UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For Quarterly Period Ended: September 30, 2008

OR

☐ **TRANSITION REPORT UNDER SECTIONS 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 000-52032

MONARCH FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

VIRGINIA **(State of other jurisdiction of Incorporation or organization)**	**20-4985388** **(I.R.S. Employer Identification No.**
1101 Executive Drive, Chesapeake, Virginia **(Address of principal executive offices)**	**23320** **(Zip Code)**

(757) 389-5112
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to filed such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "Accelerated Filer and Large Accelerated Filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $5.00 Par Value – 5,688,580 as of November 14, 2008.

MONARCH FINANCIAL HOLDINGS, INC.
FORM 10-Q
SEPTEMBER 30, 2008

INDEX

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MONARCH FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CONDITION

	Unaudited September 30, 2008	Audited December 31, 2007
ASSETS:		
Cash and due from banks	**$ 14,060,431**	$ 8,409,011
Interest bearing bank balances	**93,850**	992,539
Federal funds sold	**—**	63,000
Total cash and cash equivalents	**14,154,281**	9,464,550
Investment securities held-to-maturity, at cost	**500,000**	22,084,559
Investment securities available-for-sale, at fair value	**17,290,441**	8,873,740
Loans held for sale	**36,395,041**	18,792,568
Loans, net of unearned income	**501,052,390**	419,153,283
Less: allowance for loan losses	**(4,991,000)**	(3,976,000)
Loans, net	**496,061,390**	415,177,283
Property and equipment, net	**10,274,609**	9,719,217
Restricted equity securities	**3,756,650**	4,847,600
Bank owned life insurance	**6,724,026**	6,543,665
Goodwill	**775,000**	775,000
Intangible assets	**1,041,670**	1,175,599
Other real estate owned	**410,288**	—
Other assets	**7,451,381**	5,709,990
Total assets	**$594,834,777**	$503,163,771
LIABILITIES:		
Deposits:		
Noninterest-bearing	**$ 73,378,530**	$ 66,078,161
Interest-bearing	**425,325,547**	323,626,118
Total deposits	**498,704,077**	389,704,279
Borrowings:		
Trust preferred subordinated debt	**10,000,000**	10,000,000
Federal Home Loan Bank advances	**31,700,255**	63,531,200
Federal funds purchased	**4,790,000**	—
Total borrowings	**46,490,255**	73,531,200
Other liabilities	**3,236,754**	3,322,094
Total liabilities	**548,431,086**	466,557,573
Minority interest in subsidiaries	**109,749**	57,702
STOCKHOLDERS' EQUITY:		
Preferred stock, $5 par value, 2,000,000 shares authorized, none issued	**—**	—
Common stock, $5 par value, 20,000,000 shares authorized, issued and outstanding 5,688,580 and 4,827,505 shares, respectively	**28,442,900**	24,137,525
Additional paid-in capital	**7,810,466**	5,008,121
Retained earnings	**10,087,272**	7,419,711
Accumulated other comprehensive loss	**(46,696)**	(16,861)
Total stockholders' equity	**46,293,942**	36,548,496
Total liabilities and stockholders' equity	**$594,834,777**	$503,163,771

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

ITEM 1. FINANCIAL STATEMENTS (Continued)

MONARCH FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	3 Months Ended September 30,		9 Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Interest income:				
Interest and fees on loans	**$ 7,214,451**	$ 7,804,504	**$21,611,652**	$21,811,033
Interest on investment securities	**141,123**	135,815	**367,649**	444,404
Interest on federal funds sold	**5,560**	6,873	**17,444**	18,522
Dividends on equity securities	**41,852**	43,916	**162,206**	121,513
Interest on other bank accounts	**10,060**	22,992	**65,040**	57,283
Total interest income	**7,413,046**	8,014,100	**22,223,991**	22,452,755
Interest expense:				
Interest on deposits	**2,962,457**	3,351,765	**9,471,758**	9,067,897
Interest on trust preferred subordinated debt	**112,460**	173,963	**384,789**	525,668
Interest on borrowings	**435,059**	397,875	**1,272,451**	950,887
Total interest expense	**3,509,976**	3,923,603	**11,128,998**	10,544,452
Net interest income	**3,903,070**	4,090,497	**11,094,993**	11,908,303
Provision for loan losses	**480,581**	384,518	**1,244,613**	643,518
Net interest income after provision for loan losses	**3,422,489**	3,705,979	**9,850,380**	11,264,785
Non-interest income:				
Mortgage banking income	**4,444,302**	1,567,605	**13,207,029**	2,626,483
Investment and insurance commissions	**294,671**	288,825	**991,095**	835,129
Service charges and fees	**357,395**	257,155	**1,021,517**	772,325
Other	**173,174**	91,916	**642,422**	258,997
Total noninterest income	**5,269,542**	2,205,501	**15,862,063**	4,492,934
Non-interest expenses:				
Salaries and employee benefits	**4,714,837**	3,715,722	**14,222,938**	8,182,312
Occupancy expenses	**545,350**	344,897	**1,593,265**	926,935
Furniture and equipment expenses	**330,712**	219,845	**951,103**	521,051
Other	**1,823,026**	1,154,969	**4,691,639**	3,065,120
Total noninterest expenses	**7,413,925**	5,435,433	**21,458,945**	12,695,418
Income before income taxes and minority interests	**1,278,106**	476,047	**4,253,498**	3,062,301
Minority interest in subsidiary's net income	**(93,073)**	(38,296)	**(258,437)**	(91,720)
Net income before income taxes	**1,185,033**	437,751	**3,995,061**	2,970,581
Income tax expense	**(412,700)**	(124,290)	**(1,327,500)**	(943,537)
Net income	**$ 772,333**	$ 313,461	**$ 2,667,561**	$ 2,027,044
Basic net income per share	**$ 0.14**	$ 0.07	**$ 0.52**	$ 0.42
Diluted net income per share	**$ 0.14**	$ 0.06	**$ 0.51**	$ 0.40

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

ITEM 1. FINANCIAL STATEMENTS (Continued)

MONARCH FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)

	Common Stock		Additional	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Paid-In Capital	Earnings	Income (Loss)	Total
Balance—December 31, 2006	4,845,917	$24,229,585	$5,627,741	$ 4,261,537	$ (109,829)	$34,009,034
Net income for nine months ended September 30, 2007				2,027,044		2,027,044
Unrealized loss on securities available-for-sale, net of reclassification adjustment and income taxes					61,621	61,621
Total comprehensive income						2,088,665
Stock-based compensation expense	7,080	35,400	138,939			174,339
Stock options exercised, including tax benefit from exercise of options	69,214	346,070	225,844			571,914
Stock repurchase	(124,605)	(623,025)	(963,373)			(1,586,398)
Balance—September 30, 2007	4,797,606	$23,988,030	$5,029,151	$ 6,288,581	$ (48,208)	$35,257,554
Balance—December 31, 2007	**4,827,505**	**$24,137,525**	**$5,008,121**	**$ 7,419,711**	**$ (16,861)**	**$36,548,496**
Net income for nine months ended September 30, 2008				**2,667,561**		**2,667,561**
Unrealized loss on securities available-for-sale, net of reclassification adjustment and income taxes					**(29,835)**	**(29,835)**
Total comprehensive income						**2,637,726**
Stock-based compensation expense	**69,060**	**345,300**	**(109,940)**			**235,360**
Stock options exercised, including tax benefit from exercise of options	**17,905**	**89,525**	**15,329**			**104,854**
Private capital offering net of issuance costs	**774,110**	**3,870,550**	**2,896,956**			**6,767,506**
Balance—September 30, 2008	**5,688,580**	**$28,442,900**	**$7,810,466**	**$10,087,272**	**$ (46,696)**	**$46,293,942**

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

ITEM 1. FINANCIAL STATEMENTS (Continued)

