



***Monroe Bancorp  
2010 Annual  
Shareholders'  
Meeting***

***Mark D. Bradford  
President & CEO***

***Welcome!***



## ***Forward-looking Statement***

This presentation contains forward-looking statements about the Company which we believe are within the meaning of the Private Securities Litigation Reform Act of 1995. This presentation 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) changes in competitive pressures among depository institutions; (2) changes in the interest rate environment; (3) changes in prepayment speeds, charge-offs and loan loss provisions; (4) continued deterioration in general economic conditions, either national or in the markets in which the Company does business; (5) legislative or regulatory changes adversely affecting the business of the Company; (6) changes in real estate values or the real estate markets; (7) the Company's business development efforts in new markets in and around Hendricks and Hamilton Counties; (8) actions of the Federal Reserve Board; (9) changes in accounting principles and interpretations; and (10) actions of the Department of the Treasury and the Federal Deposit Insurance Corporation under the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009 and the Federal Deposit Insurance Act and other legislative and regulatory actions and reforms. These forward-looking statements speak only as of the date of this presentation and Monroe Bancorp undertakes no obligation to update any such forward-looking statement to reflect events or circumstances that occur after the date hereof. 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.



## ***Tremendous Opportunities***

***“We must look for the opportunity in every difficulty instead of being paralyzed at the thought of the difficulty in every opportunity”.***

*- Walter E. Cole*

## ***Operating Environment***

- **Recent Recession**

- ❖ **December 2007 to July 2009**
- ❖ **Federal Reserve Chairman Ben Bernanke “the worst financial crisis in modern history”**
- ❖ **Former Federal Reserve Chairman Alan Greenspan “the most virulent global financial crisis ever”**
- ❖ **Significant impact on banking industry**
  - **434 (34%) of 1,278 publicly traded banks and thrifts showed a loss in 2009**
  - **98 (31.8%) of 308 publicly traded Midwest banks and thrifts showed a loss in 2009**



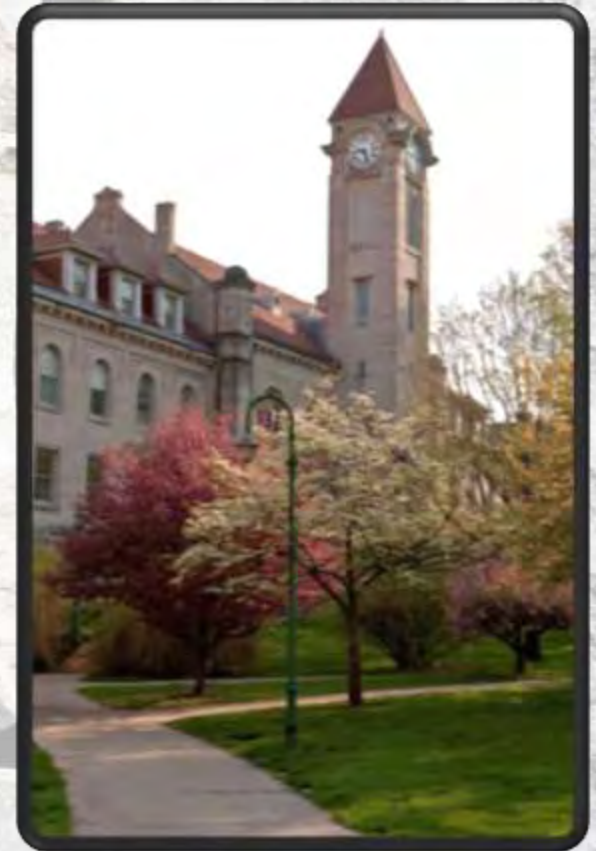
## ***Positioning for the Future***

- **Resolution of Problem Assets - Credit Quality**
- **Implementation of Capital Plan**
- **Enhance Profitability**
- **Commitment to Customer Service**
- **Commitment to our Communities**



## ***Background Information***

- **Headquarters – Bloomington, Monroe County/Indiana**
- **Majority of Bank's business is in Monroe County**
- **2009 Population – 130,738**
- **Home of Indiana University, Bloomington**
  - **7,400 Employees**
  - **2009/2010 Enrollment is 42,347**
- **Monroe County Unemployment Rate**
  - **March 2010- 6.9%; 2<sup>nd</sup> lowest in the State**





