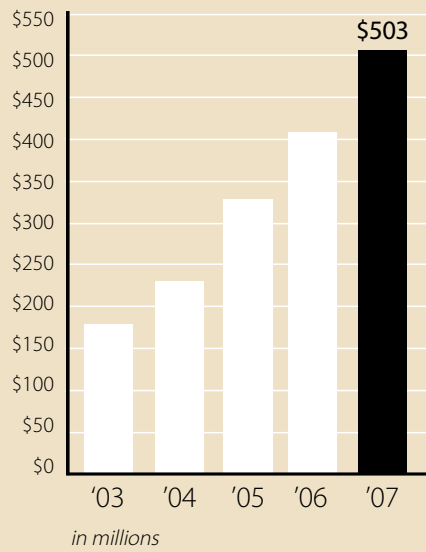


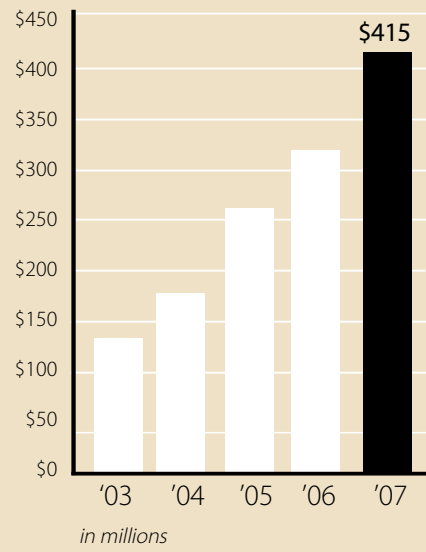
MONARCH FINANCIAL HOLDINGS, INC.
2007 ANNUAL REPORT