MONARCH FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	9 Months Ended September 30, 2008	2007
Operating activities:		
Net income	**$ 2,667,561**	$ 2,027,044
Adjustments to reconcile to net cash from operating activities:		
Provision for loan losses	**1,244,613**	643,518
Provision for depreciation	**712,147**	518,953
Accretion of discounts and amortization of premiums, net	**(23,784)**	(38,043)
Deferral of loan costs, net of deferred fees	**(176,497)**	6,482
Amortization of intangible assets	**133,929**	29,758
Stock-based compensation	**235,360**	133,159
Net gain on disposition of investment securities	**(10,801)**	—
Net gain on disposition of property and equipment	**(24,443)**	—
Net loss on on sale of other real estate	**1,586**	—
Amortization of deferred gain	**(122,589)**	—
Changes in:		
Loans held for sale	**(17,602,473)**	(8,734,842)
Interest receivable	**195,102**	(317,242)
Other assets	**(2,103,042)**	(1,584,109)
Other liabilities	**118,794**	393,327
Net cash from operating activities	**(14,754,537)**	(6,921,995)
Investing activities:		
Purchases of held-to-maturity securities	**—**	(44,955,711)
Purchases of available-for-sale securities	**(12,461,254)**	(994,688)
Proceeds from maturities and calls of held-to-maturity securities	**21,600,000**	71,500,000
Proceeds from sales and maturities of available-for-sale securities	**4,020,050**	4,128,898
Loan originations, net of principal repayments	**(82,364,097)**	(71,439,392)
Purchases of premises and equipment	**(1,243,097)**	(3,383,711)
Purchase of intangible assets	**—**	(2,025,000)
Sale of restricted equity securities, net of redemptions	**1,090,950**	(579,200)
Net cash from investing activities	**(69,357,448)**	(47,748,804)
Financing activities:		
Net increase in noninterest-bearing deposits	**7,300,369**	7,011,923
Net increase in interest-bearing deposits	**101,699,429**	44,132,751
Net repayments of FHLB advances	**(31,830,945)**	1,825,063
Net purchases of federal funds	**4,790,000**	—
Repurchase of common stock	**—**	(1,586,398)
Proceeds from issuance of common stock, net of issuance costs	**6,842,863**	400,282
Net cash from financing activities	**88,801,716**	51,783,621
CHANGE IN CASH AND CASH EQUIVALENTS	**4,689,731**	(2,887,178)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**9,464,550**	18,966,342
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 14,154,281**	$ 16,079,164
SUPPLEMENTAL SCHEDULES AND CASH FLOW INFORMATION		
Cash paid for:		
Interest on deposits and other borrowings	**$ 11,312,473**	$ 10,330,176
Income taxes	**$ 2,742,000**	$ 1,468,607
Loans transferred to foreclosed real estate during the year	**$ 1,339,193**	$ —

MONARCH FINANCIAL HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments consisting of normal recurring accruals necessary to present fairly Monarch Financial Holdings, Inc.'s financial position as of September 30, 2008; the consolidated statements of income for the three and nine months ended September 30, 2008 and 2007; the consolidated statements of changes in stockholders' equity for the nine months ended September 30, 2008 and 2007; and the consolidated statements of cash flows for the nine months ended September 30, 2008 and 2007. These financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all of the disclosures and notes required by generally accepted accounting principles. The financial statements include the accounts of Monarch Financial Holdings, Inc. and its subsidiaries, and all significant intercompany accounts and transactions have been eliminated. Operating results for the three and nine month period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

In June, 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP 03-6-1). FSP 03-6-1 defines unvested share-based payment awards that contain nonforfeitable rights to dividends as participating securities that should be included in computing earnings per share (EPS) using the two-class method under SFAS No. 128, "Earnings per Share." FSP 03-6-1 is effective for the Corporation's financial statements for the year beginning on January 1, 2009 and earlier adoption is not permitted. Additionally, all prior-period EPS data shall be adjusted retrospectively. The adoption of FSP 03-6-1 is not expected to have a material impact on our financial condition and results of operations.

In March, 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB No. 133" (SFAS 161). SFAS 161 requires expanded qualitative, quantitative and credit-risk disclosures about derivatives and hedging activities and their effects on our financial position, financial performance and cash flows. SFAS 161 also clarifies that derivatives are subject to credit risk disclosures as required by SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." SFAS 161 is effective for our financial statements for the year beginning on January 1, 2009. The adoption of SFAS 161 will not impact our financial condition and results of operations.

In February, 2008, the FASB issued FSP No. FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions" (FSP 140-3). FSP 140-3 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction under SFAS 140, unless certain criteria are met. FSP 140-3 is effective for our financial statements for the year beginning on January 1, 2009 and earlier adoption is not permitted. The adoption of FAS 140-3 will not have a material impact on our financial condition and results of operations.

We adopted the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin (SAB) No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" (SAB 109) for loan commitments measured at fair value through earnings which were issued or modified since adoption. SAB 109 requires that the expected net future cash flows related to servicing of a loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The adoption of SAB 109 generally has resulted in higher fair values being recorded upon initial recognition of derivative interest rate lock commitments.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*." SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. While the Statement applies under other accounting pronouncements that require or permit fair value measurements, it does not require any new fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. In addition, the Statement establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Lastly, SFAS No. 157 requires additional disclosures for each interim and annual period separately for each major category of assets and liabilities. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the adoption of this Statement to have a material impact on our financial statements.

In February 2007, the FASB issued SFAS 159, "*The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*," which permits entities to choose to measure many financial instruments and certain other items at fair value and also establishes fair presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of this standard did not have a material impact on our financial condition, results of operations or cash flows.

In December 2007, the FASB issued SFAS 141(R), *Business Combinations,* which replaces SFAS 141, *Business Combinations.* This Statement establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree as well as the goodwill acquired in the business combination or a gain from a bargain purchase. SFAS 141(R) also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the potential impact of the adoption of SFAS 141(R) on our consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements—an Amendment to ARB No. 51,* which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes expanded disclosure requirements that clearly identify and distinguish between the interest of the parent's owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal years beginning a December 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of SFAS 160 on our consolidated financial position and results of operations.

NOTE 2. GENERAL

We are a Virginia-chartered bank holding company engaged in business and consumer banking, investment and insurance sales, and mortgage origination and brokerage. We were created on June 1, 2006 through a reorganization plan, under the laws of the Commonwealth of Virginia, in which Monarch Bank became our wholly-owned subsidiary. Monarch Bank was incorporated on May 1, 1998, and opened for business on April 14, 1999. Our corporate office and main office are located in the Greenbrier area of Chesapeake. In addition we have seven other Virginia banking offices – in the Great Bridge area in Chesapeake, the Lynnhaven area in Virginia Beach, the Town Center area in Virginia Beach, the Oceanfront area in Virginia Beach, the Kempsville area in Virginia Beach, the Ghent area in Norfolk, and an office in downtown Norfolk. Our North Carolina banking division operates as OBX Bank through one office in Kitty Hawk.

In August 2001, we formed Monarch Investment, LLC, to enable us to offer additional services to our clients. We own 100% of Monarch Investment, LLC. As Monarch Investment, LLC, we invested in the formation of Bankers Investment Group, LLC, the parent company of BI Investments, LLC, a registered brokerage firm and investment advisor. On April 30, 2008, Bankers Investment Group, LLC, and BI Investments, LLC, were merged into Infinex Financial Group (Infinex), a broker-dealer headquartered in Meriden, Connecticut, with Monarch Investment, LLC, now holding a 5.62% ownership interest in Infinex. In June of 2008, investment clients began using Infinex as their broker-dealer. Infinex sells non-deposit investment products in over 200 community banks throughout the country.

In January 2003, Monarch Investment, LLC, purchased a minority interest in Bankers Insurance, LLC, in a joint venture with the Virginia Bankers Association and many other community banks. Bankers Insurance, LLC, is a full service property/casualty and life/health agency that ranks as one of the largest agencies in Virginia. Bankers Insurance, LLC, provides insurance to our customers and to the general public.

In February 2004, we formed Monarch Capital, LLC, for the purpose of engaging in the commercial real estate brokerage business. We own a 100% interest in Monarch Capital, LLC.

In September 2006, Monarch Investment, LLC, formed a subsidiary titled Virginia Asset Group, LLC. Virginia Asset Group, LLC, is owned 51% by Monarch Investment, LLC, and 49% by Darin Ely, who serves as its president.

In July 2007, Monarch Investment, LLC, purchased a 51% ownership in Coastal Home Mortgage, LLC, from another bank. This joint venture provides residential loan services through Monarch Mortgage. The 49% ownership is shared by four individuals involved in commercial and residential construction in the Hampton Roads area.

In 2007, Monarch Investment, LLC, sold its minority interest in Bankers Title of Hampton Roads, LLC. In October 2007, Monarch Investment, LLC, formed a new title insurance company, Real Estate Security Agency, LLC, (RESA) along with TitleVentures, LLC. Monarch Investment, LLC, owns 75% of RESA and TitleVentures, LLC, owns 25%. RESA offers residential and commercial title insurance to the clients of Monarch Mortgage and Monarch Bank.

In May 2007, we expanded banking operations into northeastern North Carolina with the opening of a full service banking office in the town of Kitty Hawk, under the name of OBX Bank (OBX). OBX, which operates as a division of the Company, is led by a local management team and a local advisory board of directors.

In June 2007, we announced the expansion of our mortgage operations through the acquisition of a team of experienced mortgage bankers, and our mortgage division changed its name from Monarch Home Funding to Monarch Mortgage (MM). MM originates and sells conventional, FHA, VA and VHDA residential loans and offers additional mortgage products such as construction-permanent loans for Monarch Bank's loan portfolio. Their primary office is in Virginia Beach with additional offices in Chesapeake and Norfolk, Virginia, Rockville, Waldorf, Crofton, Annapolis and College Park, Maryland, and Rehobeth Beach, Deleware.

