UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2013

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 number: 001-33033

PORTER BANCORP, INC.
(Exact name of registrant as specified in its charter)

Kentucky **(State or other jurisdiction of incorporation or organization)**	**61-1142247** **(I.R.S. Employer Identification No.)**
2500 Eastpoint Parkway, Louisville, Kentucky **(Address of principal executive offices)**	**40223** **(Zip Code)**

Registrant's telephone number, including area code: (502) 499-4800

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒

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

The aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the close of business on June 30, 2013, was $10,473,876 based upon the last sales price reported for such date on the NASDAQ Global Market.

The number of shares outstanding of the registrant's Common Stock, no par value, as of February 28, 2014, was 12,894,759.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held May 28, 2014 are incorporated by reference into Part III of this Form 10-K.

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PART I

Preliminary Note Concerning Forward-Looking Statements

This report contains statements about the future expectations, activities and events that constitute forward-looking statements. Forward-looking statements express our beliefs, assumptions and expectations of our future financial and operating performance and growth plans, taking into account information currently available to us. These statements are not statements of historical fact. The words "believe," "may," "should," "anticipate," "estimate," "expect," "intend," "objective," "seek," "plan," "strive" or similar words, or the negatives of these words, identify forward-looking statements.

Forward-looking statements involve risks and uncertainties that may cause our actual results to differ materially from the expectations of future results we expressed or implied in any forward-looking statements. These risks and uncertainties can be difficult to predict and may be out of our control. Factors that could contribute to differences in our results include, but are not limited to deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; changes in the interest rate environment, which may reduce our margins or impact the value of securities, loans, deposits and other financial instruments; changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments; general economic or business conditions, either nationally, regionally or locally in the communities we serve, may be worse than expected, resulting in, among other things, a deterioration in credit quality or a reduced demand for credit; the results of regulatory examinations; any matter that would cause us to conclude that there was impairment of any asset, including intangible assets; the continued service of key management personnel; our ability to attract, motivate and retain qualified employees; factors that increase the competitive pressure among depository and other financial institutions, including product and pricing pressures; the ability of our competitors with greater financial resources to develop and introduce products and services that enable them to compete more successfully than us; the impact of governmental restrictions on entities participating in the Capital Purchase Program of the U.S. Department of the Treasury; inability to comply with regulatory capital requirements and to secure any required regulatory approvals for capital actions; legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry; and fiscal and governmental policies of the United States federal government.

Other risks are detailed in Item 1A. "Risk Factors" of this Form 10-K all of which are difficult to predict and many of which are beyond our control.

Forward-looking statements are not guarantees of performance or results. A forward-looking statement may include the assumptions or bases underlying the forward-looking statement. We have made our assumptions and bases in good faith and believe they are reasonable. We caution you however, that estimates based on such assumptions or bases frequently differ from actual results, and the differences can be material. The forward-looking statements included in this report speak only as of the date of the report. We do not intend to update these statements unless applicable laws require us to do so.

Item 1. Business

Overview

We are a bank holding company headquartered in Louisville, Kentucky. We operate the ninth largest bank domiciled in the Commonwealth of Kentucky based on total assets through our wholly-owned subsidiary PBI Bank. We operate 18 full-service banking offices in twelve counties in Kentucky. Our markets include metropolitan Louisville in Jefferson County and the surrounding counties of Henry and Bullitt, and extend south along the Interstate 65 corridor to Tennessee. We serve south central Kentucky and southern Kentucky from banking offices in Butler, Green, Hart, Edmonson, Barren, Warren, Ohio, and Daviess Counties. We also have an office in Lexington, the second largest city in Kentucky. PBI Bank is a community bank with a wide range of commercial and personal banking products. As of December 31, 2013, we had total assets of $1.1 billion, total loans of $709.3 million, total deposits of $987.7 million and stockholders' equity of $35.9 million.

History

We were organized in 1988, and historically conducted our banking business through separate community banks under the common control of J. Chester Porter, our chairman emeritus, and Maria L. Bouvette, our former chairman and chief executive officer. In 2005, we completed a reorganization in which we consolidated our subsidiary banks into a single bank. On December 31, 2005, we renamed our consolidated subsidiary PBI Bank to create a single brand name for our banking operations throughout our market area. We completed our initial public offering in September 2006.

On November 21, 2008, we issued to the U.S. Treasury, in exchange for cash consideration of $35.0 million, (i) 35,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, with a liquidation preference of $1,000 per share (the "Series A Preferred Stock"), and (ii) a warrant to purchase up to 330,561 shares of our common stock for $15.88 per share.

In 2010, we completed a $32.0 million private placement to accredited investors. Following completion of the transactions involved, Porter Bancorp had issued (i) 2,465,569 shares of common stock, (ii) 317,042 shares of Non–Voting Cumulative Mandatorily Convertible Perpetual Preferred Shares, Series C ("Series C Preferred Stock") and (iii) warrants to purchase 1,163,045 shares of non-voting common stock at a price of $11.50 per share. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation – Capital.

On June 24, 2011, PBI Bank entered into a Consent Order with the Federal Deposit Insurance Corporation ("FDIC") and the Kentucky Department of Financial Institutions ("KDFI"). The consent order requires the Bank to improve its asset quality, reduce its loan concentrations, and maintain a minimum Tier 1 leverage ratio of 9% and a minimum total risk based capital ratio of 12%.

On September 21, 2011, Porter Bancorp entered into a written agreement with the Federal Reserve Bank of St. Louis. Porter Bancorp made formal commitments to use its resources to serve as a source of strength for PBI Bank, to assist the Bank in addressing weaknesses identified by the FDIC and the KDFI, to pay no dividends without prior written approval, to pay no interest on subordinated debentures or principal on trust preferred securities without written approval, and to submit a plan to maintain sufficient capital.

In October 2012, the Bank entered into a new Consent Order with the FDIC and KDFI again agreeing to maintain a minimum Tier 1 leverage ratio of 9% and a minimum total risk based capital ratio of 12%. The Bank also agreed that if it should be unable to reach the required capital levels, and if directed in writing by the FDIC, then the Bank would within 30 days develop, adopt and implement a written plan to sell or merge itself into another federally insured financial institution or otherwise immediately obtain a sufficient capital investment into the Bank to fully meet the capital requirements. We have not been directed by the FDIC to implement such a plan. The Consent Order also requires the Bank to continue to adhere to the plans implemented in response to the June 2011 Consent Order, and includes the substantive provisions of the June 2011 Consent Order.

Our Markets

We operate in markets that include the four largest cities in Kentucky – Louisville, Lexington, Owensboro and Bowling Green – and in other communities along the I-65 corridor.

- **Louisville/Jefferson, Bullitt and Henry Counties:** Our headquarters are in Louisville, the largest city in Kentucky and the twenty-seventh largest city in the United States. We also have banking offices in Bullitt County, south of Louisville, and Henry County, east of Louisville. Our six banking offices in these counties also serve the contiguous counties of Spencer, Shelby and Oldham to the east and northeast of Louisville. The area's employers are diversified across many industries and include the air hub for United Parcel Service ("UPS"), two Ford assembly plants, General Electric's Consumer and Industrial division, Humana, Norton Healthcare, Brown-Forman, YUM! Brands, Papa John's Pizza, and Texas Roadhouse.
- **Lexington/Fayette County:** Lexington, located in Fayette County, is the second largest city in Kentucky. Lexington is the financial, educational, retail, healthcare and cultural hub for Central and Eastern Kentucky. It is known worldwide for its Bluegrass horse farms and Keeneland Race Track, and proudly boasts of itself as "The Horse Capital of the World." It is also the home of the University of Kentucky and Transylvania University. The area's employers include Toyota, Lexmark, IBM Global Services and Valvoline.
- **Southern Kentucky:** This market includes Bowling Green, the third largest city in Kentucky, located about 60 miles north of Nashville, Tennessee. Bowling Green, located in Warren County, is the home of Western Kentucky University and is the economic hub of the area. This market also includes thriving communities in the contiguous Barren County, including the city of Glasgow. Major employers in Barren and Warren Counties include GM's Corvette plant, several other automotive facilities, and R.R. Donnelley's regional printing facility.
- **Owensboro/Daviess County:** Owensboro, located on the banks of the Ohio River, is Kentucky's fourth largest city. The city is called a festival city, with over 20 annual community celebrations that attract visitors from around the world, including its world famous Bar-B-Q Festival which attracts over 80,000 visitors giving Owensboro recognition as "The Bar-B-Q Capital of the World". It is an industrial, medical, retail and cultural hub for Western Kentucky and the area employers include Owensboro Medical System, Texas Gas, US Bank Home Mortgage and Toyotetsu.

- **South Central Kentucky:** South of the Louisville metropolitan area, we have banking offices in Butler, Edmonson, Green, Hart, and Ohio Counties. This region includes stable community markets comprised primarily of agricultural and service-based businesses. Each of our banking offices in these markets has a stable customer and core deposit base.

Our Products and Services

We meet our customers' banking needs with a broad range of financial products and services. Our lending services include real estate, commercial, mortgage and consumer loans to small to medium-sized businesses, the owners and employees of those businesses, as well as other executives and professionals. We complement our lending operations with an array of retail and commercial deposit products. In addition, we offer our customers drive-through banking facilities, automatic teller machines, night depository, personalized checks, credit cards, debit cards, internet banking, electronic funds transfers through ACH services, domestic and foreign wire transfers, travelers' checks, cash management, vault services, lock box services, along with loan and deposit sweep accounts.

Employees

At December 31, 2013, the Company had 260 full-time equivalent employees. Our employees are not subject to a collective bargaining agreement, and management considers the Company's relationship with employees to be good.

Competition

The banking business is highly competitive, and we experience competition in our market from many other financial institutions. Competition among financial institutions is based upon interest rates offered on deposit accounts, interest rates charged on loans, other credit and service charges relating to loans, the quality and scope of the services offered, the convenience of banking facilities and, in the case of loans to commercial borrowers, relative lending limits. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other mutual funds, as well as super-regional, national and international financial institutions that operate offices within our market area and beyond.

Supervision and Regulation

Consent Order and Formal Written Agreement. On June 24, 2011, PBI Bank entered into a Consent Order with the FDIC and the Kentucky Department of Financial Institutions. PBI Bank agreed to obtain the written consent of both agencies before declaring or paying any future dividends. As a practical matter, PBI Bank will not be able to pay dividends to Porter Bancorp for the foreseeable future. The Consent Order also establishes benchmarks for the Bank to improve its asset quality, reduce its loan concentrations, and maintain a minimum Tier 1 leverage ratio of 9% and a minimum total risk based capital ratio of 12%. At December 31, 2013, the Bank's Tier 1 leverage ratio was 6.3% and its total risk-based capital ratio was 9.4%, which are below the minimums of 9.0% and 12.0% required by the Bank's Consent Order. At December 31, 2013, Porter Bancorp's leverage ratio was 5.0% and its total risk-based capital ratio was 7.3%. We are continuing our efforts to strengthen our capital levels and comply with the Consent Order as outlined in the current written capital plan submitted by the Bank to its regulators.

On September 21, 2011, we entered into a formal written agreement with the Federal Bank of St. Louis. Porter Bancorp made formal commitments in the agreement to use its financial and management resources to serve as a source of strength for the Bank and to assist the Bank in addressing weaknesses identified by the FDIC and the KDFI, to pay no dividends without prior written approval, to pay no interest or principal on subordinated debentures or trust preferred securities without written approval, and to submit an acceptable plan to maintain sufficient capital.

In October 2012, the Bank entered into a new Consent Order with the FDIC and KDFI again agreeing to maintain a minimum Tier 1 leverage ratio of 9% and a minimum total risk based capital ratio of 12%. The Bank also agreed that if it should be unable to reach the required capital levels, and if directed in writing by the FDIC, then the Bank would within 30 days develop, adopt and implement a written plan to sell or merge itself into another federally insured financial institution or otherwise obtain a capital investment into the Bank sufficient to recapitalize the bank. We have not been directed by the FDIC to implement such a plan.

We expect to continue to work with our regulators toward capital ratio compliance as outlined in our written capital plan. The new Consent Order also requires the Bank to continue to adhere to the plans implemented in response to the June 2011 Consent Order, and includes the substantive provisions of the June 2011 Consent Order. While we have substantially complied with the Consent Order, as of December 31, 2013, the capital ratios required by the Consent Order were not met.

Bank and Holding Company Laws, Rules and Regulations. The following is a summary description of the relevant laws, rules and regulations governing banks and bank holding companies. The descriptions of, and references to, the statutes and regulations below are brief summaries and do not purport to be complete. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

The Dodd-Frank Act. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") was signed into law. The Dodd-Frank Act imposes new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. Because the Dodd-Frank Act requires various federal agencies to adopt a broad range of regulations with significant discretion, certain of the details of the law and the effects it will have on the Company are not known at this time.

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States. There are a number of reform provisions that significantly impact the ways in which banks and bank holding companies, including the Company, do business. For example, the Dodd-Frank Act changes the assessment base for federal deposit insurance premiums by modifying the deposit insurance assessment base calculation to be based on a depository institution's consolidated assets less tangible capital instead of deposits, and permanently increases the standard maximum amount of deposit insurance per customer to $250,000. The Dodd-Frank Act also imposes more stringent capital requirements on bank holding companies by, among other things, imposing leverage ratios on bank holding companies and prohibiting new trust preferred security issuances from counting as Tier I capital. The Dodd-Frank Act also repeals the federal prohibition on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts. The Act codifies and expands the Federal Reserve's source of strength doctrine, which requires that all bank holding companies serve as a source of financial strength for its subsidiary banks. Other provisions of the Dodd-Frank Act include, but are not limited to: (i) the creation of a new financial consumer protection agency that is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas of consumer protection; (ii) enhanced regulation of financial markets, including derivatives and securitization markets; (iii) reform related to the regulation of credit rating agencies; (iv) the elimination of certain trading activities by banks; and (v) new disclosure and other requirements relating to executive compensation and corporate governance.

Many provisions of the Dodd-Frank Act will require interpretation and rule- making by federal agencies. The Company monitors all relevant sections of the Dodd-Frank Act to ensure continued compliance with laws and regulations. While the ultimate effect of the Dodd-Frank Act on the Company is not fully known, the law is likely to result in increased compliance costs and fees paid to regulators, along with possible restrictions on the Company's operations.

Porter Bancorp. Porter Bancorp is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System. As such, we must file with the Federal Reserve Board annual and quarterly reports and other information regarding our business operations and the business operations of our subsidiaries. We are also subject to examination by the Federal Reserve Board and to operational guidelines established by the Federal Reserve Board. We are subject to the Bank Holding Company Act and other federal laws on the types of activities in which we may engage, and to other supervisory requirements, including regulatory enforcement actions for violations of laws and regulations.

Acquisitions. A bank holding company must obtain Federal Reserve Board approval before acquiring, directly or indirectly, ownership or control of more than 5% of the voting stock or all or substantially all of the assets of a bank, merging or consolidating with any other bank holding company and before engaging, or acquiring a company that is not a bank but is engaged in certain non-banking activities. Federal law also prohibits a person or group of persons from acquiring "control" of a bank holding company without notifying the Federal Reserve Board in advance, and then only if the Federal Reserve Board does not object to the proposed transaction. The Federal Reserve Board has established a rebuttable presumptive standard that the acquisition of 10% or more of the voting stock of a bank holding company would constitute an acquisition of control of the bank holding company. In addition, any company is required to obtain the approval of the Federal Reserve Board before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of any class of a bank holding company's voting securities, or otherwise obtaining control or a "controlling influence" over a bank holding company.

Permissible Activities. A bank holding company is generally permitted under the Bank Holding Company Act to engage in or acquire direct or indirect control of more than 5% of the voting shares of any bank, bank holding company or company engaged in any activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking.

Under current federal law, a bank holding company may elect to become a financial holding company, which enables the holding company to conduct activities that are "financial in nature." Activities that are "financial in nature" include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking. No regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. We have not filed an election to become a financial holding company.

U.S. Treasury Capital Purchase Program . On November 21, 2008, pursuant to the U.S. Department of the Treasury's (the "U.S. Treasury") Capital Purchase Program (the "CPP") established under the Emergency Economic Stabilization Act of 2008 ("EESA"), Porter Bancorp issued and sold to the U.S. Treasury in an offering exempt from registration under the Securities Act of 1933, (i) 35,000 shares of Porter Bancorp's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value and liquidation preference $1,000 per share ($35.0 million aggregate liquidation preference) (the "Series A Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 330,561 shares (adjusted for stock dividends) of Porter Bancorp's common stock, at an exercise price of $15.88 per share (adjusted for stock dividends), subject to certain anti-dilution and other adjustments for an aggregate purchase price of $35.0 million in cash. The securities purchase agreement, dated November 21, 2008, pursuant to which the securities issued to the U.S. Treasury under the CPP were sold, limits the payment of dividends on Porter Bancorp's common stock to the quarterly dividend level at the time of the transaction without prior approval of the U.S. Treasury, limits Porter Bancorp's ability to repurchase shares of its common stock (with certain exceptions, including the repurchase of our common stock to offset share dilution from equity-based compensation awards) and grants registration rights to the holders of the Series A Preferred Stock, the Warrant and the common stock of Porter Bancorp to be issued upon any exercise of the Warrant. The U.S. Treasury has notified us that it may sell at auction the shares of Series A Preferred Stock issued by the Company. We do not know, at this time, the U.S. Treasury's timeline for such a sale.