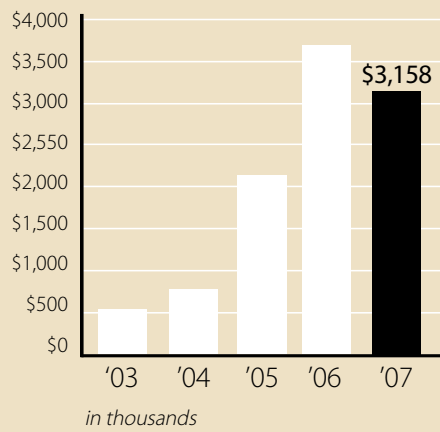
Total Assets



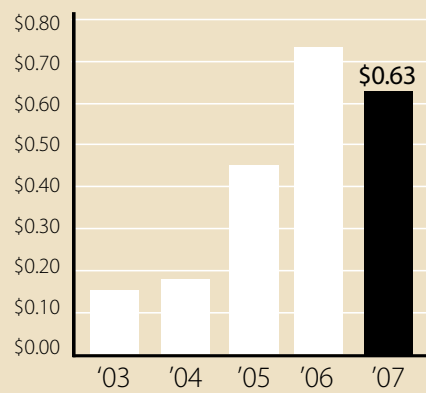
Total Loans, net



Net Income



Diluted net income per share



Monarch Financial Holding, Inc. Selected Consolidated Financial Data

At or for the Years Ended December 31,

	2007	2006	2005	2004	2003
	(Dollars in thousands, except per share data)				
Summary of Operations					
Interest income	\$ 30,752	\$ 25,110	\$ 15,527	\$ 9,392	\$ 7,576
Interest expense	14,487	10,861	5,507	3,232	2,788
Net interest income	16,265	14,249	10,020	6,160	4,788
Provision for loan losses	976	559	915	305	205
Net interest income after provision for loan losses	15,289	13,690	9,105	5,855	4,583
Non-interest income	8,379	3,586	3,150	2,396	1,176
Non-interest expense	18,812	11,870	9,088	7,113	5,050
Income before income taxes and minority interests	4,856	5,406	3,167	1,138	709
Minority interests in subsidiary's net (income) losses	(165)	6	-	(7)	(9)
Income tax expense	1,533	1,786	1,065	374	159
Net income	\$3,158	\$3,626	\$2,102	\$ 757	\$ 541
Per Share and Shares Outstanding (1) (2)					
Basic net income	\$ 0.66	\$ 0.76	\$ 0.48	\$ 0.19	\$ 0.17
Diluted net income	\$ 0.63	\$ 0.72	\$ 0.46	\$ 0.18	\$ 0.16
Book value at end of period	\$ 7.57	\$ 7.02	\$ 6.30	\$ 5.33	\$ 5.13
Basic weighted average shares outstanding	4,814,738	4,759,448	4,388,720	3,943,054	3,292,356
Diluted weighted average shares outstanding	5,019,221	5,026,364	4,583,951	4,112,396	3,427,261
Shares outstanding at period end	4,827,505	4,845,917	4,723,748	3,958,471	3,925,878
Balance Sheet Data					
Total assets	\$ 503,164	\$ 407,720	\$ 331,174	\$ 226,858	\$ 184,036
Total loans, net	415,177	318,028	260,581	177,141	132,630
Total deposits	389,704	314,113	273,073	171,376	143,104
Borrowings	73,531	58,075	26,976	33,812	20,616
Selected Performance Ratios					
Return on average assets	0.76%	1.05%	0.82%	0.39%	0.34%
Return on average stockholders' equity	8.86%	11.38%	8.14%	3.68%	3.32%
Net interest margin (3)	4.25%	4.43%	4.15%	3.35%	3.24%
Non-interest income as a percentage of total revenue (4)	21.40%	12.50%	16.90%	20.30%	19.72%
Efficiency ratio (5)	76.33%	66.55%	69.01%	83.13%	86.12%
Asset Quality Ratios					
Non-performing loans to period-end loans	0.10%	0.03%	0.00%	0.00%	0.00%
Non-performing assets to total assets (6)	0.08%	0.00%	0.00%	0.00%	0.00%
Allowance for loan losses to period-end loans	0.95%	1.01%	1.02%	1.01%	1.10%
Allowance for loan losses to non-performing loans (7)	958.07%	n/m	n/m	n/m	n/m
Net charge-offs to average loans outstanding	0.06%	0.03%	0.02%	0.00%	0.00%
Capital					
Equity to assets ratio	7.26%	8.34%	9.00%	9.31%	10.93%
Total risk-based capital ratio	10.05%	13.07%	10.74%	10.76%	12.25%
Stockholders' equity	\$36,548	\$34,009	\$29,802	\$21,108	\$20,112

(1) Adjusted to give effect for all stock splits and stock dividends.

(2) Computed based on the weighted average number of shares outstanding during each period.

(3) Net interest margin is net interest income divided by average interest earning assets.

(4) Total revenue consists of net interest income and non-interest income.

(5) Efficiency ratio is non-interest expense divided by the sum of net interest income and non-interest income.

(6) Non-performing assets consist of non-accrual loans, restructured loans, and foreclosed assets, when applicable.

(7) "n/m" means not meaningful.

PRESIDENTS LETTER

I AM EXTREMELY PROUD OF OUR ACCOMPLISHMENTS during the past year and feel Monarch is well positioned to weather the ever changing economy ahead of us. 2007 was a record year of growth for your company as we hit \$500 million in total assets at year end, a significant accomplishment. We have grown from a single community bank to a broad mix of integrated financial services companies. Under our Monarch “umbrella” we now have Monarch Bank serving Hampton Roads and OBX Bank serving the Outer Banks of North Carolina, Monarch Mortgage serving four states, Virginia Asset Group providing investment advisory services, and several other related companies. You can see many of our company logos on the following pages of this report. Monarch really is “more than a bank” and I thought this year I would discuss our past accomplishments and our plans for the future.

BANKING OVERVIEW:

When we began 2007 our goal was to grow our banking operations in both our existing markets and into new markets. We use our expansion strategy only when the right staffing is available in the right markets, which means we locate and hire top quality banking talent and then locate our building. While contrary to traditional retail banking practices, we feel we can reduce our break even period and produce better overall growth with this model. We constantly have different markets under study, and will only enter them with the right talent. In 2007 we entered two new markets, both of which are doing extremely well.

We hired excellent bankers to startup our Monarch Bank Kempsville office and our newest bank, OBX Bank. Both expansions positively contributed to our growth over the past year. We're very fortunate to have Wanda Garrett join our team and manage the Kempsville office. She has extensive banking experience in Virginia Beach



and brings a vast knowledge of financial services and operations to her position. While OBX Bank is efficiently structured as a division of Monarch, it is run with local pricing and local decision making; two things we think are the fundamental genetics of a community bank. With our leadership of OBX Bank board chairman W. Ray White, OBX

Bank President David McGlaughon, Penny Bentley and Phyllis Neal, we are excited about our initial entry into that market and look forward to growing that franchise.

Our banking operations are organized along three distinct but integrated lines of business. Our business bankers are focused on serving the financial needs of our small to moderate size business clients, as well as professional practice groups. Our Private Bankers are focused on delivering our financial services to consumers, business owners, and professionals. Our Real Estate Bankers are a special team serving the needs

of the top local builders and developers of residential and commercial properties. All three groups are supported by loan and banking operation teams focused on client service and risk management.