In March 2008, Monarch Investment, LLC, formed Home Mortgage Solutions, Inc., in the Richmond area of Virginia. Monarch Investment, LLC, owns 51% with BPRP Funding, LLC, a builder/developer, owning 49%. The primary goal of Home Mortgage Solutions, Inc. is to provide mortgages to the clients of BPRP Funding, LLC.

NOTE 3. EARNINGS PER SHARE ("EPS")

Basic earnings per share (EPS) excludes dilution, and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised, converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations. The per share computations below have been restated for the effects of the 6-for-5 stock split in October 2007.

	3 months ended September 30,		9 months ended September 30,	
	2008	**2007**	**2008**	**2007**
Net income (numerator, basic and diluted)	**$ 772,333**	$ 313,461	**$ 2,667,561**	$ 2,027,044
Weighted average shares outstanding (denominator)	**5,561,773**	4,779,298	**5,088,633**	4,820,415
Income per common share—basic	**$ 0.14**	$ 0.07	**$ 0.52**	$ 0.42
Weighted average shares—diluted (denominator)	**5,690,731**	5,003,254	**5,250,089**	5,057,533
Income per common share—diluted	**$ 0.14**	$ 0.06	**$ 0.51**	$ 0.40
Dilutive effect-average number of shares	**128,958**	223,956	**161,456**	237,118

NOTE 4. FAIR VALUE ACCOUNTING

Effective January 1, 2008, we adopted SFAS 157 and SFAS 159. Both standards address aspects of the expanding application of fair value accounting.

Fair Value Measurements (SFAS 157)

SFAS 157 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS 157, among other things, requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets

- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 – Instruments whose significant value drivers are unobservable.

We determine fair value based on quoted prices when available or through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment. The methods we use to determine fair value on an instrument specific basis are detailed in the section titled "Valuation Methods", below.

The following table presents our assets and liabilities related to continuing operations, which are measured at fair value on a recurring basis for each of the fair value hierarchy levels, as of September 30, 2008:

	Fair Value Measurements at Reporting Date Using			
Description	**Fair Value at September 30, 2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Investment securities - available for sale	$17,290,441	$ —	$ 17,290,441	$ —
Rate lock commitments, net	478,635	—	478,635	—
Total Assets	$17,769,076	$ —	$ 17,769,076	$ —

The following table provides quantitative disclosures about the fair value measurements for our assets related to continuing operations which are measured at fair value on a nonrecurring basis as of September 30, 2008:

	Fair Value Measurements at Reporting Date Using			
Description	**Fair Value at September 30, 2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Real estate owned	$ 410,288	$ —	$ —	$ 410,288

At the time a loan secured by real estate becomes real estate owned, we record the property at the lower of its carrying amount or fair value. Upon foreclosure and through liquidation, we evaluate the property's fair value as compared to its carrying amount and record a valuation adjustment when the carrying amount exceeds fair value. Any valuation adjustments at the time a loan becomes real estate owned is charged to the allowance for loan losses. Any subsequent valuation adjustments are applied to earnings in the "Gain (Loss) on other real estate, net" line item of our consolidated statements of operations. During the nine months ended September 30, 2008, we recorded net losses of $1,586 due to valuation adjustments on real estate owned and gains on sale of real estate owned.

The following table provides a summary of the impact to earnings for the quarter ended September 30, 2008 on our assets and liabilities which are measured at fair value on a recurring and nonrecurring basis:

Asset or Liability Measured at Fair Value	**Fair Value Measurement Frequency**	**Fair Value Adjustments Included in Current Period Earnings**	**Statement of Operations Line Item Impacted**
Rate lock commitments	Recurring	$ 86,161	Mortgage income adjustments
Real estate owned	Nonrecurring	(33,964)	Loss on sale of other real estate, net
Total fair value gains (losses)		$ 52,197	

Valuation Methods

Securities – available-for-sale. Securities – available-for-sale are valued at quoted market prices, if available. For securities for which no quoted market price is available, we estimate the fair value on the basis of quotes for similar instruments or other available information. Investment securities classified as available-for-sale are reported at their estimated fair value with unrealized gains and losses reported in accumulated other comprehensive income. To the extent that the cost basis of investment securities exceeds the fair value and the unrealized loss is considered to be other than temporary, an impairment charge is recognized and the amount recorded in accumulated other comprehensive income or loss is reclassified to earnings as a realized loss. The specific identification method is used in computing realized gains or losses.

Rate lock commitments. Our mortgage loan pipeline consists of mortgage loan applications that have been received but the loan has not yet closed. The interest rates on pipeline loans float with market rates or are accompanied by interest rate lock commitments. A "locked pipeline loan" is a loan where the potential borrower has set the interest rate for the loan by entering into an interest rate lock commitment, or "rate lock commitment," resulting in interest rate risk to us. Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, if material, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans.

Real estate owned. Real estate owned is carried at the lower of cost or fair value less estimated selling costs. We estimate fair value at the asset's liquidation value less selling costs using management's assumptions which are based on historical loss severities for similar assets. These estimates are reevaluated on a periodic basis to determine if additional adjustments are needed.

Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159)

Under SFAS 159, we may elect to report most financial instruments and certain other items at fair value on an instrument-by-instrument basis with changes in fair value reported in earnings. After the initial adoption, the election is made at the acquisition of an eligible financial asset, financial liability, or firm commitment or when certain specified reconsideration events occur. The fair value election may not be revoked once an election is made.

Additionally, the transition provisions of SFAS 159 permit a one-time election for existing positions at the adoption date with a cumulative-effect adjustment included in opening retained earnings and future changes in fair value reported in earnings.

At September 30, 2008, we have not elected to implement fair value accounting for any balance sheet items as allowed by SFAS 159.

NOTE 5. COMPREHENSIVE INCOME

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The only component of other comprehensive income consists of unrealized gains and losses on available-for-sale securities. We account for comprehensive income in accordance with FASB Statement No. 130, Reporting Comprehensive Income. The following is a detail of comprehensive income for the three and nine months ended September 30, 2008 and 2007:

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Net Income	**$ 772,333**	$ 313,461	**$ 2,667,561**	$ 2,027,044
Change in unrealized gains (losses) on securities available-for-sale, net of tax expense	**(29,598)**	70,629	**(29,835)**	61,621
Total comprehensive income	**$ 742,735**	$ 384,090	**$ 2,637,726**	$ 2,088,665
Unrealized holding (losses) gains during the period	**$ (44,845)**	$ 107,014	**$ (45,205)**	$ 93,365
Total other comprehensive loss before income tax expense	**(44,845)**	107,014	**(45,205)**	93,365
Income tax benefit (expense)	**15,247**	(36,385)	**15,370**	(31,744)
Net unrealized (losses) gains	**$ (29,598)**	$ 70,629	**$ (29,835)**	$ 61,621

NOTE 6. STOCK-BASED COMPENSATION

As of September 30, 2008, we have a stock-based compensation plan. Prior to January 1, 2006, we accounted for the plan under the recognition and measurement principles of APB Opinion 25, *Accounting for Stock Issued to Employees,* and related interpretations. Under these older standards no stock-based employee compensation cost was reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. On January 1, 2006, we adopted FAS Statement No. 123R "Share-Based Payment," (FAS 123R) that addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. FAS 123R eliminates the ability to account for share-based compensation transactions using the intrinsic method and requires that such transactions be accounted for using a fair-value-based method and recognized as expense in the consolidated statement of income.

In May 2006, our shareholders ratified the adoption of a new stock-based compensation plan to succeed the Monarch Bank 1999 Incentive Stock Option Plan. The new Monarch Bank 2006 Equity Incentive Plan authorizes the compensation committee to grant options, stock appreciation rights, stock awards, performance stock awards, and stock units to designated directors, officers, key employees, consultants and advisors to our company and its subsidiaries. The Plan authorizes us to issue up to 630,000 split-adjusted shares of our Common Stock plus the number of shares of our Common Stock outstanding under the 1999 Plan. The Plan also provides that no award may be granted more than 10 years after the May 2006 ratification date.

Since May 2006, we have issued stock awards under the new Plan at a price equal to the stock price on the issue date with vesting periods of up to five years from issue. Total compensation costs are recognized annually on a pro-rata basis over the vesting period.

