

PORTER BANCORP, INC.

162 S. BUCKMAN STREET  
P.O. BOX 159  
SHEPHERDSVILLE, KENTUCKY 40165

(502) 543-2296

(502) 955-6034

FAX (502) 543-1975

J. CHESTER PORTER, CHAIRMAN  
MARIA L. BOUVETTE, PRESIDENT & CEO

March 6, 2009

Neil M. Barofsky  
Special Inspector General  
Troubled Asset Relief Program  
1500 Pennsylvania Avenue, N.W., Suite 1064  
Washington, D.C. 20220

RE: Porter Bancorp, Inc.

Dear Mr. Barofsky:

This letter is submitted in response to your request for information regarding the participation of Porter Bancorp, Inc., Louisville, Kentucky (the "Company"), in the Capital Purchase Program ("CPP").

On November 21, 2008, Porter Bancorp completed the sale of \$35 million of preferred stock to the U.S. Treasury Department under the CPP. At the time of the sale, the Company stated in a press release that the \$35 million in TARP funds would strengthen its capital base by raising Porter Bancorp's Tier 1 capital ratio to 12.21% from 9.55% and its total capital ratio to 14.14% from 11.49%, on a pro forma basis at September 30, 2008. As of December 31, 2008, the Company's Tier 1 capital ratio was 12.13% and the Company's total capital ratio was 14.05%. The Company further noted that the new capital would provide Porter Bancorp with increased flexibility to serve its customers and support its growth and expansion opportunities.

(b) (8) we established a reserve of cash of approximately \$10 million to be held for future capital injections in PBI Bank should the need arise due to growth and/or negative effects of the prolonged recession on our operations. (b) (8) we injected \$10 million of capital into PBI Bank to maintain a capital cushion at the bank level and increased our loan loss reserves to approximately 1.5% of loans to ensure the Company has strong reserves to manage our credit risk during this difficult economic environment. We intend to maintain 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.

As you know, Banks do not "lend" their capital, rather the receipt of capital allows the Bank to leverage its balance sheet to enable it to increase deposits and assets (loans and securities) while maintaining strong capital ratios.

The Company's long term strategy for the use of the TARP funds is to increase our capital levels to support our Company's strategy of asset and deposit growth while maintaining a very strong capital base.

(b) (4) (b) (4)

Managing growth properly is in accordance with our Regulators' expectations.

Since we received our TARP funds, we have continued to make loans as follows:

	<u>NEW</u>	<u>RENEWED</u>	<u>TOTAL</u>
December	\$48 million	\$58 million	\$106 million
January	\$10 million	\$50 million	\$ 60 million
February	\$45 million	\$38 million	\$ 83 million

The new loan activity supports our asset growth forecast for the year 2009. We further 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 TARP funds has positioned us to remain strong and viable during this difficult environment and will allow us to stand ready to provide credit as the economy firms and begins to turn around.

(b) (4)

The following information illustrates how the TARP funds have assisted the Company and its affiliate PBI Bank in supporting prudent lending and/or supporting efforts to work with existing borrowers to avoid unnecessary foreclosures. We have developed and are participating in some "innovative" loan programs to assist our customers and potential buyers of their projects to help unfreeze the slowdown in sales due to the current economic downturn. We believe these programs are

demonstrative of our sincere efforts to meet our lending obligations to the markets we serve.

We have developed the PBI Bank Spec Home/Condo Loan Program. This is a new loan product that is being offered to our current real estate development customers, which provides attractive financing for buyers of their inventory, including favorable LTV ratios, lower credit score thresholds and streamlined approvals. PBI Bank is currently in the process of educating lenders about this new program.

PBI Bank has received a grant under the FHLB Preserving the American Dream Grant Program. This program assists first mortgage customers with an opportunity to preserve homeownership in the face of economic distress. One of the uses of the funds is to provide "rescue" funds to our customers to bring mortgage payments current to avoid foreclosure. PBI Bank has received \$6,305 of rescue funds to assist three home owners delinquent on their mortgages. The funds are from a \$100,000 grant the bank received in September to assist home owners that were at risk of foreclosure. The Bank is working to identify additional home owners that are delinquent and referring them to the assistance program. It should be noted that only three counties in our footprint are eligible to use these funds.

