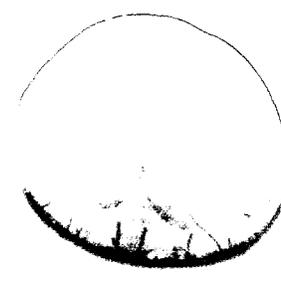




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Beach First[®]

NATIONAL BANCSHARES, INC.

2004 Annual Report

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FINANCIAL

Beach First National Bank Board of Directors



Front row from left to right are: Walt Standish, Sammy Spann, Ray Cleary, Rick Seagroves, Joe Jarrett, and Jimmy Yahnis. Back row from left to right are: Bart Buie, Leigh Meese, Tom Fulmer, Dick Burch, Dicke Lester, Katie Huntley, Bert Anderson, Don Smith, Mike Harrington, Julien Springs, and Larkin Spivey. This photograph was taken at Litchfield Plantation in Pawleys Island. The bank opened an office in the Pawleys Island area at Litchfield Market Village in July 2004.

About the Cover



Beach First National Bank's main office and bank headquarters. 1550 Oak Street in Myrtle Beach.



Our fourth Grand Strand office and first in the Waccamaw Neck area. 115 Willbrook Boulevard in Litchfield Market Village, Pawleys Island.



Our second Grand Strand office, serving the Surfside Beach and Socastee areas. 3064 Dick Pond Road (Hwy. 544) in Sayebrook Village.



Our newest location on Hilton Head Island. 1000 William Hilton Parkway in The Village at Wexford.



Our third Grand Strand office, located in Gator Hole Plaza, 710 Hwy. 17 North in North Myrtle Beach.



Our first Hilton Head Island office at 430 William Hilton Parkway in Pineland Station.



Selected Financial Highlights

About Beach First

Beach First National Bancshares, Inc. is the parent company of Beach First National Bank, headquartered in Myrtle Beach, South Carolina. Beach First was organized in 1996 to meet the financial needs of consumers and small-to-mid-sized businesses in our communities, with emphasis on maintaining a personal one-on-one relationship with each customer.

In addition to caring, attentive service, Beach First is committed to providing the technologically advanced, user-friendly services that customers need, including NetTeller internet banking, Visa Check Cards, cash management, and more.

Beach First operates six banking offices in Myrtle Beach, Surfside Beach, North Myrtle Beach, Litchfield, and Hilton Head Island.

Corporate Office

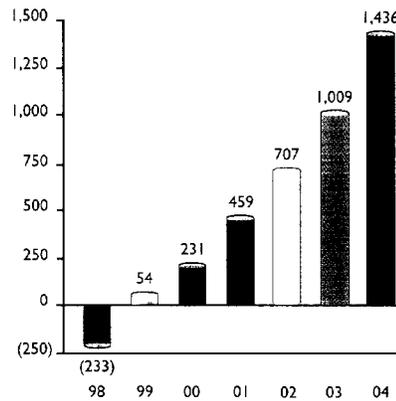
1550 Oak Street
Myrtle Beach, SC 29577
843.626.2265
843.916.7818 (fax)

Inside the Report

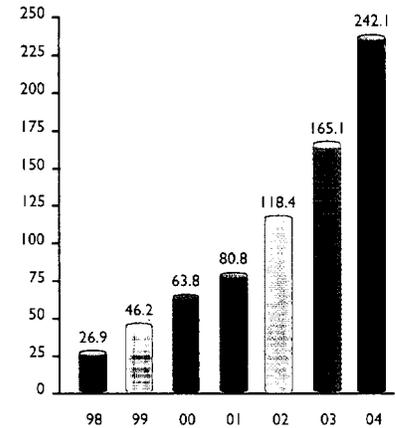
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	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Earnings			
Net Income	\$ 1,435,922	1,008,931	42.4%
Net Income per share – basic	0.71	0.51	39.2%
Net Income per share – diluted	0.69	0.50	38.0%
Book Value per share	8.20	7.49	9.5%
Earnings Breakdown (in thousands)			
Total Interest Income	\$ 11,597	8,496	36.5%
Total Interest Expense	3,331	2,483	34.2%
Net Interest Income	8,266	6,013	37.5%
Total Noninterest Income	1,027	987	4.1%
Total Noninterest Expense	5,672	4,689	21.0%
Year End Balances (in thousands)			
Total Assets	\$ 242,091	165,093	46.6%
Loans, net of unearned income	191,482	135,612	41.2%
Deposits	203,169	138,100	47.1%
Shareholders' Equity	16,503	14,879	10.9%
Selected Ratios			
Return on average assets	0.70%	0.70%	
Return on average equity	9.10%	7.05%	
Average equity to average assets	7.74%	9.87%	
Dividend payout ratio	–%	–%	

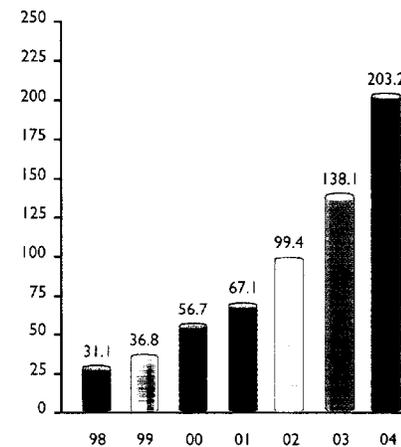
Net Income (\$ thousands)



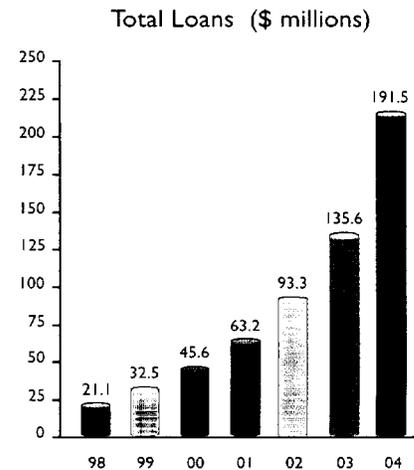
Total Assets (\$ millions)

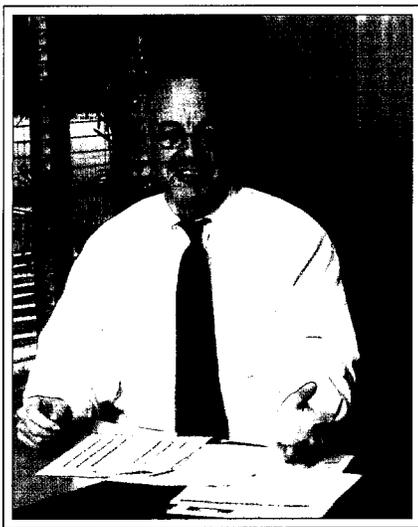


Total Deposits (\$ millions)



Total Loans (\$ millions)





To Our Shareholders and Friends

In 2004, Beach First National Bank enjoyed strong financial performance, along with solid growth in the company's balance sheet and branch network. The bank also took considerable strides in developing the infrastructure needs to run a growing financial institution.

It is a pleasure to review the progress made throughout this past year along with our plans for the future in this *Report*.

Earnings Growth Continues in 2004

Net income grew 42% in 2004, totaling \$1.4 million and continuing an upward trend of earnings growth that began in 2000. Our strong financial performance was fueled by solid, consistent growth in all areas of the balance sheet. Total assets crossed the \$200 million mark for the first time in the bank's history in September 2004, effectively doubling in size since crossing the \$100 million mark just two years earlier. Loans and deposits grew 41% and 47%, respectively, over figures reported for the previous year. The mix in the balance sheet remains constant, which is an indicator of overall robust financial health.

We continue to improve our financial performance when compared to our peer group of banks, but work remains to be done to further improve our standing within our peer group.

Locations and Talent Key to Growing Franchise

During 2004, Beach First opened its fifth location and first in the Waccamaw Neck area of the South Strand. Located in an area of strong residential growth and an increasing number of small businesses, the office is a good fit for Beach First's brand of community banking where local management and local decision making are key.

The bank also planned for its second location on Hilton Head Island during 2004, and the new office opened in early January 2005. Located

in The Village at Wexford on the island's south end, the 4500 square-foot office houses the bank's operations in Hilton Head, including commercial relationship management, mortgage loans, and retail banking. The bank's first Hilton Head Island location opened at Pineland Station Office Building in February 2003.

The opportunities for new branches in attractive locations caused us to defer building our new headquarters at the corner of Robert Grissom Parkway and 38th Avenue North in Myrtle Beach. However, we are currently completing plans for the new building, with the expectation that we will break ground in the first quarter of 2005 and occupy it in 2006. We are pleased with this central location because it is convenient for residents and business customers alike.

Successful expansion, however, is much more than finding a location, putting up a sign, and moving in. We have found that it takes the right combination of staff and infrastructure, along with location, to make a new branch fruitful. It's always been part of our standard operating procedure to act on a location only if we are certain we can staff it with the customer contact personnel right for that particular market. In other words, we are matching the strength of location with the strength of talent.

To achieve this delicate balance, we added several commercial relationship officers in both the Grand Strand and Hilton Head Island markets during the past year. These talented lenders know their markets and when teamed with our existing staff, have been able to identify and take advantage of opportunities as they happen within the markets.

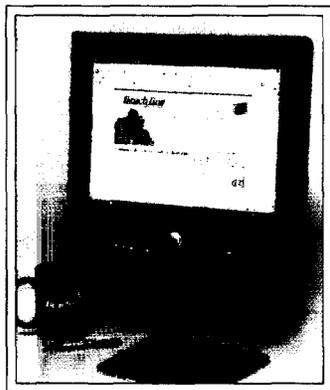
When the team and the site are in place, our internal business systems need to support their efforts. This not only means technology, but the specialists required to run systems and operations. We have

invested in this infrastructure in 2004, adding a new telecommunications system for the entire branch network, upgrading e-mail and other computer systems, and hiring a director of information technology and facilities to manage the process.

We also need to offer technologically advanced services to our customers. That's why we have invested so heavily in our NetTeller Internet Banking Service with Bill Payer. While it is expensive for a bank our size to offer this technology, customer demand makes it a business necessity to include this service in our product arsenal. The benefits of offering the service in terms of growing our market share far outweigh any expense.

Developing Core Customers

Again, the development of NetTeller is of vital importance to the bank's success. This service plays an integral role in our goal of developing and expanding our base of core customers. Recent research studies have shown that use of electronic services bonds customers to the bank, making them unlikely to switch to a competitor. By offering the service free of charge, we are able to overcome a key objection based on price and thus the product becomes very attractive, especially to computer-savvy customers.



By combining the power of NetTeller with other convenience services such as Bank by Phone and the Visa Check Card, we have developed an attractive package of services designed to bring core customers to the bank. Customer contact personnel also have the tools to assist customers with

setting up auto draft for payments. This is another way in which electronic services can help us build a loyal customer base.

Our Role as a Community Bank

Beach First is a growing, vibrant financial institution that plays an active role in the communities it serves. We continue to be involved in a large number of activities with levels of sponsorship commensurate with our size and growth. Our support covers a wide range of events including academics and athletics, the arts, and health and human services. Many of our employees hold leadership positions in civic groups and church-related organizations and we applaud their willingness to give so generously of their time to these many worthwhile causes.

An upcoming section of this *Report* will talk in further detail about our Children's Art Calendar. Now in its fourth year, this exciting calendar promotes the artwork of youngsters and the art programs in four local elementary schools. We're proud to play a part in programs that make a difference in our communities.

Progress Continues to be Made

I hope you are pleased with progress your bank continues to make as evidenced throughout this *Report*. We appreciate your investment in our company and will continue to work hard for you in the months and years to come.

On behalf of our officers and board of directors, please accept our invitation to attend the Annual Meeting of Shareholders to be held on Wednesday, April 20, at 2 p.m. at the Myrtle Beach Convention Center.

A handwritten signature in black ink, appearing to read 'Walt'.

Walter E. Standish, III
President and Chief Executive Officer



Building a Bank Location by Location

Beach First National Bank was founded on the core community banking principal of service that is absolutely dependable, completely attentive, and locally managed.

From its beginning in a single office on Oak Street in 1996 to its current six-branch network along the South Carolina coast, Beach First has known that it takes a careful combination of location, talent, and infrastructure to build a strong bank.

The bank has offices in Beaufort and Horry counties, two of the fastest growing counties in South Carolina, and a location in Litchfield in Georgetown County, where population growth also exceeds the state average.

Our 2004 *Report* focuses on these six physical locations and the talented bankers who staff them. We will also make a stop in cyberspace at our "seventh" location, beachfirst.com.

Litchfield

Our newest Grand Strand office opened for business in July 2004. Located in Litchfield Market Village at the entrance to Willbrook Plantation, the branch is ideally situated to serve both residents and businesses in the Waccamaw Neck area. The Litchfield Market Village office is the bank's first in Georgetown County.

Jeri Williamson, branch manager at the Litchfield office (left), reviews the bank's products and services with customer Jim McGowan.



North Myrtle Beach



The Grand Strand's third office opened in November 2002 in a rapidly growing part of North Myrtle Beach. Located in the Gator Hole Plaza Shopping Center, the branch brings Beach First's brand of community banking to consumers and businesses in the North Strand.

Marc McDowell, vice president and regional manager for North Myrtle Beach (right), chats with teller Peggy Roessler at the end of a busy day.

Pineland Station—Hilton Head Island

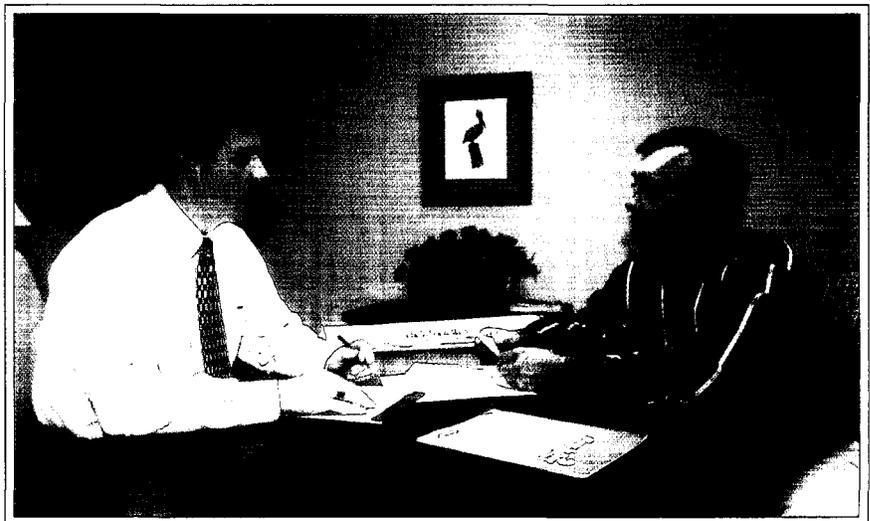


The opening of a branch in the Pineland Station Office Building in February 2003 marked the bank's first expansion outside the Grand Strand market. The rapid growth in Hilton Head Island and Beaufort County made this site attractive to the bank, and with a local, experienced management team in place, it's been a good fit for our growing branch network.

Stephanie Loudner, assistant vice president and branch manager at the Pineland Station office (right), reviews plans with Paul Cale of Hilton Head Vacation Rentals. Cale's business, which provides short term rentals to Island visitors, also is a tenant at Pineland Station.

The Village at Wexford—Hilton Head Island

The bank's second office on Hilton Head Island opened in January 2005 in The Village at Wexford. This location near the Island's south end will help make Beach First's community banking services even more convenient to residents and businesses. This office serves as the bank's base of operations on Hilton Head Island, including retail banking, commercial relationship management, and mortgage lending.