MORTGAGE BANKING:

Our strategic initiatives for the past several years have focused on locating opportunities to grow our non-interest sources of revenue from complementary financial services products. While we have been in the secondary mortgage origination business for several years, our past operations could not reach the scale or scope to become a significant contributor to our bottom line. We are pleased to report that we now have one of the best mortgage operations in our markets, run by an extremely talented mortgage team. Led by Ted Yoder and Will Morrison and mortgage veterans, Jack Lane, Barbara Auer and Tim Miller, this team of professionals is building a profitable operation while staying focused on risk management. While the startup costs hurt bottom line profitability during the second half of 2007, we feel this will be a great investment for many years to come and is already proving itself in 2008 with two straight months of significant profit contribution.

The mortgage market and related credit marketplace was hard-hit by the subprime mortgage crisis beginning in 2007. There are two ways to look at our startup during this time of great flux in the mortgage world. The best time to grow a mortgage company is usually not when the market is strong.



Talented leadership is usually too happy to move and the loan officers that generate the volume have large numbers of loans in their “pipelines” that are hard to leave behind. Valuations on mortgage companies to acquire are also quite great when times are good.

Contrarian logic would state you start a great company when those around you are panicking, and this is what we experienced in 2007. While we had no idea the market would fall so hard, it has been much easier to hire top talent that are looking for a stable home amid all the mortgage office closings and shutdowns. With several profitable months behind us now, and our operation running smoothly and efficiently, we feel

Monarch Mortgage will be recognized in a short-period of time as a perfect compliment to our banking operation.

Late in 2007, primarily to complement our growing mortgage operation, we formed our own Title Insurance Agency, Real Estate Security Agency, LLC. Profitable in its first month of operation we are excited about controlling service levels related to mortgage loan closings as well as contributing to our bottom line.

INVESTMENTS AND INSURANCE: Another major initiative was growing our investment and insurance operations through Virginia Asset Group. In 2007, our first full year of operation, we were the top performer of the banker-owned BI Investments broker-dealer, a major accomplishment.

The President of Virginia Asset Group, Darin Ely, also serves on Monarch’s Senior Management Team, to ensure we operate as an integrated company. With revenues up over 400% from 2006 we are excited about the growth opportunities with this great group.

FINANCIAL PERFORMANCE: While this was the first year net income declined from the previous year, we remain pleased with our 2007 financial performance in light of our growth initiatives. We continue to feel the long-term value of our Company will increase if we can grow our banking franchise and build strong companies that generate non-interest income.

This was also the first year our stock price has declined year over year, which as a shareholder driven company caused us great concern for you, our valuable shareholder. If you invested in Monarch in the beginning you have realized an approximate 14% annual return on your initial investment. We feel our stock price has been “beaten up” due to us being in the financial services business and not due to our performance or future prospects. As we look around at banking companies large and small we see similar declines in value, even though Monarch has not been involved in the large-scale sub-prime mortgage and mortgage backed securities business meltdown.

BOARD LEADERSHIP: We now have five Boards of Directors comprising our Corporate Board, and our city boards in Chesapeake, Virginia Beach, Norfolk, and of course our new OBX Bank Board. This talented group of business and community leaders assists us in generating business activity and keeping us close to our clients by being our extended eyes and ears on the streets. It is only through their commitment to serve that we have prospered and we are grateful for all they do.

MONARCH
CAPITAL 

FUTURE OF MONARCH: It is looking like 2008 will be a challenging year for most community banks and Monarch will also face the margin pressures, competitive funding, and credit issues facing our industry. With declining margins we cannot rely on the Bank alone to provide our earnings growth, and our other companies are expected to become larger contributors to our overall performance. Monarch Mortgage has already contributed over 40% of our net income in just the first two months of the year, acting as a natural hedge to the drop in interest rates. Virginia Asset Group, our investment and insurance business, and Monarch Capital, our

MONARCH
CHARITIES 

commercial brokerage operation, are also making significant contributions to earnings. We have impeccable asset quality (sound loans), and as I write this letter we have no non-accrual loans. Our charge-offs (bad loans) have averaged less than \$32,000 per year since our inception in 1999.

The future looks bright for Monarch. Through our careful strategic planning, established culture, vision, and having the best employees in the market, we are prepared to meet any challenge. We welcome change and innovation and will continue to meet the financial needs of our clients and serve them with exceptional personal service.

