SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 0-31951

MONROE BANCORP
(Exact name of registrant as specified in its charter)

Indiana	35-1594017
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

210 East Kirkwood Avenue
Bloomington, IN 47408
(Address of principal executive offices)
(Zip Code)
(812) 336-0201
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

Outstanding Shares of Common Stock on October 31, 2007: 6,227,550

MONROE BANCORP AND SUBSIDIARY
FORM 10-Q

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Part I. Financial Information

Item 1. Financial Statements

MONROE BANCORP AND SUBSIDIARY
Consolidated Condensed Balance Sheets
(Dollars in thousands, except per share data)

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and due from banks	$ 12,847	$ 24,415
Federal funds sold	10,149	5,803
Interest-earning deposits	2,224	3,328
Total cash and cash equivalents	25,220	33,546
Trading securities, at fair value	3,665	3,557
Investment securities:		
Available for sale	121,326	115,040
Held to maturity	1,007	1,653
Total investment securities	122,333	116,693
Loans	563,029	556,918
Allowance for loan losses	(6,147)	(6,144)
Net loans	556,882	550,774
Loans held for sale	1,875	2,545
Premises and equipment	18,343	15,411
Federal Home Loan Bank of Indianapolis stock, at cost	2,312	2,312
Other assets	24,156	23,355
Total assets	$ 754,786	$ 748,193
Liabilities		
Deposits:		
Noninterest-bearing	$ 77,874	$ 79,783
Interest-bearing	533,630	509,545
Total deposits	611,504	589,328
Borrowings	80,628	98,079
Other liabilities	9,732	7,281
Total liabilities	701,864	694,688
Commitments and Contingent Liabilities		
Shareholders' Equity		
Common stock, no-par value		
Authorized, 18,000,000 shares		
Issued and outstanding - 6,227,550 and 6,515,342 shares, respectively	137	137
Additional paid-in capital	4,320	9,284
Retained earnings	49,080	45,136
Accumulated other comprehensive loss	(381)	(818)
Unearned ESOT shares	(234)	(234)
Total shareholders' equity	52,922	53,505
Total liabilities and shareholders' equity	$ 754,786	$ 748,193

See notes to consolidated condensed financial statements.

MONROE BANCORP AND SUBSIDIARY
Consolidated Condensed Statements of Income
(Unaudited)
(Dollars in thousands, except per share data)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Interest Income		
Loans, including fees	$ 31,779	$ 28,878
Trading securities	79	65
Investment securities		
Taxable	2,997	2,634
Tax exempt	917	724
Federal funds sold	481	340
Other interest income	80	80
Total interest income	36,333	32,721
Interest Expense		
Deposits	16,125	12,884
Short-term borrowings	1,835	1,789
Other borrowings	1,085	1,140
Total interest expense	19,045	15,813
Net interest income	17,288	16,908
Provision for loan losses	885	900
Net interest income after provision for loan losses	16,403	16,008
Noninterest Income		
Fiduciary activities	1,639	1,248
Service charges on deposit accounts	2,715	2,747
Commission income	681	598
Securities gains	44	112
Unrealized gains on trading securities	170	52
Net gains on loans sales	670	812
Debit card interchange fees	695	575
Other operating income	1,169	973
Total other income	7,783	7,117
Noninterest Expenses		
Salaries and employee benefits	9,274	8,863
Net occupancy and equipment expense	2,335	2,345
Advertising	536	607
Legal fees	357	229
Appreciation in directors' and executives' deferred compensation plans	290	166
Other operating expense	2,850	2,575
Total other expenses	15,642	14,785
Income before income tax	8,544	8,340
Income tax expense	2,344	2,573
Net income	$ 6,200	$ 5,767
Basic earnings per share	$ 0.981	$ 0.874
Diluted earnings per share	$ 0.977	$ 0.871
Dividends declared and paid per share	0.36	0.36

See notes to consolidated condensed financial statements.

MONROE BANCORP AND SUBSIDIARY
Consolidated Condensed Statements of Income
(Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006
Interest Income		
Loans, including fees	$ 10,614	$ 10,191
Trading securities	25	23
Investment securities		
Taxable	1,038	922
Tax exempt	316	265
Federal funds sold	219	155
Other interest income	20	34
Total interest income	12,232	11,590
Interest Expense		
Deposits	5,622	4,763
Short-term borrowings	523	657
Other borrowings	383	376
Total interest expense	6,528	5,796
Net interest income	5,704	5,794
Provision for loan losses	345	300
Net interest income after provision for loan losses	5,359	5,494
Noninterest Income		
Fiduciary activities	617	435
Service charges on deposit accounts	917	901
Commission income	210	182
Securities gains	2	60
Unrealized gains on trading securities	55	65
Net gains on loans sales	231	332
Debit card interchange fees	243	195
Other operating income	376	327
Total other income	2,651	2,497
Noninterest Expenses		
Salaries and employee benefits	3,086	2,995
Net occupancy and equipment expense	799	786
Advertising	149	184
Legal fees	85	102
Appreciation in directors' and executives' deferred compensation plans	78	85
Other operating expense	1,086	859
Total other expenses	5,283	5,011
Income before income tax	2,727	2,980
Income tax expense	729	927
Net income	$ 1,998	$ 2,053
Basic earnings per share	$ 0.321	$ 0.312
Diluted earnings per share	$ 0.319	$ 0.311
Dividends declared and paid per share	0.12	0.12

See notes to consolidated condensed financial statements.

MONROE BANCORP AND SUBSIDIARY
Consolidated Condensed Statement of Shareholders' Equity
For the Nine Months Ended
September 30, 2007
(Unaudited)
(Dollars in thousands)

	Common Stock Shares Outstanding	Common Stock Amount	Additional Paid in Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned Employee Stock Ownership Trust Shares	Total
Balances January 1, 2007………	6,515,342	$ 137	$ 9,284		$ 45,136	$ (818)	$ (234)	$ 53,505
Comprehensive Income:								
Net income for the period…….				$ 6,200	6,200			6,200
Other comprehensive income -unrealized gain on securities				437		437		437
ESOT shares earned……………			48					48
Stock option compensation expense……………………..			49					49
Repurchase of stock, at cost……	(287,792)		(5,061)					(5,061)
Cash dividend ($0.36 per share)					(2,256)			(2,256)
Balances September 30, 2007……	6,227,550	$ 137	$ 4,320	$ 6,637	$ 49,080	$ (381)	$ (234)	$ 52,922

See notes to consolidated condensed financial statements.

MONROE BANCORP AND SUBSIDIARY
Consolidated Condensed Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Operating Activities		
Net income	$ 6,200	$ 5,767
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	885	900
Depreciation and amortization	814	853
Deferred income tax	106	(259)
Investment securities amortization, net	(34)	45
Securities gain	(44)	(111)
Origination of loans held for sale	(46,410)	(61,564)
Proceeds from sale of loans held for sale	47,750	60,191
Gain on sale of loans held for sale	(670)	(804)
Gain on sale of land	(81)	-
ESOT compensation	48	31
Stock-based compensation expense	49	49
Net change in:		
Trading securities	(65)	49
Interest receivable and other assets	(1,133)	(3,267)
Interest payable and other liabilities	888	(1,687)
Net cash provided by operating activities	8,303	193
Investing Activities		
Purchase of securities available for sale	(36,122)	(32,252)
Proceeds from sales of securities available for sale	250	1,990
Proceeds from paydowns and maturities of securities available for sale	31,847	30,132
Proceeds from paydowns and maturities of securities held to maturity	646	301
Purchase of FHLB stock	-	154
Net change in loans	(6,993)	(28,737)
Purchase of premises and equipment	(3,665)	(2,732)
Net cash used by investing activities	(14,037)	(31,144)
Financing Activities		
Net change in:		
Noninterest-bearing, interest-bearing demand and savings deposits	(15,133)	11,137
Certificates of deposit	37,310	(21,211)
Borrowings	(21,526)	34,862
Proceeds from Federal Home Loan Bank advances	-	1,765
Repayments of Federal Home Loan Bank advances	(1,081)	(11,047)
Cash dividends paid	(2,256)	(2,371)
Proceeds from trust preferred debentures	5,155	-
Stock options exercised	-	51
Repurchase of common stock	(5,061)	(1,651)
Net cash provided/used by financing activities	(2,592)	11,535
Net Change in Cash and Cash Equivalents	(8,326)	(19,416)
Cash and Cash Equivalents, Beginning of Period	33,546	36,600
Cash and Cash Equivalents, End of Period	$ 25,220	$ 17,184
Supplemental cash flow disclosures		
Interest paid	$ 18,324	$ 15,663
Income tax paid	2,410	2,632

See notes to consolidated condensed financial statements.