NOTE 7. SEGMENT REPORTING

Reportable segments include community banking and mortgage banking services. Community banking involves making loans to and generating deposits from individuals and businesses in the markets where we have offices. Mortgage banking originates residential loans and subsequently sells them to investors. The mortgage banking segment is a strategic business unit that offers different products and services. It is managed separately because the segment appeals to different markets and, accordingly, requires different technology and marketing strategies. The segment's most significant revenue and expense is noninterest income and noninterest expense, respectively. We do not have other reportable operating segments. The accounting policies of the segment are the same as those described in the summary of significant accounting policies. All intersegment sales prices are market based. The assets and liabilities and operating results of our other wholly owned subsidiary, Monarch Capital, LLC, is included in the mortgage banking segment. Monarch Capital, LLC, provides commercial mortgage brokerage services.

Segment information for the three and nine months ended September 30, 2008 and 2007 is shown in the following table.

Selected Financial Information

	Commercial and Other Banking	Mortgage Banking Operations	Intersegment Eliminations	Total
Three Months Ended September 30, 2008				
Net interest income after provision for loan losses	**$ 3,456,564**	**$ (270,093)**	**$ 236,018**	**$ 3,422,489**
Noninterest income	**1,204,079**	**4,517,197**	**(451,734)**	**5,269,542**
Noninterest expenses	**(3,475,483)**	**(3,776,200)**	**(162,242)**	**(7,413,925)**
Net income before income taxes and minority interest	**$ 1,185,160**	**$ 470,904**	**$ (377,958)**	**$ 1,278,106**
Three Months Ended September 30, 2007				
Net interest income after provision for loan losses	$ 3,825,890	$ (119,911)	$ —	$ 3,705,979
Noninterest income	659,646	1,567,605	(21,750)	2,205,501
Noninterest expenses	(3,337,942)	(2,119,241)	21,750	(5,435,433)
Net income before income taxes and minority interest	$ 1,147,594	$ (671,547)	$ —	$ 476,047
Nine Months Ended September 30, 2008				
Net interest income after provision for loan losses	**$ 10,080,784**	**$ (810,374)**	**$ 579,970**	**$ 9,850,380**
Noninterest income	**4,243,092**	**13,636,821**	**(2,017,850)**	**15,862,063**
Noninterest expenses	**(10,175,743)**	**(11,176,460)**	**(106,742)**	**(21,458,945)**
Net income before income taxes and minority interest	**$ 4,148,133**	**$ 1,649,987**	**$ (1,544,622)**	**$ 4,253,498**
Nine Months Ended September 30, 2007				
Net interest income after provision for loan losses	$ 11,434,119	$ (169,334)	$ —	$ 11,264,785
Noninterest income	1,977,951	2,626,483	(111,500)	4,492,934
Noninterest expenses	(9,546,405)	(3,260,513)	111,500	(12,695,418)
Net income before income taxes and minority interest	$ 3,865,665	$ (803,364)	$ —	$ 3,062,301
Segment Assets				
2008	**$595,365,222**	**$ 40,186,681**	**$(40,717,126)**	**$594,834,777**
2007	$462,280,407	$ 13,146,540	$(13,278,517)	$462,148,430

NOTE 8. ACQUISITION

On August 10, 2007, we acquired a Maryland mortgage office plus certain other mortgage related assets from Resource Bank, a Virginia Beach—based bank owned by Fulton Financial of Lancaster, Pennsylvania. The assets have been included in the consolidated financial statements since that date. The aggregate purchase price was $2.1 million, of which $53,000 in legal expense was expensed in 2007. The following table summarizes the estimated fair values of the assets acquired at August 10, 2007.

Equipment	$ 22,000
Intangible assets	1,250,000
Goodwill	775,000
	$2,047,000

NOTE 9. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets with indefinite lives are recorded at cost and are reviewed at least annually for impairment based on evidence of certain impairment indicators. Intangible assets with identifiable lives are amortized over their estimated useful lives. The intangible assets have a weighted-average useful life of seven years.

Information concerning goodwill and intangible assets is presented in the following table:

	Acquisition Cost	Accumulated Amortization	Ending Value
September 30, 2008			
Amortizable intangible assets	**$ 1,250,000**	**$ 208,330**	**$1,041,670**
Goodwill	**775,000**	**—**	**775,000**
	$ 2,025,000	**$ 208,330**	**$1,816,670**
December 31, 2007			
Amortizable intangible assets	$ 1,250,000	$ 74,401	$1,175,599
Goodwill	775,000	—	775,000
	$ 2,025,000	$ 74,401	$1,950,599

Amortization expense for the third quarter ended September 30, 2008 totaled $44,643. Amortization expense of $133,929 was recorded in the first nine months of 2008.

Estimated Amortization Expense:	
For the three months ended 12/31/08	$ 44,643
For the year ended 12/31/09	178,572
For the year ended 12/31/10	178,572
For the year ended 12/31/11	178,572
For the year ended 12/31/12	178,572
Thereafter	282,739
	$1,041,670

ITEM 2.

MONARCH FINANCIAL HOLDINGS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

The purpose of this discussion is to focus on important factors affecting our financial condition and results of operations. The discussion and analysis should be read in conjunction with the Consolidated Financial Statements and supplemental financial data.

This report contains forward-looking statements with respect to our financial condition, results of operations and business. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of our management and on information available at the time these statements and disclosures were prepared. Factors that may cause actual results to differ materially from those expected include the following:

- General economic conditions may deteriorate and negatively impact the ability of borrowers to repay loans and depositors to maintain balances.
- Changes in interest rates could reduce income.
- Competitive pressures among financial institutions may increase.
- The businesses that we are engaged in may be adversely affected by legislative or regulatory changes, including changes in accounting standards.
- New products developed or new methods of delivering products could result in a reduction in our business and income.
- Adverse changes may occur in the securities market.

A summary of our significant risk factors is set forth in Note 1A in our 2007 Form 10-K.

Earnings Summary

We reported net income of $772,333 and $2,667,561 for the three months and nine months ending September 30, 2008, compared to $313,461 and $2,027,044 for the same period in 2007. This represents a $458,872, or 146.4% increase in net income for the quarter and $640,517, or 31.6% increase, year-to-date. Net interest income decreased 4.6% or $187,427 and 6.8% or $813,310 during the third quarter and nine months ended September 30, 2008, when compared to 2007. Noninterest income increased 138.9% to $5,269,542 during the third quarter and 253.0% to $15,862,063 during the first nine months of 2008 when compared to $2,205,501 and $4,492,934, respectively, for the same period in 2007. Noninterest expenses totaled $7,413,925 for the third quarter and $21,458,945 for the first nine months of 2008. This is an increase of $1,978,492 and $8,763,527 over the same periods in 2007. Basic earnings per share of common stock were $0.14 compared to $0.07 for the third quarters of 2008 and 2007, respectively. Year-to-date, basic earnings were $0.52 in 2008 and $0.42 in 2007. Diluted earnings per share of common stock were $0.14 and $0.51 compared to $0.06 and $0.40 for the third quarter and first nine months of 2008 compared to 2007.

Profitability as measured by our annualized return on average assets (ROA) was 0.53% compared to 0.29% for the three months ended, and 0.65% compared to 0.68% for the nine months ended September 30, 2008 and 2007, respectively. Another measure of our profitability, the annualized return on average equity (ROE) was 6.67% and 8.79% for the third quarter and nine months ended September 30, 2008 compared to 3.47% and 7.64% for the same periods in 2007.

Net Interest Income

Net interest income represents our principal source of earnings. In 2008 net interest income has declined due to a combination of sharply declining rates and strong liability growth. This is in contrast to 2007 net interest income, which increased through the combination of predominately higher interest rates and greater asset growth. The Federal Reserve Bank's Federal Open Market Committee has decreased the Federal Funds rate 375 basis points since mid-September 2007 to the current low of 1.50%. Although the first 50 basis point decrease occurred in mid-September 2007, its effects were not felt for a full billing cycle so the effective Federal Funds rate was 5.25% for the first nine month of 2007. The Wall Street Journal Prime Rate has followed the Federal Funds rate trend with current rates at 4.50% compared to 8.25% for most of the first nine months of 2007. A majority of our loans use the Wall Street Journal Prime Rate as their rate index, and increases in this rate increase interest income while decreases reduce interest income. Additionally, we are asset sensitive as the loans that are tied to Wall Street Journal Prime are set to move immediately with each rate change, while a major category of funding liabilities reprice based on longer maturity dates, creating margin compression.

Net interest income was $3,903,070 for the third quarter 2008, a decline of 4.6% or $187,427 from $4,090,497 during the same period in 2007. Year-to-date net interest income declined 6.8% or $813,310 to $11,094,993 in 2008 compared to 2007. The largest component of net interest income is total interest and fees on loans.

Rate/Volume Analysis

Third quarter 2008 loan interest income declined $590,053 or 7.6%, compared to 2007 due to lower rates and slower loan growth. Year-to-date loan interest income declined $199,381 or 0.9% as year-to-date loan growth was mitigated by the steep decline in rates noted previously. Interest on investment securities increased $5,308 for the quarter but declined $76,755, year-to-date 2008, when compared to the same periods in 2007. The growth in investment income during the third quarter was due to a higher volume of security purchases outstripping the declines in rate. Year-over-year, investment securities have declined due to security maturities coupled with calls. In addition, replacement securities purchased bear a lower interest rate.