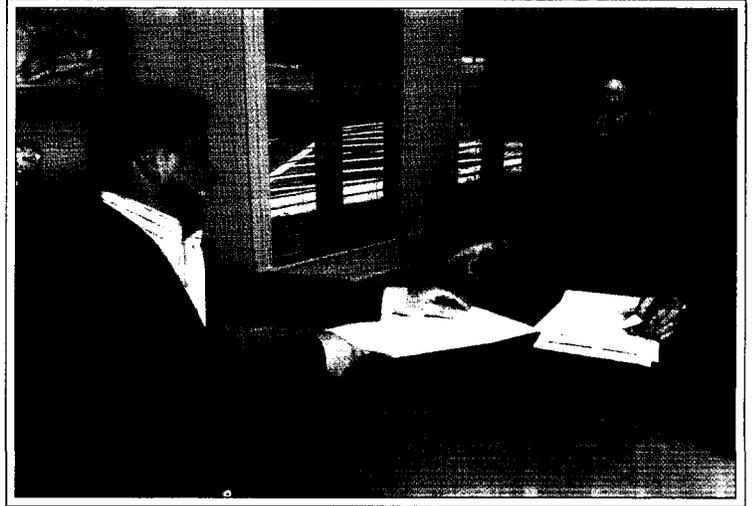


Paul Walter, vice president and regional manager for the bank's Hilton Head Island operations (left), assists Grant McKinley, owner of the Executive Golf Club in Bluffton, with his company's financial needs.

Main Office

The main office in Myrtle Beach serves as the bank's headquarters and also provides a full service branch including retail banking and commercial relationship management. A new headquarters, located at Grissom Parkway and 38th Avenue North is on the drawing board, with plans to occupy a new building sometime in 2006.

Terry Walden, president of operations for DiamondRoc LLC, a development and realty investments company (left), consults with commercial lender Harry Bates at the bank's main office.

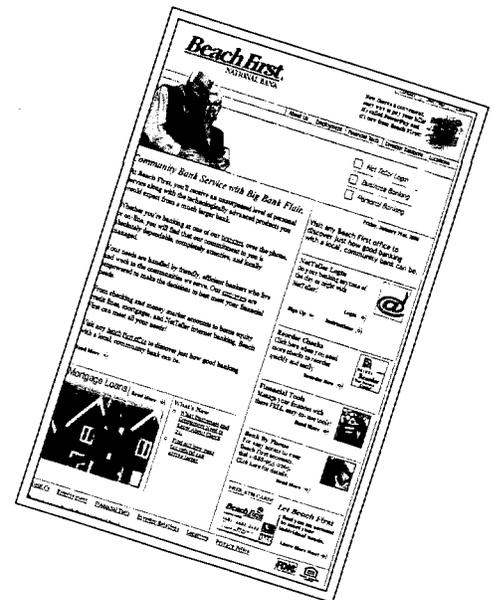


Surfside Beach



The Surfside Beach office opened in 2001 as the bank's second full service facility. Located in Saybrook Village on Highway 544, the branch serves the Surfside Beach and Socastee areas. Its close proximity to the recently-completed second phase of the Carolina Bays Parkway makes it a prime location that is easily and quickly accessible.

Christine Holmes, customer service representative at the Surfside Beach office (left), assists Don and Susan Duerk of Island Storage, Inc. during a visit to the bank's office.

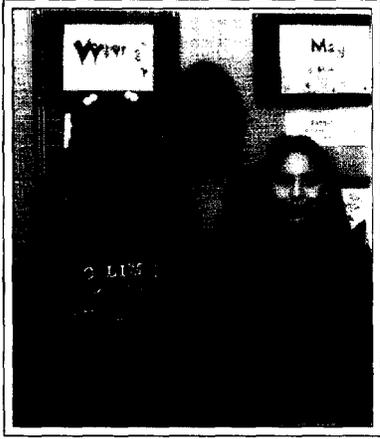


On the Web

The bank's location along the Information Highway was remodeled and made its debut in January 2005. The refurbished site includes detailed information about Beach First's products and services and provides easy access to NetTeller Internet Banking. Other features include financial tools such as a mortgage loan calculator and a checkbook balancer. Investor Relations data is also available at the click of a mouse. The new site provides customers with a key to the bank to be used any time of the day of the night.

To visit our "seventh office," go to beachfirst.com.

Children's Art Calendar in 4th Year



North Myrtle Beach winners Laquiesha Stanley (left) and Ali Capel (right) smile for a photo with art instructor Tonya Merricks at the awards ceremony.



Carol Gorn, art instructor at Hilton Head Island Elementary, looks on as Yuta Suzuki develops his drawing.



Cynthia Evans, art instructor at Lakewood Elementary, offers suggestions to Dylan Boston (left) and Darryl Barnes (right).



Myrtle Beach Elementary students Cheriell Ramirez (left) and Tynetta Bryant (right) share a laugh while drawing.

One of the bank's biggest public relations initiatives each year is the Children's Art Calendar, "Reflections of our Youth." The Calendar is a vital project because it focuses the spotlight on young artists and provides financial support for the art programs in four of our local elementary schools. The art teachers at these schools work with their students for several weeks, often incorporating the calendar's theme into their lesson plans. It is a wonderful partnership that yields amazing results and gives the bank a special holiday gift for its customers.



Christian Wright and Temperance Russell, both of Myrtle Beach Elementary, are hard at work.



Jordyn Yannacone of Lakewood Elementary puts the finishing touches on her drawing.



Lakesha Campbell of Hilton Head Island Elementary works hard on her drawing.



North Myrtle Beach student Bailey Phillips works on his submission to the program.

Management's Discussion and Analysis

The following is our discussion and analysis of certain significant factors that have affected our financial position and operating results and those of our subsidiaries, Beach First National Bank and Beach First National Trust, during the periods included in the accompanying financial statements. This commentary should be read in conjunction with the financial statements and the related notes and the other statistical information included in this Report.

Overview

Beach First National Bancshares, Inc. (the "Company") is the parent company of Beach First National Bank, (the "Bank") and Beach First National Trust (the "Trust"), both of which are wholly-owned subsidiaries. The Trust was established exclusively for the issuance of junior subordinated debt which was used to capitalize the bank. The Company's primary business activities are conducted by the Bank. We commenced operations on September 23, 1996, and completed our eighth full year of operations on December 31, 2004. From the outset, we have focused on serving the banking needs of small businesses and individuals, and we have emphasized our local management and ownership.

Walt Standish, our president and chief executive officer, completed his fifth full year at December 31, 2004. Under Mr. Standish's leadership, we are continuing to expand and grow in our service markets. Our total assets have increased to \$242.1 million at December 31, 2004, a 46.6% increase since December 31, 2003, and our net income was \$1,435,922 for the year ended December 31, 2004, an increase of \$426,991, or 42.3%, over the same period in 2003. We accomplished our first quarterly profit in the second quarter of 1999, and in 2001 our performance resulted in the first cumulative year of profitability.

The bank's primary market areas are located along the coastal regions of South Carolina and predominately center on the Metro regions of Myrtle Beach and Hilton Head Island, South Carolina. We currently operate from six banking locations. In addition to the main office in Myrtle Beach, we have added five branches. We opened our Surfside branch in June 2001. In November 2002, we opened an office in North Myrtle Beach, and in February 2003, we opened an office in Hilton Head Island. In 2004, we opened an office in the Litchfield/Pawleys Island area of the Grand Strand, and in early 2005, we opened our second office on the south end of Hilton Head Island. All of our branches are full service.

The following table sets forth selected measures of our financial performance for the periods indicated:

	At and for the Years Ended December 31,			
	2004	2003	2002	2001
Net Income.....	\$ 1,435,922	\$ 1,008,931	\$ 707,271	\$ 459,294
Total Assets.....	242,091,345	165,093,036	118,408,825	80,784,815
Total Loans.....	191,481,765	135,612,193	93,300,352	63,203,643
Total Deposits.....	203,168,958	138,099,566	99,866,037	67,132,968
Retained Earnings.....	\$ 3,153,939	\$ 1,718,321	\$ 709,390	\$ 2,119

The following discussion describes our results of operations for 2004 as compared to 2003, and 2003 compared to 2002 and also analyzes our financial condition as of December 31, 2004, as compared to December 31, 2003. Like most community banks, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits and advances from Federal Home Loan Bank (FHLB), on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits and advances from FHLB. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

We have included a number of tables to assist in our description of these measures. For example, the "Average Balances, Income and Expenses, and Rates" table shows the average balance during 2004, 2003, and 2002 of each category of our assets and liabilities, as well as the yield we earned or the rate we paid with respect to each category. A review of this table shows that our loans typically provide higher interest yields than do other types of interest earning assets, which is why we intend to channel a substantial percentage of our earning assets into our loan portfolio. Similarly, the "Analysis of Changes in Net Interest Income" table helps demonstrate the impact of changing interest rates and changing volume of assets and liabilities during the years shown. We also track the sensitivity of our various categories of assets and liabilities to changes in interest rates, and we have included a "Interest Sensitivity Analysis Table" to help explain this. Finally, we have included a number of tables that provide detail about our investment securities, our loans, our deposits and other borrowings.

Of course, there are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the "Loans and Allowance for Loan Losses" sections, we have included a detailed discussion of this process, as well as several tables describing our allowance for loan losses and the allocation of this allowance among our various categories of loans.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this noninterest income, as well as our noninterest expense, in the "Noninterest Income and Expense" section.

The following discussion and analysis also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included in this *Report*.

Critical Accounting Policies

We have adopted various accounting policies which govern the application of accounting principles generally accepted in the United States in the preparation of our financial statements. Our significant accounting policies are described in Note I of the Notes to Consolidated Financial Statements.

Certain accounting policies involve significant judgments and assumptions by management which has a material impact on the carrying value of certain assets and liabilities. We consider such accounting policies to be critical accounting policies. The judgments and assumptions we use are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions we make, actual results could differ from these judgments and estimates. These differences could have a material impact on our carrying values of assets and liabilities and our results of operations.

We believe the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of its consolidated financial statements. Refer to the section entitled "Provision and Allowance for Loan Losses" for a detailed description of our estimation process and methodology related to the allowance for loan losses.

Analysis of the Fiscal Years Ended December 31, 2002 and 2003 and 2004

Earnings Review

Overview. For the year ended December 31, 2004, our net income was \$1,435,922, or \$.71 basic net income per common share, as compared to \$1,008,931, or \$.51 basic net income per common share, for the year ended December 31, 2003, and \$707,271, or \$.36 basic net income per common share, for the year ended December 31, 2002. All per share data for all periods has been adjusted to reflect the 3-for-2 stock split effected in the form of a 50% stock dividend that we declared in 2004. The improvement in net income in 2004 reflects our growth, with average earning assets increasing 43.9% to \$192.1 million during 2004 from \$133.4 million during the same period of 2003. Return on average assets and return on average shareholders' equity are key measures of earnings performance. Return on average assets for 2004 was 0.70% compared to 0.70% in 2003 and 0.75% in 2002. Return on average shareholders' equity for 2004 was 9.10% versus 7.05% in 2003 and 5.24% in 2002. Our equity to assets ratio was 6.82% in 2004, 9.01% in 2003, and 11.67% in 2002.

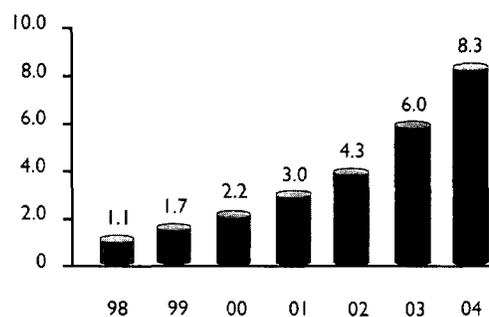
We had total assets of \$242.1 million at December 31, 2004, an increase of 46.6% from \$165.1 million at December 31, 2003. Our total deposits increased to \$203.2 million at December 31, 2004, up 47.1% from \$138.1 million at December 31, 2003.

Net Interest Income

General. Our primary source of revenue is net interest income, which represents the difference between the income on interest-earning assets and expense on interest-bearing liabilities. Our net interest income increased \$2.3 million, or 37.5%, to \$8.3 million in 2004, from \$6.0 million in 2003. Net interest income increased \$1.7 million in 2003, from \$4.3 million in 2002. The increase in net interest income was due primarily to the growth of our bank, as reflected in an increase in our average earning assets.

Net interest spread, the difference between the rate we earn on interest-earning assets and the rate we pay on interest-bearing liabilities, was 3.96% for the year ended December 31, 2004, compared to 4.12% for the year ended December 31, 2003, and 4.13% for the year ended December 31, 2002. Our net interest margin, which is net interest income divided by average interest-earning assets, was 4.30% for the year ended December 31, 2004, 4.51% for the year ended December 31, 2003, and 4.88% for the year ended December 31, 2002. The decrease in the net interest margin can be attributed to the decline in interest rates that began in late November 2002, and continued to historically low levels during 2003 and 2004. Even though our average rates on earning assets fell from the 2003 levels, we were able to mitigate the decline by further reducing our rates paid on our deposits.

Net Interest Income



Average Balances, Income and Expenses and Rates. The following tables set forth, for the periods indicated, information related to our average balance sheet and average yields on assets and average rates paid on liabilities. We derived these yields or rates by dividing income or expense by the average balance of the corresponding assets or liabilities. We derived average balances from the daily balances throughout the periods indicated.

Average Balances, Income and Expenses, and Rates

	For the year ended December 31, 2004			For the year ended December 31, 2003			For the year ended December 31, 2002		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Federal funds sold, short term investments and trust preferred securities.....	\$ 6,201,758	\$ 79,771	1.29%	\$ 4,786,035	\$ 49,637	1.04%	\$ 4,519,786	\$ 73,206	1.62%
Investment securities.....	26,537,687	1,098,986	4.14%	12,187,267	519,128	4.26%	7,603,198	413,289	5.44%
Loans (1).....	159,320,786	10,418,114	6.54%	116,469,211	7,927,496	6.81%	75,837,003	5,898,801	7.78%
Total earning assets.....	\$ 192,060,231	\$ 11,596,871	6.04%	\$ 133,442,513	\$ 8,496,261	6.37%	\$ 87,959,987	\$ 6,385,296	7.26%
Interest-bearing deposits									
IBCA.....	\$ 6,181,823	\$ 21,352	0.35%	\$ 4,868,675	\$ 22,012	0.45%	3,903,291	19,982	0.51%
MMA.....	38,995,499	684,525	1.76%	22,440,206	315,249	1.40%	21,519,407	490,095	2.28%
Savings.....	3,169,499	25,326	0.80%	3,073,608	25,204	0.82%	3,211,338	38,414	1.20%
CD's < \$100,000.....	49,021,815	1,138,746	2.32%	38,409,656	1,034,572	2.69%	17,036,416	741,659	4.35%
CD's > \$100,000.....	38,770,815	836,663	2.16%	29,885,297	736,175	2.46%	15,581,654	539,547	3.46%
IRA.....	3,593,938	92,946	2.59%	3,793,667	133,665	3.52%	3,652,567	194,056	5.31%
Total interest- bearing deposits.....	\$ 139,733,389	\$ 2,799,558	2.00%	\$ 102,471,109	\$ 2,266,877	2.21%	\$ 64,904,673	\$ 2,023,753	3.12%
Other borrowings.....	19,835,693	531,889	2.68%	7,676,230	216,040	2.81%	1,948,663	71,746	3.68%
Total interest- bearing liabilities.....	\$ 159,569,082	\$ 3,331,447	2.08%	\$ 110,147,339	\$ 2,482,917	2.25%	\$ 66,853,336	\$ 2,095,499	3.13%
Net interest spread			3.96%			4.12%			4.13%
Net interest income/margin	\$ 8,265,424		4.30%	\$ 6,013,344		4.51%	\$ 4,289,797		4.88%

(1) The effect of loans in nonaccrual status and fees collected is not significant to the computations. All loans and deposits are domestic.

Analysis of Changes in Net Interest Income. The following tables set forth the impact of the varying levels of earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the periods presented. The change in net interest income is primarily due to the increases in volume of both loans and deposits and changes in average rates.

Analysis of Changes in Net Interest Income

	For the year ended December 31, 2004 versus 2003			For the year ended December 31, 2003 versus 2002		
	Volume (1)	Rate (1)	Net change	Volume (1)	Rate (1)	Net change
Federal funds sold and short term investments and trust preferred securities.....	\$ 18,210	\$ 11,924	\$ 30,134	\$ 2,761	\$ (26,330)	\$ (23,569)
Investment securities.....	594,284	(14,426)	579,858	195,263	(89,424)	105,839
Loans.....	2,802,099	(311,481)	2,490,618	2,765,638	(736,643)	2,028,995
Total earning assets.....	3,414,593	(313,983)	3,100,610	2,963,662	(852,397)	2,111,265
Interest-bearing deposits.....	746,550	(213,868)	532,682	831,048	(587,926)	243,122
Other borrowings.....	326,053	(10,205)	315,848	161,197	(16,601)	144,596
Total interest-bearing liabilities.....	1,072,603	(224,073)	848,530	992,245	(604,527)	387,718
Net interest income.....	\$ 2,341,990	\$ (89,910)	\$ 2,252,080	\$ 1,971,417	\$ (247,870)	\$ 1,723,547

(1) Volume-rate changes have been allocated to each category proportionately based on the percentage of the total change.