## **Monroe Bancorp Profile** *(Dollars in Thousands)*

	12/31/07	12/31/08	12/31/09	% Increase/ <Decrease> 2009
<b>Bancorp Assets</b>	<b>\$778,080</b>	<b>\$ 819,799</b>	<b>\$802,451</b>	<b>&lt;2.1%&gt;</b>
<b>Trust Assets</b>	<b>353,668</b>	<b>300,534</b>	<b>337,771</b>	<b>12.4%</b>
<b>Investment Services Assets</b>	<b>163,847</b>	<b>152,859</b>	<b>168,099</b>	<b>10.0%</b>
<b>Total</b>	<b>\$1,295,595</b>	<b>\$1,273,192</b>	<b>\$1,308,321</b>	<b>2.8%</b>

### **17 Locations:**

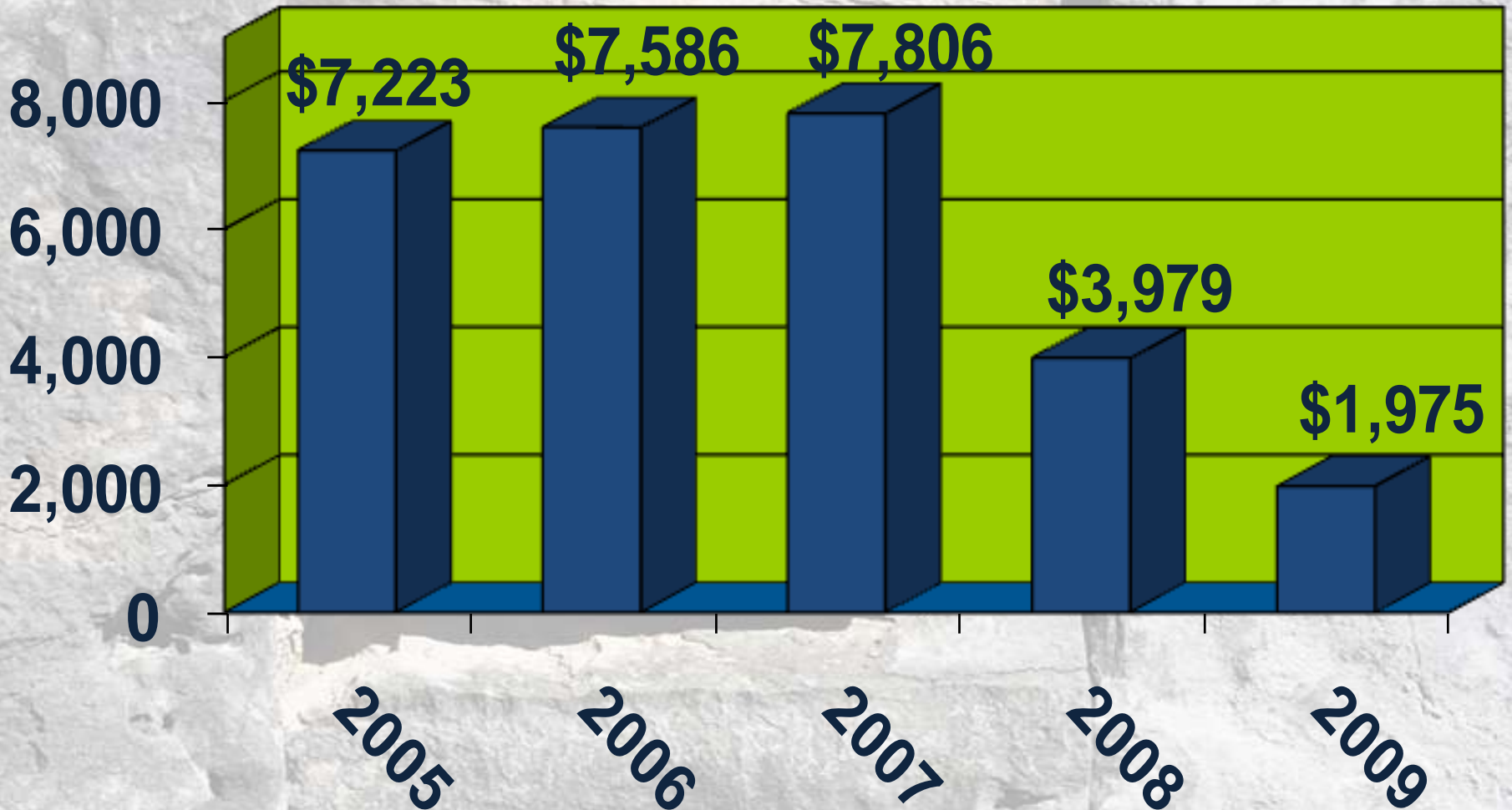
- **13 Banking Centers**
- **1 Loan Production Office**
- **3 Retirement Community Locations**