Other interest income is primarily interest bearing deposits at the Federal Home Loan Bank. For the first nine months of 2008 other interest income was $65,040 compared to $57,283 for the same period in 2007. Other interest income was $10,060 for the third quarter 2008 compared to $22,992 in 2007. Interest on federal funds sold was $5,560 and $17,444 in the third quarter and first nine months of 2008 compared to $6,873 and $18,522 for the same periods in 2007.

Higher average outstanding balances of stock in the Federal Reserve and the Federal Home Loan Bank of Atlanta have resulted in greater year-to-date dividends on restricted equity securities. However, lower third quarter average balances coupled with lower dividend rates have had a negative impact on the dividends for that period. Year-to-date dividend income was $162,206 in 2008 compared to $121,513 in 2007, an increase of $40,693 or 33.5%. The dividend income for the third quarter of 2008 was $41,852, a decrease of $2,064 or 4.7% compared to the same period in 2007.

Interest expense on deposits decreased $389,308 or 11.6% for the third quarter of 2008 compared to 2007 while year-to-date interest expense on deposits increased $403,861 or 4.5%. Quarterly interest expense has received the greatest impact from deposits repricing downward. However, year-to-date deposit expense is still at an increase due to an overall shift in the deposit mix to higher cost deposits. Interest expense on borrowings totaled $435,059 and $1,272,451, an increase of 9.3% and 33.8% for the third quarter and first nine months of 2008 when compare to the same periods in 2007. Borrowings have declined with the growth in deposits in the third quarter. However, average year-to-date borrowings were higher due to consistently higher loan funding needs. We issued trust preferred subordinated debt in the third quarter of 2006 which provided a funding source. Trust preferred interest expense for the third quarter of 2008 was $112,460 compared to $173,963 in 2007. For the first nine months of 2008 compared to 2007, trust preferred interest expense decreased $140,879 to $384,789, a 26.8% decline, due to lower Libor-based pricing for the period.

The following table sets forth an analysis of the impact of changes in rate and volume on our interest bearing assets and liabilities for the third quarter and first nine months of 2008 compared to 2007.

Changes in Net Interest Income (Rate/Volume Analysis)

Net interest income is the product of the volume of average earning assets and the average rates earned, less the volume of average interest-bearing liabilities and the average rates paid. The portion of change relating to both rate and volume is allocated to each of the rate and volume changes based on the relative change in each category. The following table analyzes the changes in both rate and volume components of net interest income on a tax equivalent basis.

(in thousands)

	For the Three Months Ended September 30, 2008 vs 2007			For the Nine Months Ended September 30, 2008 vs 2007		
	Interest Increase (Decrease)	Change Attributable to Rate	Change Attributable to Volume	Interest Increase (Decrease)	Change Attributable to Rate	Change Attributable to Volume
Interest income						
Loans:						
Commercial	$ 278	$ (782)	$1,060	$ 1,555	$(1,774)	$3,329
Mortgage	(774)	(1,084)	310	(1,776)	(2,872)	1,096
Consumer	(94)	(795)	701	22	(1,719)	1,741
Total loans	(590)	(2,661)	2,071	(199)	(6,365)	6,166
Securities:						
Federal agencies	11	(27)	38	(16)	10	(26)
Mortgage-backed	(3)	—	(3)	(33)	(21)	(12)
Other securities	(3)	1	(4)	(28)	(21)	(7)
Total securities	5	(26)	31	(77)	(32)	(45)
Deposits in other banks	(15)	(33)	18	48	(67)	115
Federal funds sold	(1)	(7)	6	(1)	(16)	15
Bank owned life insurance	(3)	(7)	4	(10)	(21)	11
Total interest income	$ (604)	$(2,734)	$2,130	$ (239)	$(6,501)	$6,262
Interest expense						
Deposits:						
Demand	$ 33	27	6	$ 102	84	18
Money market	(884)	(656)	(228)	(2,266)	(1,766)	(500)
Savings	7	4	3	3	2	1
Time	455	(725)	1,180	2,565	(1,074)	3,639
Total deposits	(389)	(1,350)	961	404	(2,754)	3,158
Federal funds purchased	1	(2)	3	2	(6)	8
Other borrowings	(26)	(316)	290	178	(676)	854
Total interest expense	(414)	(1,668)	1,254	584	(3,436)	4,020
Net interest income	$ (190)	$(1,066)	$ 876	$ (823)	$(3,065)	$2,242

Average Balances, Income and Expenses, Yields and Rates

The net interest spread on a tax-equivalent basis decreased 78 basis points to 2.66% for first nine months of 2008 when compared to 3.44% for the same period in 2007. The yield on earning assets decreased 205 basis points to 6.05% in 2008 compared to 8.10% for the first nine months of 2007, while the cost of interest bearing liabilities only decreased 127 basis points to 3.39% from 4.66%, respectively, for the same period. On average, liability growth outstripped asset growth and paired with a swifter decline in asset yields, served to compress our net interest margin 128 basis points to 3.06%

Bank Owned Life Insurance (BOLI) has been included in interest earning assets. We purchased $6,000,000 in BOLI during the fourth quarter of 2005. The income on BOLI is not subject to Federal Income tax, giving it a tax-effective yield of 5.51% for the first nine months of 2008 compared to 5.93% for the same period in 2007.

In July 2006 we added additional capital through the issuance of $10,000,000 in trust preferred securities. These securities are treated as subordinated debt and have been included in other borrowings. The cost on trust preferred securities decreased to 5.06% from 6.91% in the first nine months of 2008 compared to 2007.

The following table sets forth average balances of total interest earning assets and total interest bearing liabilities for the periods indicated, showing the average distribution of assets, liabilities, stockholders' equity and the related income, expense and corresponding weighted average yields and costs.

AVERAGE BALANCES, INCOME AND EXPENSE, YIELDS AND RATES

The following is an analysis of net interest income, on a taxable equivalent basis.

	For Periods Ended September 30,					
	2008			2007		
	Average Balance	Income/ Expense	Yield Rate(1)	Average Balance	Income/ Expense	Yield Rate(1)
ASSETS						
Securities, at amortized cost						
Taxable	**$ 12,290,979**	**$ 367,649**	**4.00%**	$ 13,898,214	$ 444,404	4.28%
Total securities	**12,290,979**	**367,649**	**4.00%**	13,898,214	444,404	4.28%
Loans, net	**468,461,049**	**21,611,652**	**6.16%**	350,244,048	21,811,033	8.33%
Federal funds sold	**1,051,275**	**17,444**	**2.22%**	444,316	18,522	5.57%
Dividend-earning restricted equity securities	**4,332,645**	**162,206**	**5.00%**	2,921,981	121,513	5.56%
Deposits in other banks	**3,798,859**	**65,040**	**2.29%**	1,535,000	57,283	4.99%
Bank owned life insurance (2)	**6,630,381**	**273,274**	**5.51%**	6,386,736	283,129	5.93%
Total earning assets	**496,565,188**	**22,497,265**	**6.05%**	375,430,295	22,735,884	8.10%
Less: Allowance for loan losses	**(4,378,100)**			(3,436,884)		
Total nonearning assets	**55,291,908**			24,096,411		
Total assets	**$547,478,996**			$396,089,822		
LIABILITIES and SHAREHOLDERS' EQUITY						
Interest-bearing deposits:						
Checking	**$ 16,710,550**	**$ 121,729**	**0.97%**	$ 10,505,021	$ 19,833	0.25%
Regular savings	**6,228,006**	**29,540**	**0.63%**	6,072,736	27,247	0.60%
Money market savings	**128,880,070**	**2,708,259**	**2.81%**	144,811,491	4,974,332	4.59%
Certificates of deposit						
$100,000 and over	**126,529,066**	**3,008,377**	**3.18%**	52,078,722	2,003,002	5.14%
Under $100,000	**101,206,992**	**3,603,853**	**4.76%**	56,128,966	2,043,483	4.87%
Total interest-bearing deposits	**379,554,684**	**9,471,758**	**3.33%**	269,596,936	9,067,897	4.50%
Borrowings	**59,109,988**	**1,657,240**	**3.75%**	33,225,095	1,476,555	5.94%
Total interest-bearing liabilities	**438,664,672**	**$11,128,998**	**3.39%**	302,822,031	$10,544,452	4.66%
Noninterest-bearing liabilities						
Demand deposits	**62,816,450**			56,719,238		
Other noninterest-bearing liabilities	**5,481,517**			998,557		
Total liabilities	**506,962,639**			360,539,826		
Shareholders' equity	**40,516,357**			35,549,996		
Total liabilities and shareholders' equity	**$547,478,996**			$396,089,822		
Net interest income (2)		**$11,368,267**			$12,191,432	
Interest rate spread (2)(3)			**2.66%**			3.44%
Net interest margin (2)(4)			**3.06%**			4.34%

(1) Yields are annualized and based on average daily balances.

