



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Porter Bancorp, Inc. and PBI Bank, Inc.

Person to be contacted regarding this report:	C. Bradford Harris
UST Sequence Number:	60
CPP Funds Received:	35,000,000
CPP Funds Repaid to Date:	0
Date Funded (first funding):	November 21, 2008
Date Repaid ¹ :	N/A

RSSD: (For Bank Holding Companies)	0001249712
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	9314
City:	Louisville
State:	Kentucky

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	We believe our receipt of CPP funds has positioned us to remain strong and viable during this difficult environment and will allow us to stand ready to provide credit in the future. During 2009, we made new loans of approximately \$402 mil and renewed loans of approximately \$602 mil.
<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	In 2009, we had an increase in commercial mortgage loans, residential mortgage loans and agriculture loans.
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	We have used CPP funds to purchase additional private label mortgage-backed securities.

<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	Based on our concern about the impact that the prolonged recession would have on the Bank's loan portfolio and underlying collateral, we significantly increased our loan loss reserve during 2009.
<input checked="" type="checkbox"/>	Reduce borrowings	During 2009, we reduced our advances from the Federal Home Loan Bank by approximately \$60 million.
<input checked="" type="checkbox"/>	Increase charge-offs	During 2009, our charge-offs on real estate loans increased as a result of the prolonged recession's effect on our loan portfolio and underlying collateral.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

Our receipt of CPP funds enabled us to maintain a stronger capital position than we would have been in otherwise. We believe that maintaining a strong capital position complements and facilitates our capacity and willingness to lend and bolsters our ability to withstand uncertain market conditions. If we had not received the CPP funds, we may have had to go into the capital markets, which were frozen, to maintain our strong capital position.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

Our receipt of CPP funds has enabled us to provide more credit than we would have been able to do if we did not receive the capital injection. We were better able to meet the credit needs of creditworthy borrowers by providing credit in a manner consistent with prudent lending practices. In 2009, PBI Bank had total new and renewed loan activity in the approximate amount of \$1.0 billion. We believe this loan growth supports our contention that we are continuing our directives to lend prudently. We plan to continue to prudently pursue all lending opportunities that become available in our markets. We believe our receipt of the CPP funds has positioned us to remain strong and viable during this difficult environment and will allow us to stand ready to provide credit in the future.

Our receipt of CPP funds enabled us to maintain a strong capital position. Based upon a recommendation of the Federal Reserve Bank, Porter Bancorp established a reserve of cash of approximately \$10 million for future capital injections into PBI Bank should the need arise due to growth and/or negative effects of the continuing recession on our operations. The FDIC has advised PBI Bank to maintain a capital cushion and a strong loan loss reserves to offset the potential threat to asset quality from a prolonged recession and its effect on our customers' ability to repay their loan obligations. Porter Bancorp injected \$10 million of capital into PBI Bank during December 2008, which has enabled us to remain well capitalized. PBI Bank has also significantly increased our loan loss reserve based on a more conservative assessment of our credit risks inherent in the loan portfolio.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

As a result of directives from the Federal Reserve and the FDIC, we have developed and are participating in some "innovative" loan pr