MONROE BANCORP

## Financial Performance

### **Net Income** (Dollars in Thousands)



***Total Loans*** (Dollars in Millions)





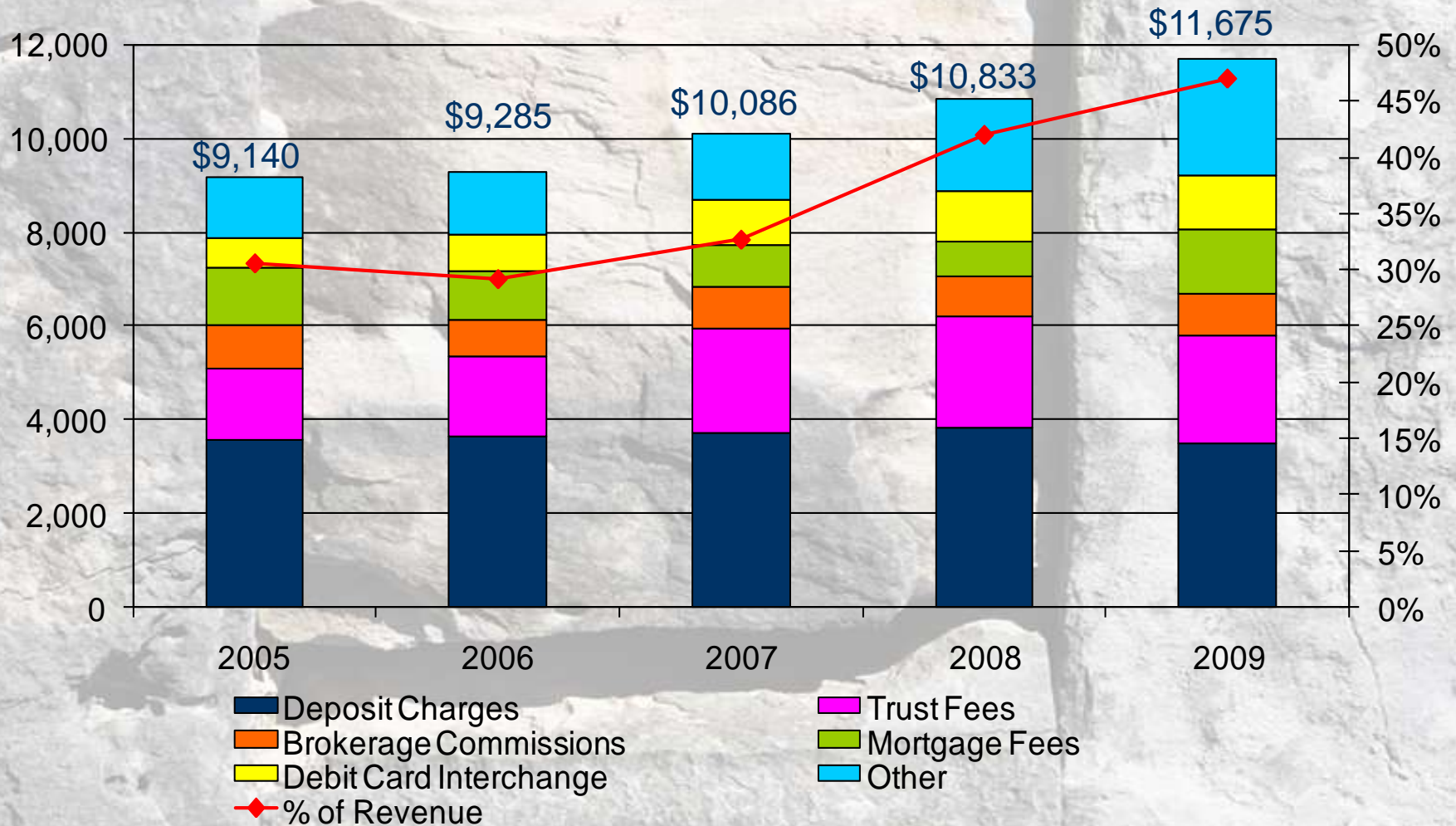
MONROE BANCORP

## *Financial Performance*

### **Total Deposits** *(Dollars in Millions)*



**Noninterest Income\*** (Dollars in Thousands)



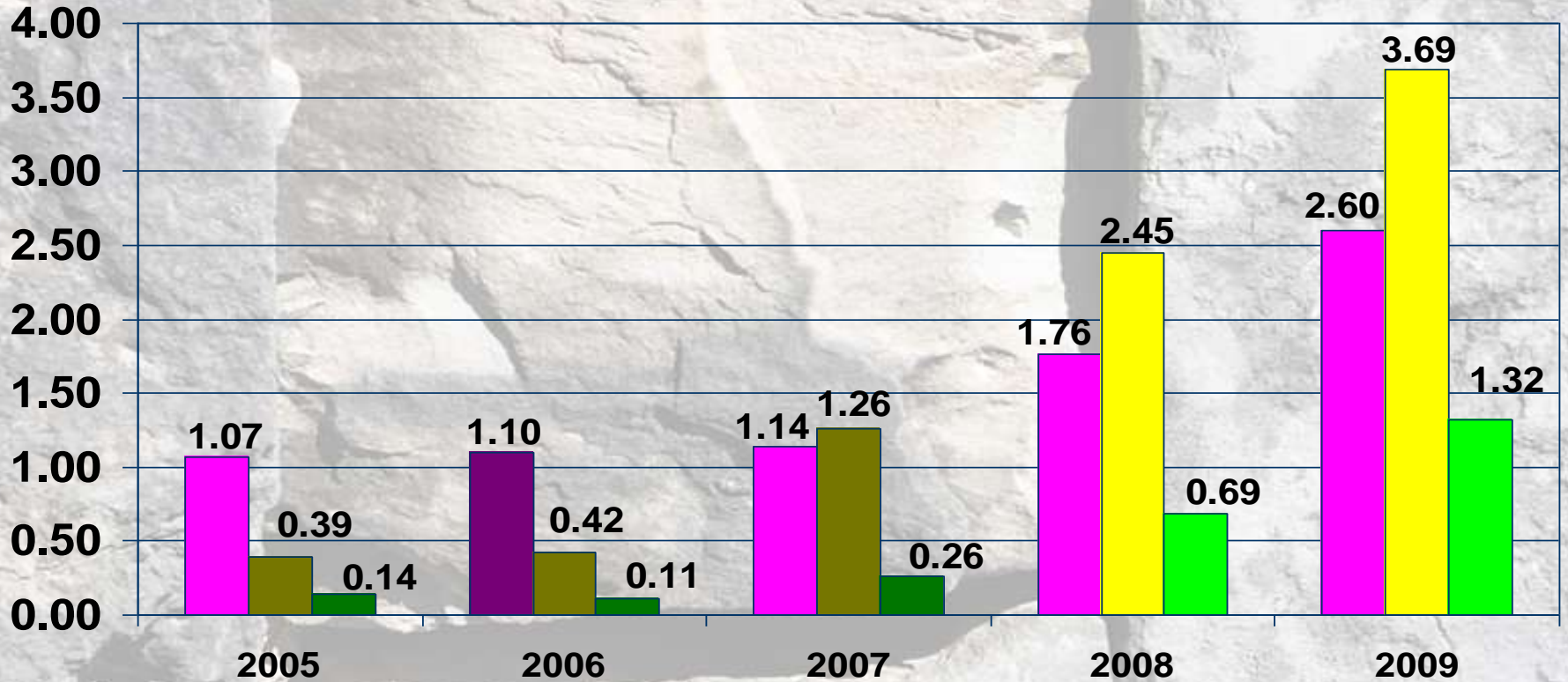
**\*Excludes the effects of deferred compensation plan**



## ***Keys to the Company's Success***

- **Resolution of Problem Assets – Credit Quality**
- **Implementation of Capital Plan**
- **Enhance Profitability**
- **Commitment to Customer Service**
- **Commitment to our Communities**

**Credit Quality**



- Allowance for loan losses as a % of ending loans
- Non-performing loans as a % of ending loans/includes 90 days past due
- Net charge-offs to loans