Note 1: Basis of Presentation

The consolidated condensed financial statements include the accounts of Monroe Bancorp (the "Company") and its wholly owned subsidiary, Monroe Bank, a state chartered bank (the "Bank") and the Bank's wholly owned subsidiary MB Portfolio Management, Inc. ("MB") and MB's wholly owned subsidiary MB REIT, Inc. A summary of significant accounting policies is set forth in Note 1 of Notes to Financial Statements included in the December 31, 2006, Annual Report to Shareholders. All significant intercompany accounts and transactions have been eliminated in consolidation.

The interim consolidated condensed financial statements have been prepared in accordance with instructions to Form 10-Q, and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

The interim consolidated condensed financial statements at September 30, 2007, and for the three and nine months ended September 30, 2007 and 2006, have not been audited by independent accountants, but reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for such periods.

The consolidated condensed balance sheet of the Company as of December 31, 2006 has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission.

The results of operations for the period are not necessarily indicative of the results to be expected for the year.

Note 2: Earnings Per Share

The number of shares used to compute basic and diluted earnings per share was as follows:

	Nine months ended	
	Sept 30, 2007	Sept 30, 2006
Net income (in thousands)…………………………	$ 6,200	$ 5,767
Weighted average shares outstanding………..	6,340,552	6,627,189
Average unearned ESOT shares………………..	(18,700)	(29,012)
Shares used to compute basic earnings per share………………………………………	6,321,852	6,598,177
Effect of dilutive securities- stock options…….	26,620	21,640
Shares used to compute diluted earnings per share………………………………………	6,348,472	6,619,817
Earnings per share, basic………………………..	$ 0.981	$ 0.874
Earnings per share, diluted……………………..	$ 0.977	$ 0.871

Options to purchase 210,000 shares of common stock at $22 per share were outstanding at September 30, 2007, and options to purchase 30,000 shares of common stock at $16 per share and 210,000 shares of common stock at

$22 per share were outstanding at September 30, 2006, but were not included in the computation of diluted earnings per share for the nine months ended September 30, 2007 and 2006, respectively because the options' exercise price was greater than the average market price of the common shares.

	Three months ended	
	Sept 30, 2007	Sept 30, 2006
Net income (in thousands)…………………………	$ 1,998	$ 2,053
Weighted average shares outstanding………..	6,245,089	6,601,885
Average unearned ESOT shares………………..	(16,300)	(27,088)
Shares used to compute basic earnings per share…………………………………….	6,228,789	6,574,797
Effect of dilutive securities- stock options…….	27,921	23,432
Shares used to compute diluted earnings per share…………………………………….	6,256,710	6,598,229
Earnings per share, basic………………………..	$ 0.321	$ 0.312
Earnings per share, diluted……………………..	$ 0.319	$ 0.311

Options to purchase 210,000 shares of common stock at $22 per share were outstanding at September 30, 2007, and options to purchase 30,000 shares of common stock at $16 per share and 210,000 shares of common stock at $22 per share were outstanding at September 30, 2006, but were not included in the computation of diluted earnings per share for the three months ended September 30, 2007 and 2006, respectively because the options' exercise price was greater than the average market price of the common shares.

Note 3: Change in Accounting Principle

The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FIN 48, the Company did not identify any uncertain tax positions that it believes should be recognized in the financial statements.

Note 4: Reclassifications

Reclassifications of certain amounts in the 2006 consolidated condensed financial statements have been made to conform to the 2007 presentation.

Note 5: Trust Preferred Securities

On March 20, 2007, the Company completed a private placement of $5 million in trust preferred securities through Monroe Bancorp Statutory Trust II (the "Trust"), a statutory business trust formed by the Company. The securities were sold pursuant to an applicable exemption from registration under the Securities Act of 1933, as amended. The Company received the proceeds from the sale of the securities in exchange for subordinated debt issued by the Company to the Trust. Because the Trust will not be consolidated with the Company, pursuant to Financial Accounting Standard Board Interpretation No. 46, the Company's financial statements will reflect the subordinated debt issued to the Trust.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Monroe Bancorp is a one-bank holding company formed under Indiana law in 1984. The Company holds all of the outstanding stock of Monroe Bank, which was formed in 1892. Banking is the primary business activity of the Company.

The Bank, with its primary offices located in Bloomington, Indiana, conducts business from seventeen locations in Monroe, Jackson, Lawrence, Hamilton and Hendricks counties in Indiana. Approximately 70 percent of the Bank's business is in Monroe County and is concentrated in and around the city of Bloomington.

The Bank is a traditional community bank, which provides a variety of financial services to its customers, including:

- accepting deposits;
- making commercial, mortgage and personal loans;
- originating residential mortgage loans that are generally sold into the secondary market;
- providing personal and corporate trust services;
- providing investment advisory and brokerage services; and
- providing annuities and other investment products.

The majority of the Bank's revenue is derived from interest and fees on loans and investments, and the majority of its expense is interest paid on deposits and general and administrative expenses related to its business.

Critical Accounting Policies

The most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements on pages 37 to 39 of the 2006 Annual Report to Shareholders. Certain of these policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management has identified these policies in the Critical Accounting Policies section of the Management's Discussion and Analysis on pages 19 to 20 of the 2006 Annual Report to Shareholders. There have been no changes in these critical accounting policies to date.

Non-GAAP Financial Measures

In January 2003, the United States Securities and Exchange Commission ("SEC") issued Regulation G, "Conditions for Use of Non-GAAP Financial Measures." A non-GAAP financial measure is a numerical measure of a company's historical or future performance, financial position, or cash flow that excludes (includes) amounts or adjustments that are included (excluded) in the most directly comparable measure calculated in accordance with generally accepted accounting principles ("GAAP"). Regulation G requires companies that present non-GAAP financial measures to disclose a numerical reconciliation to the most directly comparable measurement using GAAP as well as the reason why the non-GAAP measure is an important measure.

Management has used the following non-GAAP financial measures throughout this quarterly report on Form 10-Q.

