

**Letter from the President**

November 24, 2009

Dear Shareholders and Friends:

I am pleased to announce we had net earnings of \$2,592,000 or \$0.417 per diluted common share for the nine month period ending September 30, 2009, despite the challenge of an ongoing recession. Our net income for the first nine months of 2009 was \$1,596,000 less than our net income for the same period in 2008. The year over year decline in net income was primarily the result of asset quality related factors which affected the provision for loan losses. We have been able to deliver a positive net profit for each quarter in 2009.

Our highest priority remains identifying and resolving asset quality issues. While we are not pleased with the level of our problem assets, the amount of assets on our "Watch List" has stabilized over the past two quarters. In a prudent response to general economic conditions and deterioration within our loan portfolio, we increased the ratio of our allowance for loan losses to total loans to 2.17 percent from 1.76 percent at December 31, 2009 and 1.52 percent at September 30, 2008.

While our results fell short of the 2008 performance, we experienced positive results in some product areas and were able to continue to take proactive steps to strengthen your Company:

- Income derived from the sale of mortgage loans totaled \$1,106,000 in the first nine months of 2009, a 97.1% increase over the same period in 2008.
- The quality of our investment portfolio continues to be high. This is evidenced by \$1,656,000 of gains on available for sale (AFS) securities sold in the first nine months of 2009 compared to gains of \$775,000 in the same period in 2008. However, the gain on the sale of AFS securities was not large enough to offset increases in the provision for loan losses (which increased \$2.3 million) and FDIC assessments (which increased \$871,000) in the first nine months of 2009 compared to the same period in 2008.



Mark D. Bradford

- We took additional steps to increase capital in the third quarter of 2009. On July 17, 2009, Monroe Bancorp raised \$13 million of Tier 2 capital through the issuance of subordinated debentures. The net proceeds from the offering provided additional capital to Monroe Bank which better positions your Company to continue as a well capitalized institution during the current economic downturn and pursue lending and growth opportunities as the economy improves.
- Trust assets under management have increased to \$334,855,000 at September 30, 2009 from their recent month-end low of \$281,044,000 at February 28, 2009. The increase is largely the result of strong market results but also reflects the success of the Bank's business development efforts. The asset growth is important because the majority of the Bank's trust income is derived from fees based upon the balance of assets under management.

On behalf of the Board of Directors, officers and staff, I would like to thank you for your ongoing support as we rally to overcome the challenges presented by the persistent economic recession.

Sincerely,

Mark D. Bradford  
President and CEO

**Banking Locations**

**Monroe County**  
210 E. Kirkwood Avenue\*  
Bloomington, IN 47408  
(812) 331-3518  
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

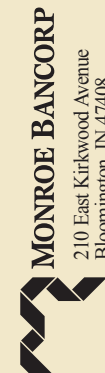
**Retirement Community Locations**  
800 Bell Trace Circle  
Bloomington, IN 47408  
(812) 331-3575  
2455 Tamarack Trail\*  
Bloomington, IN 47408  
(812) 353-7722  
3211 E. Moores Pike  
Bloomington, IN 47401  
(812) 353-7720  
**Jackson County**  
1051 W. Spring Street\*  
Brownsstown, IN 47220  
(812) 358-3171

**Lawrence County**  
2119 W. 16th Street\*  
Bedford, IN 47421  
(812) 275-7800  
**Hendricks County**  
9720 E. US Highway 36\*  
Avon, IN 46123  
(317) 272-7820  
*(In front of Hobby Lobby)*  
7517 Beechwood Centre Road  
Suite 300  
Avon, IN 46123  
(317) 272-7898

1490 N. Green Street\*  
Brownsburg, IN 46112  
(317) 858-2720  
802 Edwards Drive\*  
Plainfield, IN 46168  
(317) 837-5201  
*(Corner of Stafford Rd. and SR267)*  
**Hamilton County**  
15941 Cumberland Road\*  
Noblesville, IN 46060  
(317) 565-5220  
*(Corner of SR37 / Greenfield Ave.)*

**Additional ATM Locations**  
512 College Mall Road\*  
Bloomington, IN  
1400 E. Third Street\*  
Bloomington, IN  
1789 E. Tenth Street\*  
Bloomington, IN  
4681 W. Richland Plaza  
Bloomington, IN  
601 W. Second Street\*  
Bloomington, IN  
200 Daniels Way\*  
Bloomington, IN

\*Indicates 24-hour ATM access



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



## Financial Highlights as of September 30

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

	2009	2008	%Change
<b>Operating Results (1)</b>			
Interest income.....	\$ 27,730	\$ 32,320	(14.2)%
Interest expense.....	9,659	14,709	(34.3)
Net interest income....	18,071	17,611	2.6
Provision for loan losses.....	7,000	4,730	48.0
Income taxes.....	565	800	(29.4)
Net income.....	2,592	4,188	(38.1)