Very truly yours,

' TREE '

William F. Rountree, Jr.
President and CEO

LEADERSHIP

AT MONARCH BANK, WE'D LIKE TO THANK the members of our Corporate Board of Directors, City Boards of Chesapeake, Norfolk and Virginia Beach and our OBX Bank Board. These business and community leaders have always believed in Monarch and our focus on serving our own community. We are grateful for our talented management team and our great employees, all dedicated to living our mission: *"Building lasting relationships through exceptional service."* Without everyone's dedication we wouldn't be on the exceptional flight we are on today. We're thankful for last year's financial successes, but we're especially appreciative of the people who help the Monarch really fly.



BOARD OF DIRECTORS

Pictured from left to right: Dwight Schaubach, Cassell Basnight, Taylor Grissom, Brad Schwartz, Neal Crawford, Bob Oman, Jeff Benson, Beth Patterson, William "Tree" Rountree, Lawton Baker and Joe Covington. ***Not Pictured:*** Larry Sutton



Chesapeake Board from L to R:

Kevin Hubbard, Dennis Jones, Mark Christian, Stacy Cummings, Vernon "Richard" Divers, Jr., Jeffery Wermers, Brian Clements, James "Jimmy" E. Reece II and Barry Mathias.

Not Pictured: Jane Gaffney and Barbara Smith, CPA, CVA.



OBX Bank is dedicated to the residents and businesses on the Outer Banks of NC. One of the bank's initial projects was the financing of Dare's County's first affordable housing development.



Virginia Beach Board from L to R:

Jim Karides, Al Midgett, Eric Bucklew, Mike Inman, Wayne Sawyer, Dennis Deans, Jon Wheeler, Virginia (Ginny) Sancilio Cross, Brian Scott Burgess, Randy Bregman, Dan Cronin, John Hook and Marc Sauter.

Not Pictured: Dennis Elmer, Chris Ettel, Bob Eveleigh, Gene Loving, Joe McCutcheon, Harry Purkey, Adam Ritt and Bill Williard.





Norfolk Board from L to R:

Erik Cooper, Ken Trinder II, Jon Ahern, Robert Gatewood Dashiell III, Barclay Winn, Lauren Wolcott, Harrison Perrine, D. Scott Pritchett, Neal Crawford and Ed Amorosso. **Not Pictured:** David Benjack, John Domanski, Lorna Donatone, Frank (Buddy) Gadams, Marc Glickman, David Host, Mike McCabe, William (Shep) S. Miller III, John (Randy) Randolph Stokes and Ed Whitmore.

Monarch Financial Holdings earned a prestigious award bestowed on top 4% of bank's nationwide for performance in eight financial variables. Monarch was one of 24 institutions chosen from a pool of 610 publicly traded banks and thrifts.



Our 6th Annual Monarch Bank Charitable Golf Tournament raised \$150,000, our biggest and best effort yet to benefit over 20 children's charities in South Hampton Roads and the Outer Banks.

OBX Bank Board from L to R:

Charles Hardy, W. Ray White, David McGlaughon, Robert Outten, Robert Harrell and Tim Beacham.

Not Pictured: Robert Oakes, Jr., James Perry and James Ward.



MANAGEMENT & OFFICERS

Executive Management

William F. Rountree, Jr.
President & CEO

Mary J. Anderson
*First Vice President,
Human Resources*

E. Neal Crawford
Norfolk President

Daniel T. Cronin
Virginia Beach President

Darin M. Ely
*Virginia Asset Group
President*

James R. Ferber
*Executive Vice President,
Real Estate & Construction*

Barbara N. Lane
*Executive Vice President &
Senior Operations Officer*

Andrew N. Lock
*Executive Vice President &
Chief Credit Officer*

Barry A. Mathias
Chesapeake President

David W. McGlaughon
OBX Bank President

William T. Morrison
*Monarch Mortgage
Executive Vice President &
Chief Operating Officer*

Nancy B. Porter
*Senior Vice President,
Marketing & Sales*

Brad E. Schwartz
*Executive Vice President &
Chief Operating &
Financial Officer*