- In the "Net Interest Income / Net Interest Margin" section, the discussion is focused on tax-equivalent rates and margin. Municipal bond and municipal loan interest has been converted to a tax-equivalent rate using a federal tax rate of 34 percent. Management believes a discussion of the changes in tax-equivalent rates and margin is more relevant because it better explains changes in after-tax net income.
- In the "Noninterest Income / Noninterest Expense" section of this document, we report noninterest income and noninterest expense without the effect of unrealized gains and losses on securities in a grantor trust ("rabbi trust") which is a non-GAAP financial measure. Other income includes realized and unrealized securities gains and losses and capital gain dividends on trading securities (mutual funds) held in a grantor trust ("rabbi trust") in connection with the Company's Directors' and Executives' Deferred Compensation

Plans. These securities are held as trading securities, and hence, unrealized gains and losses are recognized on the income statement. Any unrealized or realized loss on securities held in the rabbi trust net of any dividend, interest and capital gain dividend income earned on the securities in the rabbi trust (included in net interest income) are directly offset by a decrease to directors' fee/deferred executive compensation expense (included in other expense), and conversely, any net realized or unrealized gain combined with interest, dividends and capital gain dividends earned on the securities in the trust are directly offset by an increase to directors' fee/deferred executive compensation expense. These offsets are included in the line item identified on pages 4 and 5 of the consolidated financial statements as "Appreciation (depreciation) on directors' and executives' deferred compensation plans." The activity in the rabbi trust has no effect on the Company's net income, therefore, management believes a more accurate comparison of current and prior year noninterest income and noninterest expense can be made if the rabbi trust realized and unrealized gains, losses, capital gain dividends and offsetting appreciation (depreciation) on the deferred compensation plans and trustee fees are removed.

Results of Operations

Overview

Net income for the third quarter of 2007 was $1,998,000, a 2.7 percent decrease from net income of $2,053,000 for the same quarter last year. Basic earnings per share for the third quarter of 2007 were $0.321, up 2.9 percent from $0.312 per share for the third quarter of 2006. Diluted earnings per share for the third quarter of 2007 were $0.319, up 2.6 percent from $0.311 per share for the third quarter of 2006. Annualized return on average equity (ROE) for the third quarter of 2007 decreased to 15.27 percent compared to 15.62 percent for third quarter of 2006. The annualized return on average assets (ROA) was 1.05 percent for the third quarter of 2007 compared to 1.11 percent for the same period of 2006.

Net income for the first nine months of 2007 was $6,200,000, a 7.5 percent increase from net income of $5,767,000 for the same period last year. Basic earnings per share for the first nine months of 2007 were $0.981, up 12.2 percent from $0.874 per share for the same period of 2006. Diluted earnings per share for the first nine months of 2007 were $0.977, up 12.2 percent from $0.871 per share for the same period of 2006. Annualized ROE for the nine months ended September 30, 2007 increased to 15.80 percent compared to 14.91 percent for the first nine months of 2006. The annualized ROA was 1.11 percent for the nine months ended September 30, 2007 compared to 1.06 percent for the first nine months of 2006.

Net interest income for the third quarter of 2007, after the provision for loan losses, decreased $135,000, or 2.5 percent from the third quarter of 2006. Net interest income after the provision for loan losses for the nine months ended September 30, 2007 increased by $395,000 or 2.5 percent over the same period in 2006.

The following items affected third quarter and year-to-date results:

- Trust Fee Income - Trust fees grew $182,000 or 41.8 percent to $617,000 for the three months ended September 30, 2007 compared to $435,000 for the same period of 2006. For the nine months ended September 30, 2007, trust fees grew $391,000 or 31.3 percent to $1,639,000 compared to $1,248,000 for the same period in 2006. The increase in trust fees was driven by growth in trust assets under management and, in smaller measure, to a fee increase. Trust assets under management reached $348,653,000 at September 30, 2007, growing 28.3 percent, or $76,887,000 over the $271,766,000 at December 31, 2006 and by 33.7 percent, or $87,805,000 over the September 30, 2006 total of $260,848,000. The Bank added an experienced trust officer in late 2006 that has contributed significantly to the growth pattern this year. Management does not anticipate that trust assets will sustain this rate of growth on an ongoing basis.
- Sale of Brownsburg Land – The Company realized an $81,000 gain on the sale of a small parcel of land for a road-widening project during the first quarter of 2007. The sale of the land, which was in front of the Company's Brownsburg Banking Center, will have no impact on its operation and minimal impact on its overall appearance.
- Stock Buyback Activity, Funded With Trust Preferred Stock – The Company repurchased 56,042 shares of its common stock during the third quarter at an average price including commission of $17.40, and has purchased a total of 417,792 shares at a total cost of $7,224,000 since the program was announced in June

2006. The Company's repurchase activity was funded with proceeds from trust preferred subordinated debentures and other debt. As of September 30, 2007 the Company had issued a total of $8,248,000 of trust preferred subordinated debentures at an average cost of 6.76 percent. No additional trust preferred shares were issued during the three months ended September 30, 2007.

- Formation of a Real Estate Investment Trust - The Bank formed a Real Estate Investment Trust (REIT) involving approximately $80,000,000 of its existing commercial real estate loans during the fourth quarter of 2006. The net tax savings generated by the REIT increased the Company's net income by $74,000 during the third quarter of 2007 and $195,000 for the nine months ended September 30, 2007.
- Loan Related Legal Expense – loan related legal expense for the third quarter of 2007 was $31,000, which was $41,000 or 56.9 percent less than during the third quarter of 2006. For the nine months ended September 30, 2007, loan related legal expense was $231,000, which was $81,000 or 54.0 percent higher than the same period in 2006. Most of the increase is related to a case that has recently been favorably resolved. Management is exploring options to recover amounts attributable to certain loans that were charged-off or written down in earlier periods related to this case.

A primary management focus is to accelerate loan growth while maintaining or improving credit quality. Loans, including loans held for sale, at September 30, 2007 totaled $564,904,000 compared to $555,990,000 at September 30, 2006. The $8,914,000 or 1.6 percent increase in loans is well below the $44,238,000 or 8.6 percent growth in loans that took place between September 30, 2005 and September 30, 2006. The reduction in the Company's loan growth rate is the result of several factors including a general slowdown in commercial real estate development and new loan activity being largely offset by loans being paid off or refinanced elsewhere. The reduction in the rate of loan growth, if it continues, could have an adverse affect on the growth of net interest income.

Management is pleased with the progress of the full-service Brownsburg banking center in Hendricks County, which was opened January 2006. Average deposits for the quarter ended September 30, 2007 were $49,706,000 compared to $39,168,000 for the quarter ended September 30, 2006. The Company plans to open three more full-service banking centers over the next twelve months. On May 30, 2007, the Company broke ground for two new full-service banking centers which will replace limited service offices in Avon and Plainfield, two high growth communities in Hendricks County, West of Indianapolis. The Plainfield center is slated to open on December 10, 2007 and the Avon center in January of 2008. The third center will be located in Noblesville, a high growth community located in Hamilton County, north of Indianapolis. The Noblesville banking center is expected to open during the summer of 2008.

Net Interest Income / Net Interest Margin

The two tables on the following pages present information to assist in analyzing net interest income. The table of Average Balance Sheets and Interest Rates presents the major components of interest-earning assets and interest-bearing liabilities, related interest income and expense and the resulting yield or cost. Interest income presented in the table has been adjusted to a tax-equivalent basis assuming a 34 percent tax rate. The tax equivalent adjustment recognizes the income tax savings when comparing taxable and tax-exempt assets.

