

Letter from the President

May 10, 2005

Dear Shareholders and Friends:

Net income for the three months ended March 31, 2005, was \$1,643,000, compared to \$1,653,000 earned the first quarter of 2004. Earnings per basic and diluted common share were \$0.27 for both periods. The flat earnings performance is largely the result of compression of the Bank's net interest margin resulting from the rising rate environment, our continued investments in the Central Indiana market, and a \$66,000 decline in realized gains from the sale of securities.

As always, asset quality is one of the Company's highest priorities. I am proud to report that our efforts have resulted in a 42.2 percent year-over-year reduction in nonperforming assets and 90-day past due loans. Nonperforming assets and 90-day past due loans totaled \$3,907,000 (0.61 percent of total assets) on March 31, 2005, compared to \$6,763,000 (1.13 percent of total assets) one year earlier.

We also continue to work toward achieving a balanced mix of sources of noninterest income. Noninterest income totaled \$2,034,000 for the first three months of 2005 compared to \$2,051,000 in the corresponding period of 2004. Included in noninterest income are net realized and unrealized securities gains of \$20,000 in the first three months of 2005 and gains of \$198,000 in the same period in 2004. Excluding net realized and unrealized securities gains and losses, noninterest income for the three months ended March 31, 2005, increased \$161,000, or 8.7 percent over the first three months of 2004.

Increases in trust fees and deposit-related service charges contributed to the growth noted above. Trust fees grew to \$376,000 for the three months ended March 31, 2005. This 12.2 percent increase was driven by strong growth in trust assets under management. Trust assets under management reached \$226,636,000 at March 31, 2005, growing 12.0 percent over the \$202,073,000 at March 31, 2004. Deposit-related fees totaled \$756,000 for the first quarter of 2005, which is a 6.9 percent increase over the \$707,000 realized in the first quarter of 2004.

Total assets grew 8.0 percent from March 31, 2004, reaching \$644,815,000 on March 31, 2005. Loans, including loans held for sale, totaled \$489,079,000 on March 31, 2005, a 10.9 percent increase from total loans on March 31, 2004, which were \$440,965,000. Commercial real estate loans continue to drive loan growth. Total deposits at March 31, 2005, were \$513,826,000 compared to \$454,488,000 at March 31, 2004, an increase of 13.1 percent.



Mark
Bradford

Bank News

- Our Carmel loan production office opened at the end of this quarter, marking the Bank's entry into the rapidly growing Hamilton County/northern Indianapolis market. The 3,000-square-foot office on North Meridian Street currently houses seven mortgage and commercial loan professionals, with ample room for expansion. In addition, we continue to make steady progress on our planned openings of three full-service branch locations in Hendricks County.
- Scot Davidson joined the senior management team as Senior Vice President of Retail Banking. With more than 25 years of experience in the banking industry, Scot will oversee the retail banking and marketing functions.
- We held our Annual Shareholders Meeting on April 28, 2005, where we summarized our 2004 accomplishments, previewed initiatives and plans for 2005, and restated our commitment to strong earnings growth, improved asset quality, superior customer service, and continued community involvement.
- At our Annual Meeting, we honored David Baer, the Chairman of the Board of Directors who is retiring after 24 years of service to the Bank. Mr. Baer spent 16 years as the President and CEO of Monroe Bank, retiring from this position in 1999, and he was instrumental in making the Bank the successful organization it is today. I can't thank him enough for everything that he has taught me about running a high-quality community bank. On behalf of the Board of Directors and all the employees of Monroe Bank, I want to again thank him for his service and dedication.

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) 331-3501

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

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*
Brownsstown, 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 46223
(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)

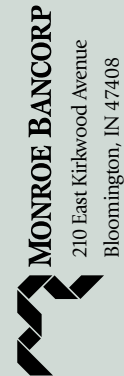
1789 E. Tenth Street*
Bloomington, IN
(Crosstown II ATM)

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 State College ATM)