The American Recovery and Reinvestment Act ("ARRA") was enacted on February 17, 2009. ARRA imposes certain executive compensation and corporate governance obligations on all current and future CPP recipients, including Porter Bancorp, until the institution has redeemed the preferred stock. On June 15, 2009, under the authority granted to it under EESA and ARRA, the U. S. Treasury issued an interim final rule under Section 111 of EESA, as amended by ARRA, regarding compensation and corporate governance restrictions that would be imposed on CPP recipients, effective June 15, 2009. As a CPP recipient with currently outstanding CPP obligations, we are subject to the compensation and corporate governance restrictions and requirements set forth in the interim final rule. The restrictions and requirements provided for in the implementing regulations are generally as follows: (1) required us to establish an independent compensation committee, (2) required us to adopt a corporate policy on luxury or excessive expenditures; (3) requires our compensation committee to conduct semi-annual risk assessments to assure that our compensation arrangements do not encourage "unnecessary and excessive risks" or the manipulation of earnings to increase compensation; (4) requires us to recoup or "clawback" any bonus, retention award or incentive compensation paid by us to a senior executive officer or any of our next 20 most highly compensated employees, if the payment was based on financial statements or other performance criteria that are later found to be materially inaccurate; (5) prohibits us from making severance payments or "golden parachutes" to any of our senior executive officers or next five most highly compensated employees; (6) prohibits us from paying or accruing bonuses, retention awards or incentive compensation, except for certain long-term stock awards, to our five most highly compensated employees; (7) prohibits us from providing tax gross-ups to any of our senior executive officers or next 20 most highly compensated employees; (8) requires us to provide enhanced disclosure of perquisites to the FDIC and the U.S. Treasury; (9) requires us to disclose to the FDIC and the U.S. Treasury the use and role of compensation consultants; (10) requires our chief executive officer and chief financial officer to provide period certifications about our compensation practices and compliance with the interim final rule; and (11) requires us to provide an annual non-binding shareholder vote, or "say-on-pay" proposal, to approve the compensation of our named executives, consistent with regulations promulgated by the Securities and Exchange Commission. On January 12, 2010, the SEC adopted final regulations setting forth the parameters for such say-on pay proposals for public company CPP participants. The U.S. Treasury has notified us that it intends to sell at auction the shares of Series A Preferred Stock issued by the Company. We do not know the U.S. Treasury's timeline for that sale. If the U.S. Treasury completes such a sale, most of the compensation restrictions described above will no longer apply to the Company and the Bank.

Capital Adequacy Requirements. The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of bank holding companies. Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. The guidelines require a minimum total risk-based capital ratio of 8.0%. At least half of the total capital must be composed of common equity, retained earnings, senior perpetual preferred stock issued to the U. S. Treasury under the CPP and qualifying perpetual preferred stock and certain hybrid capital instruments, less certain intangible assets ("Tier 1 capital"). The remainder may consist of certain subordinated debt, certain hybrid capital instruments, qualifying preferred stock and a limited amount of the allowance for loan losses ("Tier 2 capital"). Total capital is the sum of Tier 1 and Tier 2 capital. To be considered well-capitalized under the risk-based capital guidelines, an institution must maintain a total capital to total risk-weighted assets ratio of at least 10% and a Tier 1 capital to total risk-weighted assets ratio of 6% or greater. We are under a Consent Order with our primary regulators as previously discussed, and therefore cannot be considered well-capitalized. Please see "Supervision and Regulation" above for our capital requirements.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. Certain highly rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies may be required to maintain a leverage ratio of 4.0%.

The federal banking agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria, assuming that they have the highest regulatory rating. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

New Capital Requirements – Possible Changes to Capital Requirements Resulting from Basel III. In December 2010 and January 2011, the Basel Committee on Banking Supervision published the final texts of reforms on capital and liquidity generally referred to as "Basel III." Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by United States banking regulators in developing new regulations applicable to other banks in the United States, including the Bank. For banks in the United States, among the most significant provisions of Basel III concerning capital are the following:

- A minimum ratio of common equity to risk-weighted assets reaching 4.5%, plus an additional 2.5% as a capital conservation buffer, by 2019 after a phase-in period.
- A minimum ratio of Tier 1 capital to risk-weighted assets reaching 6.0% by 2019 after a phase-in period.
- A minimum ratio of total capital to risk-weighted assets, plus the additional 2.5% capital conservation buffer, reaching 10.5% by 2019 after a phase-in period.
- An additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at their discretion, with advance notice.
- Restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone.
- Deduction from common equity of deferred tax assets that depend on future profitability to be realized.
- Increased capital requirements for counterparty credit risk relating to OTC derivatives, repos and securities financing activities.
- For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement such that the instrument must be written off or converted to common equity if a trigger event occurs, either pursuant to applicable law or at the direction of the banking regulator. A trigger event is an event under which the banking entity would become nonviable without the write-off or conversion, or without an injection of capital from the public sector. The issuer must maintain authorization to issue the requisite shares of common equity if conversion were required.

The Basel III provisions on liquidity include complex criteria establishing a liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR"). The purpose of the LCR is to ensure that a bank maintains adequate unencumbered, high quality liquid assets to meet its liquidity needs for 30 days under a severe liquidity stress scenario. The purpose of the NSFR is to promote more medium and long-term funding of assets and activities, using a one-year horizon. Although Basel III is described as a "final text," it is subject to the resolution of certain issues and to further guidance and modification, as well as to adoption by United States banking regulators, including decisions as to whether and to what extent it will apply to United States banks that are not large, internationally active banks. We are already subject to capital requirements imposed by our consent order that are higher than Basel III.

Dividends. Under Federal Reserve policy, bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not declare a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

Porter Bancorp is a legal entity separate and distinct from PBI Bank. The majority of our revenue is from dividends paid to us by PBI Bank. PBI Bank is subject to laws and regulations that limit the amount of dividends it can pay. If, in the opinion of a federal regulatory agency, an institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice, the agency may require, after notice and hearing, that the institution cease such practice. The federal banking agencies have indicated that paying dividends that deplete an institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act (FDICIA), an insured institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the Federal Reserve and the FDIC have issued policy statements providing that bank holding companies and banks should generally pay dividends only out of current operating earnings. A bank holding company may still declare and pay a dividend if it does not have current operating earnings if the bank holding company expects profits for the entire year and the bank holding company obtains the prior consent of the Federal Reserve. Porter Bancorp and PBI Bank must obtain the prior written consent of each of their primary regulators prior to declaring or paying any future dividends.

Under Kentucky law, dividends by Kentucky banks may be paid only from current or retained net profits. Before any dividend may be declared for any period (other than with respect to preferred stock), a bank must increase its capital surplus by at least 10% of the net profits of the bank for the period until the bank's capital surplus equals the amount of its stated capital attributable to its common stock. Moreover, the Kentucky Department of Financial Institutions must approve the declaration of dividends if the total dividends to be declared by a bank for any calendar year would exceed the bank's total net profits for such year combined with its retained net profits for the preceding two years, less any required transfers to surplus or a fund for the retirement of preferred stock or debt. We are also subject to the Kentucky Business Corporation Act, which generally prohibits dividends to the extent they result in the insolvency of the corporation from a balance sheet perspective or in the corporation becoming unable to pay its debts as they come due. PBI Bank did not pay any dividends in 2012 or 2013.

Porter Bancorp is in deferral on dividends due on its issued and outstanding Series A Preferred Stock. Until accrued unpaid interest on Series A Preferred Stock is paid in full and current, no dividends on common may be paid. Additionally, unless Porter Bancorp redeems all of the Series A Preferred Stock issued to the U.S. Treasury on November 21, 2008 or unless the U.S. Treasury transfers all the preferred securities to a third party, the consent of the U.S. Treasury is required for Porter Bancorp to declare or pay any dividend or make any distribution on common stock other than (i) regular quarterly cash dividends of not more than the per share dividend amount at the time of the issuance of the Series A Preferred Stock, as adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction, (ii) dividends payable solely in shares of common stock and (iii) dividends or distributions of rights or junior stock in connection with a shareholders' rights plan.

Imposition of Liability for Undercapitalized Subsidiaries. Bank regulators are required to take "prompt corrective action" to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes "undercapitalized," it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy.

The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5% of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be "adequately capitalized." The bank regulators have greater power in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve Board approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

Source of Financial Strength. Under Federal Reserve policy, a bank holding company is expected to act as a source of financial strength to, and to commit resources to support, its bank subsidiaries. This support may be required at times when, absent such a policy, the bank holding company may not be inclined to provide it. In addition, any capital loans by the bank holding company to its bank subsidiaries are subordinate in right of payment to deposits and to certain other indebtedness of the bank subsidiary. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of subsidiary banks will be assumed by the bankruptcy trustee and entitled to a priority of payment. The Federal Reserve's "Source of Financial Strength" policy was codified in the Dodd-Frank Act.

PBI Bank. PBI Bank, a Kentucky chartered commercial bank, is subject to regular bank examinations and other supervision and regulation by both the FDIC and the Kentucky Department of Financial Institutions ("KDFI"). Kentucky's banking statutes contain a "super-parity" provision that permits a well-rated Kentucky banking corporation to engage in any banking activity which could be engaged in by a national bank operating in any state; a state bank, a thrift or savings bank operating in any other state; or a federal chartered thrift or federal savings association meeting the qualified thrift lender test and operating in any state could engage, provided the Kentucky bank first obtains a legal opinion specifying the statutory or regulatory provisions that permit the activity.

Capital Requirements. Similar to the Federal Reserve Board's requirements for bank holding companies, the FDIC has adopted risk-based capital requirements for assessing state non-member banks' capital adequacy. The FDIC's risk-based capital guidelines require that all banks maintain a minimum ratio of total capital to total risk-weighted assets of 8.0% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4.0%. To be well-capitalized, a bank must have a ratio of total capital to total risk-weighted assets of at least 10.0% and a ratio of Tier 1 capital to total risk-weighted assets of 6.0%.

PBI Bank has agreed with its primary regulators to maintain a ratio of total capital to total risk-weighted assets of at least 12.0% and a ratio of Tier 1 capital to total assets of 9%. As of December 31, 2013, PBI Bank's ratio of total capital to total risk-weighted assets was 11.44% and its ratio of Tier 1 capital to total assets was 6.28%, both under the ratios required by the Consent Order.

The FDIC also requires a minimum leverage ratio of 3.0% of Tier 1 capital to total assets for the highest rated banks and an additional cushion of approximately 100-200 basis points for all other banks. The leverage ratio operates in tandem with the FDIC's risk-based capital guidelines and places a limit on the amount of leverage a bank can undertake by requiring a minimum level of capital to total assets.

Prompt Corrective Action. Pursuant to the Federal Deposit Insurance Act ("FDIA"), the FDIC must take prompt corrective action to resolve the problems of undercapitalized institutions. FDIC regulations define the levels at which an insured institution would be considered "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A "well-capitalized" bank has a total risk-based capital ratio of 10.0% or higher; a Tier 1 risk- based capital ratio of 6.0% or higher; a leverage ratio of 5.0% or higher; and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An "adequately capitalized" bank has a total risk-based capital ratio of 8.0% or higher; a Tier 1 risk-based capital ratio of 4.0% or higher; a leverage ratio of 4.0% or higher (3.0% or higher if the bank was rated a composite 1 in its most recent examination report and is not experiencing significant growth); and does not meet the criteria for a well-capitalized bank. A bank is "undercapitalized" if it fails to meet any one of the ratios required to be adequately capitalized. A depository institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating. The degree of regulatory scrutiny increases and the permissible activities of a bank decreases, as the bank moves downward through the capital categories. Depending on a bank's level of capital, the FDIC's corrective powers include:

- requiring a capital restoration plan;
- placing limits on asset growth and restriction on activities;
- requiring the bank to issue additional voting or other capital stock or to be acquired;
- placing restrictions on transactions with affiliates;
- restricting the interest rate the bank may pay on deposits;
- ordering a new election of the bank's board of directors;
- requiring that certain senior executive officers or directors be dismissed;
- prohibiting the bank from accepting deposits from correspondent banks;
- requiring the bank to divest certain subsidiaries;
- prohibiting the payment of principal or interest on subordinated debt; and
- ultimately, appointing a receiver for the bank.

In the event an institution is required to submit a capital restoration plan, the institution's holding company must guaranty the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy. The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5% of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be "adequately capitalized." The bank regulators have greater power in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve Board approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

Deposit Insurance Assessments. The deposits of PBI Bank are insured by the Deposit Insurance Fund (DIF) of the FDIC up to the limits set forth under applicable law and are subject to the deposit insurance premium assessments of the DIF. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 (the "Reform Act"). Under this system, as amended, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. To arrive at an assessment rate for a banking institution, the FDIC places it in one of four risk categories determined by reference to its capital levels and supervisory ratings. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits.

On November 12, 2009, the FDIC amended the final rule adopted on May 22, 2009 to restore losses to the DIF. The new rule required insured institutions to prepay on December 30, 2009, an estimated quarterly risk-based assessment for the fourth quarter of 2009 and for all 2010, 2011, and 2012. An institution's assessment is calculated by taking the institution's actual September 30, 2009 assessment and adjusting it quarterly by an estimated 5% annual growth rate through the end of 2012. Further, the FDIC incorporated a uniform 3 basis point increase effective January 1, 2011. On December 30, 2009, PBI Bank prepaid $7.9 million of FDIC insurance premiums for 2010 through 2012. The entire amount of the prepaid assessment was recorded as a prepaid expense. As of December 31, 2009, and each quarter thereafter, each institution recorded an expense, or a charge to earnings, for its quarterly assessment invoiced on its quarterly statement and an offsetting credit to the prepaid assessment until the asset is exhausted. At December 31, 2012, our prepaid assessment was exhausted.

The Dodd-Frank Act imposes additional assessments and costs with respect to deposits. Under the Dodd-Frank Act, the FDIC is directed to impose deposit insurance assessments based on total assets rather than total deposits, as well as making permanent the increase of deposit insurance to $250,000 and providing for full insurance of non-interest bearing transaction accounts beginning December 31, 2010, for two years. In February 2011, the FDIC adopted a final rule on the deposit insurance assessment system. The rule was effective as of April 1, 2011, and revised the assessment system to comply with Dodd-Frank and also included a revised assessment rate process with the goal of differentiating insured depository institutions who pose greater risk to the DIF. The first assessments under the new rule were payable in the third quarter of 2011.

Safety and Soundness Standards. The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the "prompt corrective action" provisions of FDIA. See "Prompt Corrective Actions" above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Branching. Kentucky law permits Kentucky chartered banks to establish a banking office in any county in Kentucky. A Kentucky bank may also establish a banking office outside of Kentucky. Well capitalized Kentucky banks that have been in operation at least three years and that satisfy certain criteria relating to, among other things, their composite and management ratings, may establish a banking office in Kentucky without the approval of the KDFI upon notice to the KDFI and any other state bank with its main office located in the county where the new banking office will be located. Branching by all other banks requires the approval of the KDFI, which must ascertain and determine that the public convenience and advantage will be served and promoted and that there is reasonable probability of the successful operation of the banking office.

The transaction must also be approved by the FDIC, which considers a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers.

Section 613 of the Dodd—Frank Act effectively eliminated the interstate branching restrictions set forth in the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. Banks located in any state may now de novo branch in any other state, including Kentucky. Such unlimited branching power will likely increase competition within the markets in which the Corporation and the Bank operate. *Insider Credit Transactions.* The restrictions on loans to directors, executive officers, principal shareholders and their related interests (collectively referred to herein as “insiders”) contained in the Federal Reserve Act and Regulation O apply to all insured depository institutions and their subsidiaries. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution’s total unimpaired capital and surplus.

Automated Overdraft Payment Regulation. The Federal Reserve and FDIC have recently enacted consumer protection regulations related to automated overdraft payment programs offered by financial institutions. In November 2009, the Federal Reserve amended its Regulation E to prohibit financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. The Regulation E amendments also require financial institutions to provide consumers with a notice that explains the financial institution’s overdraft services, including the fees associated with the service and the consumer’s choices.

In November 2010, the FDIC supplemented the Regulation E amendments by requiring FDIC-supervised institutions to implement additional changes relating to automated overdraft payment programs by July 1, 2011. One material change requires financial institutions to monitor overdraft payment programs for “excessive or chronic” customer use and to undertake “meaningful and effective” follow-up action with customers that overdraw their accounts more than six times during a rolling 12-month period. The new guidance also imposes daily limits on overdraft charges, requires institutions to review and modify check-clearing procedures, prominently distinguish account balances from available overdraft coverage amounts and requires increased board and management oversight regarding overdraft payment programs.

Consumer Protection Laws. We are subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include, among others, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement and Procedures Act, and state law counterparts.

Equal Credit Opportunity Act. This statute prohibits discrimination against an applicant in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs or good faith exercise of any rights under the Consumer Credit Protection Act. Under the Fair Housing Act, it is unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. Among other things, these laws prohibit a lender from denying or discouraging credit on a discriminatory basis, making excessively low appraisals of property based on racial considerations, or charging excessive rates or imposing more stringent loan terms or conditions on a discriminatory basis. In addition to private actions by aggrieved borrowers or applicants for actual and punitive damages, the U.S. Department of Justice and other regulatory agencies can take enforcement action seeking injunctive and other equitable relief or sanctions for alleged violations.

Fair Credit Reporting Act (“FCRA”). FCRA requires the Bank to adopt and implement a written identity theft prevention program, paying particular attention to several identified “red flag” events. The program must assess the validity of address change requests for card issuers and for users of consumer reports to verify the subject of a consumer report in the event of notice of an address discrepancy. FCRA gives consumers the ability to challenge banks with respect to credit reporting information provided by the bank. FCRA also prohibits banks from using certain information it may acquire from an affiliate to solicit the consumer for marketing purposes unless the consumer has been given notice and an opportunity to opt out of such solicitation for a period of five years.

Truth in Lending Act (“TILA”). TILA is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As result of TILA, all creditors must use the same credit terminology and expressions of rates, and disclose the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule for each proposed loan. Violations of TILA may result in regulatory sanctions and in the imposition of both civil and, in the case of willful violations, criminal penalties. Under certain circumstances, TILA also provides a consumer with a right of rescission, which if exercised within three business days would require the creditor to reimburse any amount paid by the consumer to the creditor or to a third party in connection with the loan, including finance charges, application fees, commitment fees, title search fees and appraisal fees. Consumers may also seek actual and punitive damages for violations of TILA.