	Average Balance Sheets and Interest Rates					
	Nine Months Ended September 30, 2007			Nine Months Ended September 30, 2006		
ASSETS	Average Balance	Interest	Average Rate (annualized)	Average Balance	Interest	Average Rate (annualized)
Interest earning assets						
Securities						
Taxable	$ 86,919	$ 2,998	4.61%	$ 87,794	$ 2,607	3.97%
Tax-exempt (1)	34,984	1,389	5.31%	29,258	1,097	5.01%
Total securities	121,903	4,387	4.81%	117,052	3,704	4.23%
Loans (2)	561,184	31,791	7.57%	546,309	28,927	7.08%
FHLB Stock	2,312	78	4.51%	2,500	92	4.92%
Federal funds sold	11,661	481	5.51%	8,643	340	5.26%
Interest-earning deposits	2,888	111	5.13%	3,424	113	4.41%
Total interest earning assets	699,948	36,848	7.04%	677,928	33,177	6.54%
Noninterest earning assets						
Allowance for loan losses	(6,348)			(5,780)		
Premises and equipment & other assets	40,893			36,474		
Cash and due from banks	14,521			16,508		
Total assets	$ 749,014			$ 725,130		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities						
Total interest-bearing deposits	$ 528,588	16,125	4.08%	$ 500,308	12,884	3.44%
Borrowed funds	81,017	2,920	4.82%	87,641	2,929	4.47%
Total interest-bearing liabilities	609,605	19,045	4.18%	587,949	15,813	3.60%
Noninterest-bearing liabilities						
Noninterest-bearing demand deposits	78,686			77,710		
Other liabilities	8,269			7,773		
Shareholders' equity	52,454			51,698		
Total liabilities and shareholders' equity	$ 749,014			$ 725,130		
Interest margin recap						
Net interest income and interest rate spread						
Tax-equivalent net interest income margin		17,803	2.86%		17,364	2.94%
Tax-equivalent net interest margin as a percent of total average earning assets			3.40%			3.42%
Tax-equivalent adjustment (1)		515			456	
Net interest income		$ 17,288			$ 16,908	

(1) Interest income on tax-exempt securities has been adjusted to a tax equivalent basis using a marginal income tax rate of 34%.

(2) Nonaccrual loans are included in average loan balances and loan fees are included in interest income.

	Average Balance Sheets and Interest Rates					
	Three Months Ended September 30, 2007			Three Months Ended September 30, 2006		
ASSETS	Average Balance	Interest	Average Rate (annualized)	Average Balance	Interest	Average Rate (annualized)
Interest earning assets						
Securities						
Taxable	$ 87,336	$ 1,038	4.72%	$ 86,758	$ 917	4.19%
Tax-exempt (1)	35,712	479	5.32%	30,754	402	5.19%
Total securities	123,048	1,517	4.89%	117,512	1,319	4.45%
Loans (2)	560,590	10,619	7.51%	552,915	10,207	7.32%
FHLB Stock	2,312	26	4.46%	2,413	27	4.44%
Federal funds sold	15,837	219	5.49%	12,119	155	5.07%
Interest-earning deposits	1,894	27	5.70%	4,166	44	4.19%
Total interest earning assets	703,681	12,408	7.00%	689,125	11,752	6.77%
Noninterest earning assets						
Allowance for loan losses	(6,432)			(5,948)		
Premises and equipment & other assets	42,710			37,443		
Cash and due from banks	14,318			16,294		
Total assets	$ 754,277			$ 736,914		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities						
Total interest-bearing deposits	$ 538,614	5,622	4.14%	$ 511,648	4,763	3.69%
Borrowed funds	75,409	906	4.77%	86,630	1,033	4.73%
Total interest-bearing liabilities	614,023	6,528	4.22%	598,278	5,796	3.84%
Noninterest-bearing liabilities						
Noninterest-bearing demand deposits	80,001			78,512		
Other liabilities	8,367			7,985		
Shareholders' equity	51,886			52,139		
Total liabilities and shareholders' equity	$ 754,277			$ 736,914		
Interest margin recap						
Net interest income and interest rate spread						
Tax-equivalent net interest income margin		$ 5,880	2.78%		$ 5,956	2.92%
Tax-equivalent net interest margin as a percent of total average earning assets			3.31%			3.43%
Tax-equivalent adjustment (1)		176			162	
Net interest income		$ 5,704			$ 5,794	

(1) Interest income on tax-exempt securities has been adjusted to a tax equivalent basis using a marginal income tax rate of 34%.

(2) Nonaccrual loans are included in average loan balances and loan fees are included in interest income.

Net Interest Income / Net Interest Margin (continued)

Net interest income is the primary source of the Company's earnings. It is a function of the net interest margin and the volume of average earning assets. The net interest margin as a percent of average earnings assets was 3.30 percent for the first nine months of 2007 down from 3.33 percent for the same period last year. Adjusting for tax exempt income and expense, as discussed in the "Non-GAAP Financial Measures" section above, the tax-equivalent net interest margin as a percent of average earning assets was 3.40 percent for the first nine months of 2007, down from 3.42 percent for the same period last year. Overall increases in rates on interest bearing assets compared to increases in rates on interest bearing liabilities were not evenly matched.

The net interest margin as a percent of average earnings assets was 3.22 percent for the quarter ended September 30, 2007, down from 3.34 percent for the same quarter last year. Adjusting for tax exempt income and expense, as discussed in the "Non-GAAP Financial Measures" section above, the tax-equivalent net interest margin as a percent of average earning assets was 3.31 percent for the quarter ended September 30, 2007, down from 3.43 percent for the same quarter last year. The tax-equivalent net interest margin for the third quarter of 2007 was reduced by approximately seven basis points due to the impact of loans being placed on non-accrual during the quarter.

Net interest income was $17,288,000 for the nine months ended September 30, 2007 compared to $16,908,000 for the same period in 2006, an increase of 2.2 percent. Adjusting for tax exempt income and expense, as discussed in the "Non-GAAP Financial Measures" section above, tax-equivalent net interest income was $17,803,000 for the nine months ended September 30, 2007 compared to $17,364,000 for the same period in 2006, an increase of 2.5 percent.

Net interest income was $5,704,000 for the three months ended September 30, 2007 compared to $5,794,000 for the same period in 2006, a decrease of 1.6 percent. Adjusting for tax exempt income and expense, as discussed in the "Non-GAAP Financial Measures" section above, tax-equivalent net interest income was $5,880,000 for the three months ended September 30, 2007 compared to $5,956,000 for the same period in 2006, a decrease of 1.3 percent.

Noninterest Income / Noninterest Expense

Total noninterest income for the third quarter of 2007 was $2,651,000 compared to $2,497,000 for the same period in 2006. Excluding the effect of the Company's deferred compensation plan, discussed in the "Non-GAAP Financial Measures" section (page 10 and 11), total noninterest income for the third quarter of 2007 was $2,594,000, a $162,000 or 6.7 percent increase from $2,432,000 for the same period in 2006.

Significant changes in noninterest income occurred primarily in the following areas:

- Trust fee income totaled $617,000 for the third quarter of 2007 compared to $435,000 for the third quarter of 2006, an increase of $182,000 or 41.8 percent. The increase in trust fees was driven by growth in trust assets under management and, in smaller measure, to a fee increase. Management does not anticipate that trust fee income will sustain this rate of growth on an ongoing basis.
- Debit card interchange fees were $243,000 for the third quarter of 2007 compared to $195,000 for the same period in 2006, an increase of $48,000 or 24.6 percent due to an increase in debit card usage.
- Commission income was $210,000 for the third quarter of 2007 compared to $182,000 for the same period in 2006, an increase of $28,000 or 15.4 percent. This growth was attributed to a $25,000, or 28.3 percent increase in branch-based annuity and mutual fund sales, personnel changes, improved sales efforts and progress being made in the transition from a transaction based commission business into one that is management fee based.

Total noninterest income for the first nine months of 2007 was $7,783,000 compared to $7,117,000 for the same period in 2006. Excluding the effect of the Company's deferred compensation plan, discussed in the "Non-GAAP Financial Measures" section above, total noninterest income for the nine months ended September 30, 2007 was $7,561,000, a $555,000 or 7.9 percent increase from $7,006,000 for the same period in 2006.

