

Letter from the President

July 28, 2004

Dear Shareholders and Friends:

I am proud to report strong year-to-date earnings. Net income for the six months ended June 30, 2004, was \$3,227,000, or \$0.53 per basic and diluted common share, compared to \$1,810,000 or \$0.30 per basic and diluted common share for the same period in 2003. This represents a 78.3 percent increase. Second quarter 2003 earnings were reduced by a \$1,389,000 (after tax) additional loan loss provision. Excluding the additional loan loss provision, net income for the six months ended June 30, 2003 would have been \$3,199,000.

Return on average assets (ROA) and return on average shareholders' equity (ROE) were 1.09 percent and 14.09 percent, respectively, for the six months ended June 30, 2004, compared to 0.66 percent and 8.13 percent for the same period in 2003.

Asset Quality

We have made asset quality the Company's highest priority, and I am pleased that our focus on this issue has produced significant results. Nonperforming assets and 90-day past due loans totaled \$5,412,000, or 0.89 percent of total assets on June 30, 2004. This is a 37.4 percent reduction, compared to \$8,651,000, or 1.51 percent of total assets on June 30, 2003. In addition, the Bank held no other real estate owned (OREO) properties at quarter end.

Net charge-offs for the six months ended June 30, 2004, were \$421,000, which is 77.0 percent less than the \$1,833,000 of loans charged-off during the six months ended June 30, 2003.

Fee Income Remains Strong

Over the last several years the Company has diversified its sources of non-interest income. By doing so, we were able to offset a 38.3 percent drop in fees earned on the sale of fixed rate mortgages in the first six months of 2004. We are particularly proud that trust fees increased 34.6 percent to \$677,000 and service charges on deposit accounts increased 10.0 percent to \$1,468,000 during the six months ended June 30, 2004, compared to the same period in 2003.

Non-interest income totaled \$3,985,000 for the first six months of 2004 compared to \$4,001,000 in the corresponding period of 2003. Included in non-interest income are net realized and unrealized securities gains of \$176,000 in the first half of 2004 and gains of \$357,000 in the same period in 2003. Excluding net realized and unrealized securities gains, non-interest income for the six months ended June 30, 2004, increased \$165,000 or 4.5 percent over the first six months of 2003.

Non-interest expense increased due to meaningful investments in personnel and training related to the Central Indiana expansion and other sales and production areas. Total non-interest expense increased \$422,000 to \$8,449,000 for the six months ended June 30, 2004, as compared to \$8,027,000 for the same period in 2003. Included in non-interest expense is unrealized appreciation related to the directors' and executives' deferred compensation plan in the amount of \$64,000 for the first six months of 2004 and \$219,000 for the first six months of 2003. This unrealized appreciation had no effect on net income. Non-interest expense, excluding the effect of the unrealized appreciation, increased 7.4 percent, from \$7,808,000 during the first six months of 2003 to \$8,385,000 during the same period of 2004.



**Mark
Bradford**

Net interest income before the provision for loan losses increased 4.1 percent to \$9,871,000 for the six months ended June 30, 2004, compared to \$9,479,000 for the same period in 2003. The tax-equivalent net interest margin declined to 3.71 percent for the first six months of 2004 from 3.84 percent for the same period in 2003.

Wealth Management Services

Your Company's Wealth Management Group, formerly named the Financial Management Services Division, continues to grow. Trust assets under management reached \$203,824,000 at June 30, 2004, a 14.8 percent increase over the \$177,502,000 at June 30, 2003. A retirement plan specialist was recently hired to provide employee benefit plan administration services to businesses of all sizes, which we believe will leverage the reputation already built by our trust and private banking officers.

Financial Condition

Total assets grew 5.8 percent from June 30, 2003, reaching \$607,443,000 on June 30, 2004. Loans, including loans held for sale, totaled \$453,975,000 on June 30, 2004, a 9.6 percent increase from total loans on June 30, 2003, which were \$414,190,000. Loan growth was largely driven by increases in construction and commercial loans. Total deposits at June 30, 2004, were \$446,550,000 compared to \$430,336,000 at June 30, 2003, an increase of 3.8 percent.

Shareholder News

In June, we announced the adoption of a dividend reinvestment plan. 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.

The plan may be advantageous to shareholders looking 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.

In addition, you will remember that your Company announced a stock repurchase plan in September 2003. We completed this plan on July 27, 2004, with a total of 130,130 shares purchased at an average price of \$15.37.

We will, of course, continue our efforts to increase shareholder value. On behalf of our Directors, Officers and Staff, I thank you for your continued support.