Home Mortgage Disclosure Act ("HMDA"). HMDA has grown out of public concern over credit shortages in certain urban neighborhoods. One purpose of HMDA is to provide public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics, as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes. HMDA requires institutions to report data regarding applications for loans for the purchase or improvement of single family and multi-family dwellings, as well as information concerning originations and purchases of such loans. Federal bank regulators rely, in part, upon data provided under HMDA to determine whether depository institutions engage in discriminatory lending practices. The appropriate federal banking agency, or in some cases the Department of Housing and Urban Development, enforces compliance with HMDA and implements its regulations. Administrative sanctions, including civil money penalties, may be imposed by supervisory agencies for violations of HMDA.

Real Estate Settlement Procedures Act ("RESPA"). RESPA requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. RESPA also prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Violations of RESPA may result in imposition of penalties, including: (1) civil liability equal to three times the amount of any charge paid for the settlement services or civil liability of up to $1,000 per claimant, depending on the violation; (2) awards of court costs and attorneys' fees; and (3) fines of not more than $10,000 or imprisonment for not more than one year, or both.

Loans to One Borrower. Under current limits, loans and extensions of credit outstanding at one time to a single borrower and not fully secured generally may not exceed 15% of an institution's unimpaired capital and unimpaired surplus. Loans and extensions of credit fully secured by certain readily marketable collateral may represent an additional 10% of unimpaired capital and unimpaired surplus.

Federal law currently contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

Consumer Financial Protection Bureau ("CFPB"). The Dodd-Frank Act created a new, independent federal agency called the Consumer Financial Protection Bureau, which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB, but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive acts or practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB.

The Dodd-Frank Act also permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations. Federal preemption of state consumer protection law requirements, traditionally an attribute of the federal savings association charter, has also been modified by the Dodd-Frank Act and now requires a case-by-case determination of preemption by the Office of the Comptroller of the Currency ("OCC") and eliminates preemption for subsidiaries of a bank. Depending on the implementation of this revised federal preemption standard, the operations of the Bank could become subject to additional compliance burdens in the states in which it operates.

Privacy. Federal law currently contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires the FDIC to assess our record in meeting the credit needs of the communities we serve, including low- and moderate-income neighborhoods and persons. The FDIC's assessment of our record is made available to the public. The assessment also is part of the Federal Reserve Board's consideration of applications to acquire, merge or consolidate with another banking institution or its holding company, to establish a new banking office or to relocate an office.

Bank Secrecy Act. The Bank Secrecy Act of 1970 ("BSA") was enacted to deter money laundering, establish regulatory reporting standards for currency transactions and improve detection and investigation of criminal, tax and other regulatory violations. BSA and subsequent laws and regulations require us to take steps to prevent the use of PBI Bank in the flow of illegal or illicit money, including, without limitation, ensuring effective management oversight, establishing sound policies and procedures, developing effective monitoring and reporting capabilities, ensuring adequate training and establishing a comprehensive internal audit of BSA compliance activities. In recent years, federal regulators have increased the attention paid to compliance with the provisions of BSA and related laws, with particular attention paid to "Know Your Customer" practices. Banks have been encouraged by regulators to enhance their identification procedures prior to accepting new customers in order to deter criminal elements from using the banking system to move and hide illegal and illicit activities.

USA Patriot Act. The USA Patriot Act of 2001 (the "Patriot Act") contains anti-money laundering measures affecting insured depository institutions, broker-dealers and certain other financial institutions. The Patriot Act requires financial institutions to implement policies and procedures to combat money laundering and the financing of terrorism. This includes standards for verifying customer identification at account opening, as well as rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. It grants the Secretary of the Treasury broad authority to establish regulations and to impose requirements and restrictions on financial institutions' operations. In addition, the Patriot Act requires the federal bank regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions.

Effect on Economic Environment. The policies of regulatory authorities, including the monetary policy of the Federal Reserve Board, have a significant effect on the operating results of bank holding companies and their subsidiaries. Among the means available to the Federal Reserve Board to affect the money supply are open market operations in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits. Their use may affect interest rates charged on loans or paid for deposits.

Federal Reserve Board monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The nature of future monetary policies and the effect of such policies on our business and earnings and those of our subsidiaries cannot be predicted.

Recently Enacted and Future Legislation. Various laws, regulations and governmental programs affecting financial institutions and the financial industry are from time to time introduced in Congress or otherwise promulgated by regulatory agencies. Such measures may change the operating environment of Porter Bancorp and its subsidiaries in substantial and unpredictable ways. The nature and extent of future legislative, regulatory or other changes affecting financial institutions is unpredictable at this time.

We cannot predict what other legislation or economic policies of the various regulatory authorities might be enacted or adopted or what other regulations might be adopted or the effects thereof. Future legislation, policies and the effects thereof might have a significant influence on overall growth and distribution of loans, investments and deposits, as well as affect interest rates charged on loans or paid on time and savings deposits. Such legislation and policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

Available Information

We file periodic reports with the SEC including our annual report on Form 10-K, quarterly reports on Form 10-Q, current event reports on Form 8-K and proxy statements. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at http://www.sec.gov . Our SEC reports filed are accessible at no cost on our web site at http://www.pbibank.com , under the Investors Relations section, once they are electronically filed with or furnished to the SEC. A shareholder may also request a copy of our Annual Report on Form 10-K free of charge upon written request to: Chief Financial Officer, Porter Bancorp, Inc., 2500 Eastpoint Parkway, Louisville, Kentucky 40223.

Item 1A. Risk Factors

An investment in our common stock involves a number of risks. Realization of any of the risks described below could have a material adverse effect on our business, financial condition, results of operations, cash flow and/or future prospects.

We are subject to a Consent Order with the FDIC and the KDFI and a formal agreement with the Federal Reserve that restrict the conduct of our operations and may have a material adverse effect on our business.

Our good standing with bank regulatory agencies is of fundamental importance to the continuation of our businesses. In June 2011, PBI Bank agreed to a Consent Order with the FDIC and KDFI in which the Bank agreed, among other things, to improve asset quality, reduce loan concentrations, and maintain a minimum Tier 1 leverage ratio of 9% and a minimum total risk based capital ratio of 12%. The Consent Order was included in our Current Report on 8-K filed on June 30, 2011.

On September 21, 2011, we entered into a Written Agreement with the Federal Reserve Bank of St. Louis. Pursuant to the Agreement, we made formal commitments to, among other things, use our financial and management resources to serve as a source of strength for the Bank and to assist the Bank in addressing weaknesses identified by the FDIC and the KDFI, to pay no dividends without prior written approval, to pay no interest or principal on subordinated debentures or trust preferred securities without prior written approval, and to submit an acceptable plan to maintain sufficient capital.

In October 2012, the Bank entered into a new Consent Order with the FDIC and KDFI again agreeing to maintain a minimum Tier 1 leverage ratio of 9% and a minimum total risk based capital ratio of 12%. The Bank also agreed that if it should be unable to reach the required capital levels, and if directed in writing by the FDIC, then the Bank would within 30 days develop, adopt and implement a written plan to sell or merge itself into another federally insured financial institution or otherwise immediately obtain a sufficient capital investment into the Bank to fully meet the capital requirements. The new Consent Order also requires the Bank to continue to adhere to the plans implemented in response to the June 2011 Consent Order, and includes the substantive provisions of the June 2011 Consent Order. While we substantially complied with the Consent Order, we did not meet the capital ratios required by the Consent Order as of December 31, 2013.

Bank regulatory agencies can exercise discretion when an institution does not meet minimum regulatory capital levels and the other terms of a consent order. The agencies may initiate changes in management, issue mandatory directives, impose monetary penalties or refrain from formal sanctions, depending on individual circumstances. Any action taken by bank regulatory agencies could damage our reputation and have a material adverse effect on our business. Compliance with the Consent Order also increases our operating expense, and adversely affects our financial performance.

We have made commitments to the banking regulators to raise additional capital. Our inability to increase our capital to the levels required by our bank regulatory agreements could have a material adverse effect on our business.

We recorded a net loss attributable to common shareholders of $3.4 million in 2013. The net loss for 2013 was due in part to $4.7 million of loan collection expense, and $4.5 million of expense related to other real estate owned and the accrual of dividends due and payable on our Series A Preferred Stock which totaled $4.3 million in 2013.

Our losses, non-performing loan costs, other real estate owned expenses, and asset impairments, have reduced our capital below the levels agreed upon with our banking regulators. While we believe we have recognized the probable losses in our portfolio, further credit deterioration could result in additional losses and a reduction in capital levels.

In its consent order with the FDIC and the KDFI, PBI Bank has agreed to maintain a ratio of total capital to total risk-weighted assets of at least 12.0% and a ratio of Tier 1 capital to total assets of 9.0%. As of December 31, 2013, PBI Bank's ratio of total capital to total risk-weighted assets was 11.44% and its ratio of Tier 1 capital to total assets was 6.28%, both below the ratios required by the consent order.

We have agreed with and submitted to the FDIC, the KDFI and the Federal Reserve Bank of St. Louis a plan to restore our capital ratios to levels that comply with our regulatory agreements. We are evaluating various specific initiatives to increase our regulatory capital and reduce our total assets. Strategic alternatives include divesting of branch offices, selling loans and raising capital by selling stock.

Our ability to raise additional capital will depend on, among other things, conditions in the capital markets at that time (which are outside of our control) and our financial performance, including the management of our revenue, expenses, levels of average assets, credit quality, levels of other real estate owned, and contingent liability risks. We may not have access to capital on acceptable terms or at all. Our inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our businesses, financial condition and results of operations. In addition, if we are unable to comply with our regulatory capital requirements, it could result in more stringent enforcement actions by the bank regulatory agencies, which could damage our reputation and have a material adverse effect on our business.

Our ability to pay cash dividends on our common and preferred stock and pay interest on the junior subordinated debentures that relate to our trust preferred securities is currently restricted. Our inability to resume paying dividends and distributions on these securities may adversely affect our common shareholders.

We historically paid quarterly cash dividends on our common stock until we suspended dividend payments in October 2011. Effective with the fourth quarter of 2011, we began deferring cash dividends on the Series A Preferred Stock held by the U.S. Treasury and interest payments on the junior subordinated notes relating to our trust preferred securities. Deferring interest payments on the junior subordinated notes resulted in a deferral of distributions on our trust preferred securities. We will be prohibited from paying cash dividends on our common stock until such time as we have paid all deferred dividends on our Series A Preferred Stock and all deferred distributions on our trust preferred securities. At December 31, 2013, we have accrued and unpaid dividends on Series A Preferred Stock totaling $4.3 million.

If we defer interest payments on our trust preferred securities for 20 consecutive quarters, we must pay all deferred interest and resume quarterly interest payments or we will be in default. We have deferred dividend payments on our Series A Preferred Stock for nine quarters and the holder (currently the U.S. Treasury) has the right to appoint up to two representatives to our Board of Directors. Dividends on the Series A preferred stock and deferred distributions on our trust preferred securities are cumulative and therefore unpaid dividends and distributions will accrue and compound on each subsequent payment date. If we become subject to any liquidation, dissolution or winding up of affairs, holders of the trust preferred securities and then holders of the preferred stock will be entitled to receive the liquidation amounts to which they are entitled including the amount of any accrued and unpaid distributions and dividends, before any distribution to the holders of common stock.

As a bank holding company, we depend on dividends and distributions paid by our banking subsidiary.

Porter Bancorp is a legal entity separate and distinct from PBI Banks and our other subsidiaries. Our principal source of cash flow, from which we would fund any dividends paid to our shareholders, has historically been dividends Porter Bancorp receives from PBI Bank. Regulations of the FDIC and the KDFI govern the ability of PBI Bank to pay dividends and other distributions to us, and regulations of the Federal Reserve govern our ability to pay dividends or make other distributions to our shareholders. In its consent order with the FDIC and the KDFI, PBI Bank agreed not to pay dividends to us without the prior consent of those regulators. During 2011, Porter Bancorp contributed $13.1 million to PBI Bank. The contribution, which was made to strengthen PBI Bank's capital in an effort to help it comply with its capital ratio requirements under the consent order, also substantially decreased the liquid assets of Porter Bancorp. Liquid assets decreased from $20.3 million at December 31, 2010 to $2.7 million at December 31, 2013. Since PBI Bank is unlikely to be in a position to pay dividends to Porter Bancorp for the foreseeable future, cash inflows for Porter Bancorp are limited to earnings on investment securities, sales of investment securities, and interest on its deposits held at PBI Bank. These cash inflows, along with the liquid assets held at December 31, 2013, are needed to cover ongoing operating expenses of Porter Bancorp, which have been reduced and are budgeted at approximately $950,000 for 2014. See the "Supervision-Porter Bancorp-Dividends" section of Item 1. "Business" and the "Dividends" section of Item 5. "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" of this Annual Report on Form 10-K.

We may not pay dividends on your common stock and we have agreed with the Federal Reserve to obtain its written consent before declaring or paying any future dividends.

We are currently unable to pay dividends. Holders of shares of our common stock are only entitled to receive such dividends as our board of directors may declare from funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we currently do not pay a cash dividend and we are not required to do so. Also, our ability to increase our dividend or to repurchase our common stock is limited for so long as any of our Series A Preferred Stock remains outstanding, as discussed in greater detail in the "Dividends" section of Item 5. "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" of this Annual Report on Form 10-K. There can be no assurance that we will pay dividends to our shareholders in the future, or if dividends are paid, that we will increase our dividend to historical levels or otherwise. Our ability to pay dividends to our shareholders is not only subject to limitations imposed by the terms of our Series A Preferred Stock, but also by limitations and guidance issued by the Federal Reserve. For example, under Federal Reserve guidance, bank holding companies generally are advised to consult in advance with the Federal Reserve before declaring dividends, and to strongly consider reducing, deferring or eliminating dividends in certain situations, such as when declaring or paying a dividend would exceed earnings for the fiscal quarter for which the dividend is being paid, or when declaring or paying a dividend could result in a material adverse change to the organization's capital structure. In addition, Porter Bancorp has agreed with the Federal Reserve to obtain its written consent prior to declaring or paying any future dividends. As a practical matter, Porter Bancorp cannot pay dividends for the foreseeable future.

Our holding company debt (TRUPS) and preferred stock (TARP) could make it difficult to raise capital.

At December 31, 2013, we had an aggregate obligation of $26.5 million relating to the principal and accrued unpaid interest on our four issues of junior subordinate debentures (TRUPS). Although we are permitted to defer payments on these securities for up to five years (and we commenced doing so in 2011), the deferred interest payments continue to accrue until paid in full.

In addition, in November 2008, we issued shares of preferred stock and common stock purchase warrants to the U. S. Treasury Department under the TARP/Capital Purchase Plan. The preferred stock has an aggregate liquidation preference of $35.0 million. TARP carries a cumulative dividend of 5% per annum which increased to 9% in 2013. We stopped paying dividends on the TARP in 2011. Like the holding company debt, unpaid dividends on the TARP continue to accrue until the preferred stock is repaid or restructured and total $4.3 million at December 31, 2013.

Our holding company debt and TARP could make it difficult to recapitalize or enter into a business combination transaction because any investor or purchaser would effectively assume the outstanding liability on the debt and be required to repay or restructure the TARP in addition to the amount of funds such investors or purchaser would need to provide in order to recapitalize the Bank and the Company.

In the normal course of operations, we are defendants in various legal proceedings.

Litigation is subject to inherent uncertainties and unfavorable rulings could occur. We record contingent liabilities resulting from claims against us when a loss is assessed to be probable and the amount of the loss is reasonably estimable. Assessing probability of loss and estimating probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third party claimants and courts. Recorded contingent liabilities are based on the best information available and actual losses in any future period are inherently uncertain. Accruals are not made in cases where liability is not probable or the amount cannot be reasonably estimated. We provide disclosure of matters where we believe liability is reasonably possible and which may be material to our consolidated financial statements. If we do not prevail, the ultimate outcome of litigation matter could have a material adverse effect on our financial condition, results of operations, or cash flows.

PBI Bank has served as trustee for ESOPs under review by the Department of Labor, subjecting us to certain financial risks.

From 2007 until the first quarter of 2013, PBI Bank served as trustee for certain Employee Stock Ownership Plan (ESOP) purchase transactions. These transactions are subject to regular and routine reviews by the DOL for compliance with ERISA. Failure to fulfill our fiduciary duties under ERISA with respect to any such plan would subject us to certain financial risks such as claims for damages as well as fines and penalties assessable under ERISA.

Our business has been and may continue to be adversely affected by conditions in the financial markets and by economic conditions generally.

Ongoing weakness in business and economic conditions generally or specifically in our markets has had, and could continue to have one or more of the following adverse effects on our business:

- A decrease in the demand for loans and other products and services offered by us;
- A decrease in the value of collateral securing our loans;
- An impairment of certain intangible assets, such as core deposit intangibles; and
- An increase in the number of customers who become delinquent, file for protection under bankruptcy laws or default on their loans.

The general business environment has had an adverse effect on our business during the past five years. Although the general business environment has shown some improvement, there can be no assurance that such improvement can be sustained. In addition, the improvement of certain economic indicators, such as real estate asset values and rents and unemployment, may vary between geographic markets and may continue to lag behind improvement in the overall economy. These economic indicators typically affect the real estate and financial services industries, in which we have a significant number of customers, more significantly than other economic sectors. Furthermore, we have a substantial lending business that depends upon the ability of borrowers to make debt service payments on loans. Should unemployment or real estate asset values fail to recover for an extended period of time, or if economic conditions worsen or remain volatile, our business, financial condition or results of operations could be adversely affected.

A large percentage of our loans are collateralized by real estate, and prolonged weakness in the real estate market may result in losses and adversely affect our profitability.

Approximately 87.7% of our loan portfolio as of December 31, 2013, was comprised of commercial and residential loans collateralized by real estate. While we are seeing recent improvements, adverse economic conditions since 2008 have decreased demand for real estate which has depressed real estate values in our markets. Persistent weakness in the real estate market could continue to significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values decline further, it will become more likely that we would be required to increase our allowance for loan losses. If during a period of reduced real estate values, we

are required to liquidate the collateral securing a loan to satisfy the debt or to increase our allowance for loan losses, it could materially reduce our profitability and adversely affect our financial condition.

We offer real estate construction and development loans, which carry a higher degree of risk than other real estate loans. Persistent weakness in the residential construction and commercial development real estate markets has increased the non-performing assets in our loan portfolio and our provision expense for losses on loans. These impacts have had, and could continue to have a material adverse effect on our capital, financial condition and results of operations.