Significant changes in noninterest income occurred primarily in the following areas:

- Trust fee income totaled $1,639,000 for the first nine months of 2007 compared to $1,248,000 for the same period of 2006, an increase of $391,000 or 31.3 percent. The increase in trust fees was driven by growth in trust assets under management and, in smaller measure, to a fee increase. Management does not anticipate that trust fee income will sustain this rate of growth on an ongoing basis.
- Debit card interchange fees were $695,000 for the first nine months of 2007 compared to $575,000 for the same period in 2006, an increase of $120,000 or 20.9 percent due to an increase in debit card usage.
- Commission income was $681,000 for the first nine months of 2007 compared to $598,000 for the same period in 2006, an increase of $83,000 or 13.9 percent. This growth was attributed to a $103,000, or 33.5 percent increase in branch-based annuity and mutual fund sales, personnel changes, improved sales efforts and progress being made in the transition from a transaction based commission business into one that is management fee based. This was partially offset by a decrease of $20,000 in full-service brokerage fees.

For the quarter ended September 30, 2007, total noninterest expense was $5,283,000 compared to $5,011,000 for the same period in 2006. Excluding the effect of the Company's deferred compensation plan, discussed in the "Non-GAAP Financial Measures" section, total noninterest expense for the third quarter of 2007 was $5,201,000, a $278,000 or 5.6 percent increase from $4,923,000 for the same period in 2006.

Significant changes in noninterest expense occurred in the following areas:

- Salary and employee benefits increased by $91,000 or 3.0 percent during the third quarter of 2007 compared to the same period in 2006. The increase was primarily due to annual raises with the remainder being the result of growth in the number of employees.
- Outside services, loan origination & collection, and business development expense increased $89,000 or 22.5 percent during the third quarter of 2007 compared to the same period in 2006, primarily due to increased legal and audit related expenses.

For the nine months ended September 30, 2007, total noninterest expense was $15,642,000 compared to $14,785,000 for the same period in 2006. Excluding the effect of the Company's deferred compensation plan, discussed in the "Non-GAAP Financial Measures" section, total noninterest expense for the third quarter of 2007 was $15,341,000, a $732,000 or 5.0 percent increase from $14,609,000 for the same period in 2006.

Significant changes in noninterest expense occurred in the following areas:

- Salary and employee benefits increased by $411,000 or 4.6 percent during the first nine months of 2007 compared to the same period in 2006. This increase was primarily the result of annual raises with the remainder being the result of growth in the number of employees.
- Outside services, loan origination & collection, and business development expense increased $256,000 or 23.4 percent during the first nine months of 2007 compared to the same period in 2006, primarily due to increased legal and audit related expenses.

Income Taxes

The Company records a provision for income taxes currently payable, along with a provision for those taxes payable in the future. Such deferred taxes arise from differences in timing of certain items for financial statement reporting rather than income tax reporting. The major difference between the effective tax rate applied to the Company's financial statement income and the federal and state statutory rate of approximately 40 percent is interest on tax-exempt securities, the effect of the Company's Delaware based investment holding company and a real estate investment trust (REIT) formed during the fourth quarter of 2006.

The Company's effective tax rate was 27.4 percent for the nine months ended September 30, 2007 compared to 30.9 percent for the same period in 2006. The tax rate decreased primarily because municipal bond (tax-exempt) income represented a higher percentage of total income in the first, second and third quarters of 2007 and because of the impact of a REIT established during the fourth quarter of 2006.

Financial Condition

Assets and Liabilities

Total assets of the Company at September 30, 2007 were $754,786,000 an increase of 0.9 percent or $6,593,000 compared to $748,193,000 at December 31, 2006. Loans (including loans held for sale) grew to $564,904,000 at September 30, 2007 compared to $559,463,000 at December 31, 2006, an increase of 1.0 percent. Total cash and cash equivalents decreased to $25,220,000 at September 30, 2007 compared to $33,546,000 at December 31, 2006, a decrease of 24.8 percent. Total cash and cash equivalents at September 30, 2007 were lower than normal as indicated by the fact that the average total cash and cash equivalents for the quarter ended September 30, 2007 were $32,049,000 compared to an average of $31,018,000 for the quarter ended December 31, 2006. Deposits increased to $611,504,000 at September 30, 2007 compared to $589,328,000 at December 31, 2006, an increase of $22,176,000 or 3.8 percent. Borrowings decreased to $80,628,000 at September 30, 2007 compared to $98,079,000 at December 31, 2006, a 17.8 percent decrease. At September 30, 2007, the total amount of trust preferred subordinated debentures outstanding was $8,248,000, compared to $3,093,000 at September 30, 2006.

Capital

Shareholders' equity decreased by $583,000 at September 30, 2007 compared to December 31, 2006. This decrease was a result of year-to-date net income of $6,200,000, ESOP shares earned of $48,000, option expense of $49,000, and other comprehensive income, consisting of the increase in net unrecognized gain in the Company's available-for-sale securities portfolio of $437,000, offset by stock repurchased of $5,061,000, and dividends paid of $2,256,000.

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies and are assigned to a capital category. The assigned capital category is largely determined by three ratios that are calculated according to the regulations: total risk adjusted capital, Tier 1 capital, and Tier 1 leverage ratios. The ratios are intended to measure capital relative to assets and credit risk associated with those assets and off-balance sheet exposures of the entity. The capital category assigned to an entity can also be affected by qualitative judgments made by regulatory agencies about the risk inherent in the entity's activities that are not part of the calculated ratios.

There are five capital categories defined in the regulations ranging from well capitalized to critically undercapitalized. Classification of a bank in any of the undercapitalized categories can result in actions by regulators that could have a material effect on a bank's operations. At September 30, 2007 and December 31, 2006, the Company and the Bank were categorized as well capitalized and met all applicable capital adequacy requirements. There are no conditions or events since September 30, 2007 that management believes have changed the Company or Bank's classification.

The actual and required capital amounts and ratios are as follows:

	Actual			Required for Adequate Capital (1)			To Be Well Capitalized (1)		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of September 30, 2007									
Total capital (1) (to risk-weighted assets)									
Consolidated……………………………..	$ 67,646	11.67	%	$ 45,735	8.00	%	N/A	N/A	
Bank…………………………………..	67,250	11.67		45,454	8.00		$ 56,817	10.00	%
Tier I capital (1) (to risk-weighted assets)									
Consolidated……………………………..	61,499	10.61		22,868	4.00		N/A	N/A	
Bank…………………………………..	61,103	10.61		22,727	4.00		34,090	6.00	
Tier I capital (1) (to average assets)									
Consolidated……………………………..	61,499	8.15		30,171	4.00		N/A	N/A	
Bank…………………………………..	61,103	8.14		30,014	4.00		37,517	5.00	
As of December 31, 2006									
Total capital (1) (to risk-weighted assets)									
Consolidated……………………………..	$ 63,513	11.08	%	$ 45,838	8.00	%	N/A	N/A	
Bank…………………………………..	64,127	11.26		45,568	8.00		$ 56,960	10.00	%
Tier I capital (1) (to risk-weighted assets)									
Consolidated……………………………..	57,369	10.01		22,919	4.00		N/A	N/A	
Bank…………………………………..	57,983	10.18		22,784	4.00		34,176	6.00	
Tier I capital (1) (to average assets)									
Consolidated……………………………..	57,369	7.70		29,800	4.00		N/A	N/A	
Bank…………………………………..	57,983	7.82		29,658	4.00		37,073	5.00	