(2) Income and yields are reported on a taxable equivalent basis assuming a federal tax rate of 34%, with a $92,913 adjustment for 2008 and a $96,264 adjustment for 2007.

(3) Represents the differences between the yield on total average earning assets and the cost of total interest-bearing liabilities.

(4) Represents the ratio of net interest-earnings to the average balance of interest-earning assets.

Noninterest Income

Total noninterest income was $5,269,542 for the third quarter of 2008, an increase of $3,064,041 or 138.9%, compared to $2,205,501 for the same period in 2007. Noninterest income increased 253.0% or $11,369,129 to $15,862,063 during the first nine months of 2008 compared to 2007. This significant increase is due to a change in management focus with regard to the expansion of our mortgage operations. The following table sets forth the major components of noninterest income for the three months ended and the first nine months of 2008 and 2007.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Mortgage banking income	**$4,444,302**	$1,567,605	**$13,207,029**	$2,626,483
Investment and insurance commissions	**294,671**	288,825	**991,095**	835,129
Service charges and fees	**357,395**	257,155	**1,021,517**	772,325
Security gains, net	**—**	—	**10,801**	—
Loss on sale of other real estate, net	**(33,964)**	—	**(1,586)**	—
Bank owned life insurance income	**61,120**	63,585	**180,361**	186,865
Title company income	**126,238**	19,527	**179,545**	51,482
Gain on sale of assets, net	**—**	—	**24,410**	—
Other	**19,780**	8,804	**248,891**	20,650
	$5,269,542	$2,205,501	**$15,862,063**	$4,492,934

Gross mortgage banking income from Monarch Mortgage and our commercial mortgage banking subsidiary, Monarch Capital, LLC, increased $2,876,697 or 183.5% to $4,444,302 for the third quarter of 2008 compared to 2007. Year-to-date mortgage banking income increased 402.8% or $10,580,546. In the first half of 2007 our mortgage operations consisted of a small group of mortgage lenders utilizing an outside company for mortgage processing. In June 2007, our management undertook a significant expansion of mortgage operations, which included an in-house processing center and a full service multi-branch mortgage operation, under the name Monarch Mortgage. The newly expanded Monarch Mortgage closed 519 loans totaling $126,682,154 in the third quarter for 1,650 year-to-date 2008 closings totaling $431,448,275. This compares to 293 mortgage loan closings totaling $69,007,124 in the third quarter of 2007 and 468 year-to-date 2007 closings totaling $106,435,327.

Investment and insurance commissions increased $5,846 or 2.0% in the third quarter of 2008 and $155,966 or 18.7% for the first nine months compared to the same period in 2007. On October 1, 2006, through Monarch Investment, LLC, we formed a subsidiary called Virginia Asset Group, LLC (VAG), with an investment advisor to sell insurance and non-deposit investment products. We have a 51% ownership interest in VAG. Other income for the first nine months of 2008 includes a one-time gain totaling $217,325 from the change of ownership of Monarch Investment, LLC, resulting from the merger of BI Investments, LLC into Infinex Financial Group.

Service charges and fees on deposit accounts increased $100,240 for the third quarter and $249,192 for the first nine months of 2008, which represents a quarterly increase of 39.0% and a year-to-date increase of 32.3% over the same periods in 2007. The primary components of this increase were deposit account growth and ATM transaction fees. We have an agreement with a third-party vendor to brand ATMs in Food Lion grocery stores in southeast Virginia and northeast North Carolina. In return for supplying the cash for the machines and paying the machines' cash servicing fees, we receive a portion of the transaction surcharge and our customers can withdraw cash from the machines without a fee or transaction surcharge. A portion of the ATM fee increase was also due to fees generated at our 9 ATMs located at banking center sites. The third-party vendor relationship plus our 9 office ATMs creates a network of over 50 active branded ATMs.

There were no security gains to report in either the third quarter of 2008 or 2007. Year-to date, five of our agency securities have been called prior to final maturity. The majority of these securities had been purchased at a discount which resulted in gains totaling $10,801. The gain on sale of other real estate reported in the second quarter of 2008 has been offset by losses in the third quarter with additional expenses and valuation adjustments for two properties that were transferred to other real estate.

Bank Owned Life Insurance (BOLI), is included in the net interest income calculation for yield analysis. We purchased $6.0 million in BOLI during the fourth quarter of 2005. The income from BOLI, which is not subject to tax, has declined slightly due to rate adjustments. The tax-effective earnings are $92,606 for the third quarter and $273,274 for the first nine months of 2008 compared to $96,341 and $283,129, respectively, for the same period in 2007.

Through Monarch Investment, LLC, we own a 75% interest in a title company, Real Estate Security Agency, LLC (RESA), which had year-to-date net income of $179,545. Income reported in the first nine months of 2007 is related to a minority interest we held in Bankers Title of Central Virginia, LLC, which was sold. Prior to the third quarter 2008 title company income had been accounted for using the equity method. RESA is now being treated as a consolidated entity for accounting purposes.

Noninterest Expense

Total noninterest expenses increased $1,978,492, or 36.4% for the third quarter and $8,763,527, or 69.0% for the first nine months of 2008 compared to the same periods in 2007. The following table sets forth the major components of noninterest expense for the three months ended and the first nine months of 2008.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Salaries and employee benefits	**$4,714,837**	$3,715,722	**$14,222,938**	$ 8,182,312
Occupancy expenses	**545,350**	344,897	**1,593,265**	926,935
Furniture and equipment expense	**330,712**	219,845	**951,103**	521,051
Loan origination expenses	**386,727**	179,211	**1,311,311**	460,557
Data processing services	**156,888**	158,329	**489,318**	465,155
Telephone	**94,966**	79,312	**297,641**	168,447
Stationary and supplies	**89,458**	108,990	**275,222**	243,928
Professional fees	**80,982**	134,747	**247,481**	321,747
Marketing expense	**90,306**	103,808	**253,847**	214,888
Regulatory Assessment	**75,000**	55,754	**211,210**	109,754
Virginia Franchise Tax	**95,940**	49,696	**220,164**	242,037
ATM expense	**53,665**	48,576	**169,859**	145,721
Amortization of intangible assets	**44,643**	29,758	**133,929**	29,758
Other	**654,451**	206,788	**1,081,657**	663,128
	$7,413,925	$5,435,433	**$21,458,945**	$12,695,418

Salaries and employee benefits showed the greatest increase compared to the same periods in 2007. The third quarter 2008 increase was 26.9% or $999,115 and the year-to-date increase was 73.8% or $6,040,626. For comparative purposes, these figures represent slower growth trends than second quarter 2008 because our newly expanded mortgage operations had hired much of their staff and was fully functioning during the third quarter of 2007. The majority of the increase in salaries was related to the personnel growth at Monarch Mortgage. With our expansion of mortgage operations including entering other markets, the number of full-time equivalent employees has risen to 273 at September 30, 2008 compared to 217 for the same period in 2007. Secondary increases are attributable to the following factors: 1) an increase in occupancy plus furniture and equipment expenses related to the additional banking and mortgage offices; 2) an increase in loan origination expense related to increased production by Monarch Mortgage; 3) an increase in telephone expenses related to the mobile nature of our large mortgage workforce; 4) an industry-wide rate adjustment to Federal Deposit Insurance coupled with a higher assessment base.

	Increase For the Three Months Ended September 30,		Increase For the Nine Months Ended September 30,	
	Dollars	**Percentage**	**Dollars**	**Percentage**
Salaries and employee benefits	$ 999,115	26.9%	$ 6,040,626	73.8%
Occupancy expenses	200,453	58.1%	666,330	71.9%
Furniture and equipment expense	110,867	50.4%	430,052	82.5%
Loan origination expenses	207,516	115.8%	850,754	184.7%
Telephone	15,654	19.7%	129,194	76.7%
Regulatory Assessment	19,246	34.5%	101,456	92.4%

Income Taxes

The income tax provision was $412,700 for the third quarter of 2008 compared to $124,290 for the prior year. The effective tax rate for the third quarter of 2008 was 34.8%, compared to 28.4% for the same period in 2007. The year-to-date tax provision for 2008 was $1,327,500 compared to $943,537 for the same period in 2007. The effective tax rate for the first half of 2008 was 33.2%, compared to 31.8% for the same period in 2007.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

GENERAL

Total assets increased 18.2% to $594,834,777 at September 30, 2008 when compared to assets of $503,163,771 at December 31, 2007. On an annual basis total assets increased 28.7% at September 30, 2008 when compared to assets of $462,148,430 at September 30, 2007. Total loans as of September 30, 2008 were $501.1 million, an increase of $81.9 million, or 19.5%, from $419.2 million at year-end 2007. On an annual basis total loans increased $108.6 million, or 27.7%, from $392.5 million in September 2007. Loans held for sale were $36.4 million, an increase of $17.6 million from $18.8 million at December 31, 2007, and on an annual basis mortgages held for sale increased $27.1 million from $9.3 million at September 30, 2007 primarily due to increased volume at our mortgage division. Investment securities were $17.8 million at September 30, 2008, compared to $31.0 million at year-end 2007. On an annual basis, investments securities decreased $2.7 million, or 13.2% over September 30, 2007. Cash and cash equivalents were $14.2 million, an increase of $4.7 million, or 49.5% from $9.5 million at December 31, 2007.