Approximately 6.1% of our loan portfolio as of December 31, 2013 consisted of real estate construction and development loans, down from 7.8% at December 31, 2012. These loans generally carry a higher degree of risk than long-term financing of existing properties because repayment depends on the ultimate completion of the project and usually on the sale of the property. If we are forced to foreclose on a project prior to its completion, we may not be able to recover the entire unpaid portion of the loan or we may be required to fund additional money to complete the project, or hold the property for an indeterminate period of time. Any of these outcomes may result in losses and adversely affect our profitability.

Residential construction and commercial development real estate activity in our markets were affected by challenging economic conditions following the financial crisis of 2008. Prolonged weakness in these sectors may lead to additional valuation adjustments to our loan portfolios and real estate owned as we continue to reassess the fair value of our non-performing assets, the loss severity of loans in default and the fair value of real estate owned. We also may realize additional losses in connection with our disposition of non-performing assets. A weak real estate market could further reduce demand for residential housing, which, in turn, could adversely affect real estate development and construction activities. Consequently, the longer challenging economic conditions persist, the more likely they are to adversely affect the ability of residential real estate developer borrowers to repay these loans and the value of property used as collateral for such loans. These economic conditions and market factors have negatively affected some of our larger loans, causing our total net-charge offs to increase and requiring us to significantly increase our allowance for loan losses. If adverse economic conditions persist, these trends could continue to worsen. Any further increase in our non-performing assets and related increases in our provision expense for losses on loans could negatively affect our business and could have a material adverse effect on our capital, financial condition and results of operations.

Our decisions regarding credit risk may not be accurate, and our allowance for loan losses may not be sufficient to cover actual losses, which could adversely affect our business, financial condition and results of operations.

We maintain an allowance for loan losses at a level we believe is adequate to absorb probable incurred losses in our loan portfolio based on historical loan loss experience, specific problem loans, value of underlying collateral and other relevant factors. If our assessment of these factors is ultimately inaccurate, the allowance may not be sufficient to cover actual future loan losses, which would adversely affect our operating results. Our estimates are subjective, and their accuracy depends on the outcome of future events. Changes in economic, operating and other conditions that are generally beyond our control could cause actual loan losses to increase significantly. In addition, bank regulatory agencies, as an integral part of their supervisory functions, periodically review the adequacy of our allowance for loan losses. Regulatory agencies have from time to time required us to increase our provision for loan losses or to recognize additional loan charge-offs when their judgment has differed from ours. Any of these events could have a material negative impact on our operating results.

Our levels of additional classified loans and non-performing assets may increase in the foreseeable future if economic conditions remain weak and cause more borrowers to default. Further, the value of the collateral underlying a given loan, and the realizable value of such collateral in a foreclosure sale, are likely to decline if the real estate markets remain weak, making us less likely to realize a full recovery if a borrower defaults on a loan. Any additional increases in the level of our non-performing assets, loan charge-offs or provision for loan losses, or our inability to realize the full value of underlying collateral in the event of a loan default, could negatively affect our business, financial condition, results of operations and the trading price of our securities.

If we experience greater credit losses than anticipated, our operating results may be adversely affected.

As a lender, we are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. Credit losses are inherent in the business of making loans and could have a material adverse effect on our operating results. Our credit risk with respect to our real estate and construction loan portfolio will relate principally to the creditworthiness of borrowers and the value of the real estate serving as security for the repayment of loans. Our credit risk with respect to our commercial and consumer loan portfolio will relate principally to the general creditworthiness of businesses and individuals within our local markets.

We make various assumptions and judgments about the collectability of our loan portfolio and provide an allowance for estimated credit losses based on a number of factors. We believe that our allowance for credit losses is adequate. However, if our assumptions or judgments are wrong, our allowance for credit losses may not be sufficient to cover our actual credit losses. We may have to increase our allowance in the future in response to the request of one of our primary banking regulators, to adjust for changing conditions and assumptions, or as a result of any deterioration in the quality of our loan portfolio. The actual amount of future provisions for credit losses cannot be determined at this time and may vary from the amounts of past provisions.

We continue to hold and acquire a significant amount of OREO properties, which could increase operating expenses and result in future losses to the Company.

During recent years, we have acquired a significant amount of real estate as a result of foreclosure or by deed in lieu of foreclosure that is listed on our balance sheet as other real estate owned (OREO). This increase in our OREO portfolio has increased the expenses we have incurred to manage and dispose of these properties, which sometimes includes funding construction required to facilitate sale. We expect that our operating results in 2014 will continue to be adversely affected by expenses associated with OREO, including insurance and taxes, completion and repair costs, as well as by the funding costs associated with OREO assets.

Properties in our OREO portfolio are recorded at the lower of the recorded investment in the loans for which the properties previously served as collateral or "fair value," which represents the estimated sales price of the properties on the date acquired less estimated selling costs. Generally, in determining "fair value" an orderly disposition of the property is assumed, except where a different disposition strategy is expected. Significant judgment is required in estimating the fair value of OREO, and the period of time within which such estimates can be considered current may change during periods of market volatility, such as we have experienced since 2008.

Any further decreases in market prices of real estate in our market areas may lead to additional OREO write downs, with a corresponding expense in our income statement. We evaluate OREO property values periodically and write down the carrying value of the properties if and when the results of our analysis require it.

In response to market conditions and other economic factors, we may utilize alternative sale strategies other than orderly disposition as part of our OREO disposition strategy, such as bulk sales. In this event, as a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from such sales transactions could differ significantly from appraisals, comparable sales, and other estimates used to determine the fair value of our OREO properties. In addition, our disposition of OREO through alternative sales strategies could impact the fair value of comparable OREO properties remaining in our portfolio.

Our profitability depends significantly on local economic conditions.

Because most of our business activities are conducted in central Kentucky and most of our credit exposure is in that region, we are at risk from adverse economic or business developments affecting this area, including declining regional and local business and employment activity, a downturn in real estate values and agricultural activities and natural disasters. To the extent the central Kentucky economy remains weak, the rates of delinquencies, foreclosures, bankruptcies and losses in our loan portfolio will likely increase. Moreover, the value of real estate or other collateral that secures our loans could be adversely affected by the economic downturn or a localized natural disaster. Events that adversely affect business activity and real estate values in Central Kentucky have had and may continue to have a negative impact on our business, financial condition, results of operations and future prospects.

Our small to medium-sized business portfolio may have fewer resources to weather the downturn in the economy.

Our portfolio includes loans to small and medium-sized businesses and other commercial enterprises. Small and medium-sized businesses frequently have smaller market shares than their competitors, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial variations in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small or medium-sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay our loan. A continued economic downturn may have a more pronounced negative impact on our target market, causing us to incur substantial credit losses that could materially harm our operating results.

Our profitability is vulnerable to fluctuations in interest rates.

Changes in interest rates could harm our financial condition or results of operations. Our results of operations depend substantially on net interest income, the difference between interest earned on interest-earning assets (such as investments and loans) and interest paid on interest-bearing liabilities (such as deposits and borrowings). Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Factors beyond our control, such as inflation, recession, unemployment and money supply may also affect interest rates. If, as a result of decreasing interest rates, our interest-earning assets mature or reprice more quickly than our interest-bearing liabilities in a given period, our net interest income may decrease. Likewise, our net interest income may decrease if interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period as a result of increasing interest rates.

Fixed-rate loans increase our exposure to interest rate risk in a rising rate environment because interest-bearing liabilities would be subject to repricing before assets become subject to repricing. Adjustable-rate loans decrease the risk associated with changes in interest rates but involve other risks, such as the inability of borrowers to make higher payments in an increasing interest rate environment. At the same time, for secured loans, the marketability of the underlying collateral may be adversely affected by higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as the borrowers refinance their loans at lower interest rates, which could reduce net interest income and harm our results of operations.

If we cannot obtain adequate funding, we may not be able to meet the cash flow requirements of our depositors and borrowers, or meet the operating cash needs of the Company to fund corporate expansion or other activities.

Our liquidity policies and limits are established by the Board of Directors of PBI Bank, with operating limits set by the Asset Liability Committee ("ALCO"), based upon analyses of the ratio of loans to deposits and the percentage of assets funded with non-core or wholesale funding. The ALCO regularly monitors the overall liquidity position of PBI Bank and the Company to ensure that various alternative strategies exist to cover unanticipated events that could affect liquidity. Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. If our liquidity policies and strategies don't work as well as intended, then we may be unable to make loans and to repay deposit liabilities as they become due or are demanded by customers. The ALCO follows established board approved policies and monitors guidelines to diversify our wholesale funding sources to avoid concentrations in any one-market source. Wholesale funding sources include Federal funds purchased, securities sold under repurchase agreements, and Federal Home Loan Bank ("FHLB") advances that are collateralized with mortgage-related assets.

We maintain a portfolio of securities that can be used as a secondary source of liquidity. There are other available sources of liquidity, including additional collateralized borrowings such as FHLB advances, the issuance of debt securities, and the issuance of preferred or common securities in public or private transactions. If we were unable to access any of these funding sources when needed, we might not be able to meet the needs of our customers, which could adversely impact our financial condition, our results of operations, cash flows and our level of regulatory-qualifying capital.

We may need to raise additional capital in the future by selling capital stock. Future sales or other dilution of our equity may adversely affect the market price of our common stock.

We are not restricted from issuing additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The issuance of additional shares of common stock or the issuance of convertible securities would dilute the ownership interest of our existing common shareholders. The market price of our common stock could decline as a result of such an offering as well as other sales of a large block of shares of our common stock or similar securities in the market after such an offering, or the perception that such sales could occur.

Our stock has traded from time-to-time at a price below our book value per share. Accordingly, a sale of common shares at or below our stock price would be dilutive to current shareholders.

We may not be able to realize the value of our tax losses and deductions.

Due to our losses, we have a net operating loss carry-forward of $28.8 million, credit carry-forwards of $900,000, and other net deferred tax assets of $18.1 million. In order to realize the benefit of these tax losses, credits and deductions, we will need to generate substantial taxable income in future periods. We established a 100% valuation allowance for all deferred tax assets in 2011. Should the Company issue new shares to raise additional capital, a change in control could be triggered, as defined by Section 382 of the Internal Revenue Code, which could negatively impact or limit the ability to utilize our net operating loss carry-forwards, credit loss carry-forwards, and other net deferred tax assets.

Our Series A Preferred Stock limits our ability to return capital to our shareholders and is dilutive to our common shares. In addition, the dividend rate on the Series A Preferred Stock has increased to 9% per annum.

When we had not redeemed our Series A Preferred Stock by November 21, 2013, the annual dividend rate on this capital increased substantially from 5% (approximately $1.75 million annually) to 9% (approximately $3.15 million annually). Depending on market conditions and our financial performance at the time, this increase in dividends could significantly impact our capital, liquidity and earnings available to common shareholders.

The terms of our Series A Preferred Stock limit our ability to pay dividends and repurchase our shares. We will not be able to pay any dividends on our common stock unless and until we are current on our quarterly dividend payments on the Series A Preferred Stock, which we began deferring effective with the fourth quarter of 2011. At December 31, 2013, we have accrued and unpaid dividends on Series A Preferred Stock totaling $4.3 million. These restrictions may have an adverse effect on the market price of our common stock.

The U.S. Treasury has the unilateral ability to change some of the restrictions imposed on us by virtue of our sale of securities to it.

In addition to the restrictions our ability to pay dividends or repurchase our stock, our preferred stock purchase agreement with the U.S. Treasury authorizes the U.S. Treasury to unilaterally amend the agreement to the extent required to comply with any future changes in federal statutes. Following our November 21, 2008 issuance of Series A Preferred stock to the U.S. Treasury, the agreement was amended to impose restrictions on the conduct of our business, including restrictions on the compensation we can pay to executive officers and corporate governance requirements. These restrictions could have an adverse impact on the conduct of our business, as could any additional amendments in the future that impose further requirements or amend existing requirements.

Our former chairman and chairman emeritus together have sufficient voting power to significantly influence election of our directors, and the vote on any matter that requires shareholder approval. In exercising their voting power, they may act according to their own interests, which may be adverse to your interests.

As of December 31, 2013, J. Chester Porter and Maria L. Bouvette together beneficially owned approximately 6,076,758 shares, or 47.3% of our outstanding common stock. Accordingly, Mr. Porter and Ms. Bouvette currently have the power to exercise significant influence over the outcome of any matter submitted to a vote of our shareholders, including the election and removal of a majority of our board of directors, any amendment of our articles of incorporation (including any amendment that changes the rights of our common stock) and any merger, consolidation or sale of all or substantially all of our assets. Mr. Porter and Ms. Bouvette could take actions or make decisions in their self-interest that are opposed to your best interests. They may be less receptive to the desires communicated by shareholders. Neither our articles of incorporation, our bylaws, nor Kentucky law requires the vote of more than a simple majority of our outstanding shares of common stock to approve a matter submitted for shareholder approval, subject to the general statutory requirement that any transaction in which one or more directors have a direct or indirect interest (other than as a shareholder) must be "fair" to the corporation. Mr. Porter and Ms. Bouvette have a level of concentrated ownership that could discourage others from initiating any potential merger, takeover or other change of control transaction that may otherwise give you the opportunity to realize a premium over the then-prevailing market price of our common stock. As a result, the market price of our common stock could be adversely affected.

Higher FDIC deposit insurance premiums and assessments could significantly increase our non-interest expense.

Our deposits are insured by the FDIC up to legal limits and, accordingly, we are subject to FDIC deposit insurance premiums and assessments. High levels of bank failures over the past five years and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put pressure on the DIF. In order to maintain a strong funding position and restore the reserve ratios of the DIF, the FDIC increased assessment rates on insured institutions, charged a special assessment to all insured institutions as of June 30, 2009 and required banks to prepay three years' worth of premiums on December 30, 2009. If there are additional financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels, or the FDIC may charge additional special assessments. Further, the FDIC recently increased the DIF's target reserve ratio to 2.0 percent of insured deposits following the Dodd-Frank Act's elimination of the 1.5 percent cap on the DIF's reserve ratio. Additional increases in our assessment rate may be required in the future to achieve this targeted reserve ratio. These recent increases in deposit assessments and any future increases, required prepayments or special assessments of FDIC insurance premiums may adversely affect our business, financial condition or results of operations.

Additionally, pursuant to the Dodd-Frank Act, the FDIC amended its regulations regarding assessment for federal deposit insurance to base such assessments on the average total consolidated assets of the insured institution during the assessment period, less the average tangible equity of the institution during the assessment period. Prior to this change, we were assessed only on deposit balances. The FDIC adopted a rule implementing this change, as well as adopting a revised risk-based assessment calculation in February 2011. The FDIC has also proposed a rule tying assessment rates of FDIC-insured institutions to the institution's employee compensation programs. The exact nature and cumulative effect of these recent changes are not yet known, but they are expected to increase the amount of premiums we must pay for FDIC insurance. Any such increase may adversely affect our business, financial condition or results of operations.

We face strong competition from other financial institutions and financial service companies, which could adversely affect our results of operations and financial condition.

We compete with other financial institutions in attracting deposits and making loans. Our competition in attracting deposits comes principally from other commercial banks, credit unions, savings and loan associations, securities brokerage firms, insurance companies, money market funds and other mutual funds. Our competition in making loans comes principally from other commercial banks, credit unions, savings and loan associations, mortgage banking firms and consumer finance companies. In addition, competition for business in the Louisville and Lexington metropolitan area has grown in recent years as changes in banking law have allowed several banks to enter the market by establishing new branches. Likewise, competition is increasing in the other growing markets we have targeted, which may adversely affect our ability to execute our plans for expansion.

Competition in the banking industry may also limit our ability to attract and retain banking clients. We maintain smaller staffs of associates and have fewer financial and other resources than larger institutions with which we compete. Financial institutions that have far greater resources and greater efficiencies than we do may have several marketplace advantages resulting from their ability to:

- offer higher interest rates on deposits and lower interest rates on loans than we can;
- offer a broader range of services than we do;
- maintain more branch locations than we do; and
- mount extensive promotional and advertising campaigns.

In addition, banks and other financial institutions with larger capitalization and other financial intermediaries may not be subject to the same regulatory restrictions as we are and may have larger lending limits than we do. Some of our current commercial banking clients may seek alternative banking sources as they develop needs for credit facilities larger than we can accommodate. If we are unable to attract and retain customers, we may not be able to maintain growth and our results of operations and financial condition may otherwise be negatively impacted.

We depend on our senior management team, and the unexpected loss of one or more of our senior executives could impair our relationship with customers and adversely affect our business and financial results.

Our future success significantly depends on the continued services and performance of our key management personnel. Our future performance will depend on our ability to motivate and retain these and other key officers. The Dodd-Frank Act, legislation governing issuers of preferred stock held by the U.S. Treasury and the policies of bank regulatory agencies have placed restrictions on our executive compensation practices. Such restrictions and standards may further impact our company's ability to compete for talent with other businesses and financial institutions that are not subject to the same limitations as we are. The loss of the services of members of our senior management or other key officers or our inability to attract additional qualified personnel as needed could materially harm our business.

Our reported financial results depend on management's selection of accounting methods and certain assumptions and estimates.

Our accounting policies and assumptions are fundamental to our reported financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management's judgment of the most appropriate manner to report our financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in our reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our reported financial condition and results. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include the allowance for loan losses, valuation of OREO, valuation of securities and valuation of deferred income taxes. Because of the uncertainty of estimates involved in these matters, we may be required to do one or more of the following: significantly increase the allowance for credit losses and/or sustain credit losses that are significantly higher than the reserve provided; recognize significant impairment on our other intangible assets or significantly increase our accrued income taxes.

While management continually monitors and improves our system of internal controls, data processing systems, and corporate wide processes and procedures, we may suffer losses from operational risk in the future.

Management maintains internal operational controls, and we have invested in technology to help us process large volumes of transactions. However, we may not be able to continue processing at the same or higher levels of transactions. If our systems of internal controls should fail to work as expected, if our systems were to be used in an unauthorized manner, or if employees were to subvert the system of internal controls, significant losses could occur.