(1) As defined by regulatory agencies

Classification of Assets, Allowance for Loan Losses, and Nonperforming Loans

The Bank currently maintains a watch list of loans internally to assist management in addressing collection and other risks. These criticized loans maintained on the Bank's internal watch list, represent credits that are *potentially weak* or have *well defined weaknesses* that, if not addressed, could jeopardize the ultimate collectability of the loan and interest. As of September 30, 2007, the Bank had $20,900,000 of loans on its internal watch list compared to $10,009,000 at December 31, 2006, a 108.8 percent increase, and $10,098,000 at September 30, 2006, a 107.0 percent increase. The watch list loans are primarily secured by collateral per the following chart:

Collateral for Watch List Loans

	Quarters Ended		
	Sep 30, 2007	Dec 31, 2006	Sep 30, 2006
Business Assets	$ 2,620,000	$ 2,328,000	$ 1,046,000
Crops & Livestock	15,000	173,000	20,000
Equipment	13,000	3,000	63,000
Financial Assets	24,000	42,000	109,000
Real Estate	17,910,000	7,292,000	8,672,000
Unsecured	299,000	141,000	82,000
Vehicle (RV or Boat)	7,000	9,000	9,000
Vehicle (Heavy Truck)	12,000	21,000	97,000
Total	$ 20,900,000	$ 10,009,000	$ 10,098,000

A portion of watch list loans are nonaccrual loans. The Bank had nonperforming assets (nonaccrual loans, restructured loans, OREO and 90-days past due loans still accruing) totaling $5,159,000, or 0.68 percent of total assets at September 30, 2007 compared to $2,497,000 or 0.33 percent of total assets at December 31, 2006, and $2,795,000, or 0.38 percent of total assets at September 30, 2006.

Management believes the growth of nonperforming loans as well as loans listed on the internal watch list reflects the weakness in the housing and residential construction markets. Management also believes that emerging economic conditions could result in further deterioration in this pool of assets resulting in the potential for higher delinquencies, non-performing loans and net charge-offs. Management is devoting significant attention to the resolution of problem or potential problem assets.

The allowance for loan losses was $6,147,000, or 1.09 percent of portfolio loans (excluding loans held for sale) at September 30, 2007 compared to $6,144,000, or 1.10 percent, of portfolio loans at December 31, 2006. Based upon factors including but not limited to an assessment of collateral associated with watch list loans, the payment performance of watch list loans, Management's more aggressive stance towards placing loans on the Bank's internal watch list, local and national economic trends, a more aggressive approach to charging-off watch list loans and loan charge-offs that have already occurred, Management and the Board of Directors feel that the allowance for loan losses was adequate as of September 30, 2007.

During the first nine months of 2007, the Bank had net loan charge-offs totaling $882,000 compared to $391,000 charged-off for the same period in 2006. Past due loans (30 days or more) were 1.16 percent of total loans at September 30, 2007 compared to 0.93 percent of total loans at September 30, 2006. The chart on the following page details the distribution of past due aging for watch list assets:

Past Due Aging for Watch List Assets

	Quarters Ended					
	Sep 30, 2007		Dec 31, 2006		Sep 30, 2006	
0-14 Days Past Due	$ 14,083,000	67.4%	$ 4,992,000	49.9%	$ 4,977,000	49.3%
15-29 Days Past Due	1,377,000	6.6%	901,000	9.0%	712,000	7.1%
30-59 Days Past Due	499,000	2.4%	181,000	1.8%	670,000	6.6%
60-89 Days Past Due	663,000	3.2%	1,880,000	18.8%	1,093,000	10.8%
90-119 Days Past Due	66,000	0.3%	235,000	2.3%	1,169,000	11.6%
≥ 120 Days Past Due	4,212,000	20.2%	1,820,000	18.2%	1,477,000	14.6%
Total	$ 20,900,000	100.0%	$ 10,009,000	100.0%	$ 10,098,000	100.0%

Liquidity

Liquidity refers to the ability of a financial institution to generate sufficient cash to fund current loan demand, meet savings deposit withdrawals and pay operating expenses. The primary sources of liquidity are cash, interest-bearing deposits in other financial institutions, marketable securities, loan repayments, increased deposits and total institutional borrowing capacity.

Cash Requirements

Management believes that the Company has adequate liquidity and adequate sources for obtaining additional liquidity if needed. The Company's internal Asset/Liability Committee (ALCO) meets regularly to review projected loan demand and discuss appropriate funding sources to adequately manage the Company's gap position and minimize interest rate risk.

Short-term liquidity needs resulting from normal deposit/withdrawal functions are provided by the Company retaining a portion of cash generated from operations and through utilizing federal funds and repurchase agreements. Long-term liquidity and other liquidity needs are provided by the ability of the Company to borrow from the Federal Home Loan Bank of Indianapolis (FHLB), to obtain brokered certificates of deposit (CDs) and to borrow on a line of credit. FHLB advances were $18,349,000 at September 30, 2007 compared to $19,430,000 at December 31, 2006. At September 30, 2007, the Company had excess borrowing capacity at the FHLB of $36,120,000 as limited by the Company's board resolution in effect at that date. In terms of managing the Company's liquidity, management's primary focus is on increasing deposits to fund future growth. However, the Board may increase its resolution limit on FHLB advances if the Company needs additional liquidity.

Over the past year, the Company has also utilized alternative funding sources. The Company obtained an unsecured line of credit with U.S. Bank during 2006. The maximum amount that can be borrowed is $10,000,000. The line of credit carries a variable interest rate of 1.50 percent over LIBOR and changes monthly. At September 30, 2007, the Company had a zero balance with $10,000,000 available on this line of credit. In July 2005, the Company began using brokered CDs as an alternate source of funding. At September 30, 2007, the Company had $18,756,000 in brokered CDs on its balance sheet, compared to $27,061,000 at December 31, 2006 and $35,101,000 at September 30, 2006. In July 2006, the Company formed Monroe Bancorp Capital Trust I (Trust I). Trust I issued 3,000 shares of Fixed/Floating Rate Capital Securities with a liquidation amount of $3,000,000 in a private placement, and 93 Common Securities with a liquidation amount of $1,000 per Common Security to the Company for $93,000. The aggregate proceeds of $3,093,000 were used by Trust I to purchase $3,093,000 in Fixed/Floating Rate Junior Subordinated Debentures from the Company. In March 2007, the Company formed Monroe Bancorp Statutory Trust II (Trust II). Trust II issued 5,000 shares of Fixed/Floating Rate Capital Securities with a liquidation amount of $5,000,000 in a private placement, and 155 Common Securities with a liquidation amount of $1,000 per Common Security to the Company for $155,000. The aggregate proceeds of $5,155,000 were used by Trust II to purchase $5,155,000 in Fixed/Floating Rate Junior Subordinated Debentures from the Company. The proceeds of these debentures are intended to be used to repurchase Company stock.

At the bank holding company level, the Company primarily uses cash to pay dividends to shareholders and to repurchase stock. During the past twelve months, the main source of funding for the holding company has been proceeds from trust preferred debentures. Prior to that, the main source of funding for the holding company was dividends from its subsidiary (the Bank). During the nine months ended September 30, 2007, the Bank declared dividends to the holding company of $3,672,000. As of October 1, 2007, the amount of dividends the Bank can pay to the parent company without prior regulatory approval was $13,414,000, versus $10,586,000 at January 1, 2007. As discussed in Note 11 to the Consolidated Financial Statements (page 47 of the 2006 Annual Report to Shareholders) and Item 1 of the December 31, 2006 Form 10-K, the Bank is subject to many regulations and, among other things, may be limited in its ability to pay dividends or transfer funds to the holding company. Accordingly, consolidated cash flows as presented in the Consolidated Statements of Cash Flows on page 7 may not represent cash immediately available to the holding company.