Interest Rate Sensitivity. A significant portion of our assets and liabilities are monetary in nature, and consequently they are very sensitive to changes in interest rates. This interest rate risk is our primary market risk exposure, and it can have a significant effect on our net interest income and cash flows. We review our exposure to market risk on a regular basis, and we manage the pricing and maturity of our assets and liabilities to diminish the potential adverse impact that changes in interest rates could have on our net interest income.

One monitoring technique we employ is the measurement of our interest rate sensitivity "gap," which is the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or may reprice within a given period of time. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities, and it is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets. We generally would benefit from increasing market interest rates when we have an asset-sensitive, or a positive, interest rate gap and we would generally benefit from decreasing market interest rates when we have liability-sensitive, or a negative, interest rate gap. When measured on a "gap" basis, we are liability-sensitive over the cumulative one-year time frame and asset-sensitive after one year as of December 31, 2004. However, gap analysis is not a precise indicator of our interest sensitivity position. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but we believe those rates are significantly less interest-sensitive than market-based rates such as those paid on non-core deposits.

Net interest income is also affected by other significant factors, including changes in the volume and mix of interest-earning assets and interest-bearing liabilities. We perform asset/liability modeling to assess the impact of varying interest rates and the impact that balance sheet mix assumptions will have on net interest income. We attempt to manage interest rate sensitivity by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities that reprice in the same time interval helps us to hedge risks and minimize the impact on net interest income of rising or falling interest rates. We evaluate interest sensitivity risk and then formulate guidelines regarding asset generation and repricing, funding sources and pricing, and off balance sheet commitments in order to decrease interest rate sensitivity risk.

The following table summarizes the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2004 that are expected to mature, prepay, or reprice in each of the future time periods shown. Except as stated in the following tables, we determined the amount of assets or liabilities that mature or reprice during a particular period in accordance with the contractual terms of the asset or liability. We included adjustable rate loans in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and we included fixed rate loans in the periods in which we anticipate they will be repaid based on scheduled maturities. We included our savings accounts and interest-bearing demand accounts (interest bearing checking and money market deposit accounts), which are generally subject to immediate withdrawal, in the "Three Months or Less" category, although our historical experience has proven these deposits to be more stable over the course of a year.

Interest Sensitivity Analysis

	December 31, 2004				
	Within three months	After three but within twelve months	After one but within five years	After five years	Total
Assets					
Earning assets:					
Federal funds sold and short term investments.....	\$ 463,069	\$ —	\$ —	\$ —	\$ 463,069
Investments, including FHLB & FRB	36,100	125,440	3,969,000	33,451,030	37,581,570
Total loans (1).....	<u>105,527,433</u>	<u>29,184,755</u>	<u>54,947,326</u>	<u>2,082,067</u>	<u>191,741,581</u>
Total earning assets.....	<u>\$ 106,026,602</u>	<u>\$ 29,310,195</u>	<u>\$ 58,916,326</u>	<u>\$ 35,533,097</u>	<u>\$ 229,786,220</u>
Liabilities					
Interest-bearing liabilities					
Money market and interest checking	\$ 73,682,792	\$ —	\$ —	\$ —	\$ 73,682,792
Regular savings deposits.....	3,003,904	—	—	—	3,003,904
Time deposits < \$100,000	25,061,100	18,471,768	3,218,707	—	46,751,575
> \$100,000.....	25,143,933	16,810,412	5,236,203	—	47,190,548
Other borrowings.....	2,500,000	7,500,000	6,500,000	—	16,500,000
Junior Subordinated Debentures....	—	—	—	5,155,000	5,155,000
Total interest-bearing liabilities.....	<u>\$ 129,391,729</u>	<u>\$ 42,782,180</u>	<u>\$ 14,954,910</u>	<u>\$ 5,155,000</u>	<u>\$ 192,283,819</u>
Period gap.....	\$ (23,365,127)	\$ (13,471,985)	\$ 43,961,416	\$ 30,378,097	
Cumulative gap.....	\$ (23,365,127)	\$ (36,837,112)	\$ 7,124,304	\$ 37,502,401	
Ratio of cumulative gap to total earning assets.....	(10.17)%	(16.03)%	3.10%	16.32%	

(1) Non-accrual loans in the amount of \$76,826 are not included in the above table.

Allowance for Loan Losses

The adequacy of the allowance is analyzed on a quarterly basis. For purposes of this analysis, adequacy is defined as a level of reserves sufficient to absorb probable losses inherent in the portfolio. The methodology employed for this analysis considers historical loan loss experience, the results of loan reviews, current economic conditions, and other qualitative and quantitative factors that warrant current consideration in determining an adequate allowance.

The evaluation of the allowance is segregated into general allocations and specific allocations. For general allocations, the portfolio is segregated into risk-similar segments for which historical loss ratios are calculated and adjusted for identified trends or changes in current portfolio characteristics. Historical loss ratios are calculated by product type for consumer loans (installment and revolving), mortgage loans, and commercial loans and may be adjusted for other risk factors. To allow for modeling error, a range of probable loss ratios is then derived for each segment. The resulting percentages are then applied to the dollar amounts of the loans in each segment to arrive at each segment's range of probable loss levels.

Certain nonperforming loans are individually assessed for impairment under SFAS No. 114 and assigned specific allocations. Other identified high-risk loans or credit relationships based on internal risk ratings are also individually assessed and assigned specific allocations.

The general allocation also includes a component for probable losses inherent in the portfolio, based on management's analysis that is not fully captured elsewhere in the allowance. This component serves to address the inherent estimation and imprecision risk in the methodology as well as address management's evaluation of various factors or conditions not otherwise directly measured in the evaluation of the general and specific allocations. Such factors or conditions may include evaluation of current general economic and business conditions; geographic, collateral, or other concentrations; system, procedural, policy, or underwriting changes; experience of lending staff; entry into new markets or new product offerings; and results from internal and external portfolio examinations.

The allocation of the allowance to the respective loan segments is an approximation and not necessarily indicative of future losses or future allocations. The entire allowance is available to absorb losses occurring in the overall loan portfolio.

Assessing the adequacy of the allowance is a process that requires considerable judgement. Management's methodology and judgements are based on the information currently available and includes numerous assumptions about current events, which we believe to be reasonable, but which may or may not be valid. Thus, there can be no assurance that loan losses in future periods will not exceed the current allowance amount or that future increases in the allowance will not be required. No assurance can be given that management's ongoing evaluation of the loan portfolio in light of changing economic conditions and other relevant circumstances will not require significant future additions to the allowance, thus adversely affecting the operating results of the Company. Management believes that the current level of the allowance for loan losses is presently adequate considering the composition of the loan portfolio, the portfolio's loss experience, delinquency trends, current regional and local economic conditions and other factors.

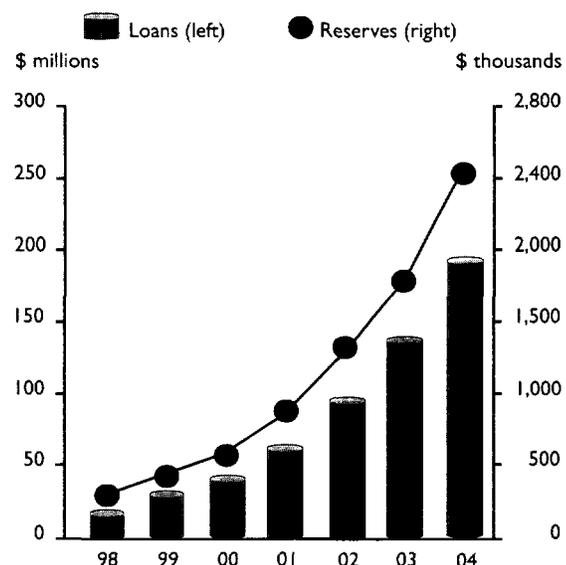
The allowance is also subject to examination and adequacy testing by regulatory agencies, which may consider such factors as the methodology used to determine adequacy and the size of the allowance relative to that of peer institutions, and other adequacy tests. In addition, such regulatory agencies could require the Company to adjust the allowance based on information available to them at the time of their examination.

At December 31, 2004, our allowance for loan losses was \$2,421,839, or 1.26% of total outstanding loans, compared to an allowance for loans losses of \$1,760,481, or 1.30% of outstanding loans, at December 31, 2003, and \$1,275,778, or 1.37% at December 31, 2002.

Provision for Loan Losses

As a result of growth in loans receivable and the credit risk associated with problem loans, the Company's provision for loan losses was \$1,340,000 for 2004, \$713,000 for 2003, and \$539,000 for 2002. Loans delinquent 90 days or more were 0.04% of total loans at December 31, 2004, compared to 0.11% at December 31, 2003, and 0.05% at December 31, 2002. Management believes that the current level of the allowance for loan losses is adequate considering the composition of the loan portfolio, the portfolio's loss experience, delinquency trends, current regional and local economic conditions, and other factors. Also see "Non Performing Assets" and "Allowance for Loan Losses."

Loan Loss Reserves to Total Loans



Non Performing Assets

We discontinue accrual of interest on a loan when we conclude it is doubtful that we will be able to collect interest from the borrower. We reach this conclusion by taking into account factors such as the borrower's financial condition, economic and business conditions, and the results of our previous collection efforts. Generally, we will place a delinquent loan in nonaccrual status when the loan becomes 90 days or more past due. When we place a loan in nonaccrual status, we reverse all interest which has been accrued on the loan but remains unpaid and we deduct this interest from earnings as a reduction of reported interest income. We do not accrue any additional interest on the loan balance until we conclude the collection of both principal and interest is reasonably certain. At December 31, 2004, there was one loan totaling \$652 accruing interest which was 90 days or more past due, and we had no restructured loans.

Non Performing Assets (Dollars in Thousands)

Nonaccrual loans	At December 31,				
	2004	2003	2002	2001	2000
Commercial	\$ —	\$ 198	\$ 58	\$ —	\$ 105
Real estate – construction.....	—	—	—	—	—
Real estate – mortgage	70	168	—	87	—
Consumer	7	—	—	29	—
Total.....	<u>\$ 77</u>	<u>\$ 366</u>	<u>\$ 58</u>	<u>\$ 116</u>	<u>\$ 105</u>
Accruing loans which are contractually past due 90 days or more					
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate – construction.....	—	—	—	—	—
Real estate – mortgage	—	—	—	—	—
Consumer	1	—	2	—	—
Total.....	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	<u>\$ 78</u>	<u>\$ 366</u>	<u>\$ 60</u>	<u>\$ 116</u>	<u>\$ 105</u>
Total nonaccrual loans to total loans	0.04%	0.27%	0.06%	0.18%	0.23%
Total nonaccrual loans to total assets	0.03%	0.22%	0.05%	0.14%	0.16%
Total nonperforming assets to total assets	0.03%	0.22%	0.05%	.014%	0.16%

We had three nonaccruing loans totaling \$76,826 at December 31, 2004. One loan in the amount of \$34,750 is a commercial loan secured by a first mortgage, one commercial loan in the amount of \$35,235 secured by a first mortgage and a consumer loan in the amount of \$6,841 secured by a vehicle. We had three nonaccruing loans totaling \$366,326 at December 31, 2003. One loan in the amount of \$168,148 is a commercial loan secured by a first mortgage, one commercial loan in the amount of \$148,328 secured by an assignment of a lease, and a commercial loan in the amount of \$49,850 secured by a piece of construction equipment. Interest income that would have been received for the years ended December 31, 2004 and 2003, had nonaccruing loans been current in accordance with their original terms amounted to \$6,716 and \$19,720, respectively. We did not have any other real estate owned at year end for the periods presented above.

We do not include loans that are current as to principal and interest in our nonperforming assets categories. However, we will still classify a current loan as a potential problem loan if we develop serious doubts about the borrower's future performance under the terms of the loan contract. We consider the level of potential problem loans in our determination of the adequacy of the allowance for loan losses. At December 31, 2002, we did not have any loans we considered classified. At December 31, 2003, we had classified loans totaling \$2,061,145 that we have classified substandard and have made a specific allocation in the allowance for loan losses. At December 31, 2004, we had classified loans totaling \$3,869,625 and have made a specific allocation in the allowance for loan losses.

The following table sets forth certain information with respect to our allowance for loan losses and the composition of charge-offs and recoveries for the years ended December 31, 2000 to 2004.

Allowance for Loan Losses
(Dollars in Thousands)

At December 31,

	2004	2003	2002	2001	2000
Average loans outstanding.....	\$ 159,321	\$ 116,469	\$ 75,837	\$ 56,097	\$ 39,032
Total loans outstanding at period end.....	<u>\$ 191,482</u>	<u>\$ 135,612</u>	<u>\$ 93,300</u>	<u>\$ 63,204</u>	<u>\$ 45,622</u>
Total nonperforming loans.....	<u>77</u>	<u>366</u>	<u>86</u>	<u>107</u>	<u>105</u>
Beginning balance of allowance.....	\$ 1,760	\$ 1,276	\$ 851	\$ 569	409
Loans charged off:.....					
Real Estate	126	62	—	112	
Commercial.....	530	184	104	46	77
Consumer	<u>27</u>	<u>2</u>	<u>11</u>	<u>32</u>	<u>14</u>
Total loans charged off:.....	683	248	115	190	91
Recoveries:					
Real Estate	—	18	1	5	—
Commercial.....	5	—	—	—	—
Consumer	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total recoveries:.....	<u>5</u>	<u>19</u>	<u>1</u>	<u>5</u>	<u>—</u>
Net loans charged off.....	678	229	114	185	91
Provision for loan losses.....	<u>1,340</u>	<u>713</u>	<u>539</u>	<u>467</u>	<u>251</u>
Balance at period end.....	<u>\$ 2,422</u>	<u>\$ 1,760</u>	<u>\$ 1,276</u>	<u>\$ 851</u>	<u>\$ 569</u>
Net charge-offs to average loans.....	0.43%	0.20%	0.15%	0.33%	0.23%
Allowance as a percent of total loans	1.26%	1.30%	1.37%	1.35%	1.25%
Nonperforming loans as a percentage of allowance	3.18%	20.80%	6.74%	12.61%	18.41%
Ratio of net charge-offs to average total loans outstanding during the period	0.43%	0.20%	0.15%	0.33%	0.23%

The following table sets forth the breakdown of the allowance for loan losses by loan category and the percentage of loans in each category to gross loans for the periods indicated. We believe that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance to each category is not necessarily indicative of further losses and does not restrict the use of the allowance to absorb losses in any category.