## ***Resolution of Problem Assets***

### ***Credit Quality*** *(Dollars in Thousands)*

	<b>Allowance for Loan Losses</b>	<b>Provision for Loan Losses</b>	<b>Net Charge Offs</b>	<b>Net Income</b>
<b>2005</b>	<b>5,585</b>	<b>1,140</b>	<b>749</b>	<b>7,223</b>
<b>2006</b>	<b>6,144</b>	<b>1,200</b>	<b>641</b>	<b>7,586</b>
<b>2007</b>	<b>6,654</b>	<b>2,035</b>	<b>1,525</b>	<b>7,806</b>
<b>2008</b>	<b>11,172</b>	<b>8,880</b>	<b>4,362</b>	<b>3,979</b>
<b>2009</b>	<b>15,256</b>	<b>11,850</b>	<b>7,766</b>	<b>1,975</b>



## ***Resolution of Problem Assets***

# ***Consolidated Net Income Trends***

*(Dollars in Thousands)*

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Net Income</b>	<b>7,223</b>	<b>7,586</b>	<b>7,806</b>	<b>3,979</b>	<b>1,975</b>
<b>Pre Tax Income</b>	<b>10,888</b>	<b>10,859</b>	<b>10,629</b>	<b>4,022</b>	<b>2,040</b>
<b>Provision for Loan Losses</b>	<b>1,140</b>	<b>1,200</b>	<b>2,035</b>	<b>8,880</b>	<b>11,850</b>
<b>Pre Tax Income Before Provision</b>	<b>12,028</b>	<b>12,059</b>	<b>12,664</b>	<b>12,902</b>	<b>13,890</b>



# ***Resolution of Problem Assets***

## ***Multi-Faceted Approach***

- **Prevention**
  - Improved loan underwriting
  - Reduced key concentration - Development Commercial Real Estate and Commercial Construction
    - \$25,400,000 (29.2%) reduction to \$61,500,000
- **Identification**
  - Stable Watch List – Previous twelve months
  - Improved reporting
- **Resolution**
  - Bias toward rapid liquidation of problem assets
    - Limited success prior to March 2010
    - Larger pool of interested buyers
    - Increased willingness to lend by banks
    - Homebuyer Tax Credit

## ***Housing Market News***

**4/19/10 Inside Indiana Business reports** – “Remax of Indiana says sales of single-family homes increased 6.7 percent in March, compared to a year ago. The median sales price rose for the fifth consecutive month.....”

**4/19/10 IBJ reports** – “As of 3/31/10, pending sales and listings expected to close in next 30 days up 10.3% over same time last year.....”

**4/21/10 WSJ article reports** – “Land prices jump....builders are particularly interested in finished lots with improvements in place.....nationally, finished-lot prices are up nearly 20% from early 2009.....across the U.S., builders are battling to acquire land lots in preparation for ramping up home construction...”

**4/21/10 IndyStar reports** – “Metro area home permits rose 62% in March over the same month a year ago....the fourth straight month that permits have risen....”

## ***Implementation of Capital Plan***

### ***Why is Capital Plan Needed***

- **12/31/09 – Bank had \$19,600,000 of capital in excess of amount required to be well capitalized**
- **Up from \$8,000,000 of excess capital at 12/31/08**
- **Amount of non-performing assets dictates that higher than normal capital is required**

## ***Implementation of Capital Plan***

### ***Presented at 2009 Annual Meeting***

- **Withdrew application to participate in Treasury Department's Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP)**
- **Raised \$13,000,000 of capital through the sale of subordinated debentures**
- **Reduced quarterly dividend from \$0.13 per share to \$0.01 per share**
- **Strategically reduced selected assets**
- **Aggressively pursued additional expense reduction and fee income opportunities**



## ***Implementation of Capital Plan***

### ***Key Components of Plan***

### ***Withdrew TARP CPP application***

- True costs of program and market's reaction
- Banks continue to aggressively repay TARP
- Determined that Company would be better served with alternative strategy



## ***Implementation of Capital Plan***

### ***Key Components of Plan***

***Raised \$13,000,000 of capital through sale of subordinated debentures***

- Closed on July 17, 2009
- Interest rate of 10%
- Maturity date of June 20, 2019
- Callable three years from closing date



## ***Implementation of Capital Plan***

### ***Key Components of Plan***

#### ***Quarterly dividend reduction***

- **Continues to be a very difficult but prudent decision**
- **Reinvested capital into the Company**
- **Preserves approximately \$3,000,000 of capital annually**
- **Decision will be reviewed quarterly**