### Per Share Data

	2009	2008	%Change
<b>Basic earnings</b>			
per share (1) .....	\$ 0.417	\$ 0.674	(38.1)%
<b>Fully diluted earnings</b>			
per share (1) .....	0.417	0.673	(38.0)
Dividends (1).....	0.15	0.39	(61.5)
Book value at quarter end.....	9.19	8.95	2.7

### March 31, Balances

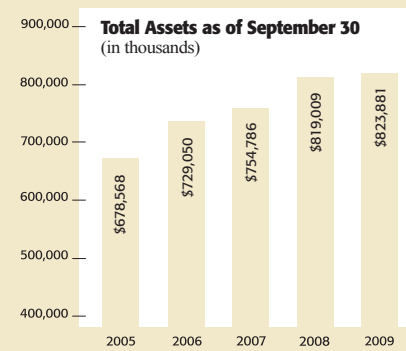
	2009	2008	%Change
Total assets.....	\$ 823,881	\$ 819,009	0.6%
Total deposits.....	654,807	679,421	(3.6)
Total loans (2).....	608,667	616,226	(1.2)
Shareholders' equity.....	57,221	55,692	2.7

### Selected Financial Ratios

	2009	2008
Return on average assets.....	0.42%	0.71%
Return on average equity.....	6.14	10.01
Allowance for loan losses as a percentage of total loans (2).....	2.17	1.52

(1) Nine months ended September 30

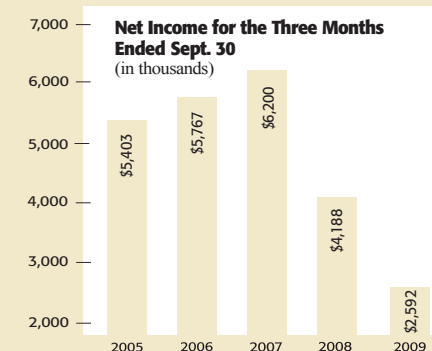
(2) Including loans held for sale



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

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

	2009	2008
<b>Assets</b>		
Cash and cash equivalents:		
Cash and due from banks.....	\$ 11,031	\$ 14,712
Federal funds sold.....	44,089	26,593
Interest-earning deposits.....	11,416	18,963
Total cash and cash equivalents .....	66,536	60,268
Held-to-maturity securities.....	5,053	1,005
Available-for-sale securities.....	99,936	95,500
Trading securities.....	3,312	3,290
Loans, including loans held for sale, net of allowance for loan losses of \$13,181 and \$9,397.....	595,486	606,829
Bank premises and equipment.....	20,127	20,836
FHILB stock.....	2,353	2,312
Other assets.....	31,078	28,969
Total assets.....	<u>\$ 823,881</u>	<u>\$ 819,009</u>
<b>Liabilities and Shareholders' Equity</b>		
Deposits.....	\$ 654,807	\$ 679,421
Repurchase agreements.....	61,810	46,569
Other borrowings.....	20,330	21,137
Federal funds purchased.....	-	-
Subordinated debentures.....	13,000	-
Trust preferred subordinated debentures..	8,248	8,248
Other liabilities.....	8,465	7,942
Total liabilities.....	766,660	763,317
Shareholders' equity:		
Common stock, no par value		
18,000,000 shares authorized,		
6,227,550 shares issued		
and outstanding.....	137	137
Additional paid-in capital.....	4,397	4,415
Retained earnings.....	52,287	51,645
Accumulated other		
comprehensive income (loss).....	480	(367)
Unearned ESOT shares.....	(80)	(138)
Total shareholders' equity.....	57,221	55,692
Total liabilities and shareholders' equity.....	<u>\$ 823,881</u>	<u>\$ 819,009</u>



## Monroe Bancorp and Subsidiary Consolidated Statements of Income Three Months Ended September 30 (Unaudited)

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

	2009	2008
Interest income.....	\$ 27,730	\$ 32,320
Interest expense.....	9,659	14,709
Net interest income.....	18,071	17,611
Provision for loan losses.....	7,000	4,730
Net interest income after provision for loan losses.....	11,071	12,881
Non-interest income.....	8,861	7,937
Non-interest expenses.....	16,775	15,830
Income before income tax.....	3,157	4,988
Income tax provision.....	565	800
Net income.....	2,592	4,188
Retained earnings - beginning of year.....	50,628	49,881
Dividends (\$0.15 per share in 2009 and \$0.39 per share in 2008).....	(933)	(2,424)
Retained earnings - end of period.....	<u>\$ 52,287</u>	<u>\$ 51,645</u>
Basic earnings per share.....	\$ 0.417	\$ 0.674
Fully diluted earnings per share.....	0.417	0.673

### 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) 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 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 release 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.

## 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  
James G. Burkhart  
Steven R. Crider  
Joyce Clafin 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  
frodriguez@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](http://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](http://www.sec.gov).