We process large volumes of transactions on a daily basis and are exposed to numerous types of operational risk, which could cause us to incur substantial losses. Operational risk resulting from inadequate or failed internal processes, people, and systems includes the risk of fraud by employees or persons outside of our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

We establish and maintain systems of internal operational controls that provide management with timely and accurate information about our level of operational risk. While not foolproof, these systems have been designed to manage operational risk at appropriate, cost effective levels. We have also established procedures that are designed to ensure that policies relating to conduct, ethics and business practices are followed. Nevertheless, we experience loss from operational risk from time to time, including the effects of operational errors, and these losses may be substantial.

Our information systems may experience an interruption or security breach.

Failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers, including as a result of cyber attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses. As a large financial institution, we depend on our ability to process, record and monitor a large number of customer transactions on a continuous basis. As customer, public and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. Our business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. For example, there could be sudden increases in customer transaction volume; electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our businesses and customers.

Information security risks for financial institutions have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. In addition, to access our products and services, our customers may use personal smartphones, tablet PC's, and other mobile devices that are beyond our control systems. Although we believe we have robust information security procedures and controls, our technologies, systems, networks, and our customers' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our customers' confidential, proprietary and other information or that of our customers, or otherwise disrupt the business operations of ourselves, our customers or other third parties.

Third parties with which we do business or that facilitate our business activities, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Although to date we have not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats and the prevalence of Internet and mobile banking. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our business, results of operations or financial condition.

We operate in a highly regulated environment and, as a result, are subject to extensive regulation and supervision that could adversely affect our financial performance and our ability to implement our growth and operating strategies.

We are subject to examination, supervision and comprehensive regulation by federal and state regulatory agencies, which is described under "Item 1 – Business—Supervision and Regulation." Regulatory oversight of banks is primarily intended to protect depositors, the federal deposit insurance funds, and the banking system as a whole, not our shareholders. Compliance with these regulations is costly and may make it more difficult to operate profitably.

Federal and state banking laws and regulations govern numerous matters including the payment of dividends, the acquisition of other banks and the establishment of new banking offices. We must also meet specific regulatory capital requirements. Our failure to comply with these laws, regulations and policies or to maintain our capital requirements could affect our ability to pay dividends on common stock, our ability to grow through the development of new offices and our ability to make acquisitions. These limitations may prevent us from successfully implementing our growth and operating strategies.

In addition, the laws and regulations applicable to banks could change at any time, which could significantly impact our business and profitability. For example, new legislation or regulation could limit the manner in which we may conduct our business, including our ability to attract deposits and make loans. Events that may not have a direct impact on us, such as the bankruptcy or insolvency of a prominent U.S. corporation, can cause legislators and banking regulators and other agencies such as the Financial Accounting Standards Board, the SEC, the Public Company Accounting Oversight Board and various taxing authorities to respond by adopting and or proposing substantive revisions to laws, regulations, rules, standards, policies and interpretations. The nature, extent, and timing of the adoption of significant new laws and regulations, or changes in or repeal of existing laws and regulations may have a material impact on our business and results of operations. Changes in regulation may cause us to devote substantial additional financial resources and management time to compliance, which may negatively affect our operating results.

Changes in banking laws could have a material adverse effect on us.

We are subject to changes in federal and state laws as well as changes in banking and credit regulations, and governmental economic and monetary policies. We cannot predict whether any of these changes may adversely and materially affect us. The current regulatory environment for financial institutions entails significant potential increases in compliance requirements and associated costs. Federal and state banking regulators also possess broad powers to take supervisory actions as they deem appropriate. These supervisory actions may result in higher capital requirements, higher insurance premiums and limitations on our activities that could have a material adverse effect on our business and profitability.

Recent legislation regarding the financial services industry may have a significant adverse effect on our operations.

The Dodd-Frank Act was signed into law on July 21, 2010. The Dodd-Frank Act has impacted the U.S. financial system, including among others:

- new requirements on banking, derivative and investment activities, including the repeal of the prohibition on the payment of interest on business demand accounts, and debit card interchange fee requirements;
- the creation of the Consumer Financial Protection Bureau with supervisory authority, including the power to conduct examinations and take enforcement actions with respect to financial institutions with assets of $10 billion or more and implement regulations that will affect all financial institutions;
- provisions affecting corporate governance and executive compensation of all companies subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended; and
- a provision that would require bank regulators to set minimum capital levels for bank holding companies that are as strong as those required for their insured depository subsidiaries, subject to a grandfather clause for holding companies with less than $15 billion in assets as of December 31, 2009.

Many provisions in the Dodd-Frank Act remain subject to regulatory rule-making, implementation, and interpretation, the effects of which are not yet known. As a result, it is difficult to gauge the ultimate impact of certain provisions of the Dodd-Frank Act because the implementation of many concepts is left to regulatory agencies. For example, the CFPB is given the power to adopt new regulations to protect consumers and is given control over existing consumer protection regulations adopted by federal banking regulators. The CFPB has begun the rule-making process but it is not known at this time when all rules will be finalized and implemented.

The provisions of the Dodd-Frank Act and any rules adopted to implement those provisions as well as any additional legislative or regulatory changes may impact the profitability of our business activities and costs of operations, require that we change certain of our business practices, materially affect our business model or affect retention of key personnel, require us to raise additional regulatory capital, including additional Tier 1 capital, and could expose us to additional costs (including increased compliance costs). These and other changes may also require us to invest significant management attention and resources to make any necessary changes and may adversely affect our ability to conduct our business as previously conducted or our results of operations or financial condition.

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Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

PBI Bank has 18 full-service banking offices. The following table shows the location, square footage and ownership of each property. We believe that each of these locations is adequately insured. Support operations are located in the Main office in Louisville and the Glasgow office building on Columbia Avenue.

Markets	Square Footage	Owned/Leased
Louisville/Jefferson, Bullitt and Henry Counties		
Main Office: 2500 Eastpoint Parkway, Louisville	30,000	Owned
Eminence Office: 645 Elm Street, Eminence	1,500	Owned
Hillview Office: 11998 Preston Highway, Hillview	3,500	Owned
Pleasureville Office: 5440 Castle Highway, Pleasureville	10,000	Owned
Shepherdsville Office: 340 South Buckman Street, Shepherdsville	10,000	Owned
Conestoga Office: 155 Conestoga Parkway, Shepherdsville	3,900	Owned
Lexington/Fayette County		
Lexington Office: 2424 Harrodsburg Road, Suite 100, Lexington	8,500	Leased
South Central Kentucky		
Brownsville Office: 113 East Main, Brownsville	8,500	Owned
Greensburg Office: 202-04 North Main Street, Greensburg	11,000	Owned
Horse Cave Office: 210 East Main Street, Horse Cave	5,000	Owned
Morgantown Office: 112 West Logan Street, Morgantown	7,500	Owned
Munfordville Office: 949 South Dixie Highway, Munfordville	9,000	Owned
Northside Office: 1300 North Main Street, Beaver Dam	3,200	Owned
Wal-Mart Office: 1701 North Main Street, Beaver Dam	500	Leased
Owensboro/Daviess County		
Owensboro Office: 1819 Frederica Street, Owensboro	3,000	Owned
Southern Kentucky		
Fairview Office: 1042 Fairview Avenue, Suite A, Bowling Green	3,000	Leased
Campbell Lane Office: 751 Campbell Lane, Bowling Green	7,500	Owned
Glasgow Office: 1006 West Main Street, Glasgow	12,000	Owned
Other Properties		
Office Building: 701 Columbia Avenue, Glasgow	19,000	Owned

Item 3. Legal Proceedings

In the normal course of operations, we are defendants in various legal proceedings. Litigation is subject to inherent uncertainties and unfavorable rulings could occur. We record contingent liabilities resulting from claims against us when a loss is assessed to be probable and the amount of the loss is reasonably estimable. Assessing probability of loss and estimating probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third party claimants and courts. Recorded contingent liabilities are based on the best information available and actual losses in any future period are inherently uncertain. Currently, we have recorded a reserve related to ongoing litigation matters for which we believe liability is probable and reasonably estimable. Accruals are not made in cases where liability is not probable or the amount cannot be reasonably estimated. We provide disclosure of matters where we believe liability is reasonably possible and which may be material to our consolidated financial statements. See Footnote 24, “Contingencies” in the Notes to our consolidated financial statements for additional detail regarding ongoing legal proceedings and other matters.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

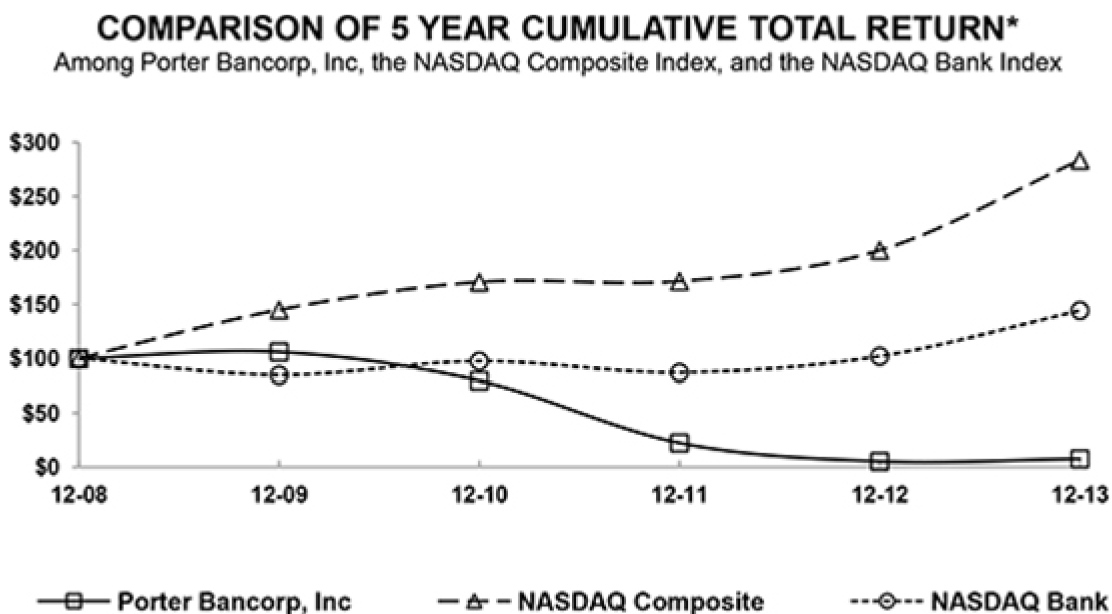
Market Information

Our common stock is traded on the NASDAQ Global Market under the ticker symbol "PBIB". The following table presents the high and low sales prices for our common stock reported on the NASDAQ Global Market for the periods indicated. Market prices and dividends paid have been restated to reflect stock dividends.

	2013		
	Market Value		
	High	Low	Dividend
Quarter Ended			
Fourth Quarter	$1.24	$0.97	$ 0.00
Third Quarter	2.23	0.80	0.00
Second Quarter	0.90	0.79	0.00
First Quarter	1.59	0.66	0.00

	2012		
	Market Value		
	High	Low	Dividend
Quarter Ended			
Fourth Quarter	$1.99	$0.70	$ 0.00
Third Quarter	2.25	1.48	0.00
Second Quarter	2.40	1.50	0.00
First Quarter	3.05	1.69	0.00

As of January 31, 2014, we had approximately 1,156 shareholders, including 366 shareholders of record and approximately 790 beneficial owners whose shares are held in "street" name by securities broker-dealers or other nominees.



*$100 invested on 12/31/08 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Dividends

We will not be able to pay dividends on our common stock for the foreseeable future. We historically paid quarterly cash dividends on our common stock until we suspended dividend payments in October 2011. As a bank holding company, Porter Bancorp's ability to declare and pay dividends depends on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. Porter Bancorp has agreed with the Federal Reserve to obtain its written consent prior to declaring or paying any future dividends.

Our principal source of revenue with which to pay dividends on our common stock is the dividends that PBI Bank may declare and pay to us out of funds legally available for payment of dividends. PBI Bank must obtain the prior written consent of its primary regulators prior to declaring or paying any future dividends. In addition to this current restriction, various laws applicable to PBI Bank also limit its payment of dividends to us. A Kentucky chartered bank may declare a dividend of an amount of the bank's net profits as the board deems appropriate. The approval of the KDFI is required if the total of all dividends declared by the bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus or a fund for the retirement of preferred stock or debt. As a practical matter, PBI Bank will not be able to pay dividends to us for the foreseeable future.

Effective with the fourth quarter of 2011, we began deferring cash dividends on our Series A Preferred Stock and interest payments on the junior subordinated notes relating to our trust preferred securities. Deferring interest payments on the junior subordinated notes resulted in the deferral of distributions on our trust preferred securities. If we defer interest payments on our trust preferred securities for 20 consecutive quarters, we must pay all deferred interest and resume quarterly interest payments or we will be in default. At December 31, 2013, we have accrued and unpaid dividends on Series A Preferred Stock totaling $4.3 million.

We will not be able to pay cash dividends on our common stock in the future until we have paid all accrued and unpaid dividends on our Series A Preferred Stock and all deferred distributions on our trust preferred securities. Dividends on the Series A Preferred Stock and deferred distributions on our trust preferred securities are cumulative and therefore unpaid dividends and distributions will accrue and compound on each subsequent payment date. If we become subject to any liquidation, dissolution or winding up of affairs, holders of the trust preferred securities and then holders of the preferred stock will be entitled to receive the liquidation amounts to which they are entitled including the amount of any accrued and unpaid distributions and dividends, before any distribution can be made to the holders of our common stock.

Purchase of Equity Securities by Issuer

The Company did not repurchase any of its issued and outstanding equity securities in 2012 or 2013.

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Item 6. Selected Financial Data

The following table summarizes our selected historical consolidated financial data from 2009 to 2013. You should read this information in conjunction with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8. “Financial Statements and Supplementary Data.”

Selected Consolidated Financial Data

(Dollars in thousands except per share data)	As of and for the Years Ended December 31, 2013	2012	2011	2010	2009
Income Statement Data:					
Interest income	**$ 43,228**	$ 57,729	$ 73,554	$ 86,407	$ 94,466
Interest expense	**11,143**	15,774	22,039	28,841	40,412
Net interest income	**32,085**	41,955	51,515	57,566	54,054
Provision for loan losses	**700**	40,250	62,600	30,100	14,200
Non-interest income	**5,919**	9,590	7,833	11,582	7,094
Non-interest expense	**38,890**	44,292	104,273	46,478	30,456
Income (loss) before income taxes	**(1,586)**	(32,997)	(107,525)	(7,430)	16,492
Income tax expense (benefit)	**—**	(65)	(218)	(3,046)	5,424
Net income (loss)	**(1,586)**	(32,932)	(107,307)	(4,384)	11,068
Less:					
Dividends on preferred stock	**1,919**	1,750	1,750	1,810	1,750
Accretion on Series A preferred stock	**160**	179	177	177	176
Earnings (loss) allocated to participating securities	**(267)**	(1,429)	(4,080)	(184)	97
Net income (loss) available to common	**$ (3,398)**	$ (33,432)	$ (105,154)	$ (6,187)	$ 9,045
Common Share Data (1):					
Basic earnings (loss) per common share	**$ (0.29)**	$ (2.85)	$ (8.98)	$ (0.60)	$ 1.00
Diluted earnings (loss) per common share	**(0.29)**	(2.85)	(8.98)	(0.60)	1.00
Cash dividends declared per common share	**0.00**	0.00	0.02	0.49	0.76
Book value per common share	**(0.18)**	0.74	3.74	12.76	14.61
Tangible book value per common share	**(0.29)**	0.58	3.54	10.33	11.44
Balance Sheet Data (at period end):					
Total assets	**$1,076,121**	$1,162,631	$1,455,424	$1,723,952	$1,835,090
Debt obligations:					
FHLB advances	**4,492**	5,604	7,116	15,022	82,980
Junior subordinated debentures	**25,000**	25,000	25,000	25,000	25,000
Subordinated capital note	**5,850**	6,975	7,650	8,550	9,000
Average Balance Data:					
Average assets	**$1,098,400**	$1,341,565	$1,659,959	$1,747,648	$1,714,131
Average loans	**788,176**	1,033,320	1,243,474	1,353,295	1,371,034
Average deposits	**1,004,052**	1,217,083	1,434,462	1,459,041	1,385,572
Average FHLB advances	**4,990**	6,325	15,315	47,800	106,259
Average junior subordinated debentures	**25,000**	25,000	25,000	25,000	25,000
Average subordinated capital note	**6,404**	7,309	8,208	8,941	9,000
Average stockholders’ equity	**42,631**	75,679	159,434	188,015	168,752

(1) Common share data has been adjusted to reflect 5% stock dividends effective December 14, 2010 and November 19, 2009.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Management's discussion and analysis of financial condition and results of operations analyzes the consolidated financial condition and results of operations of Porter Bancorp, Inc. and its wholly owned subsidiary, PBI Bank. Porter Bancorp, Inc. is a Louisville, Kentucky-based bank holding company which operates 18 full-service banking offices in twelve counties through its wholly-owned subsidiary, PBI Bank. Our markets include metropolitan Louisville in Jefferson County and the surrounding counties of Henry and Bullitt, and extend south along the Interstate 65 corridor to Tennessee. We serve south central Kentucky and southern Kentucky from banking offices in Butler, Green, Hart, Edmonson, Barren, Warren, Ohio, and Daviess Counties. We also have an office in Lexington, the second largest city in Kentucky. The Bank is a community bank with a wide range of commercial and personal banking products.

Historically, we have focused on commercial and commercial real estate lending, both in markets where we have banking offices and other growing markets in our region. Commercial, commercial real estate and real estate construction loans accounted for 56.3% of our total loan portfolio as of December 31, 2013, and 58.6% as of December 31, 2012. Commercial lending generally produces higher yields than residential lending, but involves greater risk and requires more rigorous underwriting standards and credit quality monitoring.

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes and other schedules presented elsewhere in the report.