## ***Implementation of Capital Plan***

### ***Key Components of Plan***

#### ***Strategically reduce selected assets***

- **Loans outstanding decreased \$45,700,000 or 7.2% in 2009. High risk-weighted asset for purposes of calculating capital ratios**
- **Sold municipal bond portfolio**



# ***Implementation of Capital Plan***

## ***Key Components of Plan***

### ***Grew Net Interest Margin***

- **Net Interest Income**
  - \$236,000 (1.0%) increase to \$23,837,000
- **Achieved despite:**
  - \$45,700,000 decrease in loans
  - \$6,300,000 increase in non-accruing loans
  - Maintained conservative and short duration investments
- **Achieved through:**
  - Use of interest rate floors
  - More rational pricing of loans
  - Disciplined deposit pricing



# ***Implementation of Capital Plan***

## ***Key Components of Plan***

### ***Aggressively grew fee income businesses***

- **Mortgage banking revenue of \$1,364,000 in 2009**
  - Increase of \$661,000 or 94.0%
- **Trust income of \$2,313,000 in 2009**
  - Decrease of \$74,000 or 3.1%
  - Trust assets were \$352,972,000 at 3/31/10
  - Increase of \$71,928,000 or 25.6% over 13 months
  - Increase generates \$500,000 of annual income



# ***Implementation of Capital Plan***

## ***Key Components of Plan***

### ***Aggressively grew fee income businesses***

- **Demand deposits**
  - 2.7% increase to 25,722 accounts (3/31/10 versus 12/31/08)
  - Source of low cost deposits
  - Source of fee income from debit card use and non-sufficient funds fees
- **Investment Brokerage Services**
  - 2009 - \$872,000 of income – flat compared to 2008 amount
  - Attractive service for customers
  - Conversion from one-time commission to annual fee
    - Reduces income in short-run – creates annuity



# ***Implementation of Capital Plan***

## ***Key Components of Plan***

### ***Pursue expense reduction opportunities***

- Other expenses (excluding appreciation/depreciation in deferred compensation plans) increased \$127,000 (0.60%)
- FDIC assessment (included in other expenses) increased \$1,004,000 (208.7%) to \$1,485,000
- Compensation expense decreased \$729,000 (5.9%) in 2009
- Full Time Equivalent Employees decreased to 203.5 at 12/31/09, an 8.0% decrease
- Full Time Equivalent Employees continue to decrease



# ***Implementation of Capital Plan***

## ***Key Components of Plan***

### ***Pursue expense reduction opportunities***

- **Recent examples of expense reduction initiatives**
  - **CEO, Executive Management and Senior Management pay and benefit decreases**
  - **Reduction in 401(k) match**
  - **Reduction in marketing**
  - **Reduction in use of outside vendors for facilities maintenance**
  - **Several other tactics**



## ***Commitment to Customer Service***

### ***Mystery Shopping***

<b>Year</b>	<b># Shops</b>	<b>Average Score</b>
<b>2005</b>	<b>1,164</b>	<b>94.5%</b>
<b>2006</b>	<b>1,486</b>	<b>95.4%</b>
<b>2007</b>	<b>1,747</b>	<b>95.7%</b>
<b>2008</b>	<b>2,279</b>	<b>95.8%</b>
<b>2009</b>	<b>2,410</b>	<b>96.2%</b>

## ***Commitment to our Communities***

- **Bank employees volunteered 7,624 hours in the fiscal year ended June 30, 2009**
- **Employees provided a half-day off on April 14, 2010 with pay for Day of Action**
- **2010 marks 15 years of participation in the Day of Action**





## ***Expanding Market Share*** (Dollars in Thousands)

### ***Monroe County***

	<u>6/30/1999</u>	<u>6/30/2009</u>
<b>Monroe Bank</b>		
<b>Total Deposits</b>	<b>\$279,821</b>	<b>\$522,763</b>
<b>Market Share</b>	<b>24.9%</b>	<b>31.1%</b>
<b>Rank</b>	<b>Second</b>	<b>First</b>
<b>Bank One/Chase</b>		
<b>Total Deposits</b>	<b>\$311,330</b>	<b>\$315,421</b>
<b>Market Share</b>	<b>27.7%</b>	<b>18.8%</b>
<b>Rank</b>	<b>First</b>	<b>Second</b>



## ***Common Goal***

***“We are going to look back on this as being the single greatest accomplishment of our professional careers”.***

*- Gordon Dyott  
April 23, 2009*



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***Questions?***



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***Thanks for Attending!***