Sources and Uses of Cash

The following discussion relates to the Consolidated Statements of Cash Flows (page 7 of the consolidated condensed financial statements). During the nine months ended September 30, 2007, $8,303,000 of cash was provided by operating activities, compared to $193,000 provided during the same period in 2006. The decrease in this area was primarily a result of changes in other assets and other liabilities. During the first nine months of 2007, $14,037,000 was used for investing activities, compared to $31,144,000 in the same period of 2006. The decrease in the use of funds in this category occurred primarily because the Company had a $6,993,000 increase in loans in the first nine months of 2007 compared to a $28,737,000 increase in the same period of 2006. During the first nine months of 2007, $2,592,000 was used by financing activities compared to $11,535,000 of cash provided by financing activities during the same period in 2006. The decrease in this area was primarily a result of a $21,526,000 decrease in borrowings during the first nine months of 2007 compared to a $34,862,000 increase in the same period of 2006. Overall, net cash and cash equivalents decreased $8,326,000 during the nine months ended September 30, 2007 compared to a decrease of $19,416,000 in the same period of 2006.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time, due to inflation.

The primary assets and liabilities of the Company are monetary in nature. Consequently, interest rates generally have a more significant impact on performance than the effects of inflation. Interest rates, however, do not necessarily move in the same direction or with the same magnitude as the price of goods and services. In a period of rapidly rising interest rates, the liquidity and the maturity structure of the Company's assets and liabilities are critical to the maintenance of acceptable performance levels. The Company constantly monitors the liquidity and maturity structure of its assets and liabilities, and believes active asset/liability management has been an important factor in its ability to record consistent earnings growth through periods of interest rate volatility.

Other

The Securities and Exchange Commission maintains a Web site that contains reports, proxy information statements, and other information regarding registrants that file electronically with the Commission, including Monroe Bancorp (ticker symbol MROE). The address is http://www.sec.gov.

Future Accounting Matters

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Company does not expect that the adoption of SFAS No. 157 will have a material impact on financial condition or results of operations.

In September 2006, the FASB Emerging Issues Task Force (EITF) finalized Issue No. 06−5, *Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85−4* (Accounting for Purchases of Life Insurance). This issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the issue discusses whether the cash surrender value should be discounted when the policyholder is contractually limited in its ability to surrender a policy. This issue is effective for fiscal years beginning after December 15, 2006. The Company does not expect that the adoption EITF No. 06-5 will have a material impact on financial condition of results of operations.

On February 15, 2007, the FASB issued its Statement No. 159, The Fair Value Option for Financial Assets and Financial *Liabilities—Including an Amendment of FASB Statement No. 115*. FAS 159 permits entities to elect to report most financial assets and liabilities at their fair value with changes in fair value included in net income. The fair value option may be applied on an instrument-by-instrument or instrument class-by-class basis. The option is not available for deposits withdrawable on demand, pension plan assets and obligations, leases, instruments classified as stockholders' equity, investments in consolidated subsidiaries and variable interest entities and certain insurance policies. The new standard is effective at the beginning of the Company's fiscal year beginning January 1, 2008, and early application may be elected in certain circumstances. The Company expects to first apply the new standard at the beginning of its 2008 fiscal year. The Company does not expect that the adoption of SFAS No. 159 will have a material impact on financial condition or results of operations.

Forward-Looking Statements

Portions of information in this Form 10-Q contain forward-looking statements about the Company which we believe are within the meaning of the Private Securities Litigation Reform Act of 1995. This Form 10-Q 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; (2) changes in the interest rate environment; (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; (5) legislative or regulatory changes adversely affect the business of the Company; (6) changes in real estate values or the real estate markets; and (7) the Company's business developments in new markets in and around Hendricks and Hamilton Counties. Further information on other factors which could affect the financial results of the Company are included in the Company's Form 10-K for the year ended December 31, 2006 as filed with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk of the Company encompasses exposure to both liquidity risk and interest rate risk and is reviewed on an ongoing basis by management and quarterly by the Asset/Liability Committee ("ALCO") and the Board of Directors. Liquidity was addressed as part of the discussion entitled "Liquidity."

The Company's interest sensitivity position at September 30, 2007 remained consistent with the Company's primary goal of maximizing interest margin while maintaining a low exposure to interest rate risk.

Management uses several techniques to measure interest rate risk. Interest rate risk exposure is measured using an interest rate sensitivity analysis to determine the change in the net portfolio value ("NPV") of its cash flows from assets and liabilities in the event of hypothetical changes in interest rates. Management also forecasts the net interest income that the Bank's current balance sheet would yield over the next twelve months assuming the same hypothetical changes in interest rates. A third method used by the Bank to measure interest rate risk is an interest rate sensitivity gap analysis. The gap analysis is utilized to quantify the repricing characteristics of the Bank's assets and liabilities.

Management believes that its forecast of changes in net interest income under various rate shocks is the more valuable and easiest to interpret interest rate risk measurement technique. Management believes that interested parties will derive a better understanding of how the Company's intermediation activities will perform under different rate scenarios from its presentation of projected net interest income under various rate shocks. This should help users of the information form clearer opinions of the Company's interest rate sensitivity.

The Company's Board of Directors adopted an interest rate risk policy which established a 20 percent maximum increase or decrease in net interest income in the event of a sudden and sustained 2 percent (200 basis point) increase or decrease in interest rates.

The following table summarizes the results of management's forecast of net interest income that would be generated by the Bank's September 30, 2007 balance sheet under various rate shocks:

Projected Change in Net Interest Income - September 30, 2007

Change in Interest Rate (basis points)	Projected Net Interest Income Over the Next Twelve Months (in thousands)	$ Change in Net Interest Income (in thousands)	% Change in Net Interest Income
+200	21,958	$ (891)	(3.90) %
+100	22,471	(378)	(1.65)
0	22,849	0	0
-100	22,882	33	0.14
-200	22,668	(181)	(0.79)

For comparative purposes, the table on the following page summarizes the results of management's forecast of net interest income that would be generated by the Bank's December 31, 2006 balance sheet under various rate shocks:

Projected Change in Net Interest Income - December 31, 2006

Change in Interest Rate (basis points)	Projected Net Interest Income Over the Next Twelve Months (in thousands)	$ Change in Net Interest Income (in thousands)	% Change in Net Interest Income
+200	$ 20,593	$ (1,197)	(5.49) %
+100	21,264	(526)	(2.41)
0	21,790	0	0
-100	22,070	280	1.28
-200	21,954	164	0.75

Management believes a 200 basis point (2 percent) change in interest rates, in either direction, over the next twelve months is unlikely. Nonetheless, it is informative to quantify how rate changes of this magnitude could affect net interest income derived from the Company's current balance sheet and use this measure to the Company's interest rate risk.

The September 30, 2007 table indicates that the Bank's projected net interest income for the next twelve months would decline by 3.9 percent in the event of a sudden and sustained 200 basis point increase in interest rates. This result is largely driven by the Company having more liabilities, primarily deposits that would reprice over the twelve-month horizon, than assets. As a result, net interest expense would increase faster than interest income in the event of an upward rate shock.

Net interest income is projected to decrease modestly (0.79 percent) in the event of an immediate 200 basis point decrease in interest rates. The projected 0.79 percent decrease in net interest income may seem counter intuitive considering the Company has more liabilities than assets repricing over the twelve month horizon. The explanation is found in the fact the Company has deposits that are currently priced below 2.00 percent which could not be repriced to match the 200 basis point drop in market rates. Alternatively, virtually all of the Company's interest earning assets subject to repricing could reprice downward the full 200 basis points.