Overview

For the year ended December 31, 2013, we reported a net loss of $1.6 million compared with net loss of $32.9 million for the year ended December 31, 2012 and $107.3 million for the year ended December 31, 2011. After deductions for dividends on preferred stock, accretion on preferred stock, and allocating losses to participating securities, the net loss attributable to common shareholders was $3.4 million for the year ended December 31, 2013, compared with net loss attributable to common shareholders of $33.4 million for the year ended December 31, 2012. Basic and diluted loss per common share were $(0.29) for the year ended December 31, 2013, compared with loss per common share of $(2.85) for 2012.

Our financial performance in 2013 continued to be negatively impacted by the Bank's high level of non-performing assets. Asset quality remediation, capital restoration, and lowering the risk profile of the Company remain our major objectives for 2014.

Non-performing loans were 14.38% of total loans and non-performing assets were 12.35% of total assets at December 31, 2013. We remain diligent in the management of our portfolio and are striving to improve credit quality by working throughout our markets to balance selective new customer acquisition, customer service for our existing clients and prudent risk management.

The following significant developments occurred during the year ended December 31, 2013:

- Our net loss attributable to common shareholders of $3.4 million for the year ended December 31, 2013 was much improved compared with our net loss attributable to common shareholders of $33.4 million for the year ended December 31, 2012.
- We have successfully reduced the size of our balance sheet in accordance with our capital plan. Average assets were $1.098 billion as of December 31, 2013, compared with $1.342 billion at December 31, 2012. This reduction was accomplished primarily by reducing our commercial real estate and construction and development loans within our loan portfolio and through the redemption of higher cost certificates of deposit accounts.
- Net interest margin decreased 21 basis points to 3.10% for the year ended December 31, 2013 compared with 3.31% for the year ended December 31, 2012. The decrease in margin between periods was primarily due to a reduction in interest earning assets, coupled with lower rates on those assets and elevated nonaccrual loan levels relative to total loans. Average loans decreased 23.7% to $788.2 million in 2013 compared with $1.0 billion in 2012. Net loans decreased 19.1% to $681.2 million at December 31, 2013, compared with $842.4 million at December 31, 2012.
- Provision for loan losses expense declined to $700,000 for 2013, compared with $40.3 million for the year ended December 31, 2012. The decrease was primarily attributable to the substantial reduction in the loan portfolio size, declining charge-off trends, and a decline in loans migrating downward in risk grade classification. Net charge-offs were $29.3 million in 2013, compared with $36.1 million in 2012 and $44.3 million in 2011.

- We continued to execute on our strategy to reduce our commercial real estate and construction and development loans. Construction and development loans totaled $43.3 million, or 52% of total risk-based capital, at December 31, 2013 compared with $70.3 million, or 82% of total risk-based capital, at December 31, 2012. Non-owner occupied commercial real estate loans, construction and development loans, and multi-family residential real estate loans as a group totaled $237.0 million, or 284% of total risk-based capital, at December 31, 2013 compared with $311.1 million, or 362% of total risk-based capital, at December 31, 2012.

- Loan proceeds received from the repayment of our commercial real estate and construction and development loans were used primarily to redeem maturing certificates of deposit during 2013. Deposits decreased 7.3% to $987.7 million compared with $1.1 billion at December 31, 2012. Certificate of deposit balances declined $80.6 million during 2013 to $680.0 million at December 31, 2013, from $760.6 million at December 31, 2012.

- Total loans past due and nonaccrual loans decreased to $113.5 million at December 31, 2013 from $153.1 million at December 31, 2012.

- Non-performing loans increased $7.4 million to $102.0 million at December 31, 2013, compared with $94.6 million at December 31, 2012. The increase in non-performing loans was partially offset by net loan charge-offs in 2013 which totaled $29.3 million. The charge-offs resulted primarily from charging off specific reserves for loans deemed to be collateral dependent.

- Loans past due 30-59 days decreased from $38.2 million at December 31, 2012 to $10.7 million at December 31, 2013 and loans past due 60-89 days decreased from $20.3 million at December 31, 2012 to $775,000 at December 31, 2013. This was primarily driven by the migration of two relationships totaling $36.2 million from past due to nonaccrual status in the first quarter of 2013.

- Foreclosed properties decreased to $30.9 million at December 31, 2013, compared with $43.7 million at December 31, 2012. During the year ended December 31, 2013, the Company acquired $20.6 million and sold $30.8 million of other real estate owned ("OREO"). In addition, we recorded fair value write-downs of $2.5 million during the year reflecting declines in appraisal valuations and changes in pricing strategies. Our ratio of non-performing assets to total assets increased to 12.35% at December 31, 2013, compared with 11.89% at December 31, 2012.

- On July 16, 2013, a jury in Louisville, Kentucky returned a verdict against PBI Bank awarding the plaintiffs compensatory damages of $1.5 million and punitive damages of $5.5 million. After conferring with its legal advisors, PBI Bank believes the findings and damages are excessive and contrary to the law, and that it has meritorious grounds on which it is moving forward to appeal. Although we have made provisions in our condensed consolidated financial statements for this self-insured matter, the amount of our legal reserve is less than the original amount of the damages awarded, plus accrued interest.

These items are discussed in further detail throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" Section.

Going Concern Considerations and Future Plans

Our consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future. However, the events and circumstances described in this discussion create an uncertainty about the Company's ability to continue as a going concern.

For the year ended December 31, 2013, we reported net loss attributable to common shareholders of $3.4 million. This loss was attributable primarily to loan collection expenses of $4.7 million and OREO expense of $4.5 million resulting from fair value write-downs driven by new appraisals and reduced marketing prices, net loss on sales, and ongoing operating expenses. We also had lower net interest margin due to lower average loans outstanding, loans re-pricing at lower rates, and the level of non-performing loans in our portfolio. Net loss to common shareholders of $3.4 million for the year ended December 31, 2013, compares with net loss to common shareholders of $33.4 million for year ended December 31, 2012.

For the year ended December 31, 2012, we reported net loss attributable to common shareholders of $33.4 million. This loss was attributable primarily to $40.3 million of provision for loan losses expense due to continued decline in credit trends in our portfolio that resulted in net charge-offs of $36.1 million, OREO expense of $10.5 million resulting from fair value write-downs driven by new appraisals and reduced marketing prices, net loss on sales, and ongoing operating expense. We also had lower net interest margin due to lower average loans outstanding, loans re-pricing at lower rates, and the level of non-performing loans in our portfolio. Net loss to common shareholders of $33.4 million, for the year ended December 31, 2012, compares with net loss to common shareholders of $105.2 million for year ended December 31, 2011.

In June 2011, the Bank entered into a Consent Order with the FDIC and KDFI in which the Bank agreed, among other things, to improve asset quality, reduce loan concentrations, and maintain a minimum Tier 1 leverage ratio of 9% and a minimum total risk based capital ratio of 12%. The Consent Order was included in our Current Report on 8-K filed on June 30, 2011. In October 2012, the Bank entered into a new Consent Order with the FDIC and KDFI, again agreeing to maintain a minimum Tier 1 leverage ratio of 9% and a minimum total risk based capital ratio of 12%. The Bank also agreed that if it should be unable to reach the required capital levels, and if directed in writing by the FDIC, then the Bank would within 30 days develop, adopt and implement a written plan to sell or merge itself into another federally insured financial institution or otherwise immediately obtain a sufficient capital investment into the Bank to fully meet the capital requirements.

We expect to continue to work with our regulators toward capital ratio compliance as outlined in the written capital plan submitted by the Bank in December 2012. The new Consent Order also requires the Bank to continue to adhere to the plans implemented in response to the June 2011 Consent Order, and includes the substantive provisions of the June 2011 Consent Order. The new Consent Order was included in our Current Report on 8-K filed on September 19, 2012. As of December 31, 2013, the capital ratios required by the Consent Order were not met.

In order to meet these capital requirements, the Board of Directors and management are continuing to evaluate strategies to achieve the following objectives:

- Increasing capital through a possible public offering or private placement of common stock to new and existing shareholders. We have engaged a financial advisor to assist our Board in this evaluation and to assist in evaluating our options for the redemption of our Series A Preferred Stock currently held by the US Treasury.
- Continuing to operate the Company and Bank in a safe and sound manner. This strategy will require us to reduce our lending concentrations, remediate non-performing loans, and reduce other noninterest expense through the disposition of OREO.
- Continuing with succession planning and adding resources to the management team. In 2012, John T. Taylor was named President and CEO of PBI Bank. John R. Davis was appointed the Bank's Chief Credit Officer, with responsibility for establishing and executing the credit quality policies and overseeing credit administration for the entire organization. In 2013, Mr. Taylor succeeded Maria L. Bouvette as CEO of Porter Bancorp. We have also augmented our staffing in the commercial lending area, which is now led by Joe C. Seiler.
- Evaluating and implementing improvements to our internal processes and procedures, distribution of labor, and work-flow to ensure we have adequately and appropriately deployed resources in an efficient manner in the current environment.
- Executing on our commitment to improve credit quality and reduce loan concentrations and balance sheet risk.
    - We have reduced the size of our loan portfolio significantly from $1.3 billion at December 31, 2010, to $1.1 billion at December 31, 2011 to $899.1 million at December 31, 2012, and $709.3 million at December 31, 2013. We have significantly improved our credit administration function which is now led by John R. Davis, who joined the management team in August 2012 and serves as Chief Credit Officer.
    - Our Consent Order calls for us to reduce our construction and development loans. At December 31, 2013, we have reduced construction and development loans to $43.3 million, or 52% of total risk-based capital, and $70.3 million, or 82% of total risk-based capital, at December 31, 2012.
    - Our Consent Order also requires us to continue to reduce concentrations in commercial real estate loans. These loans totaled $237.0 million, or 284% of total risk-based capital, at December 31, 2013 compared with $311.1 million, or 362% of total risk-based capital, at December 31, 2012.

- We are working to reduce non-owner occupied commercial real estate loans, construction and development loans, and multi-family residential real estate loans by being more selective in seeking new construction and development lending and new non-owner occupied commercial real estate lending opportunities. We are also receiving principal reductions from amortizing credits and pay-downs from our customers who sell properties built for resale. We have reduced the construction loan portfolio from $199.5 million at December 31, 2010 to $43.3 million at December 31, 2013. Our non-owner occupied commercial real estate loans declined from $293.3 million at December 31, 2010 to $237.0 million at December 31, 2013.

- Executing on our commitment to sell other real estate owned and reinvest in quality income producing assets.

  - Our acquisition of real estate assets through the loan remediation process slowed during 2013, as we acquired $20.6 million of OREO in 2013 compared with $33.5 million during 2012. However, nonaccrual loans totaled $101.8 million at December 31, 2013, and we expect to resolve many of these loans by foreclosure which could result in further additions to our OREO portfolio.
  - We incurred OREO losses totaling $2.6 million during the 2013, comprised of $132,000 in loss on sale and $2.5 million in fair value write-downs to reflect declines in appraisal valuations and changes in our pricing strategies.
  - We continually evaluate opportunities to maximize the value we receive from the sale of OREO. We pursue multiple sales channels with focus primarily on internal marketing and the use of brokers.
  - Real estate construction represents 62% of the OREO portfolio at December 31, 2013 compared with 51% at December 31, 2012. Commercial real estate represents 19% of the OREO portfolio at December 31, 2013 compared with 35% at December 31, 2012, and 1-4 family residential properties represent 16% of the portfolio at December 31, 2013 compared with 12% at December 31, 2012.

Bank regulatory agencies can exercise discretion when an institution does not meet the terms of a consent order. Based on individual circumstances, the agencies may issue mandatory directives, impose monetary penalties, initiate changes in management, or take more serious adverse actions.

Our consolidated financial statements do not include any adjustments that may result should the Company be unable to continue as a going concern.

Application of Critical Accounting Policies

Our accounting and reporting policies comply with GAAP and conform to general practices within the banking industry. We believe that of our significant accounting policies, the following may involve a higher degree of management assumptions and judgments that could result in materially different amounts to be reported if conditions or underlying circumstances were to change.

Allowance for Loan Losses – PBI Bank maintains an allowance for loan losses believed to be sufficient to absorb probable incurred credit losses existing in the loan portfolio, and the board of directors evaluates the adequacy of the allowance for loan losses on a quarterly basis. We evaluate the adequacy of the allowance using, among other things, historical loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral and current economic conditions and trends. The allowance may be allocated for specific loans or loan categories, but the entire allowance is available for any loan that, in management's judgment, should be charged off. The allowance consists of specific and general components. The specific component relates to loans that are individually deemed impaired. The general component is based on historical loss experience adjusted for environmental factors. We develop allowance estimates based on actual loss experience adjusted for current economic conditions and trends. Allowance estimates are a prudent measurement of the risk in the loan portfolio which we apply to individual loans based on loan type. If the mix and amount of future charge-off percentages differ significantly from those assumptions used by management in making its determination, we may be required to materially increase our allowance for loan losses and provision for loan losses, which could adversely affect our results.

Other Real Estate Owned – Other real estate owned (OREO) is real estate acquired as a result of foreclosure or by deed in lieu of foreclosure. It is classified as real estate owned until such time as it is sold. When property is acquired as a result of foreclosure or by deed in lieu of foreclosure, it is recorded at its fair market value less estimated cost to sell. Any write-down of the property at the time of acquisition is charged to the allowance for loan losses. Subsequent reductions in fair value are recorded as non-interest expense. To determine the fair value of OREO for smaller dollar single family homes, we consult with internal real estate sales staff and external realtors, investors, and appraisers. If the internally evaluated market price is below our underlying investment in the property, appropriate write-downs are recorded. For larger dollar commercial real estate properties, we obtain a new appraisal of the subject property in connection with the transfer to other real estate owned. We do not obtain updated appraisals on a quarterly basis after the receipt of the initial appraisal. Rather, we internally review the fair value of the other real estate owned in our portfolio on a quarterly basis to determine if a new appraisal is warranted based on the specific circumstances of each property. Generally, we obtain updated appraisals annualluy unless a sale is imminent.

Intangible Assets – We evaluate intangible assets for impairment at least annually and more frequently if circumstances indicate their value may not be recoverable. Identifiable intangible assets that are subject to amortization are amortized on an accelerated basis over the years expected to be benefited, which we believe is 10 years. We review these amortizable intangible assets for impairment if circumstances indicate their value may not be recoverable based on a comparison of fair value to carrying value. Based on our annual review, management does not believe our intangible assets are impaired at December 31, 2013.

Stock-based Compensation – Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. We utilize a Black-Scholes model, which requires the input of highly subjective assumptions, such as volatility, risk-free interest rates and dividend pay-out rates, to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Valuation of Deferred Tax Asset – We evaluate deferred tax assets for impairment on a quarterly basis. We established a 100% deferred tax valuation allowance of $31.7 million in December 2011 based upon the analysis of our past performance and our expected future performance. We considered all evidence currently available, both positive and negative, in determining, based on the weight of that evidence, the likelihood that the deferred tax asset would be realized. During that review, we determined that the level of our recent historical losses, the level of our non-performing assets, our inability to meet our forecasted levels of earnings in 2011, our intent to defer payment of dividends on our subordinated debentures and Series A Preferred Stock, and our non-compliance with the capital requirements of our Consent Order outweighed our forecasted taxable earnings levels for the near and long term. As such, we established a 100% deferred tax valuation allowance. When evaluating our deferred tax assets for realizability during 2012 and 2013, we concluded that a full valuation allowance was still necessary at December 31, 2012 and 2013, due to the additional losses incurred during those years. A return to profitability would enable us to reduce the valuation allowance and thereby offset income tax expense that would otherwise be recognized. Examinations of our income tax returns or changes in tax law may impact our deferred tax assets and liabilities as well as our provision for income taxes.

Contingencies – In the normal course of operations, we are defendants in various legal proceedings. We record contingent liabilities resulting from claims against us when a loss is assessed to be probable and the amount of the loss is reasonably estimable. Assessing probability of loss and estimating probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third party claimants and courts. Recorded contingent liabilities are based on the best information available and actual losses in any future period are inherently uncertain.

Results of Operations

The following table summarizes components of income and expense and the change in those components for 2013 compared with 2012:

	For the Years Ended December 31,		Change from Prior Period	
	2013	2012	Amount	Percent
	(dollars in thousands)			
Gross interest income	$ 43,228	$ 57,729	$ (14,501)	(25.1)%
Gross interest expense	11,143	15,774	(4,631)	(29.4)
Net interest income	32,085	41,955	(9,870)	(23.5)
Provision for credit losses	700	40,250	(39,550)	(98.3)
Non-interest income	5,196	6,354	(1,158)	(18.2)
Gains on sale of securities, net	723	3,236	(2,513)	(77.7)
Non-interest expense	38,890	44,292	(5,402)	(12.2)
Net loss before taxes	(1,586)	(32,997)	31,411	(95.2)
Income tax benefit	—	(65)	65	(100.0)
Net loss	(1,586)	(32,932)	31,346	(95.2)
Dividends on preferred stock	(1,919)	(1,750)	(169)	9.7
Accretion on Series A preferred stock	(160)	(179)	19	(10.6)
Losses attributable to participating securities	267	1,429	(1,162)	(81.3)
Net loss attributable to common shareholders	(3,398)	(33,432)	30,034	(89.8)

Net loss of $1.6 million for the year ended December 31, 2013, improved by $31.4 million from net loss of $32.9 million for 2012. Net loss to common shareholders of $3.4 million for the year ended December 31, 2013, decreased $30.0 million from net loss to common shareholders of $33.4 million for 2012. This decrease in net loss was attributable primarily to lower provision for loan losses expense and decreased non-interest expense associated with our OREO, partially offset by lower net gain on sales of securities and lower net interest income.