*Indicates 24-hour ATM access



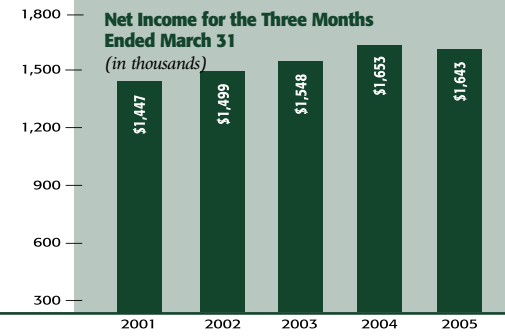
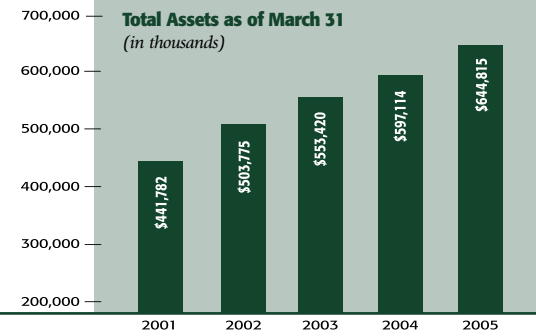
210 East Kirkwood Avenue
Bloomington, IN 47408

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



Quarterly
Financial
Statement

Expanding Our Geography.
Our company was founded as
Monroe County State Bank in
Bloomington, Indiana, in 1892.
Today we serve our customers
from 24 locations, including our
loan center, stand-alone ATMs
and operations center.



Financial Highlights as of March 31

(\$ in thousands, except per share data)

	2005	2004	%Change
Operating Results*			
Interest income	\$ 7,788	\$ 6,903	12.8%
Interest expense	2,762	2,031	36.0
Net interest income ..	5,026	4,872	3.2
Provision for			
loan losses	330	330	—
Income taxes	818	761	7.5
Net income	1,643	1,653	(0.6)

Per Share Data

Net income – basic and diluted*	0.27	0.27	—
Dividends*	0.13	0.13	—
Book value at quarter end	7.91	7.65	3.4

March 31, Balances

Total assets	644,815	597,114	8.0
Total deposits	513,826	454,488	13.1
Net loans	483,629	435,938	10.9
Shareholders' equity ..	47,455	46,284	2.5

Selected Financial Ratios

Return on average assets	1.05%	1.13%
Return on average equity	13.94	14.46
Allowance for loan losses as a percentage of portfolio loans	1.11	1.15

*Three months ended March 31

Monroe Bancorp and Subsidiary Consolidated Balance Sheets March 31 (Unaudited)

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

	2005	2004
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 19,185	\$ 19,358
Interest-earning deposits	614	11,417
Total cash and cash equivalents	19,799	30,775
Held-to-maturity securities	7,807	28,205
Available-for-sale securities	97,929	67,597
Trading securities	3,134	3,419
Loans, net of allowance for loan losses of \$5,450 and \$5,027	483,629	435,938
Bank premises and equipment	11,610	11,804
FHLB stock	2,464	2,360
Other assets	18,443	17,016
Total assets	<u>\$ 644,815</u>	<u>\$ 597,114</u>
Liabilities and Shareholders' Equity		
Deposits	\$ 513,826	\$ 454,488
Repurchase agreements	37,540	41,345
Other borrowings	39,703	49,062
Other liabilities	6,291	5,935
Total liabilities	<u>597,360</u>	<u>550,830</u>
Shareholders' equity:		
Common stock, no par value 18,000,000 shares authorized, 6,036,284 and 6,092,340 shares issued and outstanding respectively	137	137
Additional paid-in capital	1,595	2,538
Retained earnings	47,130	43,556
Accumulated other comprehensive income (loss) ..	(993)	528
Unearned ESOT shares	(414)	(475)
Total shareholders' equity	<u>47,455</u>	<u>46,284</u>
Total liabilities and shareholders' equity	<u>\$ 644,815</u>	<u>\$ 597,114</u>

Monroe Bancorp and Subsidiary Consolidated Statements of Income Three Months Ended March 31 (Unaudited)

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

	2005	2004
Interest income	\$ 7,788	\$ 6,903
Interest expense	2,762	2,031
Net interest income	5,026	4,872
Provision for loan losses	330	330
Net interest income after provision for loan losses	4,696	4,542
Other operating income	2,034	2,051
Other operating expenses	4,269	4,179
Income before income tax	2,461	2,414
Income tax provision	818	761
Net income	<u>1,643</u>	<u>1,653</u>
Retained earnings—beginning of year	46,267	42,689
Dividends (\$.13 per share in 2005 and \$.13 per share in 2004)	(780)	(786)
Retained earnings—end of period	<u>\$ 47,130</u>	<u>\$ 43,556</u>
Basic and fully diluted earnings per share	\$ 0.27	\$ 0.27

Monroe Bancorp Board of Directors

David D. Baer, Chairman (through April 2005)
Charles R. Royal, Jr., Interim Chairman (effective April 2005)
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.