

Letter from the President

November 4, 2005

Dear Shareholders and Friends:

Your company continues to record strong earnings this year. Net income for the quarter ended September 30, 2005 was \$1,908,000. This represents a 9.0 percent increase in net income when compared to \$1,750,000 for the same period in 2004.

I am also very excited about the 10% stock dividend that the Board declared on October 20, 2005 that will be payable on November 17, 2005. As a result of the pending stock dividend, the earnings per share numbers that follow have been adjusted to reflect the higher number of outstanding shares.

Our earnings per share for the quarter ended September 30, 2005 was \$0.29 per basic and diluted common share compared with \$0.27 per basic and \$0.26 per diluted common share, for the same period in 2004.

Return on average assets (ROA) and return on average shareholders' equity (ROE) were 1.13 percent and 15.24 percent, respectively, for the quarter ended September 30, 2005, compared to 1.14 percent and 15.14 percent for the same period in 2004.

Year-to-date earnings growth also continues to be very strong. Net income for the nine months ended September 30, 2005, was \$5,403,000, or \$0.82 per basic and diluted common share, compared to \$4,977,000 or \$0.75 per basic and diluted common share for the same period in 2004. This represents an 8.6 percent increase in net income.

Our focus on improving asset quality continues to pay off. I am proud to report that our efforts have resulted in a 44.0 percent year-over-year reduction in nonperforming assets and 90-day past due loans. Nonperforming assets and 90-day past due loans totaled \$2,604,000, or 0.38 percent of total assets on September 30, 2005. This is compared to \$4,654,000, or 0.75 percent of assets, one year earlier.

Loans, including loans held for sale, totaled \$511,752,000 on September 30, 2005, an 11.9 percent increase from total loans on September 30, 2004, which were \$457,331,000. Loan growth was largely driven by an increase in commercial real estate loans. Total deposits at September 30, 2005 were \$539,823,000 compared to \$464,023,000 at September 30, 2004, an increase of 16.3 percent.



**Mark
Bradford**

Trust fees grew to \$1,158,000 for the nine months ended September 30, 2005. This is a 12.0 percent increase over the same time period in 2004. Trust assets under management reached \$234,887,000 at September 30, 2005, a 13.0 percent increase over the \$207,931,000 of assets under management at September 30, 2004.

Fees from the origination and sale of residential mortgages totaled \$1,021,000 for the nine months ended September 30, 2005, a 30.7 percent increase over the \$781,000 earned during the same period of 2004. The results reflect our increased emphasis on business development calling efforts as the market transitions from a strong refinance market to a market where purchase transactions are a larger percentage of the available volume. Management believes that the Bank's efforts to develop an effective mortgage origination business in its Central Indiana region are also starting to yield results.

Retail Services continues to grow as well, with the number of checking accounts increasing at an annualized rate of 7.4 percent as of September 30, 2005. This contributed to the increase in non-interest income.

Other Bank News

Your Company remains committed to the communities in which we do business through volunteerism. In October, a milestone was reached when we participated in our 10th Annual "Day of Caring," where more than 120 employees in Monroe County were provided a paid half-day off to volunteer for approximately a dozen local agencies. In September, 11 employees in Central Indiana volunteered an afternoon as part of their "Day of Caring." I am proud to relay to you that Monroe Bank employees logged more than 7,400 volunteer hours over the course of the last year.

In addition, the impact of Monroe Bank's growth in Central Indiana continues to be positive. The opening of the new full-service banking center in Brownsburg is slated for December 2005.

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)

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)

200 Daniels Way*
Bloomington, IN
(Ivy Tech Community College 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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2005

Quarterly Financial Statement



Expanding Our Commitment.
Since Monroe Bank's beginnings in 1892 in Bloomington, Indiana, commitment to our customers and our community has been an integral part of the Bank's identity.