The following table summarizes components of income and expense and the change in those components for 2012 compared with 2011:

	For the Years Ended December 31,		Change from Prior Period	
	2012	2011	Amount	Percent
	(dollars in thousands)			
Gross interest income	$ 57,729	$ 73,554	$ (15,825)	(21.5)%
Gross interest expense	15,774	22,039	(6,265)	(28.4)
Net interest income	41,955	51,515	(9,560)	(18.6)
Provision for credit losses	40,250	62,600	(22,350)	(35.7)
Non-interest income	6,354	6,766	(412)	(6.1)
Gains on sale of securities, net	3,236	1,108	2,128	192.1
Other than temporary impairment on securities	—	(41)	41	(100.0)
Non-interest expense	44,292	104,273	(59,981)	(57.5)
Net loss before taxes	(32,997)	(107,525)	74,528	(69.3)
Income tax benefit	(65)	(218)	153	(70.2)
Net loss	(32,932)	(107,307)	74,375	(69.3)
Dividends on preferred stock	(1,750)	(1,750)	—	—
Accretion on Series A preferred stock	(179)	(177)	(2)	1.1
Losses attributable to participating securities	1,429	4,080	(2,651)	(65.0)
Net loss attributable to common shareholders	(33,432)	(105,154)	71,722	(68.2)

Net loss of $32.9 million for the year ended December 31, 2012, decreased $74.4 million from net loss of $107.3 million for 2011. Net loss to common shareholders of $33.4 million for the year ended December 31, 2012, decreased $71.7 million from net loss to common shareholders of $105.2 million for 2011. This decrease in net loss was attributable primarily to lower provision for loan losses expense, decreased non-interest expense associated with our OREO, and higher net gain on sales of securities, partially offset by lower net interest income. In addition, the 2011 results included a one-time goodwill impairment charge of $23.8 million.

Net Interest Income – Our net interest income was $32.1 million for the year ended December 31, 2013, a decrease of $9.9 million, or 23.5%, compared with $42.0 million for the same period in 2012. Net interest spread and margin were 2.97% and 3.10%, respectively, for 2013, compared with 3.16% and 3.31%, respectively, for 2012. Average nonaccrual loans were $107.3 million and $90.8 million in 2013 and 2012, respectively. The decrease in net interest income was primarily the result of lower average earning assets coupled with lower rates on those assets. In addition, net interest income and net interest margin were adversely affected by $5.6 million and $4.9 million of interest lost on nonaccrual loans during 2013 and 2012, respectively.

Our average interest-earning assets were $1.05 billion for 2013, compared with $1.28 billion for 2012, an 18.1% decrease, primarily attributable to lower average loans and partially offset by higher average investment securities and interest bearing deposits with financial institutions. Average loans were $788.2 million for 2013, compared with $1.03 billion for 2012, a 23.7% decrease. Average interest bearing deposits with financial institutions were $65.1 million in 2013, compared with $62.1 million in 2012, a 4.7% increase. Average investment securities were $184.2 million for 2013, compared with $173.1 million for 2012, a 6.4% increase. Our total interest income decreased 25.1% to $43.2 million for 2013, compared with $57.7 million for 2012. The change was due primarily to lower interest rates on loans, lower volume of loans and lower interest rates on investment securities.

Our average interest-bearing liabilities decreased by 18.1% to $937.4 million for 2013, compared with $1.14 billion for 2012. Our total interest expense decreased by 29.4% to $11.1 million for 2013, compared with $15.8 million during 2011, due primarily to lower interest rates paid on and lower volume of certificates of deposit, NOW and money market deposits. Our average volume of certificates of deposit decreased 22.8% to $704.0 million for 2013, compared with $912.1 million for 2012. The average interest rate paid on certificates of deposit decreased to 1.35% for 2013, compared with 1.52% for 2012, as the result of continued re-pricing of certificates of deposit at maturity to lower interest rates. Our average volume of NOW and money market deposit accounts increased 1.1% to $154.8 million for 2013, compared with $153.0 million for 2012. The average interest rate paid on NOW and money market deposit accounts decreased to 0.35% for 2013, compared with 0.42% for 2012.

Our net interest income was $42.0 million for the year ended December 31, 2012, a decrease of $9.6 million, or 18.6%, compared with $51.5 million for the same period in 2011. Net interest spread and margin were 3.16% and 3.31%, respectively, for 2012, compared with 3.24% and 3.40%, respectively, for 2011. Average nonaccrual loans were $90.8 million and $67.4 million in 2012 and 2011, respectively. The decrease in net interest income was primarily the result of lower average earning assets coupled with lower rates on those assets. In addition, net interest income and net interest margin were adversely affected by $4.9 million and $4.0 million of interest lost on nonaccrual loans during 2012 and 2011, respectively.

Our average interest-earning assets were $1.28 billion for 2012, compared with $1.53 billion for 2011, a 16.5% decrease, primarily attributable to lower average loans and interest bearing deposits with financial institutions, partially offset by higher average investment securities. Average loans were $1.03 billion for 2012, compared with $1.24 billion for 2011, a 16.9% decrease. Average interest bearing deposits with financial institutions were $62.1 million in 2012, compared with $127.1 million in 2011, a 51.1% decrease. Average investment securities were $173.1 million for 2012, compared with $148.5 million for 2011, a 16.6% increase. Our total interest income decreased 21.5% to $57.7 million for 2012, compared with $73.6 million for 2011. The change was due primarily to lower interest rates on and lower volume of loans and interest bearing deposits with financial institutions, and lower interest rates on investment securities.

Our average interest-bearing liabilities decreased by 17.5% to $1.14 billion for 2012, compared with $1.39 billion for 2011. Our total interest expense decreased by 28.4% to $15.8 million for 2012, compared with $22.0 million during 2011, due primarily to lower interest rates paid on and lower volume of certificates of deposit, NOW and money market deposits. Our average volume of certificates of deposit decreased 18.6% to $912.1 million for 2012, compared with $1.12 billion for 2011. The average interest rate paid on certificates of deposit decreased to 1.52% for 2012, compared with 1.65% for 2011, as the result of continued re-pricing of certificates of deposit at maturity to lower interest rates. Our average volume of NOW and money market deposit accounts decreased 10.5% to $153.0 million for 2012, compared with $171.0 million for 2011. The average interest rate paid on NOW and money market deposit accounts decreased to 0.42% for 2012, compared with 0.85% for 2011.

Average Balance Sheets

The following table sets forth the average daily balances, the interest earned or paid on such amounts, and the weighted average yield on interest-earning assets and weighted average cost of interest-bearing liabilities for the periods indicated. Dividing income or expense by the average daily balance of assets or liabilities, respectively, derives such yields and costs for the periods presented.

	For the Years Ended December 31,					
	2013			2012		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
	(dollars in thousands)					
ASSETS						
Interest-earning assets:						
Loans receivables (1)(2)						
Real estate	$ 696,785	$ 32,591	4.68%	$ 921,314	$ 46,179	5.01%
Commercial	50,990	2,772	5.44	64,252	3,510	5.46
Consumer	16,982	1,402	8.26	22,720	1,903	8.38
Agriculture	22,639	1,229	5.43	24,196	1,304	5.39
Other	780	21	2.69	838	22	2.63
U.S. Treasury and agencies	23,685	546	2.31	6,588	199	3.02
Mortgage-backed securities	83,160	1,552	1.87	111,637	1,986	1.78
State and political subdivision securities (3)	30,292	933	4.74	26,631	887	5.12
State and political subdivision securities	24,861	787	3.17	17,363	563	3.24
Corporate bonds	20,864	745	3.57	8,957	482	5.38
FHLB stock	10,072	421	4.18	10,072	447	4.44
Other debt securities	572	46	8.04	572	46	8.04
Other equity securities	744	30	4.03	1,359	57	4.19
Federal funds sold	2,640	3	0.11	3,109	2	0.06
Interest-bearing deposits in other financial institutions	65,076	150	0.23	62,127	142	0.23
Total interest-earning assets	1,050,142	43,228	4.16%	1,281,735	57,729	4.54%
Less: Allowance for loan losses	(40,343)			(53,484)		
Non-interest-earning assets	88,601			113,314		
Total assets	$1,098,400			$1,341,565		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities						
Certificates of deposit and other time deposits	$ 703,982	$ 9,482	1.35%	$ 912,061	$ 13,828	1.52%
NOW and money market deposits	154,759	541	0.35	153,032	641	0.42
Savings accounts	39,158	114	0.29	38,665	154	0.40
Federal funds purchased and repurchase agreements	3,113	6	0.19	2,088	7	0.34
FHLB advances	4,990	157	3.15	6,325	207	3.27
Junior subordinated debentures	31,404	843	2.68	32,309	937	2.90
Total interest-bearing liabilities	937,406	11,143	1.19%	1,144,480	15,774	1.38%
Non-interest-bearing liabilities						
Non-interest-bearing deposits	106,153			113,325		
Other liabilities	12,210			8,081		
Total liabilities	1,055,769			1,265,886		
Stockholders' equity	42,631			75,679		
Total liabilities and stockholders' equity	$1,098,400			$1,341,565		
Net interest income		$ 32,085			$ 41,955	
Net interest spread			2.97%			3.16%
Net interest margin			3.10%			3.31%
Ratio of average interest-earning assets to average interest-bearing liabilities			112.03%			111.99%

(1) Includes loan fees in both interest income and the calculation of yield on loans.
(2) Calculations include non-accruing loans of $107.3 million and $90.8 million in average loan amounts outstanding.
(3) Taxable equivalent yields are calculated assuming a 35% federal income tax rate.

	For the Years Ended December 31,					
	2012			2011		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
	(dollars in thousands)					
ASSETS						
Interest-earning assets:						
Loans receivables (1)(2)						
Real estate	$ 921,314	$ 46,179	5.01%	$1,111,136	$ 59,450	5.35%
Commercial	64,252	3,510	5.46	77,098	4,362	5.66
Consumer	22,720	1,903	8.38	29,140	2,428	8.33
Agriculture	24,196	1,304	5.39	25,175	1,407	5.59
Other	838	22	2.63	925	32	3.46
U.S. Treasury and agencies	6,588	199	3.02	10,173	322	3.17
Mortgage-backed securities	111,637	1,986	1.78	96,221	2,967	3.08
State and political subdivision securities (3)	26,631	887	5.12	29,506	1,123	5.86
State and political subdivision securities	17,363	563	3.24	3,178	172	5.41
Corporate bonds	8,957	482	5.38	7,466	452	6.05
FHLB stock	10,072	447	4.44	10,072	428	4.25
Other debt securities	572	46	8.04	572	46	8.04
Other equity securities	1,359	57	4.19	1,397	49	3.51
Federal funds sold	3,109	2	0.06	5,729	3	0.05
Interest-bearing deposits in other financial institutions	62,127	142	0.23	127,087	313	0.25
Total interest-earning assets	1,281,735	57,729	4.54%	1,534,875	73,554	4.83%
Less: Allowance for loan losses	(53,484)			(37,762)		
Non-interest-earning assets	113,314			162,846		
Total assets	$1,341,565			$1,659,959		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities						
Certificates of deposit and other time deposits	$ 912,061	$ 13,828	1.52%	$1,120,154	$ 18,468	1.65%
NOW and money market deposits	153,032	641	0.42	171,028	1,451	0.85
Savings accounts	38,665	154	0.40	36,511	228	0.62
Federal funds purchased and repurchase agreements	2,088	7	0.34	10,524	440	4.18
FHLB advances	6,325	207	3.27	15,315	537	3.51
Junior subordinated debentures	32,309	937	2.90	33,208	915	2.76
Total interest-bearing liabilities	1,144,480	15,774	1.38%	1,386,740	22,039	1.59%
Non-interest-bearing liabilities						
Non-interest-bearing deposits	113,325			106,769		
Other liabilities	8,081			7,016		
Total liabilities	1,265,886			1,500,525		
Stockholders' equity	75,679			159,434		
Total liabilities and stockholders' equity	$1,341,565			$1,659,959		
Net interest income		$ 41,955			$ 51,515	
Net interest spread			3.16%			3.24%
Net interest margin			3.31%			3.40%
Ratio of average interest-earning assets to average interest-bearing liabilities			111.99%			110.68%

(1) Includes loan fees in both interest income and the calculation of yield on loans.
(2) Calculations include non-accruing loans of $90.8 million and $67.4 million in average loan amounts outstanding.
(3) Taxable equivalent yields are calculated assuming a 35% federal income tax rate.

Rate/Volume Analysis

The table below sets forth information regarding changes in interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in rate (changes in rate multiplied by old volume); (2) changes in volume (changes in volume multiplied by old rate); and (3) changes in rate-volume (change in rate multiplied by change in volume). Changes in rate-volume are proportionately allocated between rate and volume variance.

	Year Ended December 31, 2013 vs. 2012 Increase (decrease) due to change in			Year Ended December 31, 2012 vs. 2011 Increase (decrease) due to change in		
	Rate	Volume	Net Change	Rate	Volume	Net Change
	(in thousands)					
Interest-earning assets:						
Loan receivables	$ (2,935)	$ (11,967)	$ (14,902)	$ (3,824)	$ (10,937)	$ (14,761)
U.S. Treasury and agencies	(35)	382	347	(14)	(109)	(123)
Mortgage-backed securities	93	(528)	(435)	(1,401)	420	(981)
State and political subdivision securities	(81)	351	270	(243)	398	155
Corporate bonds	(206)	469	263	(54)	84	30
FHLB stock	(26)	—	(26)	19	—	19
Other debt securities	—	—	—	—	—	—
Other equity securities	(2)	(25)	(27)	9	(1)	8
Federal funds sold	1	—	1	—	(1)	(1)
Interest-bearing deposits in other financial institutions	1	7	8	(21)	(150)	(171)
Total increase (decrease) in interest income	(3,190)	(11,311)	(14,501)	(5,529)	(10,296)	(15,825)
Interest-bearing liabilities:						
Certificates of deposit and other time deposits	(1,427)	(2,919)	(4,346)	(1,402)	(3,238)	(4,640)
NOW and money market accounts	(107)	7	(100)	(670)	(140)	(810)
Savings accounts	(42)	2	(40)	(86)	12	(74)
Federal funds purchased and repurchase agreements	(3)	2	(1)	(231)	(202)	(433)
FHLB advances	(8)	(42)	(50)	(34)	(296)	(330)
Junior subordinated debentures	(69)	(25)	(94)	46	(24)	22
Total increase (decrease) in interest expense	(1,656)	(2,975)	(4,631)	(2,377)	(3,888)	(6,265)
Increase (decrease) in net interest income	$ (1,534)	$ (8,336)	$ (9,870)	$ (3,152)	$ (6,408)	$ (9,560)

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Non-interest Income – The following table presents for the periods indicated the major categories of non-interest income:

	For the Years Ended December 31,		
	2013	2012	2011
		(in thousands)	
Service charges on deposit accounts	$2,058	$2,239	$2,609
Income from fiduciary activities	517	1,177	993
Bank card interchange fees	718	727	668
Other real estate owned rental income	399	420	200
Gain on sales of investment securities, net	723	3,236	1,108
Other-than-temporary impairment on securities	—	—	(41)
Income from bank owned life insurance	534	312	314
Other	970	1,479	1,982
Total non-interest income	$5,919	$9,590	$7,833

Non-interest income decreased by $3.7 million to $5.9 million for 2013 compared with $9.6 million for 2012. This was due primarily to decreased gain on sales of investment securities of $2.5 million, or 77.7%, due to lower volume of sales. This decrease was also caused by a reduction in income from fiduciary activities as we transitioned away from providing trust services, including ESOP and employee benefit plan services throughout our markets. This decrease was offset partially by an increase in income from bank owned life insurance, which increased by 71.2% from 2012.

Non-interest income increased by $1.8 million to $9.6 million for 2012 compared with $7.8 million for 2011. This was due primarily to increased gain on sales of investment securities of $2.1 million, or 192.1%, due to higher volume of sales. This increase was offset partially by decreased service charges on deposit accounts of $370,000, or 14.2%, and decreased gain on sales of loans originated for sale of $375,000, or 52.6%. Fewer service charges on deposit account fees were the result of lower transaction volume. Lower gains on sales of loans originated for sale were the result of fewer loans originated for sale during the year in the USDA and SBA programs.

Non-interest Expense – The following table presents the major categories of non-interest expense:

	For the Years Ended December 31,		
	2013	2012	2011
		(in thousands)	
Salary and employee benefits	$15,501	$16,648	$ 15,218
Occupancy and equipment	3,583	3,642	3,729
Goodwill impairment charge	—	—	23,794
Other real estate owned expense	4,516	10,549	47,525
FDIC insurance	2,378	2,835	3,470
Loan collection expense	4,707	2,442	2,509
State franchise tax	1,944	2,174	2,228
Professional fees	1,892	1,985	1,392
Communications	711	710	678
Borrowing prepayment fees	—	—	486
Postage and delivery	423	454	485
Insurance expense	648	373	172
Other	2,587	2,480	2,587
Total non-interest expense	$38,890	$44,292	$104,273

Non-interest expense for the year ended December 31, 2013 of $38.9 million represented a 12.2% decrease from $44.3 million for the same period last year. The decrease in non-interest expense was attributable primarily to decreased other real estate owned expense due to lower loss on sales of OREO and lower valuation write-downs. Expenses related to other real estate owned include:

	2013	2012
	(in thousands)	
Net loss on sales	$ 132	$ 1,672
Provision to allowance for declining market values	2,466	7,154
Operating expense	1,918	1,723
Total	$4,516	$10,549

During 2013, we recorded approximately $2.5 million of provision to allowance for declining market values related to new appraisals received for properties in the portfolio during the year. This compares with $7.2 million of provision related to new appraisals received for properties in the portfolio during 2012.

FDIC insurance assessments decreased $457,000, or 16.1%, to $2.4 million in 2013 from $2.8 million in 2012 due to decreased average total consolidated assets, less the average tangible equity during the assessment period. Salary and employee benefit expenses decreased by $1.1 million, or 6.9% to $15.5 million from $16.6 million in 2012.

These improvements were offset partially by an increase in loan collection expense of $2.3 million, or 92.8%, due primarily to continued remediation of problem loans.