Edward O. "Ted" Yoder
*Monarch Mortgage
President*

Monarch Bank Officers

Senior Vice President

Debbie Morgan

Katherine Nowell

Jeremy Starkey

First Vice President

Lynette Harris

Cathy Lockwood

Craig Reilly

Kim Savage

Amber Styron

Vice President

Kaylyn Conner

Wanda Garrett

Dan Gonzalez

Jamie Hill

Juliet Jaljudio

Becky Lovelace

Chris Lyle

Debbie Mast

Debbie Millard

Yvonne Sawyer

Cristal Schwerzler

Terri White

Assistant Vice President

Melanie Bolick

Cindy Byrd

Karen Gawne

Amma Guerrier

Kelly Winn-Johnson

Kayrn Mercier

Dale Schuurman

Bank Officer

Michael Glover

Erin Harnage

Jo Ann Lambert

James Spencer

Chris Trueblood

Casey Walker

Sabrina Williams

Nelson Wroten

Monarch Capital

Jeremy Starkey
Managing Director

Monarch Mortgage

Edward O. "Ted" Yoder
President

William T. Morrison
*Executive Vice President &
Chief Operating Officer*

Jack Lane
*Executive Vice President &
Production Manager*

Barbara Auer
*Senior Vice President &
Operations Manager*

Tim Miller
*Senior Vice President &
Secondary Market Manager*

Debbie Lane, *Vice President*

Julie Reynolds, *Vice President*

Kathy Walker, *Vice President*

Connie West, *Vice President*

OBX Bank Officers

David W. McGlaughon, *President*

Penny Bentley, *Vice President*

Phyllis Neal, *Assistant Vice President*

Virginia Asset Group

Darin M. Ely, *President*

LOCATIONS

Corporate Office

1101 Executive Boulevard
Chesapeake, VA 23320
(757) 389-5112

Monarch Bank

Chesapeake

Great Bridge
1034 Battlefield Boulevard South
Chesapeake, VA 23322
(757) 482-2727

Greenbrier
750 Volvo Parkway
Chesapeake, VA 23320
(757) 222-2100

Norfolk

Boush Street
150 Boush Street, Suite 100
Norfolk, VA 23510
(757) 228-7576

Ghent
318 W. 21st Street
Norfolk, VA 23517
(757) 623-0055

Virginia Beach

Kempsville
5225 Providence Road
Virginia Beach, VA 23464
(757) 769-7500

Lynnhaven
100 Lynnhaven Parkway
Virginia Beach, VA 23452
(757) 463-4100

Oceanfront
3701 Pacific Avenue
Virginia Beach, VA 23451
(757) 491-2000

Town Center
4216 Virginia Beach Blvd
Virginia Beach, VA 23452
(757) 416-7300

Monarch Mortgage

Virginia

Virginia Beach
2809 S. Lynnhaven Road, Suite 200
Virginia Beach, VA 23452
(757) 390-2200

Chesapeake
750 Volvo Parkway
Chesapeake, VA 23320
(757) 222-2149

Norfolk
320 W. 21st Street
Norfolk, VA 23517
(757) 961-0658

Maryland

College Park
6321 Greenbelt Road Suite 102
Greenbelt, MD 20740
(240) 387-5035

Crofton
2142 Priest Bridge Court, Suite 4
Crofton, MD 21114
(410) 721-8222

Rockville
600 Jefferson Plaza Suite 360
Rockville, MD 20852
(301) 309-0881

Rockville
600 Jefferson Plaza, Suite 205
Rockville, MD 20852
(301) 251-0080

Waldorf
Fitzgerald Financial
4 Industrial Park Drive, Suite E
Waldorf, MD 20602
(301) 885-2700

Delaware

Rehoboth Beach
19606 Coastal Highway
Rehoboth Beach, DE 19971
(302) 227-0530

OBX Bank

3708 Croatan Highway
Kitty Hawk, NC 27949
(252)261-9494

Monarch Capital

150 Boush Street, Suite 201
Norfolk, VA 23510
(757) 961-0643

Virginia Asset Group

621 Lynnhaven Parkway, Suite 201
Virginia Beach, VA 23342
(757) 747-2556

Home Mortgage Solutions

5943 Harbour Park Drive, Suite B
Midlothian, VA 23112
(804) 639-7755

Coastal Home Mortgage

2101 Parks Avenue, Suite 101
Virginia Beach, VA 23451
(757) 321-8074

Shareholder Relations

Corporate Office
1101 Executive Boulevard
Chesapeake, VA 23320
(757) 389-5112
E-mail: acheatham@monarchbank.com

Stock Transfer Agent

Registrar and Transfer Company
Attn: Transfer Department
10 Commerce Drive
Cranford, New Jersey 07016
(800) 368-5948

MONARCH
FINANCIAL
HOLDINGS 

www.monarchbank.com

Investor Relations & Financial Statements

Monarch Financial Holdings, Inc. files an annual report on Form 10-K and quarterly reports on Form 10-Q with the Securities and Exchange Commission. A copy of the reports may be obtained on our Web site at www.monarchbank.com

Stock Listing

Current market quotations for the common stock of Monarch Financial Holdings, Inc. are available on the NASDAQ Capital Market under the symbol MNRK.