Allocation of the Allowance for Loan Losses
at December 31,

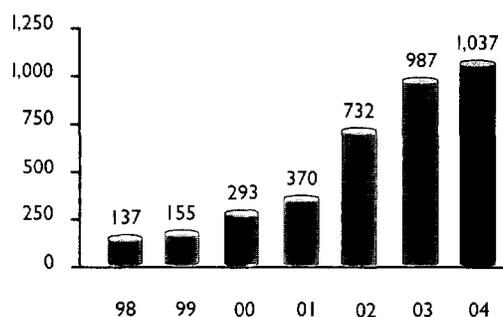
	2004		2003		2002		2001		2000	
Commercial	\$ 437,505	17.3%	\$ 413,066	22.8%	\$ 323,672	26.3%	\$ 215,955	21.2%	\$ 148,003	59.6%
RE Construction	200,039	8.5%	61,180	6.0%	26,148	3.7%	17,450	3.7%	11,954	7.9%
RE Mortgage	1,040,845	70.4%	706,221	66.0%	260,590	56.7%	173,906	64.9%	113,849	19.1%
Consumer	127,500	3.9%	96,860	5.2%	95,516	13.3%	63,757	10.2%	45,539	13.4%
Unallocated.....	<u>615,950</u>	—	<u>483,154</u>	—	<u>569,852</u>	—	<u>380,154</u>	—	<u>249,900</u>	—
Total allowance for loan losses.....	<u>\$ 2,421,839</u>	100.0%	<u>\$ 1,760,481</u>	100.0%	<u>\$ 1,275,778</u>	100.0%	<u>\$ 851,222</u>	100.0%	<u>\$ 569,245</u>	100.0%

Noninterest Income and Expense

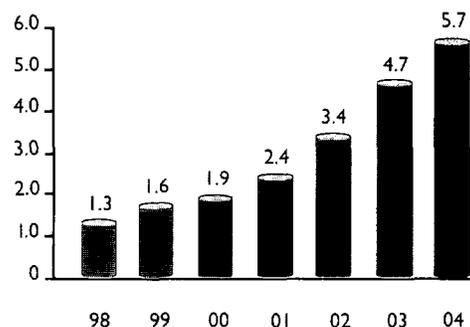
Noninterest Income. Noninterest income increased to \$1,037,425 for the year ended December 31, 2004, up 5.1% from \$986,834 for the year ended December 31, 2003. Noninterest income increased 34.9% from \$731,624 in 2002 to \$986,834 in 2003. Service fees on deposit accounts, the largest component of noninterest income, increased 9.2% to \$536,077 in 2004 from \$490,694 in 2003. Service fee income increased \$70,566, or 16.8%, in 2003 from \$420,128 in 2002. Service fees on deposit accounts increased due to the growth in the number of deposit accounts and increased fee-related activities of customers. The net gain on the sale of investment securities was \$37,395 for 2004, \$134,530 for 2003, and \$977 in 2002. The bank purchased bank owned life insurance in mid-2002 and income from cash value life insurance was \$161,544 in 2004 and 2003, compared to \$80,222 in 2002. Mortgage loan referral fee income for 2004 was \$134,865 compared to \$64,121 in 2003 and \$34,703 for 2002. Other income increased 23.2% to \$167,544 in 2004 from \$135,945 in 2003, and increased 37.7% from \$98,708 in 2002. Other income increased due to the increase in electronic transactions on debit cards.

Noninterest Expense. Noninterest expense totaled \$5.7 million for the year ended December 31, 2004, up from \$4.7 million for 2003, and \$3.4 million for the year ended December 31, 2002. As a percentage of total assets, our total noninterest expenses decreased from 2.83% in 2002 and 2.84% in 2003 to 2.35% in 2004. While our total assets have grown at a 39.4% growth rate over 2002 and 46.6% over 2003, we have been able to manage our expenses while accommodating our growth. The increase in noninterest expense reflects an increase in most expense categories as a result of our growth to \$242.1 million in total assets at the end of 2004 from \$165.1 million at the end of 2003, and \$118.4 million for the end of 2002. Salary and wages expense totaled \$2.6 million in 2004, \$2.1 million in 2003, and \$1.5 million in 2002. Employee benefits were \$501,347 in 2004, \$400,579 in 2003, and \$275,694 in 2002. We had 56 full-time equivalent employees at the end of 2004, an increase of 14 from the end of 2003, and an increase of 5 from the end of 2002. Staffing increases are primarily due to the opening of new branch offices in North Myrtle Beach, South Carolina during the fourth quarter of 2002, and in the Hilton Head Island office during the first quarter of 2003. In 2004, we added staff for the new branch office in the Litchfield/Pawleys Island area of South Carolina, and began staffing for the second location in Hilton Head Island, which opened on January 3, 2005. Increases in personnel costs are also due to normal compensation adjustments, higher costs associated with group insurance coverage and certain incentive awards.

Noninterest Income (\$ thousands)



Noninterest Expense (\$ millions)



Advertising and public relations expenses continue to be a major expense item as we develop our presence in the new markets. In 2004, advertising and public relations expense increased \$71,118 to \$239,256 from \$168,138 in 2003 and \$117,077 in 2002. These increases in 2004 were due primarily to the promotion of the new Litchfield/Pawleys Island office that opened in July 2004, as well as special promotions in all markets. Professional fees increased \$53,585 to \$190,138 for 2004, compared to \$136,553 in 2003 and \$140,429 in 2002. This increase is due to the escalating cost of accounting, auditing, and legal services in addition to increased regulatory fees.

Occupancy costs for the year ended December 31, 2004, were \$476,736, compared to \$362,202 in 2003, and \$239,774 in 2002. These annual increases are the result of branch expansion and increased lease payments for most locations during these periods. See discussion of our leases in the notes to the consolidated financial statements.

Data processing fees increased in 2004 to \$343,275 from \$308,568 in 2003 and \$215,397 in 2002. Data processing costs are primarily related to the volume of loan and deposit accounts and associated transaction activity. We feel our data processing costs are consistent with our expansion.

We experienced a 19.3% increase in other operating expenses in 2004 to \$838,945, from \$703,317 in 2003 and from \$483,988 in 2002, principally as a result of an increase in operating expenses related to the new branch offices opened during these periods, along with other expenses associated with the expansion of loans and deposits. Specifically, credit and collection expenses increased \$45,878, FDIC insurance increased \$27,258, furniture and equipment increased \$20,246, totaling \$93,382 of the total increase of \$135,629. Expenses related to the bank owned life insurance increased \$10,001.

Income Taxes. Total income tax expense included in the Consolidated Statements of Income was \$845,060 in 2004, \$589,643 in 2003, and \$419,220 in 2002. Our effective tax rates were 37% for all periods.

Financial Condition

Loans. Loans are our largest component of earning assets and typically provide higher yields than our other types of earning assets. At December 31, 2004, loans represented 82.9% of average earning assets, representing a decrease over the 87.3% that they represented at the end of 2003. At December 31, 2004, net loans (gross loans less the allowance for loan losses and deferred loan fees) totaled \$189.1 million, an increase of \$55.2 million, or 41.2%, from December 31, 2003. Average gross loans increased 36.8% from \$116.7 million with a yield of 6.81% in 2003, to \$159.3 million with a yield of 6.54% in 2004. Average gross loans increased from \$75.9 million with a yield of 7.78% in 2002. The decrease in yield on loans during these periods is due to the declining interest rate environment. Associated with the higher loan yields are the inherent credit and liquidity risks which we attempt to control and counterbalance. The interest rates we charge on loans vary with the degree of risk and the maturity and amount of the loan. Competitive pressures, money market rates, availability of funds, and government regulations also influence interest rates.

Mortgage loans constitute the principal component of our loan portfolio. Mortgage loans represented 70.4% and 66.0% of our portfolio at year end 2004 and 2003, respectively.

In the context of this discussion, a "real estate mortgage loan" is defined as any loan, other than loans for construction purposes, secured by real estate, regardless of the purpose of the loan. Most of our real estate loans are secured by residential or commercial property. We follow the common practice of financial institutions in our area of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan portfolio component. Generally, we limit our loan-to-value ratio to 80%. We attempt to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentrations of collateral.

The following table shows the composition of our loan portfolio by category at December 31, for the years indicated.

	Composition of Loan Portfolio									
	2004		2003		At December 31		2001		2000	
	(Dollars in Thousands)									
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
Commercial.....	\$ 33,031	17.2%	\$ 30,941	22.8%	\$ 24,547	26.3%	\$ 13,437	21.2%	\$ 8,719	19.1%
Real estate – construction.....	16,255	8.5%	8,157	6.0%	3,486	3.7%	2,368	3.7%	3,604	7.9%
Real estate – mortgage.....	134,978	70.4%	89,723	66.0%	52,934	56.7%	41,051	64.9%	27,262	59.6%
Consumer.....	7,554	3.9%	7,066	5.2%	12,457	13.3%	6,422	10.2%	6,127	13.4%
Loans, gross.....	\$ 191,818	100.0%	\$ 135,887	100.0%	\$ 93,424	100.0%	63,278	100.0%	\$ 45,712	100.0%
Deferred loan fees.....	(336)		(275)		(123)		(75)		(90)	
Allowance for loan losses.....	(2,422)		(1,760)		(1,276)		(851)		(569)	
Loans, net.....	\$ 189,060		\$ 133,852		\$ 92,025		\$ 62,352		\$ 45,053	

The following tables set forth the maturity distribution, classified according to sensitivity to changes in interest rates, for selected components of our loan portfolio as of December 31, 2004. The information in this table is based on the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of these loans is subject to review and credit approval, as well as modification of terms upon their maturity. Actual repayments of loans may differ from maturities reflected above because borrowers may have the right to prepay obligations with or without prepayment penalties.

Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

December 31, 2004

	<u>One year or less</u>	<u>After one but within five years</u>	<u>After five years</u>	<u>Total</u>
Commercial.....	\$ 14,161,240	\$ 16,450,554	\$ 2,419,424	\$ 33,031,218
Real estate mortgage.....	52,644,600	64,487,831	17,845,555	134,977,986
Real estate construction.....	11,354,150	4,901,071	–	16,255,221
Consumer.....	2,005,430	5,278,313	270,239	7,553,982
Total.....	\$ 80,165,420	\$ 91,117,769	\$ 20,535,218	\$ 191,818,407
Fixed Interest Rate.....	\$ 33,873,681	\$ 56,640,334	\$ 201,418	\$ 90,715,433
Variable Interest Rate.....	46,291,739	34,477,435	20,333,800	101,102,974
Total.....	\$ 80,165,420	\$ 91,117,769	\$ 20,535,218	\$ 191,818,407

Investment Securities. Investment securities at December 31, 2004 and December 31, 2003 averaged \$26.5 million, representing 13.8% of average earning assets and \$12.2 million, representing 9.1% of average earning assets, respectively. This increase is due to a leveraging of the securities portfolio during 2004. At December 31, 2004, our total portfolio had a book value of \$37.8 million, and a market value of \$37.6 million, for an unrealized net loss of \$258,284. This compares to our market value of \$11.9 million at December 31, 2003, and \$7.6 million at December 31, 2002.

**Investment Securities
As of December 31,**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
US Govt. Agencies	\$ 14,582,103	\$ 2,290,158	\$ 2,782,152
Mortgage backed	21,620,267	9,627,916	4,770,130
Other	<u>1,379,200</u>	<u>884,000</u>	<u>364,700</u>
Total	<u>\$ 37,581,570</u>	<u>\$ 12,802,074</u>	<u>\$ 7,916,982</u>

At December 31, 2004, short term investments totaled \$463,069. At December 31, 2003, we had short-term investments of \$4.6 million. At December 31, 2002, we had short-term investments of \$5.4 million. These funds are generally invested in an earning capacity with maturities of six months or less in federal funds or in US Government Agency and mortgage backed securities with an average life of seven years or less.

Contractual maturities and yields on our investment securities (all available for sale) at December 31, 2004 are set forth on the following tables based on market values. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

**Investment Securities Maturity Distribution and Yields
December 31, 2004**

	<u>Less than one year</u>		<u>After one year through five years</u>		<u>After five years through ten years</u>		<u>After ten years</u>	
	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>
US Govt. Agencies....	\$ —	—	\$ 3,969,000	4.07%	\$ 10,130,404	4.49%	\$ 482,700	5.19%
Mortgage-backed.....	—	—	—	—	4,940,800	3.75%	16,660,553	4.32%
Other.....	—	—	—	—	—	—	1,379,200	4.06%
Total	<u>\$ —</u>	<u>—%</u>	<u>\$ 3,969,000</u>	<u>4.07%</u>	<u>\$ 15,071,204</u>	<u>4.12%</u>	<u>\$ 18,522,453</u>	<u>4.52%</u>

Funding Sources

Deposits and Other Interest-Bearing Liabilities. Average total deposits were \$166.8 million in 2004, up 37.6% from \$121.7 million in 2003. Average interest-bearing deposits were \$139.7 million in 2004, up 36.3% from \$102.5 million in 2003. These increases were primarily a result of the continued expansion of the company.

Core deposits, which exclude certificates of deposit of \$100,000 or more, provide a relatively stable funding source for our loan portfolio and other earning assets. Our core deposits were \$156.0 million at December 31, 2004, an increase of 52.5% compared to \$102.3 million at December 31, 2003. We expect a stable base of deposits to continue to be our primary source of funding to meet both our short-term and long-term liquidity needs. Core deposits as a percentage of total deposits were approximately 76.8% at December 31, 2004 and 74.1% at December 31, 2003. Our loan-to-deposit ratio was 93.1% at December 31, 2004, versus 96.9% at December 31, 2003. The average loan-to-deposit ratio was 94.3% during 2004, and 94.5% during 2003.

The following table sets forth our deposits by category as of December 31, 2004 and 2003.

	Deposits			
	December 31, 2004		December 31, 2003	
	<u>Amount</u>	<u>Percent of Deposits</u>	<u>Amount</u>	<u>Percent of Deposits</u>
Demand deposit accounts	\$ 32,540,139	16.0%	\$ 23,454,124	17.0%
Interest bearing checking.....	7,770,362	3.8%	5,024,410	3.6%
Money market accounts.....	65,912,429	32.4%	22,074,665	16.0%
Savings accounts.....	3,003,904	1.5%	2,777,278	2.0%
Time deposits < \$100,000.....	46,751,575	23.1%	48,988,981	35.5%
Time deposits > \$100,000.....	<u>47,190,549</u>	<u>23.2%</u>	<u>35,780,108</u>	<u>25.9%</u>
Total deposits.....	<u>\$ 203,168,958</u>	<u>100.0%</u>	<u>\$ 138,099,566</u>	<u>100.0%</u>

The following table sets forth our deposits by category with the average balance and the average rate paid for each category. All of our deposits are domestic.

	Average balances and rates (thousands)									
	2004		2003		2002		2001		2000	
Non interest bearing demand.....	\$ 27,060	—%	\$ 19,261	—%	\$ 13,417	—%	\$ 9,678	—%	\$ 7,086	—%
Interest bearing demand...	6,182	0.35%	4,869	0.45%	3,903	0.51%	2,960	1.97%	1,573	2.09%
Savings.....	3,169	0.80%	3,074	0.82%	3,211	1.20%	3,127	3.06%	3,844	4.77%
Money market.....	38,995	1.76%	22,440	1.40%	21,519	2.28%	13,061	3.59%	6,353	5.47%
Time deposits.....	<u>91,387</u>	<u>2.36%</u>	<u>72,088</u>	<u>2.62%</u>	<u>36,271</u>	<u>3.99%</u>	<u>35,779</u>	<u>5.95%</u>	<u>29,508</u>	<u>6.19%</u>
Total	<u>\$ 166,793</u>		<u>\$ 121,732</u>		<u>\$ 78,321</u>		<u>\$ 64,605</u>		<u>\$ 48,364</u>	

As of December 31, 2004, time deposits greater than \$100,000 that matured within three months were \$25.1 million, those over 3 months through 6 months were \$3.4 million, those over 6 months through 12 months were \$17,895 and time deposits greater than \$100,000 that had a maturity greater than 12 months were \$1.3 million.

Due to the seasonal nature of our market areas, deposit growth is strong during the summer months and loan demand usually reaches its peak during the winter months. Thus, we historically have a more favorable liquidity position during the summer months. To meet loan demand and liquidity needs during the winter months, we typically offer rate specials on deposits. Our deposit growth during the summer months is invested in temporary investments and short-term securities. Additionally, the company has access to other funding sources including federal funds purchased from correspondent banks and a line of credit with the Federal Home Loan Bank (FHLB).

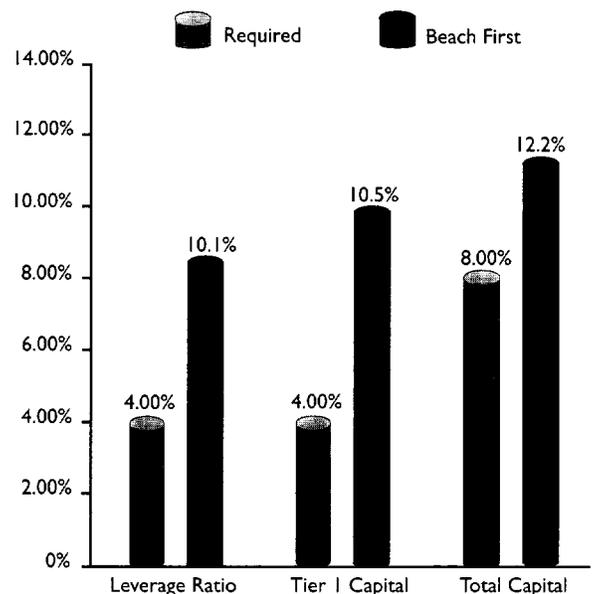
Borrowings. During 2004, we had average short-term borrowings of \$16.8 million compared to \$7.7 million in 2003 and \$1.9 million in 2002. Total borrowings outstanding at December 31, 2004, were \$16.5 million, at December 31, 2003, were \$11.5 million and at December 31, 2002, were \$4.0 million. The maximum amount outstanding during any month-end period at December 31, 2004 was \$21.5 million with an average rate of 2.35%, at December 31, 2003, was \$11.5 million at an average rate of 2.79% and at December 31, 2002, was \$4.0 million with an average rate of 3.69%. These funds were obtained from the Federal Home Loan Bank to help fund our loan growth. For more information concerning borrowings from the FHLB, refer to Note 8 of the Notes to the Consolidated Financial Statements.

