



2008 ANNUAL REPORT

Porter Bancorp, Inc. is the holding company for PBI Bank, which serves local residents and businesses through more than a dozen offices in Louisville and other portions of central Kentucky. Our customer service-oriented operating philosophy, which features timely decision-making and locally empowered personnel, has been the cornerstone of our significant growth. Porter Bancorp's common stock is traded on the NASDAQ Global Market under the symbol "PBIB."



To Our Shareholders

The banking industry experienced very difficult times in 2008 that were unprecedented and daunting. Porter Bancorp (PBIB) was not immune to some of the same pressures that caused this crisis of confidence in our industry and country. However, because we have stuck to our values and stayed focused on our long-term objectives, I am pleased to report that PBIB remains strong and profitable.

Our company is a solid performer in the banking industry, and as a result is attracting new depositors and borrowers. Unlike many in our industry, PBIB avoided subprime mortgages and other exotic loans and investments because of our disciplined lending and risk management standards. Our strong capital levels and balance sheet allow us to continue making loans needed by our good clients and communities.

Our fundamental banking strengths, underlying revenue engine and consistent earnings power are reflected by a number of positive indicators: growth in loans and deposits as well as the fee income that diversifies our income stream, and improvement in net interest income and operating efficiency.

That said, we must be resolute to meet the challenges that will continue to test us in 2009. Real estate lending remains a core business for PBIB, and we expect continued weakening in that sector at least in the first half of 2009. We have allocated more resources to resolve problem loans while also working with our real estate clients to help them get through these difficult times.

The acquisition of Kentucky Trust Bank in October 2007 and Paramount in February 2008 were key factors in Porter Bancorp reporting record assets, loans and deposits in 2008.

I remain very optimistic about the long-term outlook for our company. As the financial markets stabilize, I expect that PBIB's position and performance will continue to excel and our stature and strength will enable us to seize exciting new opportunities.

2008 RESULTS

During 2008, we increased our market share as we leveraged our recent acquisitions of Kentucky Trust Bank in October 2007 and Paramount Bank in February 2008. Loans grew 10.9% to \$1.4 billion and deposits rose 10.5% to \$1.3 billion compared with 2007. Our total assets were up 10.5% to \$1.6 billion and were fueled by organic loan growth and successful acquisitions.

The Paramount acquisition solidified our position in Lexington, Kentucky, the second largest market in the state. The acquisition added \$75 million in assets and \$75 million in deposits. Lexington is an attractive growth market with a diversified economic base. It is noted as the "Horse Capital of the World" and serves as the economic and cultural hub for central and eastern Kentucky.

We refined our growth strategy in 2008 and focused on integrating acquisitions, improving our operating efficiencies and minimizing our credit risks to protect our earnings and capital base.

PBIB's results reflect the difficult and unprecedented operating environment in 2008, but we outperformed our peers' median metrics for return on average assets, return on average equity and efficiency and demonstrated consistent underlying earnings power.

Net income for the year totaled \$14 million, or \$1.68 per diluted share, reflecting slight decreases compared to 2007. While we are certainly disappointed with lower results after many years of record operating earnings, our overall results reflect a number of positive developments that position us to again achieve superior results as markets stabilize.

We grew non-interest income, our second largest source of revenue, by 23.6% to \$6.9 million in 2008. The growth in non-interest income benefited from higher service charges due to our expansion of accounts, income from fiduciary activities acquired with Kentucky Trust Bank, and a gain on the sale of a branch.

We experienced increases in our levels of nonperforming assets and credit losses as a result of the weakened economy and economic recession. The increases in credit problems and the provision for credit losses were the biggest cause of our lower earnings. We have worked to stay ahead of growing credit issues as the economy deteriorated by increasing loan loss reserves.

Nonperforming loans, as a percentage of total loans, were 1.58% at December 31, 2008, compared to 1.04% a year earlier. Net charge-offs increased to .27% of average loans for the year, up from .21% a year earlier.

We are very fortunate to operate in the largest markets in Kentucky which have experienced resiliency compared to the overall U. S. economy. We have experienced fewer problems in our core markets, where price volatility has been more moderate.

While we anticipate further increases in non-performing assets and charge-offs into 2009, it is worth noting that our level of problem credits is very manageable. We also have strong reserves.

PBIB's capital position remains strong at a time when erosion of bank capital has been a growing concern. At December 31, 2008, our Tier 1 risk-based capital ratio and total risk-based capital ratio were 12.13% and 14.05%, respectively, up from 10.4% and 11.6% a year earlier. PBIB's risk-based capital ratios are well above regulatory standards for well-capitalized banks. The increases in regulatory capital include a \$35 million capital investment by the U.S. Treasury as part of its Capital Purchase Program in the fourth quarter of 2008, in exchange for preferred stock in PBIB. We accepted the investment only because financial institutions were strongly encouraged to participate, and PBIB would have been put at a competitive disadvantage if we had declined. Consistent with the spirit of the federal government's efforts to thaw frozen credit markets, PBIB has developed new initiatives to aggressively lend to a wide variety of clients.

PBI Bank also sold a \$9 million subordinated note in July for total capital raised of \$44 million in 2008.

In summary, despite a very challenging banking environment, PBIB's results demonstrated good earnings capability. For 2008, our return on average assets was .9%, and is among the strongest results in our peer group.

KEY STRATEGIC OBJECTIVES FOR 2009

I believe it is important to stay focused on a high-performance financial services organization that can prosper in a rapidly changing, highly competitive and globally integrated environment, particularly during a time of great volatility and uncertainty facing the banking industry and overall economy. Individual strategies and tactics may change, but we remain committed to achieving our goal of earnings-per-share growth, without sacrificing the fundamental quality and long-term competitiveness of our business, nor taking unreasonable risk.

PBIB's long-term strategy is built around five principles:

- Client-driven service that consistently provides better value
- Rational risk taking and exceptional risk management
- Earnings growth
- Consistent, superior operational efficiency
- Targeted and disciplined investments for the future

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PBIB's strategic objectives for 2009 are consistent with our long-term goals and principles.

We value your investment in Porter Bancorp, Inc. Our entire team is focused on building long-term shareholder value. We look forward to reporting on our progress in 2009.



Maria L. Bouvette
President and Chief Executive Officer

Directors and Officers

Directors

J. Chester Porter

Chairman of the Board and General Counsel

Maria L. Bouvette

President and Chief Executive Officer

David L. Hawkins

Farmer and Private Investor

W. Glenn Hogan

Founder, President and Chief Executive Officer of Hogan Real Estate, a full service commercial real estate development company

Sidney L. Monroe

Retired Certified Public Accountant

Stephen A. Williams

President and Chief Executive Officer of Norton Healthcare, a not-for-profit integrated healthcare delivery organization

Executive Officers

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Chairman of the Board and General Counsel

Maria L. Bouvette

President and Chief Executive Officer

David B. Pierce

Chief Financial Officer

C. Bradford Harris

Executive Vice President and Corporate General Counsel

Corporate Information

Corporate Offices

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Stock Information

The common stock of Porter Bancorp, Inc. is traded on the NASDAQ Global Market under the symbol PBIB.

Independent Auditors

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Registrar and Transfer Agent

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Shareholder Inquiries

Inquiries regarding stock transfers, lost certificates, or address changes should be directed to the registrar and transfer agent at the address above.



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