

Letter from the President

August 1, 2005

Dear Shareholders and Friends:

I am proud to report that your Company had a rewarding second quarter. Net income for the quarter ended June 30, 2005 was \$1,852,000, or \$0.31 per basic and diluted common share. This represents a 17.7 percent increase in net income when compared to \$1,574,000, or \$0.26 per basic and diluted common share, earned during the second quarter of 2004.

Return on average assets (ROA) and return on average shareholders' equity (ROE) were 1.14 percent and 15.39 percent, respectively, for the quarter ended June 30, 2005, compared to 1.05 percent and 13.70 percent for the same period in 2004.

I am also pleased by the Company's year-to-date earnings growth. Net income for the six months ended June 30, 2005, was \$3,495,000, or \$0.58 per basic and diluted common share, compared to \$3,227,000 or \$0.53 per basic and diluted common share for the same period in 2004. This represents an 8.3 percent increase in net income.

Asset quality continues to be a high priority for our Company, and I am pleased that our focus on this issue has produced significant results. Nonperforming assets and 90-day past due loans totaled \$3,902,000, or 0.58 percent of total assets on June 30, 2005. This is a 27.9 percent reduction, compared to \$5,412,000, or 0.89 percent of total assets on June 30, 2004. Net loan charge-offs for the six months ended June 30, 2005 were \$246,000, compared to the \$421,000 during the six months ended June 30, 2004.

Loans, including loans held for sale, totaled \$505,315,000 on June 30, 2005, an 11.3 percent increase from total loans on June 30, 2004, which were \$453,975,000. Loan growth was largely driven by increases in construction and commercial real estate loans. Total deposits at June 30, 2005 were \$529,559,000 compared to \$446,550,000 at June 30, 2004, an increase of 18.6 percent.

The combination of our double-digit loan and deposit growth rates, improving asset quality, and growth in net income positions us favorably as we are about to increase our investment in markets surrounding Indianapolis. As I have previously written, the Bank will be opening two full-service banking centers in Hendricks County, which is a rapidly growing area just west of Indianapolis. Both offices should be open within the



**Mark
Bradford**

next twelve months. We are very excited about these new offices and will be working hard to ensure that they quickly contribute to our success in this market.

Other Bank News

In May, Charlie Royal was named Chairman of the Board of Directors of Monroe Bancorp, taking over for David Baer, who retired at the Annual Meeting of Shareholders in April. Charlie has been a Director since 1987 and brings a wealth of business expertise. I look forward to working with him and I know that his counsel will be valuable as we work to achieve our business objectives.

In June, we launched our Friendly Rewards customer referral program to attract new deposit customers. We believe that this program has been a success, as the Bank experienced a 16 percent increase in the number of accounts opened in June, 2005, compared to June, 2004.

Lastly, I want to remind you of our dividend reinvestment plan for shareholders. The plan allows for the automatic reinvestment of cash dividends in common stock of the Company. Additionally, the plan allows shareholders to invest up to \$1,000 each month in Monroe Bancorp stock.

This plan allows for convenient and cost-effective methods to increase investments in Monroe Bancorp, by either reinvesting the dividends or utilizing the plan's cash investment option. If you would like more information concerning the plan, please contact my executive assistant, Michelle Baker, at 812-331-3411.

On behalf of our Directors, Officers and Staff, I thank you for your continued support.

Respectfully,



Mark D. Bradford
President and Chief Executive Officer

Use of Non-GAAP Financial Information

To supplement the Company's consolidated condensed financial statements presented on a GAAP basis, the Company has used non-GAAP additional measures of noninterest income adjusted to exclude gains and losses it believes appropriate to enhance an overall understanding of the Company's past financial performance and also its prospects for the future. These adjustments to the Company's GAAP results are made with the intent of providing both management and investors a more complete understanding of the underlying operational results and trends and the Company's marketplace performance. The presentation of this additional information is not meant to be considered in isolation or as a substitute for the numbers prepared in accordance with generally accepted accounting principles in the United States.

Forward-Looking Statements

This release contains forward-looking statements about the Company which we believe are within the meaning of the Private Securities Litigation Reform Act of 1995. This release contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words "believe," "expect," "anticipate," "intend," "plan," "estimate" or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could" or "may" or words of similar meaning. These forward-looking statements, by their nature, are subject to risks and uncertainties. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) competitive pressures among depository institutions increase significantly; (2) changes in the interest rate environment reduce interest margins; (3) prepayment speeds, charge-offs and loan loss provisions; (4) general economic conditions, either national or in the markets in which the Company does business, are less favorable than expected; (5) legislative or regulatory changes adversely affect the business of the Company; and (6) changes in real estate values or the real estate markets. Further information on other factors which could affect the financial results of the Company is included in the Company's filings with the Securities and Exchange Commission.