We have developed the CPP In-House Loan Program. We are allocating up to \$5 million of funds for this in-house mortgage program, which is intended to support mortgage customers in our markets. This program has been designed to assist "at risk" customers and potential customers covering builders, developers and homeowners. The offering terms under this program are intended to be more attractive than secondary market offerings. The program is also designed to provide potential assistance to those that may not qualify in the secondary market, while providing sufficient credit risk mitigation factors for the protection of PBI Bank. PBI Bank is currently in the process of educating lenders about this new program. No loans have been made under this program because most of the leads resulted in secondary market opportunities.

We are working on a partnership with the city of Greensburg, Kentucky known as the Neighborhood Stabilization Project. Under this project, we would provide first mortgage financing to buyers of affordable housing units. These units would be developed under the direction of the city of Greensburg using a \$2 million grant to revive blighted areas by creating new affordable housing units with down payment incentives from a portion of the grant proceeds. During January, the city of Greensburg submitted their applications requesting participation in the program. A decision from the State should be forthcoming.

We have completed the application process to become a FNMA/FHLMC direct lender which will allow us to provide more favorable long-term fixed rate loan options to customers.

In addition to the programs described above, on a case-by-case basis, we have implemented in house debt relief measures to mitigate potential repayment

issues on mortgages in our attempt to assist "at risk" borrowers who have been detrimentally affected by the current economic downturn. We are attempting to improve our reporting/communication procedures for these cases. In addition, our management is also in the process of reviewing the programs set forth in the Homeowner Affordability and Stability Plan announced in February.

Prior to closing the sale of preferred stock to the U.S. Treasury, the Company's Compensation Committee conducted a meeting to address the issues that had arisen from the Company's planned participation in the CPP. Prior to the meeting, management had requested that the Company's outside legal counsel review the Company's Supplemental Executive Retirement Plan ("SERP"), 2006 Stock Incentive Plan ("Incentive Plan") and sample restricted stock award agreements and bonus and stock award policies, to determine how the new restrictions apply to these arrangements.

Upon the advice of legal counsel, the Compensation Committee determined that none of the Company's senior executive officers total compensation currently exceeded \$500,000, and therefore, the limit for deducting executive compensation pursuant to Code Section 162(m) was not applicable. The Compensation Committee also determined that the expanded 280G golden parachute rule did not apply to any of the Company's current compensation programs. The Compensation Committee concluded that the 2008 Cash Incentive Compensation Bonus plan and the 2008 Stock Incentive Bonus Plan were subject to the new repayment requirement for performance pay, and as a result, adopted resolutions to supplement the policies with the new clawback requirement.

The Compensation Committee also reviewed the incentive compensation plans with the Company's risk management officers to assess whether the incentive compensation structures were designed to avoid unnecessary risk. The Compensation Committee determined that incentive compensation is provided to senior executive officers only through equity awards in accordance with the detailed written plans approved by the Compensation Committee, and the Compensation Committee considered whether these arrangements could lead to senior executive officers taking unnecessary and excessive risks that could threaten the value of the Company. The Compensation Committee discussed the long and short term risks to the value of the Company with the Company's risk management officers, and how the incentive compensation might incentivize senior executive officers. The Compensation Committee determined that the Company's bonus plans included a stated goal of maximizing performance while enhancing risk management procedures and the incentive goals and other features should not lead to senior executive officers taking unnecessary and excessive risk. The Compensation Committee also determined that the criteria used under the stock plan to determine equity awards should not lead to unnecessary and excessive risk taking by senior executive officers.

The Company is in the process of reviewing the extensive new restrictions on the compensation arrangements of financial institutions participating in the TARP that are included in the American Recovery and Reinvestment Act of 2009. The

Company is waiting on the issuance of regulations by the Treasury to determine if it needs to make any changes to any of its compensation arrangements.

I, Maria L. Bouvette, certify that: I have reviewed this response and supporting documents, and, based on my knowledge, this response and the supporting documents do 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.

\* \* \*

If you have any further questions regarding the Company's receipt of TARP funds or need any additional information, please do not hesitate to call me at (b) (6)

(b) (6)

Sincerely,



Maria L. Bouvette  
President and Chief Executive Officer