Respectfully,



Mark D. Bradford
President and Chief Executive Officer

Forward Looking Statements

Special Note: Statements in this letter that relate to future results and events (including statements about future financial and operating performance) are based on the Company's current expectations. Actual results in future periods may differ materially from those currently expected or desired because of a number of risks and uncertainties, including general economic and business conditions; changes in interest rates; loss of deposits and loan demand to other financial institutions; substantial changes in financial markets; changes in real estate values and real estate market; or regulatory changes. Additional discussion of these and other factors affecting the Company's business and prospects is contained in the Company's periodic 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) 331-3507

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

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)

2300 N. Walnut Street
Bloomington, IN
(McDonald's North 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 State College ATM)

*Indicates 24-hour ATM access



MONROE BANCORP

210 East Kirkwood Avenue
Bloomington, IN 47408

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

Quarterly Financial Statement

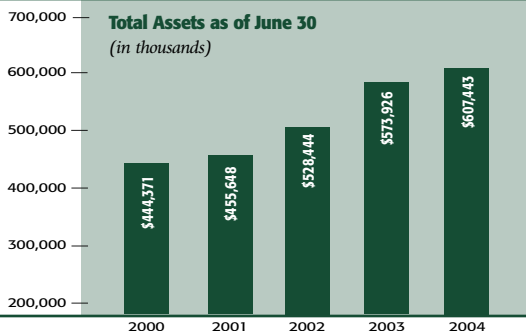


Financial Highlights as of June 30

(\$ in thousands, except per share data)

	2004	2003	%Change
Operating Results*			
Interest income	\$ 13,984	\$ 14,071	(0.6)%
Interest expense	4,113	4,592	(10.4)
Net interest income	9,871	9,479	4.1
Provision for loan losses	660	3,110	(78.8)
Income taxes	1,520	533	185.2
Net income	3,227	1,810	78.3
Per Share Data			
Net income—basic and diluted*	0.53	0.30	76.7
Dividends*	0.26	0.24	8.3
Book value at quarter end	7.54	7.33	2.9
June 30, Balances			
Total assets	607,443	573,926	5.8
Total deposits	446,550	430,336	3.8
Loans, net of allowance	448,717	408,312	9.9
Shareholders' equity	45,242	44,758	1.1
Selected Financial Ratios			
Return on average assets	1.09%	0.66%	
Return on average equity	14.09	8.13	
Allowance for loan losses as a percentage of portfolio loans	1.17	1.45	

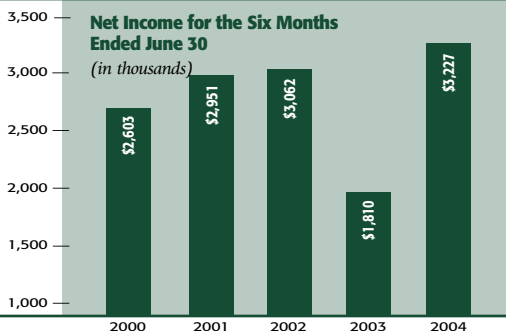
*Six months ended June 30



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

(\$ in thousands, except per share data)

	2004	2003
Assets		
Cash and cash equivalents:		
Cash and non-interest bearing deposits	\$ 17,368	\$ 18,565
Federal funds sold	—	18,200
Total cash and cash equivalents	17,368	36,765
Held-to-maturity securities	20,681	48,297
Available-for-sale securities	84,869	55,190
Trading securities	3,420	3,086
Loans, net of allowance for loan losses of \$5,258 and \$5,878		
Bank premises and equipment	11,749	11,661
FHLB stock	2,386	2,274
Accrued interest receivable	2,546	2,756
Other assets	15,707	5,585
Total assets	<u>\$ 607,443</u>	<u>\$ 573,926</u>
Liabilities and Shareholders' Equity		
Deposits	\$ 446,550	\$ 430,336
Repurchase agreements	46,167	48,340
Other borrowings	41,532	45,872
Federal Funds purchased	21,700	—
Accrued interest payable	695	716
Other liabilities	5,557	3,904
Total liabilities	<u>562,201</u>	<u>529,168</u>
Shareholders' equity:		
Common stock, no par value		
18,000,000 shares authorized,		
6,040,340 and 6,150,240 shares		
issued and outstanding respectively	137	137
Additional paid-in capital	1,661	3,377
Retained earnings	44,347	40,964
Net unrealized gain (loss) on available-for-sale securities	(428)	816
Unearned ESOT shares	(475)	(536)
Total shareholders' equity	<u>45,242</u>	<u>44,758</u>
Total liabilities and shareholders' equity	<u>\$ 607,443</u>	<u>\$ 573,926</u>



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

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

	2004	2003
Interest income	\$ 13,984	\$ 14,071
Interest expense	<u>4,113</u>	<u>4,592</u>
Net interest income	9,871	9,479
Provision for loan losses	<u>660</u>	<u>3,110</u>
Net interest income after provision for loan losses	9,211	6,369
Other operating income	3,985	4,001
Other operating expenses	<u>8,449</u>	<u>8,027</u>
Income before income tax	4,747	2,343
Income tax provision	<u>1,520</u>	<u>533</u>
Net income	3,227	1,810
Retained earnings— beginning of year	42,689	40,619
Dividends (\$.26 per share in 2004 and \$.24 per share in 2003)	<u>(1,569)</u>	<u>(1,465)</u>
Retained earnings— end of period	<u>\$ 44,347</u>	<u>\$ 40,964</u>
Basic and diluted net income per share	<u>\$ 0.53</u>	<u>\$ 0.30</u>

Monroe Bancorp Board of Directors

David D. Baer, 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
Charles R. Royal, Jr.

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

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.