Deposits increased $109.0 million, or 28.0%, during the nine months ended September 30, 2008. On an annualized basis deposits increased $133.4 million or 36.5%. Noninterest-bearing demand deposit accounts increased $7.3 million to $73.4 million, an 11.0% increase over December 31, 2007 and $3.7 million on an annual basis when compared to September 30, 2007. During the first quarter of 2008, we began offering several new interest-bearing demand deposit products. As a result, interest-bearing demand deposits increased to $16.9 million, a 53.6% or $5.9 million increase over $11.0 million at December 31, 2007. Interest-bearing demand deposits are included in interest-bearing deposits which totaled $425.3 million at September 30, 2008, compared to $323.6 million at year-end 2007. Money market deposits and certificates of deposits (CDs) are the major categories of our interest-bearing deposits.

Money market accounts, which are typically attractive to more rate sensitive depositors due to their higher relative yield coupled with accessibility, tend to be adversely impacted by declining rates and positive trends in the stock market. However, the current state of flux in economic markets has led to a change in these trends. The pairing of lower rates and negative trends in the stock market has supported movement out of money markets and into short-term CDs. This trend has impacted our deposit mix. Money market deposits declined $26.6 million to $110.4 million in September 2008 compared to $137.0 million at December 31, 2007. On an annual basis, money market deposits declined $32.3 million from $142.8 million at September 30, 2007. This trend, along with loan growth and the funding needs of a growing mortgage operation has moved us to heavier reliance on CDs as a funding source. CDs have increased to $283.7 million, an increase of $159.5 million, or 128.4% over December 31, 2007 and $146.5 million, or 106.8% over $137.2 million at September 30, 2007. A portion of this growth has been in the form of out-of-market brokered CDs which can be obtained in a short period of time on a larger scale than in-market organic growth. We have also found this source of deposits to be both efficient and cost effective compared to retail CD promotional pricing.

Stockholders' equity was $46.3 million at September 30, 2008, compared to $36.5 million at December 31, 2007. Components of the change in stockholders' equity include net income of $2,667,561, net unrealized losses on available-for-sale securities totaling $29,835, stock based compensation totaling $235,360, exercised options totaling $104,854, and issuance of common stock related to a private capital offering totaling $6,767,506.

Asset Quality

We had nonperforming assets totaling $5.3 million at September 30, 2008. During the third quarter of 2008 we charged-off loan balances totaling $138 thousand and had recoveries on loans of $28 thousand. Nonperforming assets at December 31, 2007 totaled $414 thousand. Nonperforming assets traditionally consist of nonaccrual loans, loans past due 90 days or more and still accruing interest, restructured loans and other real estate owned. We continue to demand a high level of credit quality on new loans.

	September 30, 2008	December 31, 2007
Loans 90 days past due and still accruing	**$ 930,980**	$ 332,520
Nonaccrual loans	**3,965,878**	81,751
Other Real Estate	**410,288**	—
Total Nonperforming Assets	**$ 5,307,146**	$ 414,271
Nonperforming assets to period end assets	**0.89%**	0.08%

Allowance for Loan Losses

The allowance for loan losses is to provide for losses inherent in the loan portfolio. Our management team is responsible for determining the level of the allowance for loan losses, subject to the review of the Board of Directors. Among other factors, the Committee considers on a quarterly basis our historical loss experience, the size and composition of the loan portfolio, the value and adequacy of collateral and guarantors, nonperforming credits, our loan "Watch" list, and national and local economic conditions.

Although we believe we have sufficient allowance for our existing portfolio, there can be no assurances that an additional allowance for losses on existing loans may not be necessary in the future. The allowance for loan losses totaled $4,991,000 and $3,732,311 at September 30, 2008 and September 30, 2007, respectively. The ratio of the allowance for loan losses to total loans outstanding at September 30, 2008 and 2007 was 1.00% and 0.95%, respectively.

During the third quarter of 2008 and 2007, we recorded $480,581 and 384,518 in provision expense, respectively. Loans charged-off during the third quarter of 2008 totaled $138,086 and recoveries totaled $27,505 for a net charge-off of $110,581. Year-to-date charged-off loans total $294,381 and recoveries total $64,768 for a net charge-off of $229,613. Loans charged-off during the third quarter and first nine months of 2007 totaled $147,689 and recoveries totaled $1,482 for a net charge-off of $146,207. Since it began operations in 1999, we have recorded net charge-offs of approximately $510,041. The table below summarizes the activity in the allowance for loans losses for the three and nine month periods ending September 30, 2008 and 2007.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Balance, beginning of period	**$4,621,000**	$3,494,000	**$ 3,976,000**	$ 3,235,000
Provisions charged to operations	**480,581**	384,518	**1,244,613**	643,518
Loans charged-off	**(138,086)**	(147,689)	**(294,381)**	(147,689)
Recoveries	**27,505**	1,482	**64,768**	1,482
Balance, end of period	**$4,991,000**	$3,732,311	**$ 4,991,000**	$ 3,732,311
Total loans outstanding			**501,052,390**	419,153,283
Ratio of allowance for loan losses to total loans outstanding			**1.00%**	0.95%

We have developed a methodology to determine an allowance to absorb probable loan losses inherent in the portfolio based on evaluations of the potential collection of loans, historical loss experience, peer bank loss experience, delinquency trends, economic conditions, portfolio composition, and specific loss estimates for loans considered substandard or doubtful. All commercial and commercial real estate loans that exhibit probable or observed credit weaknesses are subject to individual review. If necessary, reserves would be allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral and other sources of cash flow. Any reserves for impaired loans are measured based on the present rate or fair value of the underlying collateral. We evaluate the potential collection of both principal and interest when assessing the need for a loss accrual. A composite allowance factor that considers our and other peer bank loss experience ratios, delinquency trends, economic conditions, and portfolio composition are applied to the total of commercial and commercial real estate loans not specifically evaluated.

Homogenous loans, such as consumer installment, home equity loans, and smaller consumer loans may not be individually reviewed and are generally risk graded at the same levels. The risk grade and reserves are generally established for each homogenous pool of loans and are based on the expected net charge-offs from a current trend in delinquencies, losses or historical experience and general economic conditions. When information does arise to indicate that there is a credit weakness for a loan within this portfolio the loan is reviewed individually and reserves are allocated based on our estimate of management's estimate of the borrower's ability to repay the loan given the availability of collateral and other sources of cash flow. We have no material delinquencies in these types of loans, and have not, since inception, had a trend or an indication of a trend that would guide us in expected material losses in these types of homogenous pools of loans. We believe that the allowance for loan losses is adequate to absorb any inherent losses on existing loans in our loan portfolio at September 30, 2008.

Liquidity

Our management team monitors and plans our liquidity position for future periods. Liquidity is provided from cash and due from banks, interest-bearing deposits in other banks, repayments from loans, increases in deposits, lines of credit from four correspondent banks and two federal agency banks and a planned structured continuous maturity of investments. We believe that these factors provide sufficient and timely liquidity for the foreseeable future.

We also take into account any liquidity needs generated by off-balance sheet transactions such as commitments to extend credit, commitments to purchase securities and standby letters of credit.

We have a line of credit that can equal up to 30% of assets with the Federal Home Loan Bank of Atlanta (FHLB) that totaled approximately $94,355,320 with $57,655,065 available at September 30, 2008. This line is currently reduced by $5.0 million, which has been pledged as collateral for public deposits. Should we ever desire to increase their line of credit beyond the current 30% limit, the FHLB would allow borrowings of up to 40% of total assets once we meet specific eligibility requirements.

Borrowings outstanding under the FHLB line of credit were $31,700,255 at September 30, 2008 and $63,531,200 at December 31, 2007. We had four borrowing advances outstanding as of September 30, 2008, with the following final maturities:

Advance Amount	Expiration Date
$ 10,000,000	October 2008
10,000,000	November 2009
10,000,000	November 2010
1,700,255	September 2015
$ 31,700,255	

The advance maturing in 2015 is a principal reducing credit that matures on September 28, 2015. Terms include 39 quarterly principal payments of $25k beginning December 2005, with a final payment of $1,025,500 in September 2015. We are utilizing this advance to match-fund several long term fixed rate loans. The interest rate for this advance is fixed at 4.96%.