Banking Locations

Monroe County

210 E. Kirkwood Avenue*
Bloomington, IN 47408
(812) 336-0201

4616 W. Richland Plaza*
Bloomington, IN 47404
(812) 876-6044

4191 W. Third Street*
Bloomington, IN 47403
(812) 331-3501

1825 N. Kinser Pike*
Bloomington, IN 47404
(812) 331-3518

306 E. Kirkwood Avenue
Bloomington, IN 47408
(812) 331-3510

111 S. Lincoln Street
Bloomington, IN 47408
(812) 331-3555

2801 Buick-Cadillac Blvd.*
Bloomington, IN 47401
(812) 331-3506

2490 S. Walnut Street*
Bloomington, IN 47403
(812) 331-3514

Retirement Community Locations

800 Bell Trace Circle
Bloomington, IN 47408
(812) 331-3575

2455 Tamarack Trail*
Bloomington, IN 47408
(812) 353-7722

3211 E. Moores Pike
Bloomington, IN 47401
(812) 353-7720

Jackson County
1051 W. Spring Street*
Brownstown, IN 47220
(812) 358-3171

Lawrence County

2119 W. 16th Street*
Bedford, IN 47421
(812) 275-7800

Hamilton County

11711 N. Meridian Street
Suite 170

Carmel, IN 46032
(317) 571-2062

Hendricks County

7517 Beechwood Centre Road
Suite 300
Avon, IN 46123
(317) 272-7820

65 Garner Road, Suite 400
Brownsburg, IN 46112
(317) 858-2720

2059 Hadley Road
Plainfield, IN 46168
(317) 837-5201

Additional ATM Locations

512 College Mall Road*
Bloomington, IN
(O'Malia's ATM)

1400 E. Third Street*
Bloomington, IN
(Jordan Square ATM)

200 Daniels Way*
Bloomington, IN
(Ivy Tech State College ATM)

1789 E. Tenth Street*
Bloomington, IN
(Crosstown II ATM)

4681 W. Richland Plaza
Bloomington, IN
(Buehler's Buy-Low ATM)

601 W. Second Street*
Bloomington, IN
(Bloomington Hospital ATM)

*Indicates 24-hour ATM access



MONROE BANCORP

210 East Kirkwood Avenue
Bloomington, IN 47408

PRSRT STD
U.S. Postage
PAID
Bloomington, IN
Permit #10

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Quarterly Financial Statement



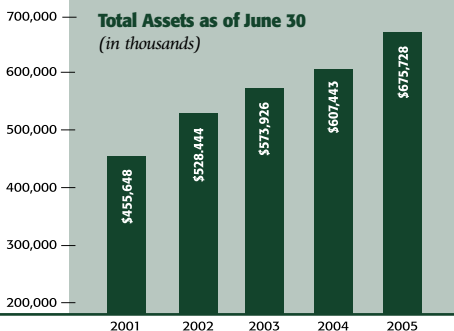
Expanding Our Capabilities.
Monroe Bank continuously
looks to expand its capabilities
by introducing new products,
enhancing existing products,
and upgrading technologies.

Financial Highlights as of June 30

(\$ in thousands, except per share data)

	2005	2004	%Change
Operating Results*			
Interest income	\$ 16,174	\$ 13,984	15.7%
Interest expense	5,972	4,113	45.2
Net interest income ..	10,202	9,871	3.4
Provision for loan losses	660	660	—
Income taxes	1,770	1,520	16.4
Net income	3,495	3,227	8.3
Per Share Data			
Net income – basic and diluted*	\$ 0.58	\$ 0.53	9.4
Dividends*	0.26	0.26	—
Book value at quarter end	8.16	7.54	8.2
June 30, Balances			
Total assets	\$675,728	\$607,443	11.2
Total deposits	529,559	446,550	18.6
Net loans	499,707	448,717	11.4
Shareholders' equity ...	48,968	45,242	8.2
Selected Financial Ratios			
Return on average assets	1.09%	1.09%	
Return on average equity	14.56	14.09	
Allowance for loan losses as a percentage of portfolio loans	1.12	1.17	