The forecasts from both time periods indicate the interest rate sensitivities of the Bank's assets and liabilities are relatively well matched over the rate shock ranges between a decrease of 100 basis points and an increase of 200 basis points. The estimated changes in net interest income calculated as of September 30, 2007, are within the approved guidelines established by the Board of Directors.

Computations of prospective effects of hypothetical interest rate changes are based on a number of assumptions, including relative levels of market interest rates, loan prepayments and deposit run-off rates, and should not be relied upon as indicative of actual results. These computations do not contemplate actions management may undertake in response to changes in interest rates. The NPV calculation is based on the net present value of discounted cash flows utilizing certain prepayment assumptions and market interest rates.

Certain shortcomings are inherent in the method of computing the estimated net interest income under hypothetical rate shocks. Actual results may differ from that information presented in the table above should market conditions vary from the assumptions used in preparation of the table information. If interest rates remain or decrease below current levels, the proportion of adjustable rate loans in the loan portfolio could decrease in future periods due to refinancing activity. Also, in the event of an interest rate change, prepayment and early withdrawal levels would likely be different from those assumed in the table. Lastly, the ability of many borrowers to repay their adjustable rate debt may decline during a rising interest rate environment.

Item 4. Controls and Procedures

Monroe Bancorp's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of

September 30, 2007, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of September 30, 2007 were effective in ensuring material information required to be disclosed in this Quarterly Report on Form 10-Q was recorded, processed, summarized, and reported on a timely basis.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in our 2006 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Stock Repurchased During the Third Quarter of 2007

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (dollar amount in thousands)
July 1-31, 2007	30,000	$ 17.40	30,000	$ 3,229
August 1-31, 2007	26,042	17.39	26,042	2,776
September 1-30, 2007	-	-	-	2,776
Totals	56,042	$ 17.40	56,042	

The stock repurchase plan was announced June 16, 2006. Total dollar amount approved: $10,000,000. The plan has no expiration date, but the Board of Directors may terminate the plan at anytime. The Board recently decided to suspend repurchase activities for the fourth quarter of 2007 and the first quarter of 2008. The Company's most recent stock repurchase transaction took place on August 7, 2007.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibit No:	Description of Exhibit:
3 (i)	Monroe Bancorp Articles of Incorporation are incorporated by reference to registrant's Form 10 filed November 14, 2000.
3 (ii)	Monroe Bancorp By-laws as Amended and Restated August 16, 2007, are incorporated by reference to registrant's Form 8-K filed August 22, 2007.
10 (i)	1999 Directors' Stock Option Plan of Monroe Bancorp is incorporated by reference to registrant's Form 10 filed November 14, 2000.
10 (ii)	1999 Management Stock Option Plan of Monroe Bancorp is incorporated by reference to registrant's Form 10 filed November 14, 2000.
10 (iii)	Deferred Compensation Trust for Monroe Bancorp is incorporated by reference to registrant's Form 10 filed November 14, 2000.
10 (iv)	Monroe County Bank Agreement for Supplemental Death or Retirement Benefits is incorporated by reference to registrant's Form 10 filed November 14, 2000.
10 (v)	Monroe Bancorp Thrift Plan as Amended and Restated January 1, 2001 is incorporated by reference to registrant's Form 10-Q filed November 13, 2002.
10 (vi)	Monroe Bancorp Employee Stock Ownership Plan as Amended and Restated January 1, 2001 is incorporated by reference to registrant's Form 10-Q filed November 13, 2002.
10(vii)	Third Amendment to the Monroe Bancorp Employees' Stock Ownership Plan is incorporated by reference to registrant's Form 10-K filed March 29, 2004.
10(viii)	Monroe Bancorp Directors' Deferred Compensation Plan as Amended and Restated Effective January 1, 1999 and First and Second Amendments are incorporated by reference to registrant's Form 10-K filed March 29, 2004.
10(ix)	Monroe Bancorp Executives' Deferred Compensation Plan as Amended and Restated Effective January 1, 1999 and First, Second and Third Amendments are incorporated by reference to registrant's Form 10-K filed March 29, 2004.
10 (x)	Form of agreement under the 1999 Management Stock Option Plan of Monroe Bancorp is incorporated by reference to registrant's Form 10-K filed March 15, 2005.
10 (xi)	Schedule of 2007 Directors Compensation Arrangements is incorporated by reference to registrant's Form 8-K filed December 13, 2006.
10 (xii)	Schedule of 2007 Executive Officers Compensation Arrangements is incorporated by reference to registrant's Form 8-K filed December 13, 2006.
10(xiii)	Fourth Amendment to the Monroe Bancorp Employees' Stock Ownership Plan is incorporated by reference to Form 10-Q filed May 9, 2005.
10(xiv)	Monroe Bancorp Directors' 2005 Deferred Compensation Plan incorporated by reference to Form 10-K filed March 14, 2006.

10(xv)	Monroe Bancorp Executives' 2005 Deferred Compensation Plan incorporated by reference to Form 10-K filed March 14, 2006.
10(xvi)	Form of agreement under the Monroe Bancorp Directors' 2005 Deferred Compensation Plan incorporated by reference to Form 10-K filed March 14, 2006.
10(xvii)	Form of agreement under the Monroe Bancorp Executives' 2005 Deferred Compensation Plan incorporated by reference to Form 10-K filed March 14, 2006.
10(xviii)	First Amendment to the Monroe Bancorp Thrift Plan as Amended and Restated January 1, 2001, incorporated by reference to Form 10-Q filed May 9, 2006.
10(xix)	Second Amendment to the Monroe Bancorp Thrift Plan as Amended and Restated January 1, 2001, incorporated by reference to Form 10-Q filed May 9, 2006.
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10(xxi)	Fourth Amendment to the Monroe Bancorp Thrift Plan as Amended and Restated January 1, 2001, incorporated by reference to Form 10-Q filed May 9, 2006.
10(xxii)	Fifth Amendment to the Monroe Bancorp Thrift Plan as Amended and Restated January 1, 2001, incorporated by reference to Form 10-Q filed May 9, 2006.
10(xxiii)	Sixth Amendment to the Monroe Bancorp Thrift Plan as Amended and Restated January 1, 2001, incorporated by reference to Form 10-Q filed May 8, 2007.
31(i)	Certification for Annual Report on Form 10-Q by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(ii)	Certification for Annual Report on Form 10-Q by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32(i)	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32 (ii)	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MONROE BANCORP

Date: November 8, 2007

By: /s/ Mark D. Bradford
Mark D. Bradford, President and Chief Executive Officer
(Principal Executive Officer)

Date: November 8, 2007

By: /s/ Gordon M. Dyott
Gordon M. Dyott, Exec. Vice President, Chief Financial Officer (Principal Financial Officer)

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32 (ii)	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

31(i)

Certification for Quarterly Report on Form 10-Q by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark D. Bradford, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Monroe Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2007

/s/ Mark D. Bradford
Mark D. Bradford
President, Chief Executive Officer
(Principal Executive Officer)

31(ii)

Certification for Quarterly Report on Form 10-Q by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Gordon M. Dyott, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Monroe Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2007

/s/ Gordon M. Dyott
Gordon M. Dyott
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

32(i)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Monroe Bancorp (the “Company”) on Form 10-Q for the period ending September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark D. Bradford, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

/s/ Mark D. Bradford

Mark D. Bradford
President, Chief Executive Officer
(Principal Executive Officer)
November 8, 2007

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed for any other purpose.

32(ii)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Monroe Bancorp (the "Company") on Form 10-Q for the period ending September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gordon M. Dyott, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

/s/ Gordon M. Dyott

Gordon M. Dyott
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)
November 8, 2007

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed for any other purpose.