Capital Standards and Regulatory Matters

Junior subordinated debt. During 2004, we had average junior subordinated debt of \$3.1 million compared to none in 2003 and 2002. Total junior subordinated debt outstanding at December 31, 2004, was \$5.2 million. The maximum amount outstanding during any month-end period at December 31, 2004 was \$5.2 million with an average rate of 4.45%. For more information concerning junior subordinated debt, refer to Note 9 of the Notes to the Consolidated Financial Statements.

We are subject to various regulatory capital requirements administered by our federal bank regulators. Under these capital guidelines, we must maintain a minimum total risk-based capital ratio of 8%, with at least 4% being Tier I capital. In our case, our Tier I capital consists of our common shareholders' equity, although Tier I capital could also include other components, such as qualifying perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries. In addition, we must maintain a minimum Tier I leverage ratio (Tier I capital to total average assets) of at least 4%. To be considered "well-capitalized," we must maintain total risk-based capital of at least 10%, Tier I capital of at least 6%, and a leverage ratio of at least 5%. For further information concerning the Bank's and the Company's capital standards, refer to Note 18 of the Notes to the Consolidated Financial Statements.

Capital



Liquidity Management

Our primary sources of liquidity are deposits, scheduled repayments on our loans, and interest on and maturities of our investments. All of our securities have been classified as available for sale. Occasionally, we might sell investment securities in connection with the management of our interest sensitivity gap or to manage cash availability. We may also utilize our cash and due from banks, security repurchase agreements, and federal funds sold to meet liquidity requirements as needed. In addition, we have the ability, on a short-term basis, to purchase federal funds from other financial institutions. Presently, we have made arrangements with commercial banks for short-term unsecured advances of up to \$16.4 million. We also are eligible to receive advances from the Federal Home Loan Bank of Atlanta, subject to its approval. At December 31, 2004, the Bank had the ability to borrow an additional \$3.9 million from the FHLB secured by a blanket lien on one to four family first mortgage loans. FHLB has approved borrowings up to 15% of the bank's total assets less advances outstanding. The borrowings are available by pledging collateral and purchasing additional stock in the FHLB. We believe that our liquidity and ability to manage assets will be sufficient to meet our cash requirements over the near term.

Off-Balance Sheet Risk

Through the operations of our bank, we have made contractual commitments to extend credit in the ordinary course of our business activities. These commitments are legally binding agreements to lend money to our customers at predetermined interest rates for a specified period of time. At December 31, 2004, we had issued commitments to extend credit of \$29.3 million through various types of commercial lending arrangements, of which \$24.4 million was at variable rates. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate.

The commitments expire over the next 36 months. Past experience indicates that many of these commitments to extend credit will expire unused. However, as described in "Liquidity and Asset and Liability Management", we believe that we have adequate sources of liquidity to fund commitments that may be drawn upon by borrowers.

In addition to commitments to extend credit, we also issue standby letters of credit which are assurances to a third party that they will not suffer a loss if our customer fails to meet its contractual obligation to the third party. Standby letters of credit totaled \$4.4 million at December 31, 2004. Past experience indicates that many of these standby letters of credit will expire unused. However, through our various sources of liquidity, we believe that we will have the necessary resources to meet these obligations should the need arise.

Except as disclosed in this *Report*, we are not involved in off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements or transactions that could result in liquidity needs or other commitments or significantly impact earnings.

Impact of Inflation

Unlike most industrial companies, the assets and liabilities of financial institutions such as our Company and Bank are primarily monetary in nature. Therefore, interest rates have a more significant impact on our performance than do the effects of changes in the general rate of inflation and changes in prices. In addition, interest rates do not necessarily move with the same magnitude as the prices of goods and services. As discussed previously, we seek to manage the relationships between interest sensitive assets and liabilities in order to protect against wide rate fluctuations, including those resulting from inflation.

Report of Management

The consolidated financial statements of Beach First National Bancshares, Inc., and other financial information included in this summary Annual Report were prepared by management responsible for the integrity of the information presented. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and include amounts that are based on management's best estimates and judgment.

The Company maintains accounting and control systems which are believed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and produce records adequate for preparation of financial information. Management recognizes the limits inherent in any system of internal control as the cost of controls should not exceed the benefits derived. Management believes the system provides an appropriate balance.

In order to monitor compliance with its system of controls, the Company employs Tourville and Associates, LLP to perform quarterly internal audits of controls and compliance with systems and controls. Audit reports are issued to management and the Audit Committee of the Board of Directors. The independent accountants receive copies of these reports and the reports are available for review by regulatory authorities.

The Audit Committee of the Board of Directors meets as necessary with management, the independent auditors, and the independent accountants to review audit scopes, audit reports, and fee arrangements of the independent accountants, in order to evaluate management's performance of its financial reporting responsibility. Both the independent auditors and accountants have access to the Audit Committee without any management present in the discussions. Independent accountants are recommended by the Audit Committee to the Board of Directors for selection.

Elliott Davis, LLC, as independent certified public accountants, is engaged to provide an objective, independent review as to management's discharge of its responsibilities relating to the fairness of reported operating results and financial condition. They have an understanding of the Company's accounting and financial controls and conduct such tests and related procedures as they deem appropriate to arrive at an opinion of the fairness of the financial statements. Their opinion is included as a part of the Company's 2004 Annual Report on Form 10-KSB.

Our management is committed to, and has always maintained and enforced, a philosophy of high ethical standards in the conduct of its business. The policies covering conflicts of interest, community affairs, and other subjects, are uniformly applicable to all officers and employees of our Company.

Beach First National Bancshares, Inc.
Myrtle Beach, South Carolina
March 19, 2005

Report of Independent Accountants

Board of Directors

Beach First National Bancshares, Inc.

Myrtle Beach, South Carolina

We have audited the accompanying consolidated balance sheets of Beach First National Bancshares, Inc. (the Company) and Subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of income, changes in shareholders' equity and comprehensive income and cash flows for each of the years in the three year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Beach First National Bancshares, Inc. and Subsidiaries at December 31, 2004 and 2003 and the results of their operations and cash flows for each of the years in the three year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Columbia, South Carolina

January 21, 2005

Beach First National Bancshares, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31,	
	2004	2003
Assets		
Cash and due from banks	\$ 4,824,176	\$ 4,886,682
Federal funds sold and short term investments	463,069	4,598,520
Investment securities	36,202,370	11,918,074
Loans, net	189,059,926	133,851,712
Federal Reserve Bank stock	309,000	309,000
Federal Home Loan Bank stock	1,070,200	575,000
Property and equipment, net	4,681,812	4,477,943
Cash value of life insurance	3,230,950	3,076,570
Other assets	2,249,842	1,399,535
Total assets	\$ 242,091,345	\$ 165,093,036
Liabilities and shareholders' equity		
Liabilities		
Deposits		
Non-interesting bearing	\$ 32,540,139	\$ 23,454,124
Interest bearing	170,628,819	114,645,442
Total deposits	203,168,958	138,099,566
Advances from Federal Home Loan Bank	16,500,000	11,500,000
Junior subordinated debentures	5,155,000	-
Other liabilities	934,425	760,577
Total liabilities	225,758,383	150,360,143
Commitments and contingencies - Notes 10 and 14		
Shareholders' equity		
Common stock, \$1 par value, 10,000,000 shares authorized, 2,013,508 shares issued and outstanding at December 31, 2004 and 1,323,768 at December 31, 2003	2,013,508	1,323,768
Paid-in capital	11,335,982	11,837,299
Retained earnings	3,153,939	1,718,321
Accumulated other comprehensive loss	(170,467)	(146,495)
Total shareholders' equity	16,332,962	14,732,893
Total liabilities and shareholders' equity	\$ 242,091,345	\$ 165,093,036

The accompanying notes are an integral part of these consolidated financial statements.

Beach First National Bancshares, Inc. and Subsidiaries

Consolidated Statements of Income

	For the years ended December 31,		
	2004	2003	2002
Interest income			
Loans and fees on loans	\$ 10,418,114	\$ 7,927,496	\$ 5,898,801
Investment securities	1,098,986	519,128	413,289
Federal funds sold and short term investments	75,702	49,637	73,206
Other	4,069	—	—
Total interest income	11,596,871	8,496,261	6,385,296
Interest expense			
Deposits	2,799,558	2,266,877	2,023,753
Advances from FHLB and federal funds purchased	394,946	216,040	71,746
Junior subordinated debentures	136,943	—	—
Total interest expense	3,331,447	2,482,917	2,095,499
Net interest income	8,265,424	6,013,344	4,289,797
Provision for loan losses	1,340,000	713,000	539,000
Net interest income after provision for loan losses	6,925,424	5,300,344	3,750,797
Noninterest income			
Service fees on deposit accounts	536,077	490,694	420,128
Gain on sale of loan	—	—	96,886
Gain on sale of investment securities	37,395	134,530	977
Income from cash value life insurance	161,544	161,544	80,222
Mortgage loan referral fees	134,865	64,121	34,703
Other income	167,544	135,945	98,708
Total noninterest income	1,037,425	986,834	731,624
Noninterest expenses			
Salaries and wages	2,556,452	2,074,934	1,468,357
Employee benefits	501,347	400,579	275,694
Supplies and printing	89,560	105,704	94,624
Advertising and public relations	239,256	168,138	117,077
Professional fees	190,138	136,553	140,429
Depreciation and amortization	446,158	428,609	320,590
Occupancy	476,736	362,202	239,774
Data processing fees	343,275	308,568	215,397
Other operating expenses	838,945	703,317	483,988
Total noninterest expenses	5,681,867	4,688,604	3,355,930
Income before income taxes	2,280,982	1,598,574	1,126,491
Income tax expense	845,060	589,643	419,220
Net income	\$ 1,435,922	\$ 1,008,931	\$ 707,271
Basic net income per common share	\$.71	\$.51	\$ 0.36
Diluted net income per common share	\$.69	\$.50	\$ 0.36
Weighted average common shares outstanding:			
Basic	2,010,662	1,978,252	1,977,552
Diluted	2,089,287	2,015,103	1,987,468

The accompanying notes are an integral part of these consolidated financial statements.

Beach First National Bancshares, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income

	Common stock		Paid-in	Retained	Accumulated	Total
	Shares	Amount	capital	earnings	other comprehensive income (loss)	shareholders' equity
Balance, December 31, 2001	1,318,368	1,318,368	11,787,899	2,119	40,444	13,148,830
Net income	-	-	-	707,271	-	707,271
Other comprehensive income, net of taxes:						
Unrealized gain on investment securities	-	-	-	-	72,912	
Plus reclassification adjustments for gains included in net income	-	-	-	-	(645)	72,267
Comprehensive income	-	-	-	-	-	779,538
Balance, December 31, 2002	<u>1,318,368</u>	<u>1,318,368</u>	<u>11,787,899</u>	<u>709,390</u>	<u>112,711</u>	<u>13,928,368</u>
Net income	-	-	-	1,008,931	-	1,008,931
Other comprehensive income, net of taxes:						
Unrealized loss on investment securities	-	-	-	-	(170,416)	
Plus reclassification adjustments for gains included in net income	-	-	-	-	(88,790)	(259,206)
Comprehensive income	-	-	-	-	-	749,725
Exercise of stock options	5,400	5,400	49,400	-	-	54,800
Balance, December 31, 2003	<u>1,323,768</u>	<u>1,323,768</u>	<u>11,837,299</u>	<u>1,718,321</u>	<u>(146,495)</u>	<u>14,732,893</u>
Net income	-	-	-	1,435,922	-	1,435,922
Other comprehensive income, net of taxes:						
Unrealized gain on investment securities	-	-	-	-	709	
Plus reclassification adjustments for gains included in net income	-	-	-	-	(24,681)	(23,972)
Comprehensive income	-	-	-	-	-	1,411,950
Exercise of stock options	18,750	18,750	169,673	-	-	188,423
3-for-2 stock split	670,990	670,990	(670,990)	(304)	-	(304)
Balance, December 31, 2004	<u>2,013,508</u>	<u>\$ 2,013,508</u>	<u>\$ 11,335,982</u>	<u>\$ 3,153,939</u>	<u>\$ (170,467)</u>	<u>\$ 16,332,962</u>

The accompanying notes are an integral part of these consolidated financial statements.

Beach First National Bancshares, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	For the years ended December 31,		
	2004	2003	2002
Operating activities			
Net income	\$ 1,435,922	\$ 1,008,931	\$ 707,271
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	446,158	428,609	320,590
Accretion of deferred loan fees	(534,553)	(273,122)	(116,211)
Discount accretion and premium amortization	5,776	30,283	2,939
Deferred income taxes	(197,073)	(132,306)	186,161
Provision for loan losses	1,340,000	713,000	539,000
Loss on sale of property and equipment	513	-	-
Gain on sale of investment securities	(37,395)	(134,530)	(976)
Investment in Beach First National Trust	(155,000)	-	-
Decrease (increase) in other assets	(640,263)	1,584,049	(538,937)
Increase in other liabilities	173,848	146,157	551,543
Net cash provided by operating activities	1,837,933	3,371,071	1,651,380
Investing activities			
Proceeds from sale of investment securities	5,034,461	8,021,325	4,319,905
Purchase of investment securities	(29,323,461)	(12,805,865)	(6,119,903)
Purchase of FHLB stock	(495,200)	(375,000)	(55,900)
Purchase of Federal Reserve stock	-	(144,300)	-
Decrease (increase) in Federal funds sold and short term investments	4,135,451	(830,694)	250,077
Increase in loans, net	(56,013,661)	(42,267,016)	(30,094,942)
Purchase of property and equipment	(657,540)	(328,782)	(2,250,808)
Proceeds from sale of property and equipment	7,000	-	-
Purchase of life insurance contracts	-	-	(2,922,190)
Net cash used by investing activities	(77,312,950)	(48,730,332)	(36,873,761)
Financing activities			
Advances from Federal Home Loan Bank	5,000,000	7,500,000	4,000,000
Net increase in deposits	65,069,392	38,233,529	32,292,929
Advances from junior subordinated debentures	5,155,000	-	-
Exercise of stock options	188,423	54,800	-
Cash paid in lieu of fractional shares	(304)	-	-
Net cash provided by financing activities	75,412,511	45,788,329	36,292,929
Net (decrease) increase in cash	(62,506)	429,068	1,070,548
Cash and cash equivalents at beginning of year	4,886,682	4,457,614	3,387,066
Cash and cash equivalents at end of year	\$ 4,824,176	\$ 4,886,682	\$ 4,457,614
Cash paid for			
Interest	\$ 3,183,507	\$ 2,502,644	\$ 2,095,499
Income taxes	\$ 916,740	\$ 480,360	\$ 419,220

The accompanying notes are an integral part of these consolidated financial statements.

Notes

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

Beach First National Bancshares, Inc. (the "Company") is organized under the laws of the State of South Carolina for the purpose of operating as a bank holding company for Beach First National Bank (the "Bank") and Beach First National Trust (the "Trust"). The Bank provides full commercial banking services to customers and is subject to regulation by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation. The Company is subject to regulation by the Federal Reserve Board. The Trust is a special purpose subsidiary organized for the sole purpose of issuing trust preferred securities.

Basis of presentation — The consolidated financial statements include the accounts of the Company, the Bank, and the Trust. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices in the banking industry. The Company uses the accrual basis of accounting.

Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of income and expenses during the reporting periods. Actual results could differ from those estimates.