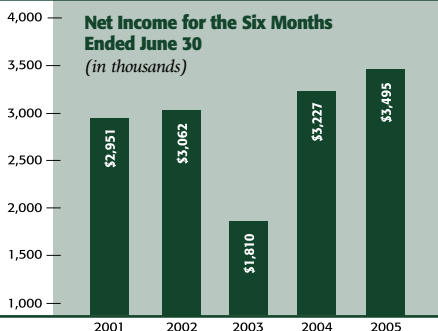
*Six months ended June 30



Monroe Bancorp and Subsidiary
Consolidated Balance Sheets June 30 (Unaudited)

(\$ in thousands, except share and per share data)

	2005	2004
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 29,215	\$ 17,344
Interest-earning deposits	395	799
Total cash and cash equivalents	29,610	18,143
Held-to-maturity securities	5,481	20,681
Available-for-sale securities	104,501	84,094
Trading securities	3,250	3,420
Loans, net of allowance for loan		
losses of \$5,608 and \$5,258	499,707	448,717
Bank premises and equipment	12,205	11,749
FHLB stock	2,494	2,386
Other assets	18,480	18,253
Total assets	<u>\$ 675,728</u>	<u>\$ 607,443</u>
Liabilities and Shareholders' Equity		
Deposits	\$ 529,559	\$ 446,550
Repurchase agreements	34,253	46,167
Other borrowings	50,135	41,532
Federal funds purchased	6,050	21,700
Other liabilities	6,763	6,252
Total liabilities	<u>626,760</u>	<u>562,201</u>
Shareholders' equity:		
Common stock, no par		
value 18,000,000 shares		
authorized, 6,036,284 and		
6,040,340 shares issued and		
outstanding respectively	137	137
Additional paid-in capital	1,596	1,661
Retained earnings	48,202	44,347
Accumulated other		
comprehensive loss	(553)	(428)
Unearned ESOT shares	(414)	(475)
Total shareholders' equity	<u>48,968</u>	<u>45,242</u>
Total liabilities and		
shareholders' equity	<u>\$ 675,728</u>	<u>\$ 607,443</u>



**Monroe Bancorp and Subsidiary
Consolidated Statements of Income
Six Months Ended June 30 (Unaudited)**

(*\$ in thousands, except share and per share data*)

	2005	2004
Interest income	\$ 16,174	\$ 13,984
Interest expense	<u>5,972</u>	<u>4,113</u>
Net interest income	10,202	9,871
Provision for loan losses	<u>660</u>	<u>660</u>
Net interest income after provision for loan losses	9,542	9,211
Other operating income	4,514	3,985
Other operating expenses	<u>8,791</u>	<u>8,449</u>
Income before income tax	5,265	4,747
Income tax provision	<u>1,770</u>	<u>1,520</u>
Net income	3,495	3,227
Retained earnings— beginning of year	46,267	42,689
Dividends (\$.26 per share in 2005 and \$.26 per share in 2004)	<u>(1,560)</u>	<u>(1,569)</u>
Retained earnings— end of period	<u>\$ 48,202</u>	<u>\$ 44,347</u>
Basic and fully diluted earnings per share	<u>\$ 0.58</u>	<u>\$ 0.53</u>

Monroe Bancorp Board of Directors

Charles R. Royal, Jr., Chairman
Bradford J. Bomba Jr., M.D.
Mark D. Bradford, President and CEO
James D. Bremner
Steven R. Crider
Timothy D. Ellis
Joyce Claflin Harrell
Harry F. McNaught, Jr.
Paul W. Mobley

Stock Transfer Agent and Registrar

Please contact Monroe Bancorp's transfer agent (at the phone number or address listed below) with questions concerning stock certificates, dividend checks, transfer of ownership, or other matters pertaining to your stock account.

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
(800) 368-5948
kbrotz@rtco.com

Investor Information

Corporate Headquarters
Monroe Bancorp
210 E. Kirkwood Avenue
Bloomington, IN 47408
(812) 336-0201
monroebank.com

Stock Symbol

NASDAQ: MROE

Investor Contact

Mark D. Bradford
President, CEO
210 E. Kirkwood Avenue
Bloomington, IN 47408
(812) 336-0201
bradford@monroebank.com

Current News and Information

For the most current news releases, visit our Web site at www.monroebank.com. The Securities and Exchange Commission maintains a Web site that contains reports, proxy and information statements including our quarterly report on Form 10-Q. The Web site address is www.sec.gov.



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