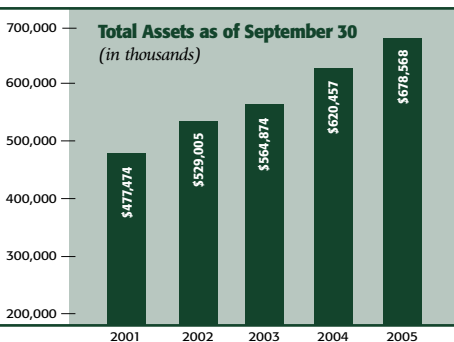
Financial Highlights as of September 30

(\$ in thousands, except per share data)

	2005	2004	%Change
Operating Results⁽¹⁾			
Interest income	\$ 25,220	\$ 21,194	19.0%
Interest expense	9,688	6,369	52.1
Net interest income ..	15,532	14,825	4.8
Provision for loan losses	900	990	(9.1)
Income taxes	2,764	2,357	17.3
Net income	5,403	4,977	8.6
Per Share Data			
Basic and fully diluted earnings per share ⁽¹⁾⁽²⁾	\$ 0.82	\$ 0.75	9.3%
Dividends ⁽¹⁾	0.39	0.39	0.0
Book value at quarter end	8.30	7.78	6.7
September 30, Balances			
Total assets	\$678,568	\$620,457	9.4%
Total deposits	539,823	464,023	16.3
Total loans	511,752	457,331	11.9
Shareholders' equity ...	49,839	46,662	6.8
Selected Financial Ratios			
Return on average assets	1.11%	1.11%	
Return on average equity	14.85	14.42	
Allowance for loan losses as a percentage of portfolio loans	1.09	1.06	

(1) Nine months ended September 30

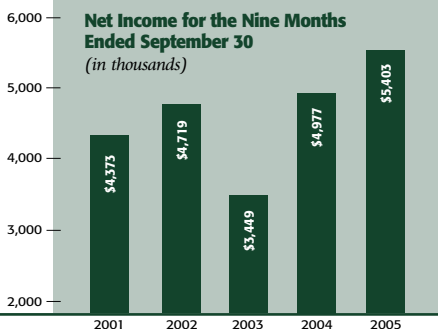
(2) Earnings per share have been restated to give effect to the stock dividend authorized October 20, 2005



**Monroe Bancorp and Subsidiary
Consolidated Balance Sheets September 30 (Unaudited)**

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

	2005	2004
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 24,371	\$ 24,222
Interest-earning deposits	407	4,906
Total cash and cash equivalents	24,778	29,128
Held-to-maturity securities	5,114	14,683
Available-for-sale securities	105,228	88,960
Trading securities	3,330	3,420
Loans, net of allowance for loan		
losses of \$5,523 and \$4,830	506,229	452,501
Bank premises and equipment	12,468	11,630
FHLB stock	2,545	2,413
Accrued interest receivable	2,739	2,472
Other assets	16,137	15,250
Total assets	<u>\$ 678,568</u>	<u>\$ 620,457</u>
Liabilities and Shareholders' Equity		
Deposits	\$ 539,823	\$ 464,023
Repurchase agreements	44,865	42,995
Other borrowings	37,506	58,874
Federal funds purchased	1,043	752
Other liabilities	5,492	7,151
Total liabilities	<u>628,729</u>	<u>573,795</u>
Shareholders' equity:		
Common stock, no par value 18,000,000 shares authorized, 6,036,284 and 6,035,110 shares issued and outstanding respectively	137	137
Additional paid-in capital	1,602	1,583
Retained earnings	49,330	45,319
Accumulated other comprehensive loss	(819)	95
Unearned ESOT shares	(411)	(472)
Total shareholders' equity	<u>49,839</u>	<u>46,662</u>
Total liabilities and shareholders' equity	<u>\$ 678,568</u>	<u>\$ 620,457</u>



**Monroe Bancorp and Subsidiary
Consolidated Statements of Income
Nine Months Ended September 30 (Unaudited)**

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

	2005	2004
Interest income	\$ 25,220	\$ 21,194
Interest expense	<u>9,688</u>	<u>6,369</u>
Net interest income	15,532	14,825
Provision for loan losses	<u>900</u>	<u>990</u>
Net interest income after provision for loan losses	14,632	13,835
Other operating income	7,043	6,070
Other operating expenses	<u>13,508</u>	<u>12,571</u>
Income before income tax	8,167	7,334
Income tax provision	<u>2,764</u>	<u>2,357</u>
Net income	5,403	4,977
Retained earnings— beginning of year	46,267	42,689
Dividends (\$0.35 per share in both 2004 and 2005)	<u>(2,340)</u>	<u>(2,347)</u>
Retained earnings— end of period	<u>\$ 49,330</u>	<u>\$ 45,319</u>
Basic and fully diluted earnings per share	\$ 0.82	\$ 0.75

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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