Concentrations of credit risk — The Company, through the Bank, makes loans to individuals and businesses in and around Horry County and Beaufort County for various personal and commercial purposes. The Company has a diversified loan portfolio and the borrowers' ability to repay their loans is not dependent upon any specific economic sector.

Cash and cash equivalents — For purposes of the statement of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and due from banks". Cash and cash equivalents have an original maturity of three months or less.

Investment securities — The Company accounts for investment securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Gains or losses on the disposition of securities are based on the difference between the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. The statement requires investments in equity and debt securities to be classified into three categories:

- 1. Available for sale:** These are securities which are not classified as either held to maturity or as trading securities. These securities are reported at fair market value. Unrealized gains and losses are reported, net of income taxes, as separate components of shareholders' equity (accumulated other comprehensive income).
- 2. Held to maturity:** These are investment securities which the Company has the ability and intent to hold until maturity. These securities are stated at cost, adjusted for amortization of premiums and the accretion of discounts. The Company currently has no held to maturity securities.
- 3. Trading:** These are securities which are bought and held principally for the purpose of selling in the near future. Trading securities are reported at fair market value, and related unrealized gains and losses are recognized in the statement of income. The Company has no trading securities.

Other investments — The Bank, as a member institution, is required to own certain stock investments in the Federal Home Loan Bank of Atlanta and the Federal Reserve Bank. The stock is generally pledged against any borrowings from these institutions. No ready market exists for the stocks and they have no quoted market value. However, redemption of these stocks has historically been at par value.

Loans, interest and fee income on loans — Loans are stated at the principal balance outstanding. Unamortized loan fees and the allowance for loan losses are deducted from total loans in the balance sheet. Interest income is recognized over the term of the loan based on the principal amount outstanding.

Points on real estate loans are taken into income to the extent they represent the direct cost of initiating a loan. The amount in excess of direct costs is deferred and amortized over the expected life of the loan.

Loans are generally placed on non-accrual status when principal or interest becomes contractually ninety days past due, or when payment in full is not anticipated. When a loan is placed on non-accrual status, interest accrued but not received is generally reversed against interest income. If collectibility is in doubt, cash receipts on non-accrual loans are not recorded as interest income, but are used to reduce principal.

Allowance for loan losses — The provision for loan losses charged to operating expenses reflects the amount deemed appropriate by management to establish an adequate allowance to meet the present and foreseeable risk characteristics of the current loan portfolio. Management's judgement is based on periodic and regular evaluation of individual loans, the overall risk characteristics of the various portfolio segments, past experience with losses and prevailing and anticipated economic conditions. Loans which are determined to be uncollectible are charged against the allowance. Provisions for loan losses and recoveries on loans previously charged off are added to the allowance. Management considers the year-end allowance appropriate and adequate to cover probable losses in the loan portfolio; however, management's judgement is based upon a number of assumptions about future events, which are believed to be reasonable, but which may or may not prove valid. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required.

The Company accounts for impaired loans in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan". This standard requires that all lenders value loans at the loan's fair value if it is probable that the lender will be unable to collect all amounts due according to the terms of the loan agreement. Fair value may be determined based upon the present value of expected cash flows, market price of the loan, if available, or value of the underlying collateral. Expected cash flows are required to be discounted at the loan's effective interest rate. SFAS No. 114 was amended by SFAS No. 118 to allow a lender to use existing methods for recognizing interest income on an impaired loan and by requiring additional disclosures about how a creditor recognizes interest income on an impaired loan.

Under SFAS No. 114, as amended by SFAS No. 118, when the ultimate collectibility of an impaired loan's principal is in doubt, wholly or partially, all cash receipts are applied to principal. Once the reported principal balance has been reduced to zero, future cash receipts are applied to interest income, to the extent that any interest has been foregone. Further cash receipts are recorded as recoveries of any amounts previously charged off. When this doubt does not exist, cash receipts are applied under the contractual terms of the loan agreement first to interest income then to principal.

A loan is also considered impaired if its terms are modified in a troubled debt restructuring. For these accruing impaired loans, cash receipts are typically applied to principal and interest receivable in accordance with the terms of the restructured loan agreement. Interest income is recognized on these loans using the accrual method of accounting. As of December 31, 2004 and 2003, the Company had no impaired loans.

Real estate acquired in settlement of loans — Real estate acquired through foreclosure is initially recorded at the lower of cost or estimated fair value. Subsequent to the date of acquisition, it is carried at the lower of cost or fair value, adjusted for net selling costs. Fair values of real estate owned are reviewed regularly and writedowns are recorded when it is determined that the carrying value of real estate exceeds the fair value less estimated costs to sell. Costs relating to the development and improvement of such property are capitalized, whereas those costs relating to holding the property are charged to expense.

Property and equipment — Buildings and furniture and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Maintenance and repairs are charged to operations, while major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and gain or loss is included in net income.

Income taxes — The consolidated financial statements have been prepared on the accrual basis. When income and expenses are recognized in different periods for financial reporting purposes and for purposes of computing income taxes currently payable, deferred taxes are provided on such temporary differences. The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Under SFAS No. 109, deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the consolidated financial statements or tax return. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

Advertising and public relations expense — Advertising, promotional, and other business development costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent.

Earnings per share — Basic is computed by dividing net income by the weighted average number of common shares outstanding. Earnings per share - diluted is computed by dividing net income by the weighted average number of common shares outstanding and dilutive common share equivalents using the treasury stock method. All share amounts have been adjusted for the 3-for-2 stock split recorded in 2004. Dilutive common share equivalents include common shares issuable upon exercise of outstanding stock options.

	For the years ended December 31,		
	2004	2003	2002
Basic earnings per share:			
Net income available to common shareholders	\$ 1,435,922	\$ 1,008,931	\$ 707,271
Average common shares outstanding – basic	2,010,662	1,978,252	1,977,552
Basic earnings per share	\$.71	\$.51	\$.36
Diluted earnings per share:			
Net income available to common shareholders	\$ 1,435,922	\$ 1,008,931	\$ 707,271
Average common shares outstanding – basic	2,010,662	1,978,252	1,977,552
Incremental shares from assumed conversion of stock options	78,625	36,851	9,916
Average common shares outstanding – diluted	2,089,287	2,015,103	1,987,468
Diluted earnings per share	\$.69	\$.50	\$.36

Stock Based Compensation — The Company has a stock-based employee compensation plan which is further described in Note 16. The Company accounts for the plan under the recognition and measurement principles of Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees”, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all stock options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and net income per common share as if the Company had applied the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation”, to stock-based employee compensation.

	For the years ended December 31,		
	2004	2003	2002
Net income, as reported	\$ 1,435,922	\$ 1,008,931	\$ 707,271
Deduct: Total stock – based employee compensation expense determined under fair value based method for all awards, net of related tax effects	340,488	120,360	39,861
Pro forma net income	\$ 1,095,434	\$ 888,571	\$ 667,410
Net income per common share			
Basic – as reported	\$.71	\$.51	\$.36
Basic – pro forma	\$.54	\$.45	\$.34
Diluted – as reported	\$.69	\$.50	\$.36
Diluted – pro forma	\$.52	\$.44	\$.34

Reclassifications — Certain previously reported amounts have been reclassified to conform to the current year presentation. Such changes had no effect on previously reported net income or shareholders' equity.

Recently issued accounting pronouncements — In April 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and loan commitments that relate to the origination of mortgage loans held for sale, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative, clarifies when a derivative contains a financing component, amends the definition of an underlying to conform it to a language used in FASB Interpretation ("FIN") No. 45, and amends certain other existing pronouncements. The pronouncement was generally effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have any impact on the financial condition or operating results of the Company.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires an issuer to classify certain financial instruments that include certain obligations, such as mandatory redemption, repurchase of the issuer's equity, or settlement by issuing equity, previously classified as equity, as liabilities or assets in some circumstances. SFAS No. 150 was generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities which are subject to the provisions of SFAS No. 150 for the first fiscal period beginning after December 15, 2003. The adoption of SFAS No. 150 did not have any impact on the financial condition or operating results of the Company.

In December 2004, the FASB issued SFAS No. 153, "Exchange of Nonmonetary Assets, an amendment of APB Opinion Mo. 29, Accounting for Nonmonetary Transactions." The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured on the fair value of the assets exchanges. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Accounting Principles Board ("APB") Opinion No. 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same productive asset should be based on the recorded amount of the asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. APB Opinion No. 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. SFAS No. 153 is effective for nonmonetary assets exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this statement shall be applied prospectively. The adoption of this statement is not expected to have a material impact on the financial condition or operating results of the Company.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123 (R)"). SFAS No. 123(R) will require companies to measure all employee stock-based compensation awards using a fair value method and record such expense in its financial statements. In addition, the adoption of SFAS No. 123(R) requires additional accounting and disclosure related to the income tax and cash flow effects resulting from share based payment arrangements. SFAS No. 123(R) is effective beginning as of the first interim or annual reporting period beginning after June 15, 2005. The Company is currently evaluating the impact that the adoption of SFAS No. 123(R) will have on its financial position, results of operations and cash flows. The cumulative effect of adoption, if any, will be measured and recognized in the statement of operations on the date of adoption.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 elaborates on the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees and warranties that it has issued. FIN 45 requires a company, at the time it issues a guarantee to recognize an initial liability for the fair value of obligations assumed under the guarantee. The initial recognition requirement of FIN No. 45 were effective for guarantees issued or modified after December 31, 2002. The disclosure requirements were effective for financial statements for periods ending after December 15, 2002. The adoption of FIN No. 45 did not have a material impact on the Company's financial position or results of operations.

In December 2003, the FASB Issued Fin No. 46 (revised), "Consolidation of Variable Interest Entities" ("FIN No. 46(R)"), which addresses consolidation by business enterprises of variable interest entities. FIN No. 46(R) requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns, or both. FIN No. 46(R) also requires disclosure about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. FIN No. 46(R) provides guidance for determining whether an entity qualifies as a variable interest entity by considering, among other considerations, whether the entity lacks sufficient equity or its equity holders lack adequate decision-making ability. The consolidation requirements of FIN No. 46(R) applied immediately to variable interest entities created after January 31, 2003. The consolidation requirements applied to the Company's existing variable interest entities in the first reporting period ending March 31, 2004. Certain of the disclosure requirements applied to all financial statements issued after December 31, 2003, regardless of when the variable interest entity was established. The adoption of FIN No. 46(R) did not have a material impact on the Company's financial position or results of operations.

In November 2003, the Emerging Issues Task Force ("EITF") reached a consensus that certain quantitative and qualitative disclosures should be required for debt and marketable equity securities classified as available for sale or held to maturity under SFAS No. 115 and SFAS No. 124 that are impaired at the balance sheet date but which other-than-temporary impairments has not been recognized. Accordingly EITF issued EITF No. 03-1, "The Meaning of Other-Than-Temporary Impairments and Its Application to Certain Investments." This issue addresses the meaning of other-than-temporary impairments and its application to investments classified as either available for sale or held to maturity under SFAS No. 115 and provides guidance on quantitative and qualitative disclosures. The disclosure requirement of EITF No. 03-1 are effective for annual financial statements for fiscal years ending after June 15, 2004. The effective date for the measurement and recognition of EITF No. 03-1 had been delayed. The FASB staff has issued a proposed Board-directed FASB Staff Position ("FSP"), FSP EITF 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of Issue No. 03-1." The proposed FSP would provide implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairments under the measurement and recognition requirements of EITF No. 03-1. The delay of the effective date for the measurement and recognition requirements of EITF No. 03-1 will be superseded with the final issuance of FSP EITF 03-1-a. Adopting the disclosure provisions of EITF No. 03-1 did not have any impact on the Company's financial position or results of operations.

In March 2004, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 105, "Application of Accounting Principles to Loan Commitments," to inform registrants of the Staff's view that the fair value of the recorded loan commitments should not consider the expected future cash flows related to the associated servicing of the future loan. The provisions of SAB No. 105 must be applied to loan commitments accounted for as derivatives that are entered into after March 31, 2004. The Staff will not object to the application of existing accounting practices to loan commitments accounted for as derivatives that are entered into on or before March 31, 2004, with appropriate disclosures. The Company adopted the provision of SAB No. 105 on April 1, 2004. The adoption of SAB No. 105 did not have a material impact on the Company's financial condition or results of operations.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

NOTE 2 — RESTRICTIONS ON CASH AND DUE FROM BANKS

The Bank is required to maintain average reserve balances, computed by applying prescribed percentages to its various types of deposits, either at the bank or on deposit with the Federal Reserve Bank. At December 31, 2004 and 2003, these required reserves were met by vault cash.

NOTE 3 — INVESTMENT SECURITIES

The amortized costs and fair value of available for sale investment securities are as follows:

	December 31, 2004			
	Amortized cost	Gross unrealized		Fair value
		gains	losses	
Federal agencies	\$ 14,577,722	\$ 37,280	\$ 32,899	\$ 14,582,103
Mortgage-backed	21,882,932	56,853	319,518	21,620,267
Total securities	<u>\$ 36,460,654</u>	<u>\$ 94,133</u>	<u>\$ 352,417</u>	<u>\$ 36,202,370</u>

	December 31, 2003			
	Amortized cost	Gross unrealized		Fair value
		gains	losses	
Federal agencies	\$ 2,306,092	\$ 6,097	\$ 22,031	\$ 2,290,158
Mortgage-backed	9,833,943	16,045	222,072	9,627,916
Total securities	<u>\$ 12,140,035</u>	<u>\$ 22,142</u>	<u>\$ 244,103</u>	<u>\$ 11,918,074</u>

The amortized costs and fair values of investment securities at December 31, 2004, by contractual maturity, are shown in the following chart. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are presented as a separate line since pay downs are expected before contractual maturity dates.

	Amortized cost	Fair value
Due after one year through five years	\$ 3,976,024	\$ 3,969,000
Due after five through ten years	10,122,189	10,130,403
Due after ten years	479,509	482,700
Sub-total	<u>14,577,722</u>	<u>14,582,103</u>
Mortgage-backed	21,882,932	21,620,267
Total securities	<u>\$ 36,460,654</u>	<u>\$ 36,202,370</u>

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2004.

	Less than 12 months		12 months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal Agencies	\$ 4,679,304	\$ 32,899	\$ -	\$ -	\$ 4,679,304	\$ 32,899
Mortgage backed securities	<u>18,045,351</u>	<u>319,518</u>	-	-	<u>18,045,351</u>	<u>319,518</u>
Total	<u>\$ 22,724,655</u>	<u>\$ 352,417</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,724,655</u>	<u>\$ 352,417</u>

The amortized cost and fair value of securities pledged as collateral for public funds and other purposes as of December 31, 2004 and 2003, were \$30,219,563 and \$29,949,946 and \$9,032,389 and \$8,925,491, respectively.

For the years ended December 31, 2004, 2003 and 2002, proceeds from sales of securities available for sale amounted to \$5,034,461, \$8,021,325, and \$4,319,905, respectively. Gross realized gains amounted to \$37,395, \$134,530, and \$976, respectively. There were no gross realized losses during these periods.

NOTE 4 — LOANS

The composition of net loans by major loan category is presented below:

	December 31,	
	2004	2003
Commercial	\$ 33,031,218	\$ 30,941,047
Real estate – construction	16,255,221	8,157,383
Real estate – mortgage	134,977,986	89,722,793
Consumer	7,553,982	7,065,618
	<u>191,818,407</u>	<u>135,886,841</u>
Less:		
Allowance for loan losses	2,421,839	1,760,481
Deferred loan fees	336,642	274,648
	<u>2,758,481</u>	<u>2,035,129</u>
Loans, net	<u>\$ 189,059,926</u>	<u>\$ 133,851,712</u>

At December 31, 2004 and 2003, nonaccrual loans were \$76,826 and \$366,326, respectively. Foregone interest income on nonaccrual loans in 2004, 2003, and 2002, was an insignificant amount.

NOTE 5 — ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is available to absorb future loan charge-offs. The allowance is increased by provisions charged to operating expenses and by recoveries of loans which were previously written-off. The allowance is decreased by the aggregate loan balances, if any, which were deemed uncollectible during the year.