The advance maturing in 2009 bears a fixed interest rate of 4.04% and has a one-time conversion feature. The FHLB has the option of a conversion to a variable rate instrument on November 17, 2008.

The advance maturing in 2010 bears a fixed interest rate of 3.97% and has a one-time conversion feature. The FHLB has the option of a conversion to a variable rate instrument on May 15, 2009.

The advance maturing in October 2008 is a daily rate credit that matures October 1, 2008. The rate on September 30, 2008 was 3.25%.

In the course of operations, due to fluctuations in loan and deposit levels, we occasionally find it necessary to purchase Federal Funds on a short-term basis. We also have federal funds lines of credit facilities established with five other banks in the total amount of $26,000,000. At September 30, 2008 there was $4,790,000 in outstanding balances on these lines at a rate of 2.0%. We also have access to the Federal Reserve Bank's discount window should a liquidity crisis occur.

We have no material commitments or long-term debt for capital expenditures at the report date. The only long-term debt is for funding loans and is described below under Borrowings.

Off-Balance Sheet Arrangements

In the ordinary course of performing traditional banking services we enter into certain financial transactions that result in off-balance sheet transactions. The off-balance sheet transactions recognized as of September 30, 2008 and December 31, 2007 were a line of credit to secure public funds and commitments to extend credit and standby letters of credit issued to customers. The line of credit to secure public funds was from Federal Home Loan Bank for $5 million at September 30, 2008 and December 31, 2007.

Commitments to extend credit, which amounted to $264.1 million at September 30, 2008 and $242.2 million at December 31, 2007, represent legally binding agreements to lend to customers with fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements.

We did not have any commitments to purchase securities on September 30, 2008 or December 31, 2007.

Standby letters of credit are conditional commitments we issue guaranteeing the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. At September 30, 2008 and December 31, 2007, we had $5.9 million and $6.2 million, respectively, in outstanding standby letters of credit.

We have eighteen non-cancelable leases for premises. The original lease terms are from one to twenty-one years and have various renewal and option dates.

Capital Adequacy

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Management reviews the adequacy of our capital on an ongoing basis with reference to the size, composition, and quality of our resources and compliance with regulatory requirements and industry standards. Management seeks to maintain a capital structure that will assure an adequate level of capital to support anticipated asset growth and absorb potential losses.

In June 2008, we issued and sold 774,110 shares of our common stock to the selling shareholders in two private placements. Selling shareholders were accredited investors and included certain qualifying insiders. These insiders were members of our board of directors and senior management whose purchases were made in accordance with NASDAQ Capital Market guidelines. We will use the proceeds from the private placements for working capital and general corporate purposes, including supporting our growth initiatives.

Federal regulatory risk-based capital ratio guidelines require percentages to be applied to various assets including off-balance sheet assets in relation to their perceived risk. Tier 1 capital consists of stockholders' equity and minority interests in consolidated subsidiaries, less net unrealized gains on available-for-sale securities. Tier 2 capital, a component of total capital, consists of a portion of the allowance for loan losses, certain components of nonpermanent preferred stock and subordinated debt. The $10 million in trust preferred securities we issued in July 2006 qualified as Tier 1 capital. Our ratios exceed regulatory requirements.

The following table sets forth our risk-based capital position at September 30, 2008 and December 31, 2007:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action	
	Amounts	Ratio	Amounts	Ratio	Amounts	Ratio
			(Dollars in Thousands)			
As of September 30, 2008						
Total Risk-Based Capital Ratio	**$59,485**	**12.11%**	**$ 39,296**	**8.00%**	**$ 49,121**	**10.00%**
(Total Risk-Based Capital to Risk-Weighted Assets)						
Tier 1 Risk-Based Capital Ratio	**$54,494**	**11.09%**	**$ 19,655**	**4.00%**	**$ 29,483**	**6.00%**
(Tier 1 Capital to Risk-Weighted Assets)						
Tier 1 Leverage Ratio	**$54,494**	**9.42%**	**$ 23,140**	**4.00%**	**$ 28,925**	**5.00%**
(Tier 1 Capital to Average Assets)						
As of December 31, 2007						
Total Risk-Based Capital Ratio	$48,590	10.05%	$ 38,678	8.00%	$ 48,348	10.00%
(Total Risk-Based Capital to Risk-Weighted Assets)						
Tier 1 Risk-Based Capital Ratio	$44,614	9.22%	$ 19,358	4.00%	$ 29,033	6.00%
(Tier 1 Capital to Risk-Weighted Assets)						
Tier 1 Leverage Ratio	$44,614	9.56%	$ 18,668	4.00%	$ 23,334	5.00%
(Tier 1 Capital to Average Assets)						

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The effective management of market risk is essential to achieving our objectives. Market risk reflects the risk of economic loss resulting from adverse changes in market prices and interest rates. This risk of loss can be reflected in diminished current market values and/or reduced potential net interest income in future periods. We are not subject to currency exchange risk or commodity price risk.

As a financial institution, interest rate risk and its impact on net interest income is the primary market risk exposure. The Asset/Liability Management Committee ("ALCO") is primarily responsible for establishing asset and liability strategies and for monitoring and controlling liquidity and interest rate risk. We evaluate interest sensitivity risk in accordance with its asset liability policies, and then formulates strategies regarding asset originations, pricing, funding sources, and off-balance sheet commitments in order to decrease sensitivity risk. These strategies are based on management's outlook regarding future interest rate movements, the state of the regional and national economy, and other financial and business risk factors. We establish prices for deposits and loans based primarily on local market conditions.

The interest sensitivity position ("gap") is the difference between interest sensitive assets and interest sensitive liabilities in a specific time interval. The gap can be managed by repricing assets or liabilities, affected by selling securities available-for-sale, by replacing an asset or liability at maturity, or by adjusting the interest rate or the life of an asset or liability. Matching of assets and liabilities repricing in the same interval helps to hedge the risk and minimize the impact on interest income in periods of rising and falling interest rates.

Generally, positive gaps affect net interest margins and earnings negatively in periods of falling rates, and conversely, higher negative gaps adversely impact net interest margin and earnings in periods of rising rates as a higher volume of liabilities will reprice quicker than assets over the period for which the gap is computed.

Impacts of changing interest rates on loans and deposits are reflected in our financial statements. Management believes that the mortgage banking operations of its division, Monarch Mortgage, provide somewhat of a natural interest rate hedge, in that we are interest rate sensitive to a downward change in the prime rate for short term periods. When loan interest rates decline, our earnings will be negatively impacted but the mortgage company's volume should increase as the demand for refinancing and purchase money mortgages increase. The reverse should occur in a rising interest rate environment.

Monarch is asset-sensitive, primarily due to its adjustable rate loan portfolio. The majority of the our loan portfolio is indexed to the Wall Street Journal Prime rate and can adjust either daily or monthly. This asset-sensitive position positively impacts our business in a rising rate environment, as asset-yields rise faster than the cost of funding those assets.

ITEM 4. CONTROLS AND PROCEDURES

We maintain a system of internal controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to our company (including our consolidated subsidiaries) required to be included in periodic SEC filings. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out its evaluation.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submissions of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

Exhibit 11 – Refer to EPS calculation in the Notes to Financial Statements

Exhibit 31.1 – Certification of CEO pursuant to Rule 13a-14(a)

Exhibit 31.2 – Certification of Principal Financial Officer pursuant to Rule 13a-14(a)

Exhibit 32.1 – Certification of CEO and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MONARCH FINANCIAL HOLDINGS, INC.

/s/ William F. Rountree, Jr
William F. Rountree, Jr.
President & Chief Executive Officer

Date: November 14, 2008

/s/ Brad E. Schwartz.
Brad E. Schwartz
Executive Vice President & Chief Financial Officer

Date: November 14, 2008

Exhibit 31.1

SECTION 302 CERTIFICATION

I, William F. Rountree, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Monarch Financial Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2008

/s/ William F. Rountree, Jr.
William F. Rountree, Jr.
President & Chief Executive Officer

Exhibit 31.2

SECTION 302 CERTIFICATION

I, Brad E. Schwartz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Monarch Financial Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2008

/s/ Brad E. Schwartz.
Brad E. Schwartz
Executive Vice President & Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Monarch Financial Holdings, Inc. (the "Company") for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on their knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William F. Rountree, Jr.
William F. Rountree, Jr.,
President & Chief Executive Officer

/s/ Brad E. Schwartz.
Brad E. Schwartz
Executive Vice President and Chief Financial Officer

Date: November 14, 2008