
Other Real Estate Owned	43,101,000	34,531,000
Other Assets	10,683,000	17,160,000
Total Assets	\$ 629,565,000	\$ 667,845,000

Liabilities (unaudited)

Non-Interest-Bearing Deposits.....	\$ 23,073,000	\$ 27,163,000
Interest-Bearing Deposits	523,649,000	550,357,000
Total Deposits	\$ 546,722,000	\$ 577,520,000
Federal Funds Purchased.....	0	0
Other Borrowed Money.....	39,862,000	37,896,000
Subordinated Debentures	12,372,000	12,372,000
Other Liabilities	2,514,000	2,834,000
Total Liabilities	\$ 601,470,000	\$ 630,622,000

Equity Capital (unaudited)

Preferred Stock	\$ 4,164,000	\$ 3,865,000
Common Stock.....	\$ 11,882,000	\$ 11,882,000
Surplus	21,070,000	21,056,000
Retained Earnings	(10,242,000)	(925,000)
Unrealized Gain (Loss) on Securities Available for Sale.....	1,221,000	1,345,000
Total Equity Bank Holding Company	\$ 28,095,000	\$ 37,223,000
Total Liabilities and Equity Capital.....	\$ 629,565,000	\$ 667,845,000

Statement of Operations

For the Year to Date Ended, September 30, 2011 and September 30, 2010
(unaudited)

	<u>2011</u>	<u>2010</u>
Interest Income		
Securities	\$ 1,492,000	\$ 2,295,000
Short Term Investments	49,000	33,000
Loans and Loan Fees	15,284,000	18,127,000
Total Interest Income	\$ 16,825,000	\$ 20,455,000
Interest Expense		
Int. Bearing Trans. Accts.	\$ 404,000	\$ 930,000
Certificates of Deposit	5,902,000	8,217,000
Other Borrowed Money	1,129,000	1,100,000
Total Interest Expense	\$ 7,435,000	\$ 10,247,000
Net Interest Income	\$ 9,390,000	\$ 10,208,000
Less: Provision for Loan Losses	\$ 3,321,000	\$5,725,000
Add: Non Interest Income	3,976,000	3,048,000
Less: Non Interest Expense	14,511,000	15,892,000
Net Income Before Tax	\$ (4,466,000)	\$ (8,361,000)
Income Taxes		(3,137,000)
Net Income	\$ (4,466,000)	\$ (5,224,000)
Loss Per Common Share	\$ (1.88)	\$ (2.20)
Book Value Per Common Stock	\$ 10.07	\$ 14.04

Capital Ratios

For quarter ended, September 30, 2011

	<i>Actual</i>		<i>Minimum to be adequately capitalized under prompt corrective action provisions</i>		<i>Minimum to be well capitalized under prompt corrective action provisions</i>	
	<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	\$40,987,000	8.49%	\$38,640,000	8%	N/A	N/A
Bank	\$40,841,000	8.46%	\$38,640,000	8%	\$48,300,000	10%
Tier I Capital (to risk weighted assets)						
Consolidated	\$31,743,000	6.57%	\$19,320,000	4%	N/A	N/A
Bank	\$34,777,000	7.20%	\$19,320,000	4%	\$28,980,000	6%
Tier I Leverage Capital (to average assets)						
Consolidated	\$31,743,000	5.00%	\$25,377,000	4%	N/A	N/A
Bank	\$34,777,000	5.48%	\$25,377,000	4%	\$31,721,000	5%

Changes in Allowance For Loan Losses

Balance at December 31, 2010	\$	8,425,000
Recoveries		2,290,000
Loans Charged Off		5,862,000
Provision for Loan Losses		3,321,000
		8,174,000
Balance at September 30, 2011	\$	8,174,000

Loans 90 days Past Due and Non-Accrual Loans

	<u>Accruing</u>	<u>Non-Accruing</u>	
Real Estate Loans	\$ 22,782,000	\$ 86,382,000	
Installment Loans	-	-	
Commercial and All Other Loans	1,618,000	3,820,000	
Total	\$ 24,400,000	\$ 90,202,000	

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

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Destin

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Destin, FL 32541
850.650.9041

Crestview

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Crestview, FL 32536
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Navarre

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Navarre, FL 32566
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Gulf Breeze, FL 32561
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Garden

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Pensacola, FL 32502
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Cordova

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850.202.9000

Nine Mile

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Beach Community Mortgage

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