Activity within the allowance for loan losses account follows:

	For the years ended December 31,		
	2004	2003	2002
Balance, beginning of year	\$ 1,760,481	\$ 1,275,778	\$ 851,222
Recoveries of loans previously charged against the allowance	4,964	20,088	1,364
Provision for loan losses	1,340,000	713,000	539,000
Loans charged against the allowance	(683,606)	(248,385)	(115,808)
Balance, end of year	<u>\$ 2,421,839</u>	<u>\$ 1,760,481</u>	<u>\$ 1,275,778</u>

NOTE 6 — PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Components of property and equipment included in the consolidated balance sheets are as follows:

	December 31,	
	2004	2003
Land	\$ 1,449,555	\$ 1,449,555
Buildings and improvements	2,553,839	2,516,640
Furniture and equipment	1,688,488	1,365,305
Software	536,105	495,479
Construction in progress	248,040	32,301
	<u>6,476,027</u>	<u>5,859,280</u>
Accumulated depreciation	(1,794,215)	(1,381,337)
Total property and equipment	<u>\$ 4,681,812</u>	<u>\$ 4,477,943</u>

Depreciation expense for the years ended December 31, 2004, 2003, and 2002, amounted to \$446,158, \$428,609, and \$320,590, respectively. Depreciation is charged to operations over the estimated useful lives of the assets. The estimated useful lives and methods of depreciation for the principal items follow:

<u>Type of Asset</u>	<u>Life in Years</u>	<u>Depreciation Method</u>
Software	3 to 5	Straight-line
Furniture and equipment	5 to 7	Straight-line
Buildings and improvements	5 to 40	Straight-line

The Bank has entered into non-cancelable operating leases related to land and buildings. At December 31, 2004, future minimum payments under non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

2005	\$	276,507
2006		473,203
2007		402,299
2008		412,995
2009		417,690
Thereafter	\$	3,325,143
	\$	<u>5,307,837</u>

Total rental expense amounted to \$293,098, \$205,412 and \$118,617 for the years ended December 31, 2004, 2003, and 2002.

The bank leases land for the Surfside Beach branch location. The operating lease was originated on June 1, 2001, with an initial term of 20 years. The lease is renewable at the Company's option for two additional periods of five years each. The lease term requires monthly payments of \$5,534. Monthly payments increase each year for the first ten years, then increase on the anniversary date of years eleven and sixteen.

The bank also leases land for the North Myrtle Beach branch location. The operating lease was originated on November 1, 2002, with an initial term of 20 years. The lease is renewable at the Company's option for four successive periods of five years each. The lease term requires monthly payments of \$5,416. Monthly payments increase on the anniversary date of years eleven and sixteen.

The bank also leases an office building for the first Hilton Head Island branch location. The operating lease was originated on March 1, 2003, with an initial term of 10 years. The lease term requires monthly payments of \$4,500. Monthly payments increase on the anniversary date every two years.

The bank also leases an office building for the Litchfield branch location. The operating lease was originated on April 1, 2004, with a term of five years. The lease contains five options to renew the term of the lease for five years each. The lease term requires monthly payments of \$3,900 each. Monthly payments increase at the beginning of an option period.

The bank also leases an office building for a second Hilton Head branch location. The operating lease was originated on October 18, 2004, with a term of 15 years. The lease term requires monthly payments of \$11,000 through October 2005. Monthly payments increase on the anniversary date of years two, three, and six.

The bank also leases an office building for the operational areas of the bank. The operating lease was originated on May 7, 2004, with a term of one year. The lease contains two options to renew the term of the lease for six months each. The lease requires monthly payments of \$7,000.

NOTE 7 — DEPOSITS

The following is a detail of the deposit accounts:

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Non-interest bearing	\$ 32,540,139	\$ 23,454,124
Interest bearing:		
Interest bearing checking accounts	7,770,362	5,024,410
Money market accounts	65,912,429	22,074,665
Savings	3,003,904	2,777,278
Time, less than \$100,000	46,751,575	48,988,981
Time, \$100,000 and over	47,190,549	35,780,108
Total deposits	\$ 203,168,958	\$ 138,099,566

At December 31, 2004 and 2003, \$3,957,000 of time deposits less than \$100,000 consisted of brokered deposits. Interest expense on time deposits greater than \$100,000 was \$866,990 in 2004, \$776,857 in 2003, and \$603,427 in 2002.

At December 31, 2004, the scheduled maturities of time deposits are as follows:

2005	\$ 85,487,215
2006	7,487,526
2007	388,113
2008	446,953
2009	132,317
2010	-
	<u>\$ 93,942,124</u>

NOTE 8 — ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the Federal Home Loan Bank ("FHLB") at December 31 are summarized below:

<u>FHLB</u> <u>Description</u>	<u>Current</u> <u>Rate</u>	<u>Maturity</u> <u>Date</u>	<u>Call Date</u>	<u>2004</u>	<u>2003</u>
CIP/EDP	1.88%	02/28/2005		\$ 2,500,000	\$ 2,500,000
CIP/EDP	3.69%	07/11/2005		4,000,000	4,000,000
Convertible	1.86%	09/29/2008	09/29/2005	5,000,000	5,000,000
Fixed Rate Credit	1.93%	08/17/2005		3,500,000	-
Fixed Rate Credit	2.25%	02/17/2006		1,500,000	-
				<u>\$ 16,500,000</u>	<u>\$ 11,500,000</u>

The advances were collateralized by one to four family residential mortgage loans, U.S. agency securities and FHLB stock. Additional borrowings are available by pledging additional collateral and purchasing additional stock in the FHLB.

NOTE 9 — JUNIOR SUBORDINATED DEBENTURES

On May 27, 2004, Beach First National Trust (the "Trust"), wholly-owned subsidiary of the Company, issued and sold floating rate capital securities of the trust (the "Capital Securities"), which are reported on the consolidated balance sheet as junior subordinated debentures, generating proceeds of \$5.0 million. The Trust loaned these proceeds to the Company to use for general corporate purposes, primarily to provide capital to the Bank. The debentures qualify as Tier 1 capital under Federal Reserve Board guidelines.

Debt issuance costs, net of accumulated amortization, from junior subordinated debentures totaled \$23,333 at December 31, 2004, and is included in other assets on the consolidated balance sheet. Amortization of debt issuance costs from trust preferred debt totaled \$1,667 for the year ended December 31, 2004, and is reported in other noninterest expense on the consolidated statement of income.

The Capital Securities in the transaction accrue and pay distributions annually at a rate per annum equal to the three-month LIBOR plus 270 basis points, which was 4.80% at December 31, 2004. The distribution rate payable on the Capital Securities is cumulative and payable quarterly in arrears. The Company has the right, subject to events of default, to defer payments of interest on the Capital Securities for a period not to exceed 20 consecutive quarterly periods, provided that no extension period may extend beyond the maturity date of July 23, 2034. The Company has no current intention to exercise its right to defer payments of interest on the Capital Securities.

The Capital Securities mature or are mandatorily redeemable upon maturity on May 27, 2034, and or upon earlier optional redemption as provided in the indenture. The Company has the right to redeem the Capital Securities in whole or in part, on or after May 27, 2009. The Company may also redeem the capital securities prior to such dates upon occurrence of specified conditions and the payment of a redemption premium.

NOTE 10 — UNUSED LINES OF CREDIT

At December 31, 2004, the Bank had \$16,400,000 of lines of credit to purchase federal funds from unrelated banks. These lines of credit are available on a one to fourteen day basis for general corporate purposes of the Bank. All of the lenders have reserved the right to withdraw these lines at their option.

At December 31, 2004, the Bank had the ability to borrow an additional \$3.9 million from the FHLB secured by a blanket lien on one to four family first mortgage loans and \$9.3 million secured by US Government Agency securities. FHLB has approved borrowings up to 15% of the bank's total assets less advances outstanding. The borrowings are available by pledging collateral and purchasing additional stock in the FHLB.

NOTE 11 — COMMITMENTS AND CONTINGENCIES

The Company is party to litigation and claims arising in the normal course of business. As of December 31, 2004, there is no litigation pending.

Refer to Note 14 concerning financial instruments with off balance sheet risk.

NOTE 12 — INCOME TAXES

The following summary of the provision for income taxes includes tax deferrals which arise from temporary differences in the recognition of certain items of revenue and expense for tax and financial reporting purposes for the years ended December 31:

	2004	2003	2002
Income taxes currently payable			
Federal	\$ 937,398	\$ 676,770	\$ 516,110
State	104,735	45,179	31,762
	<u>1,042,133</u>	<u>721,949</u>	<u>547,872</u>
Deferred taxes			
Allowance for loan losses	(168,461)	(87,082)	(133,965)
Depreciation	35,450	86,982	5,313
Loan origination fees	(21,078)	(93,380)	—
Deferred compensation	(33,685)	(35,135)	—
Other	(9,299)	(3,691)	—
	<u>(197,073)</u>	<u>(132,306)</u>	<u>(128,652)</u>
Income tax expense	<u>\$ 845,060</u>	<u>\$ 589,643</u>	<u>\$419,220</u>

The income tax effect of cumulative temporary differences at December 31, are as follows:

	Deferred tax asset (liability)	
	2004	2003
Allowance for loan losses	\$ 671,986	\$ 503,525
Unrealized gain on investment securities	87,817	82,126
Depreciation	(160,865)	(125,415)
Loan origination fees	114,458	93,380
Deferred compensation	68,820	35,135
Other	12,990	3,691
Net deferred tax asset	<u>\$ 795,206</u>	<u>\$ 592,442</u>

The net deferred tax asset is reported in other assets in the balance sheets at December 31, 2004 and 2003. The recognition of a net deferred tax asset is dependent upon a "more likely than not" expectation of the realization of the deferred tax asset, based upon the analysis of the available evidence. A valuation allowance is required to sufficiently reduce the deferred tax asset to the amount that is expected to be realized through future realization of profits on a "more likely than not" basis. The analysis of available evidence is performed on an ongoing basis utilizing the "more likely than not" criteria to determine the amount, if any, of the deferred tax asset to be realized. Adjustments to the valuation allowance are made accordingly. There can be no assurance that the Company will recognize additional portions of the deferred tax asset in future periods or that additional valuation allowances may not be recorded in the future periods.

The provision for income taxes is reconciled to the amount of income tax computed at the federal statutory rate on income before income taxes for the years ended December 31, as follows:

	2004		2003		2002	
	Amount	%	Amount	%	Amount	%
Tax expense at statutory rate	\$ 775,534	34%	\$ 543,515	34%	\$ 383,007	34%
Increase (decrease) in taxes						
Resulting from:						
State bank tax (net of federal benefit)	45,458	2	29,818	2	20,963	2
Other	24,068	1	16,310	1	15,250	1
Tax provision	<u>\$ 845,060</u>	<u>37%</u>	<u>\$ 589,643</u>	<u>37%</u>	<u>\$ 419,220</u>	<u>37%</u>

NOTE 13 — RELATED PARTY TRANSACTIONS

Certain directors, executive officers and companies with which they are affiliated, are customers of and have banking transactions with the Bank in the ordinary course of business. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable arms-length transactions.

A summary of loan transactions with directors, including their affiliates, and executive officers follows:

	For the years ended December 31,		
	2004	2003	2002
Balance, beginning of year	\$ 6,240,929	\$ 6,388,465	\$ 5,769,980
New loans	5,082,159	3,123,673	1,148,028
Less loan payments	4,911,535	3,271,209	529,543
Balance, end of year	<u>\$ 6,411,553</u>	<u>\$ 6,240,929</u>	<u>\$ 6,388,465</u>

Deposits by directors, including their affiliates and executive officers, at December 31, 2004 and 2003, approximated \$9,096,272 and \$11,053,909, respectively.

NOTE 14 — FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK

In the ordinary course of business, and to meet the financing needs of its customers, the Company is a party to various financial instruments with off balance sheet risk. These financial instruments, which include commitments to extend credit and standby letters of credit, involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets. The contract amount of those instruments reflects the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments.

The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2004, unfunded commitments to extend credit were \$29,272,219 of which \$4,903,811 were at fixed rates and \$24,368,408 were at variable rates. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

At December 31, 2004, there were commitments totaling \$4,429,388 for letters of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral varies but may include accounts receivable, inventory, equipment, marketable securities, and property. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

NOTE 15 — EMPLOYEE BENEFIT PLAN

The Company sponsors the Beach First National Bank Profit Sharing and 401(k) Plan for the benefit of all eligible employees. The Company contributes to the Plan annually upon approval by the Board of Directors. Contributions made to the Plan in 2004, 2003, and 2002, amounted to \$81,464, \$65,543, and \$51,416, respectively.

Supplemental benefits have been approved by the Board of Directors for the directors and certain executive officers of Beach First National Bank. These benefits are not qualified under the Internal Revenue Code and they are not funded. However, certain funding is provided informally and indirectly by life insurance policies. The cash surrender value of the life insurance policies are recorded as a separate line item in the accompanying balances sheets at \$3,230,950 and \$3,076,570 at December 31, 2004 and 2003, respectively. Income earned on these policies is reflected as a separate line item in the consolidated statements of income. The Company recorded expense related to these benefits of \$107,939 in 2004, \$76,650 in 2003, and \$42,434 in 2002.

NOTE 16 — STOCK OPTION PLANS

The Company sponsors a qualified stock option plan for the benefit of the directors, officers and employees. The Board may grant up to 270,000 incentive stock options, adjusted for the stock split, at an option price per share not less than the fair market value on the date of grant. During 1997, the directors were granted 4,500 options each that vested immediately. During 2004, the directors were granted 3,000 options each that vested immediately. All other options granted to officers and employees vest immediately or up to five years and expire 10 years from the grant date.

The fair value of the option grant is estimated on the date of grant using the Black-Scholes option pricing model. For December 31, 2004, the risk free rate used ranged from 4.04% to 4.76%, the expected life was 9.74 years, volatility ranged from 29.02% to 30.20%, and the assumed dividend rate was zero. For December 31, 2003, the risk free interest rate used ranged from 3.94% to 4.21%, the expected option life was 10 years, volatility was 22.32%, and the assumed dividend rate was zero. For December 31, 2002, the risk free interest rate used was 3.99%, the expected option life was 6 to 10 years, volatility was 5.42%, and the assumed dividend rate was zero.

A summary of the status of the plan as of December 31, 2004, 2003, and 2002 and changes during the years ending on those dates is presented below:

	2004		2003		2002	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	172,178	\$ 7.97	131,978	\$ 7.06	143,793	\$ 6.88
Granted	87,000	19.07	49,500	10.22	46,500	7.13
Exercised	(27,875)	6.76	(8,100)	6.77	—	—
Forfeited or expired	—	—	(1,200)	6.67	(58,315)	6.67
Outstanding at end of year	<u>231,303</u>	<u>12.29</u>	<u>172,178</u>	<u>7.97</u>	<u>131,978</u>	<u>7.06</u>
Options exercisable at year-end	<u>157,803</u>	<u>11.60</u>	<u>116,378</u>	<u>7.24</u>	<u>84,672</u>	<u>6.93</u>
Shares available for grant	<u>473</u>		<u>91,973</u>		<u>35,273</u>	

NOTE 17 — DIVIDENDS

Cash Dividends — There are no current plans to initiate payment of cash dividends and future dividend policy will depend on the Bank's and the Company's earnings, capital requirements, financial condition, and other factors considered relevant by the Company's Board of Directors. The Bank is restricted in its ability to pay dividends under the national banking laws and regulations of the Office of the Comptroller of the Currency. Generally, these restrictions require the Bank to pay dividends derived solely from net profits. Moreover, OCC prior approval is required if dividends declared in any calendar year exceed the Bank's net profit for that year combined with its retained net profits for the preceding two years.

Stock Dividends — In April 2004, the Company announced a 3-for-2 stock split effected in the form of a 50% stock dividend to shareholders of record of May 12, 2004. The dividend was paid on June 2, 2004. All earnings per share amounts for all periods have been adjusted to reflect the 3-for-2 split.

NOTE 18 — REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets. Management believes, as of December 31, 2004, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2004, the most recent notification of the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's actual capital amounts and ratios are presented as follows:

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Minimum		Minimum	
			Amount	Ratio	Amount	Ratio
As of December 31, 2004			(amounts in \$000)			
Total Capital (to risk weighted assets)	\$ 23,926	12.2%	\$ 15,660	8.0%	\$	N/A
Tier I Capital (to risk weighted assets)	20,587	10.5	7,830	4.0	N/A	N/A
Tier I Capital (to average assets)	20,587	10.1	8,157	4.0	N/A	N/A
As of December 31, 2003						
Total Capital (to risk weighted assets)	\$ 14,881	11.2%	\$ 10,656	8.0%	\$	N/A
Tier I Capital (to risk weighted assets)	13,214	9.9	5,328	4.0	N/A	N/A
Tier I Capital (to average assets)	13,214	10.3	6,433	4.0	N/A	N/A

The Bank's actual capital amounts and ratios and minimum regulatory amounts and ratios are presented as follows:

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Minimum		Minimum	
			Amount	Ratio	Amount	Ratio
As of December 31, 2004			(amounts in \$000)			
Total Capital (to risk weighted assets)	\$ 19,467	10.0%	\$ 15,546	8.0%	\$ 19,433	10.0%
Tier I Capital (to risk weighted assets)	17,045	8.8	7,773	4.0	11,660	6.0
Tier I Capital (to average assets)	17,045	7.4	9,282	4.0	11,603	5.0
As of December 31, 2003						
Total Capital (to risk weighted assets)	\$ 13,681	10.3%	\$ 10,656	8.0%	\$ 13,320	10.0%
Tier I Capital (to risk weighted assets)	12,015	9.0	5,328	4.0	7,992	6.0
Tier I Capital (to average assets)	12,015	7.5	6,433	4.0	8,041	5.0

NOTE 19 — FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" requires disclosure of fair value information, whether or not recognized in the balance sheets, when it is practical to estimate the fair value. SFAS No. 107 defines a financial instrument as cash, evidence of an ownership interest in an entity or contractual obligations which require the exchange of cash or other financial instruments.

Certain items are specifically excluded from the disclosure requirements, including the Company's common stock, premises and equipment and other assets and liabilities.

Fair value approximates carrying value for the following financial instruments due to the short-term nature of the instrument: cash and due from banks, federal funds sold and short term investments, demand deposit accounts, and interest-bearing accounts with no fixed maturity date.

Securities are valued using quoted market prices. Fair value for the Company's off-balance sheet financial instruments is based on the discounted present value of the estimated future cash flows.

Fair value for fixed rate loans maturing after one year is based on the discounted present value of the estimated future cash flows. Discount rates used in these computations approximate the rates currently offered for similar loans of comparable terms and credit quality.

Fair value for Certificate of Deposit accounts are valued by discounting at rates currently available on similar account types.

Fair value for advances from the FHLB are based on discounted cash flows using the Company's current incremental borrowing rate.

Fair value for junior subordinated debentures approximates their carrying value since the debentures were issued at a floating rate.

The Company has used management's best estimate of fair value based on the above assumptions. Thus, the fair values presented may not be the amounts which could be realized in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses which would be incurred in an actual sale or settlement are not taken into consideration in the fair value presented.

The estimated fair values of the Company's financial instruments are as follows:

	December 31,			
	2004		2003	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets:				
Cash and due from banks	\$ 4,824,176	\$ 4,824,176	\$ 4,886,682	\$ 4,886,682
Federal funds sold and short term investments	463,069	463,069	4,598,520	4,598,520
Investment securities	36,202,370	36,202,370	11,918,074	11,918,074
Loans, net	189,059,926	191,114,000	133,851,712	134,809,052
Federal Reserve Bank stock	309,000	309,000	309,000	309,000
Federal Home Bank Loan Bank stock	1,070,200	1,070,200	575,000	575,000
Financial Liabilities:				
Deposits	203,168,958	202,906,958	138,099,566	139,089,541
Advances from Federal Home Loan Bank	16,500,000	16,433,000	11,500,000	11,500,000
Junior subordinated debt	5,155,000	5,155,000	-	-
Financial Instruments with Off-Balance Sheet Risks:				
	Notional Amount	Fair Value	Notional Amount	Fair Value
Commitments to extend credit	29,272,219	-	15,543,821	-
Standby letters of credit	4,429,388	-	3,217,821	-

NOTE 20 — PARENT COMPANY FINANCIAL INFORMATION

Following is condensed financial information of Beach First National Bancshares, Inc. (parent company only):

Condensed Balance Sheets

	December 31,	
	2004	2003
Assets		
Cash	\$ 2,808,499	\$ 1,115,429
Due from Bank subsidiary	435,417	511,503
Investment in Bank subsidiary	16,874,642	11,868,045
Investment in Beach First National Trust	155,000	—
Securities available for sale	18,912	30,351
Land	1,230,946	1,230,946
Other assets	33,198	8,495
Total assets	<u>\$ 21,556,614</u>	<u>\$ 14,764,769</u>
Liabilities and Shareholders' Equity		
Accounts payable	\$ 68,652	\$ 31,876
Junior subordinated debentures	5,155,000	—
Shareholders' equity	16,332,962	14,732,893
Total liabilities and shareholders' equity	<u>\$ 21,556,614</u>	<u>\$ 14,764,769</u>

Condensed Statements of Income

	For the years ended December 31,		
	2004	2003	2002
Income	\$ 44,562	\$ 14,892	\$ 59,055
Expenses			
Interest	136,943	—	—
Amortization	1,667	—	—
Other expenses	600	9,947	57,605
Total expenses	<u>139,210</u>	<u>9,947</u>	<u>57,605</u>
Income before equity in undistributed net income (loss) of subsidiaries	(94,648)	4,945	1,450
Equity in undistributed net income of subsidiaries	1,530,570	1,003,986	705,821
Net income	<u>\$ 1,435,922</u>	<u>\$ 1,008,931</u>	<u>\$ 707,271</u>

Condensed Statements of Cash Flows

	For the years ended December 31,		
	2004	2003	2002
Operating activities			
Net income	\$ 1,435,922	\$ 1,008,931	\$ 707,271
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed net income of the bank subsidiary	(1,530,570)	(1,003,986)	(705,821)
Amortization	1,667	-	-
Decrease (increase) in due from Bank	76,086	(71,363)	(244,443)
(Increase) decrease in other assets	(1,369)	2,746	18,369
Increase (decrease) in accounts payable	36,776	(9,301)	3,705
Net cash provided by (used for) operating activities	18,512	(72,973)	(220,919)
Investing activities			
Additional investment in bank	(3,500,000)	-	-
Investment in Beach First National Trust	(155,000)	-	-
Commissions paid on trust preferred securities	(25,000)	-	-
Proceeds from sale of securities available for sale	11,439	71,052	220,926
Purchase of land	-	-	(1,230,947)
Net cash provided (used for) investing activities	(3,668,561)	71,052	(1,010,021)
Financing activities			
Proceeds from issuance of junior subordinated debentures	5,155,000	-	-
Proceeds from exercise of stock options	188,423	54,800	-
Cash in lieu of stock dividend	(304)	-	-
Net cash provided by financing activities	5,343,119	54,800	-
Net increase (decrease) in cash and cash equivalents	1,693,070	52,879	(1,230,940)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,115,429	1,062,550	2,293,490
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,808,499	\$ 1,115,429	\$ 1,062,550

Corporate Information

Annual Meeting of Shareholders

The Annual Meeting of Shareholders of Beach First National Bancshares, Inc. will be held at the Myrtle Beach Convention Center, 2101 Oak Street, Myrtle Beach, South Carolina on Wednesday, April 20. The meeting will take place in room 202, beginning at 2 p.m.

Stock Information

The Company's stock trades under the symbol "BFNB" on the Over-the-Counter Bulletin Board. As of March 4, 2005, the Company had approximately 1,641 stockholders and 2,013,508 shares of common stock outstanding. This does not reflect the number of persons or entities who hold stock in nominee or "street name." For information contact:

Scott & Stringfellow	800.476.3662 info@scottstringfellow.com
Hill, Thompson, Magid	866.291.6316 htinfo@hillthompson.com
Monroe Securities	800.766.5560 info@monroesecurities.com
Trident Securities	404.495.2040
Wedbush Morgan Securities	213.688.8000 www.wedbush.com

The table below reflects the high and low bid stock prices as quoted on the OTC Bulletin Board during the periods indicated. The quotations reflect inter-dealer prices without retail mark-up, mark-down, or commissions, and may not represent actual transactions.

	High Bid	Low Bid
Year end 2004:		
First Quarter	\$14.33	\$13.00
Second Quarter	\$18.00	\$13.83
Third Quarter	\$19.00	\$16.80
Fourth Quarter	\$22.75	\$16.75
Year end 2003:		
First Quarter	\$13.50	\$13.40
Second Quarter	\$15.10	\$15.00
Third Quarter	\$17.00	\$17.00
Fourth Quarter	\$20.00	\$19.27

To date, we have not paid any cash dividends on our common stock, and currently have no plans to do so. Our ability to pay cash dividends is dependent upon receiving cash dividends from our bank. Federal banking regulations restrict the amount of cash dividends that can be paid to our Company from the bank.

To obtain the current stock price, simply enter the ticker symbol, BFNB, in the quote search section of any financial or news website. For more detailed information, please visit the Investor Relations area of our website, beachfirst.com.

Form 10-KSB

Copies of the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004, as filed with the Securities and Exchange Commission, will be furnished at no charge to shareholders upon written request to Richard N. Burch, Senior Vice President and Chief Financial Officer, at the Corporate Office address, or via e-mail (dburch@beachfirst.com).

Forward Looking Statement

Certain statements in this *Report* contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to future plans and expectations, and are thus prospective. Such forward-looking statements are subject to risks, uncertainties, and other factors, such as a downturn in the economy, which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements.

Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove to be inaccurate. Therefore, we can give no assurance that the results contemplated in the forward-looking statements will be realized. The inclusion of this forward-looking information should not be construed as a representation by our Company or any person that the future events, plans, or expectations contemplated by our Company will be achieved. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Offices

Corporate Office

1550 Oak St.
Myrtle Beach, SC 29577
843.626.2265
843.916.7818 (fax)

North Myrtle Beach

710 Highway 17 N.
North Myrtle Beach, SC 29582
843.663.2265
843.663.2250 (fax)

Surfside Beach

3064 Dick Pond Rd.
Surfside Beach, SC 29588
843.294.6000
843.294.6001 (fax)

Pawleys Island

115 Willbrook Blvd.
Pawleys Island, SC 29585
843.979.5300
843.979.5304 (fax)

Hilton Head Island Village at Wexford

1000 William Hilton Pkwy.
Hilton Head Island, SC 29928
843.842.3232
843.842.3235 (fax)

Hilton Head Island Pineland Station

430 William Hilton Pkwy.
Hilton Head Island, SC 29926
843.342.8866
843.342.8867 (fax)

Staff

Executive Officers

Walter E. Standish, III
President
Chief Executive Officer

Richard N. Burch
Senior Vice President
Chief Financial Officer

M. Katharine Huntley (Katie)
Executive Vice President
Chief Credit Officer

Julien E. Springs
Senior Vice President
Business Development Officer

Branches

Myrtle Beach

Barbara H. Abrams
Vice President
Branch Manager

Jason F. Atkinson
Assistant Vice President
Commercial Lender

Harry G. Bates, IV
Assistant Vice President
Commercial Lender

Jolene McCune
Banking Officer
Loan Support Specialist

Susie Barnhill
Lorraine Best
Kathleen Crawford
Mary Kay Flynn
Patricia Gregory
Beverley Harrison
Zella Henley
Sarah Johnson
Yolanda Rogers
Monica Shinn

Departments

Accounting
Joey Hardwick
Accounting Manager

Kathy Doane

Deposit Operations
Tiffany P. Suggs
Vice President

Deposit Operations Manager

Deborah J. Myers
Assistant Vice President
Commercial Account Services

Yolonda Bryant
Veronica Gilbert
Amy Stubbs

Surfside Beach

John D. Brown, Jr.
Vice President
Regional Manager

Ann Marion
Assistant Vice President
Branch Manager

Verne Brooks
Carrie Duran
Karen Hess
Christine Holmes
Tami Jackson

North Myrtle Beach

Marcus G. McDowell
Vice President
Regional Manager

Mary Argondizzo
Lisa Bell
Sandra Gore
Peggy Roessler

Human Resources
Lorie Y. Runion
Vice President
Human Resource Manager

Information Technology & Facilities

William E. Hinson
Vice President
Information Technology and
Facilities Director

Hilton Head Island Village at Wexford

Paul R. Walter
Vice President
Regional Manager

Kenneth L. Maguire
Vice President
Commercial Lender

Michelle N. Wilson
Vice President
Mortgage Banker

Janet Hunter
Assistant Vice President
Branch Manager

Sherese Bailey
June Hayward
Libby Johnson
Janita Strnad

Loan Operations
Linda S. Dickinson
Vice President
Loan Operations Manager

Sheila King
Jennie Shaw
Sharon Vane

Marketing

Barbara W. Marshall
Vice President
Marketing Director

Hilton Head Island Pineland Station

Stephanie K. Loudner
Assistant Vice President
Branch Manager

Jamie Bloch
Maureen Champoux
Jennifer Sabella

Litchfield

O. Kendall Buckner
Vice President
Regional Manager

Jeri Williamson
Banking Officer
Branch Manager

Mark Hawkinson
Mortgage Banker

Audra Barnett
Cathy Boatman

Equal Employment Opportunity

Beach First is an equal opportunity employer. It is the bank's policy to grant equal employment opportunity (EEO) to all qualified persons without regard to race, sex, religion, age, national origin, physical or mental disability, veteran's status, citizenship or gender or any other characteristics protected by applicable law ("Protected Characteristics"). The bank provides equal opportunities in employment, promotion, wages, benefits, and all other privileges, terms, and conditions of employment. This policy has the support of the highest levels of management. Unfavorable speech or actions by employees regarding the Protected Characteristics of other employees, agents, contractors, vendors, customers, or others having an affiliation with the Bank will not be tolerated. All employees and managers are expected to comply with our equal employment opportunity policy.

SC Family Friendly
Workplace Award
Winner



Board of Directors

Michael Bert Anderson
Managing Owner
Patricia Resorts

Bart Buie
Certified Public Accountant
Bartlett Buie, CPA, P.A.

Raymond E. Cleary, III, DDS
Chairman of the Board
Beach First National Bancshares, Inc.
Dentist
Glenn's Bay Dentists at Surfside

E. Thomas Fulmer
Owner
Beachcomber Realty

Michael D. Harrington
General Contractor
Harrington Construction Company, Inc.

Joe N. Jarrett, Jr., MD
Orthopaedic Surgeon
Strand Orthopaedic Consultants

Richard E. Lester
Attorney
Van Osdell, Lester, Howe, & Jordan, P.A.

Leigh Ammons Meese
President and Corporate Secretary
Sea Mist Resort and Family Kingdom
Amusement Park

Rick H. Seagroves
Owner
Inland Foods Corporation
Southeast Restaurant Corporation

Don Smith
President
Coldwell Banker Chicora Real Estate

Samuel R. Spann, Jr.
President
Spann Roofing and Sheet Metal, Inc.

B. Larkin Spivey, Jr.
Owner
Spivey Company, LLC

Walter E. Standish, III
President and Chief Executive Officer
Beach First National Bank

James C. Yahnis
Beverage Wholesaler
The Yahnis Company

Business Development Boards

North Strand
J. Michael Campbell
Sales Representative
Blanchard Machinery

Roger P. Roy
Attorney
Cook & Roy, LLC

Linda Hope Taylor
Owner
Hope Taylor & Company

Mickey Thompson
Owner
Marine Service Center of Little River

Joey Todd
Owner
Atlantic Heating and Cooling

Hilton Head Island
William D. Bedor, CPA
Managing Director
Bedor and Associates, PA, CPAs

Christopher L. Corkern
Financial Planner
Prudential Financial

Richard W. Dugan
Retired Business Owner/Private Investor

William H. Harris
Retired University President

Dennis Sexton
President
Dennis Sexton Homebuilders

Jeff Wilson
President
Pinnacle Southeastern, Inc.

South Strand
Brian J. Brady, CPA/PFS, ChFC
Managing Director
Morrisette & Brady, LLC

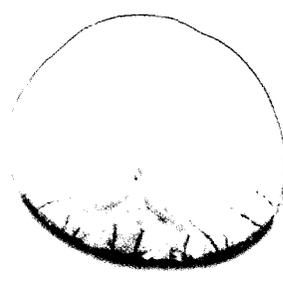
Timothy D. Connor
Founder and Owner
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Laura Jackson Hoy
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Beach First
NATIONAL BANCSHARES, INC.