Non-interest Expense Comparison – 2012 to 2011

Non-interest expense for the year ended December 31, 2012, of $44.3 million represented a 57.5% decrease from $104.3 million for the same period last year. The decrease in non-interest expense was attributable primarily to decreased other real estate owned expense due to lower loss on sales of OREO, lower valuation write-downs, and lower property maintenance expenses. Expenses related to other real estate owned include:

	2012	2011
	(in thousands)	
Net loss on sales	$ 1,672	$ 8,889
Provision to allowance for sales strategy change	—	25,613
Provision to allowance for declining market values	7,154	9,261
Operating expense	1,723	3,762
Total	$10,549	$47,525

In 2011, management determined, with the concurrence of the Board of Directors, that certain properties held in OREO were not likely to be successfully disposed of in an acceptable time-frame using routine marketing efforts. It became apparent due to weakness in the economy and softness in demand for housing that certain land development and residential condominium projects would require extended holding periods to sell the properties at recent appraised values. Accordingly, in June of 2011, the Company sold, in a single transaction, 54 finished condominium property units from condominium developments held in our OREO portfolio with a carrying value of approximately $11.0 million, for $5.2 million, resulting in a pre-tax loss of $5.8 million. No similar transaction occurred in 2012.

Although we were carrying our OREO at fair market value less estimated cost to sell in 2011, we subsequently adjusted our valuations for land development and residential development properties held in OREO that were similar to the properties we sold in 2011. We recorded an allowance totaling approximately $25.6 million to reflect our intent to market these properties more aggressively to retail and bulk buyers. No similar change in sales strategy was implemented during 2012.

FDIC insurance assessments decreased $635,000, or 18.3%, to $2.8 million in 2012 from $3.5 million in 2011 due to decreased average total consolidated assets, less the average tangible equity during the assessment period. Borrowing prepayment fees decreased $486,000 as no such fees were incurred during 2012. Additionally, non-interest expense for 2011 included a non-recurring 100% goodwill impairment charge of $23.8 million.

These improvements were offset partially by higher salaries and employee benefits expense of $1.4 million, or 9.4%, due primarily to additions to staff in our credit administration and workout divisions, and higher professional fees of $593,000, or 42.6%, due primarily to increased audit and accounting fees, and loan review fees.

Income Tax Expense – No income tax benefit was recorded for 2013, compared with $65,000 for 2012. Our deferred tax valuation allowance increased to $47.8 million at December 31, 2013. Our statutory federal tax rate was 35% in both 2013 and 2012. The effective tax rate for 2013 and 2012 is not meaningful due to the reduction of income tax benefit as the result of the establishment of the deferred tax valuation allowance.

The valuation allowance for our deferred tax assets does not have any impact on our liquidity, nor does it preclude us from using the tax losses, tax credits or other timing differences in the future. To the extent we generate taxable income in a given quarter, the valuation allowance may be reduced to offset fully or partially the corresponding income tax expense. Any remaining deferred tax asset valuation allowance may be reversed through income tax expense once we can demonstrate a sustainable return to profitability and conclude it is more likely than not the deferred tax asset will be utilized.

See Note 14, "Income Taxes", for additional discussion of our income taxes.

Income tax benefit was $65,000 for 2012, compared with $218,000 for 2011. The 2011 income tax benefit was affected significantly by the establishment of a 100% valuation allowance for our deferred tax asset of $31.7 million. Our deferred tax valuation allowance increased to $43.9 million at December 31, 2012. Our statutory federal tax rate was 35% in both 2012 and 2011. The effective tax rate for 2012 and 2011 is not meaningful due to the reduction of income tax benefit as the result of the establishment of the deferred tax valuation allowance.

Analysis of Financial Condition

Total assets at December 31, 2013 were $1.1 billion compared with $1.2 billion at December 31, 2012, a decrease of $86.5 million or 7.4%. This decrease was attributable primarily to a decrease of $189.8 million in loans. The decrease in loans was attributable to principal reductions by customers outpacing loan originations and advances, as well as $32.6 million in loan charge-offs and the transfer of loan balances totaling $20.6 million to OREO.

PBI Bank's total risk-based capital was $83.1 million at December 31, 2013. PBI Bank's consent order with its primary regulators required its Board of Directors to adopt and implement a plan to reduce its construction and development loans to not more than 75% of total risk-based capital. These loans totaled $43.3 million, or 52% of total risk-based capital, at December 31, 2013. The consent order also required a plan to reduce non-owner occupied commercial real estate loans, construction and development loans, and multifamily residential real estate loans as a group, to not more than 250% of total risk-based capital. These loans totaled $237.0 million, or 284% of total risk-based capital, at December 31, 2013.

Total assets at December 31, 2012 were $1.2 billion compared with $1.5 billion at December 31, 2011, a decrease of $292.8 million or 20.1%. This decrease was attributable primarily to a decrease of $236.9 million in loans. The decrease in loans was attributable to principal reductions by customers outpacing loan originations and advances, as well as $37.5 million in loan charge-offs and the transfer of loan balances totaling $33.5 million to OREO.

Loans Receivable – Loans receivable decreased $189.8 million, or 21.1%, during the year ended December 31, 2013, to $709.3 million. Our commercial, commercial real estate and real estate construction portfolios decreased by an aggregate of $126.9 million, or 24.1%, during 2013 and comprised 56.3% of the total loan portfolio at December 31, 2013.

Loans receivable decreased $236.9 million, or 20.9%, during the year ended December 31, 2012, to $899.1 million. Our commercial, commercial real estate and real estate construction portfolios decreased by an aggregate of $161.1 million, or 23.4%, during 2012 and comprised 58.6% of the total loan portfolio at December 31, 2012.

Loan Portfolio Composition – The following table presents a summary of the loan portfolio at the dates indicated, net of deferred loan fees, by type. There are no foreign loans in our portfolio and other than the categories noted, there is no concentration of loans in any industry exceeding 10% of total loans, with the exception of loans for retail facilities (included in other commercial real estate below). Those loans totaled $98.5 million at December 31, 2013 and $150.3 million at December 31, 2012.

	As of December 31,			
	2013		2012	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Commercial	$ 52,878	7.45%	$ 52,567	5.85%
Commercial Real Estate:				
Construction	43,326	6.11	70,284	7.82
Farmland	71,189	10.04	80,825	8.99
Other	232,026	32.71	322,687	35.89
Residential Real Estate:				
Multi-family	46,858	6.61	50,986	5.67
1-4 Family	228,505	32.21	278,273	30.95
Consumer	14,365	2.03	20,383	2.27
Agriculture	19,199	2.71	22,317	2.48
Other	980	0.13	770	0.08
Total loans	$709,326	100.00%	$899,092	100.00%

	As of December 31,					
	2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)					
Commercial	$ 71,216	6.27%	$ 90,290	6.93%	$ 89,903	6.36%
Commercial Real Estate:						
Construction	101,471	8.93	199,524	15.32	304,230	21.53
Farmland	90,958	8.01	85,523	6.56	83,898	5.94
Other	423,844	37.31	441,844	33.92	451,945	31.99
Residential Real Estate:						
Multi-family	60,410	5.31	74,919	5.75	65,043	4.60
1-4 Family	337,350	29.70	353,418	27.13	354,358	25.08
Consumer	26,011	2.29	31,913	2.45	36,989	2.62
Agriculture	23,770	2.09	24,177	1.86	25,064	1.77
Other	993	0.09	1,060	0.08	1,488	0.11
Total loans	$1,136,023	100.00%	$1,302,668	100.00%	$1,412,918	100.00%

Our lending activities are subject to a variety of lending limits imposed by state and federal law. PBI Bank's secured legal lending limit to a single borrower was approximately $20.7 million at December 31, 2013.

At December 31, 2013, we had four loan relationships each with aggregate extensions of credit in excess of $10.0 million. Two of the four relationships include loans that have been classified as substandard by the Bank's internal loan review process. In 2012, we had eight loan relationships each with aggregate extensions of credit in excess of $10.0 million. For further discussion of classified loans refer to the asset quality discussion in our "Allowance for Loan Losses" section.

Our real estate construction portfolio declined approximately $27.0 million from 2012 to 2013 as the result of construction projects being completed and sold to end users or refinanced under permanent financing arrangements, and also loans in this category being transferred to OREO through the normal progression of collection, workout, and ultimate disposition.

As of December 31, 2013, we had $7.2 million of loan participations purchased from, and $38.2 million of loan participations sold to, other banks. As of December 31, 2012, we had $9.4 million of loan participations purchased from, and $61.9 million of loan participations sold to, other banks.

Our loan participation totals include participations in loans sold to two affiliate banks, The Peoples Bank, Mt. Washington and The Peoples Bank, Taylorsville. Our chairman emeritus, J. Chester Porter and his brother and our director, William G. Porter, each own a 50% interest in Lake Valley Bancorp, Inc., the parent holding company of The Peoples Bank, Taylorsville, Kentucky. J. Chester Porter and William G. Porter serve as directors of The Peoples Bank, Taylorsville. Our chairman emeritus owns an interest of approximately 36.0% and his brother and our director owns an interest of approximately 3.0% in Crossroads Bancorp, Inc., the parent holding company of The Peoples Bank, Mount Washington, Kentucky. J. Chester Porter serves as director of The Peoples Bank, Mount Washington. Prior to 2013, we entered into management services agreements with each of these banks. Each agreement provided that our executives and employees provided management and accounting services to the subject bank, including overall responsibility for establishing and implementing policy and strategic planning. These entities are not consolidated in the financial statements of the Company. We received a $4,000 monthly fee from The Peoples Bank, Taylorsville and a $2,000 monthly fee from The Peoples Bank, Mount Washington for these services. Beginning in 2013, we did not renew the agreements and ceased providing management services to these affiliate banks.

As of December 31, 2013, we had $4.9 million of loan participations sold to these affiliate banks. As of December 31, 2012, we had $2.7 million of loan participations purchased from, and $6.5 million of loan participations sold to, these affiliate banks. At December 31, 2013, $1.0 million and $629,000 of loan participations sold to Peoples Bank, Taylorsville, and Peoples Bank, Mt. Washington, respectively, were on nonaccrual.

We have analyzed our relationship with these affiliates and determined that we do not have the power to direct the activities of the affiliates in a manner that would significantly impact their economic performance nor do we govern their absorption of losses or the use of their economic resources. As such, these entities are not consolidated in our financial statements.

Loan Maturity Schedule – The following table sets forth information at December 31, 2013, regarding the dollar amount of loans, net of deferred loan fees, maturing in the loan portfolio based on their contractual terms to maturity:

	As of December 31, 2013			
	Maturing Within One Year	Maturing 1 through 5 Years	Maturing Over 5 Years	Total Loans
	(dollars in thousands)			
Loans with fixed rates:				
Commercial	$ 5,469	$ 12,632	$ 2,283	$ 20,384
Commercial Real Estate:				
Construction	16,700	6,513	577	23,790
Farmland	7,424	21,283	4,112	32,819
Other	77,275	66,589	23,441	167,305
Residential Real Estate:				
Multi-family	9,003	22,222	7,624	38,849
1-4 Family	30,136	101,480	48,597	180,213
Consumer	3,009	9,326	1,600	13,935
Agriculture	2,285	1,883	87	4,255
Other	64	276	106	446
Total fixed rate loans	$151,365	$242,204	$ 88,427	$481,996
Loans with floating rates:				
Commercial	$ 13,142	$ 14,445	$ 4,907	$ 32,494
Commercial Real Estate:				
Construction	16,626	2,764	146	19,536
Farmland	5,172	4,275	28,923	38,370
Other	26,169	4,950	33,602	64,721
Residential Real Estate:				
Multi-family	1,148	906	5,955	8,009
1-4 Family	4,333	9,348	34,611	48,292
Consumer	150	248	32	430
Agriculture	11,838	2,734	372	14,944
Other	510	—	24	534
Total floating rate loans	$ 79,088	$ 39,670	$108,572	$227,330

Loan Portfolio by Risk Category – The following table presents a summary of the loan portfolio at the dates indicated, by risk category.

	As of December 31,				
	2013	2012	2011	2010	2009
			(in thousands)		
Pass	$369,529	$437,886	$ 713,822	$ 984,636	$1,132,601
Watch	144,316	177,419	143,247	130,335	56,542
Special Mention	5,865	34,700	48,922	18,988	15,455
Substandard	189,616	248,691	229,641	168,691	208,313
Doubtful	—	396	391	18	7
Total	$709,326	$899,092	$1,136,023	$1,302,668	$1,412,918

Our loans receivable decreased $189.8 million, or 21.1%, during the year ended December 31, 2013. All loan risk categories have decreased since December 31, 2012. The pass category declined approximately $68.4 million, the watch category declined approximately $33.1 million, the special mention category declined approximately $28.8 million, and the substandard category declined approximately $59.1 million.

Loan Delinquency – The following table presents a summary of loan delinquencies at the dates indicated.

	As of December 31,				
	2013	2012	2011	2010	2009
			(in thousands)		
Past Due Loans:					
30-59 Days	$ 10,696	$ 38,219	$ 17,346	$20,956	$ 12,515
60-89 Days	775	20,303	3,947	6,148	17,010
90 Days and Over	232	86	1,350	594	5,968
Total Loans Past Due 30-90+ Days	11,703	58,608	22,643	27,698	35,493
Nonaccrual Loans	101,767	94,517	92,020	59,799	78,888
Total Past Due and Nonaccrual Loans	$113,470	$153,125	$114,663	$87,497	$114,381

During the year ended December 31, 2013, loans past due 30-59 days decreased from $38.2 million at December 31, 2012 to $10.7 million at December 31, 2013. Loans past due 60-89 days decreased from $20.3 million at December 31, 2012 to $775,000 at December 31, 2013. This represents a $47.1 million decrease from December 31, 2012 to December 31, 2013, in loans past due 30-89 days. The decrease was primarily driven by the migration of loans for two significant borrowing relationships which together totaled $36.2 million from 30-59 days past due and 60-89 days past due at December 31, 2012 to nonaccrual status during the first quarter of 2013. We considered this trend in delinquency levels during the evaluation of qualitative trends in the portfolio when establishing the general component of our allowance for loan losses.

Loans more than 90 days past due increased $146,000, and nonaccrual loans increased $7.3 million, respectively, from December 31, 2012 to December 31, 2013. The $102.0 million in non-performing loans at December 31, 2013, and $94.6 million at December 31, 2012, were primarily construction, land development, other land, commercial real estate, and residential real estate loans. The protracted slowdown in housing unit sales and loss of tenants or inability to lease vacant office and retail space placed inordinate stress on these borrowers and their ability to repay according to the contractual terms of the loans. As such, we have placed these credits on nonaccrual and have begun the appropriate collection actions to resolve them. Management believes it has established adequate loan loss reserves for these credits.

Non-Performing Assets – Non-performing assets consist of certain restructured loans for which interest rate or other terms have been renegotiated, loans past due 90 days or more still on accrual, loans on which interest is no longer accrued, real estate acquired through foreclosure and repossessed assets. Loans, including impaired loans, are placed on nonaccrual status when they become past due 90 days or more as to principal or interest, unless they are adequately secured and in the process of collection. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual loan terms. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral less cost to sell if the loan is collateral dependent. Loans are reviewed on a regular basis and normal collection procedures are implemented when a borrower fails to make a required payment on a loan. If the delinquency on a mortgage loan exceeds 120 days and is not cured through normal collection procedures or an acceptable arrangement is not worked out with the borrower, we institute measures to remedy the default, including commencing a foreclosure action. Consumer loans generally are charged off when a loan is deemed uncollectible by management and any available collateral has been disposed. Commercial business and real estate loan delinquencies are handled on an individual basis by management with the advice of legal counsel.

Interest income on loans is recognized on the accrual basis except for those loans placed on nonaccrual status. The accrual of interest on impaired loans is discontinued when management believes, after consideration of economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful, which typically occurs after the loan becomes 90 days delinquent. When interest accrual is discontinued, existing accrued interest is reversed and interest income is subsequently recognized only to the extent cash payments are received on well-secured loans.

Real estate acquired as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold. New and used automobiles and other motor vehicles acquired as a result of foreclosure are classified as repossessed assets until they are sold. When such property is acquired it is recorded at its fair market value less cost to sell. Any write-down of the property at the time of acquisition is charged to the allowance for loan losses. Subsequent gains and losses are included in non-interest expense.

The following table sets forth information with respect to non-performing assets as of the dates indicated:

	As of December 31,				
	2013	2012	2011	2010	2009
	(dollars in thousands)				
Past due 90 days or more still on accrual	$ 232	$ 86	$ 1,350	$ 594	$ 5,968
Loans on nonaccrual status	101,767	94,517	92,020	59,799	78,888
Total non-performing loans	101,999	94,603	93,370	60,393	84,856
Real estate acquired through foreclosure	30,892	43,671	41,449	67,635	14,548
Other repossessed assets	—	—	5	52	80
Total non-performing assets	$132,891	$138,274	$134,824	$128,080	$99,484
Non-performing loans to total loans	14.38%	10.52%	8.22%	4.63%	6.00%
Non-performing assets to total assets	12.35%	11.89%	9.26%	7.43%	5.42%
Allowance for non-performing loans	$ 2,285	$ 13,250	$ 11,382	$ 7,977	$ 7,266
Allowance for non-performing loans to non-performing loans	2.2%	14.0%	12.2%	13.2%	8.6%

Troubled Debt Restructuring – A troubled debt restructuring (TDR) occurs when the Company has agreed to a loan modification in the form of a concession for a borrower who is experiencing financial difficulty. The majority of the Company's TDRs involve a reduction in interest rate, a deferral of principal for a stated period of time, or an interest only period. All TDRs are considered impaired, and the Company has allocated reserves for these loans to reflect the present value of the concessionary terms granted to the borrower. If the loan is considered collateral dependent, it is reported net of allocated reserves, at the fair value of the collateral less cost to sell.

We do not have a formal loan modification program. Rather, we work with individual borrower on a case-by-case basis to facilitate the orderly collection of our principal and interest before a loan becomes a non-performing loan. If a borrower is unable to make contractual payments, we review the particular circumstances of that borrower's situation and negotiate a revised payment stream. In other words, we identify performing borrowers experiencing financial difficulties, and through negotiations, we lower their interest rate, most typically on a short-term basis for three to six months. Our goal when restructuring a credit is to afford the borrower a reasonable period of time to remedy the issue causing cash flow constraints within their business so that they can return to performing status over time.

Our loan modifications have taken the form of reduction in interest rate and/or curtailment of scheduled principal payments for a short-term period, usually three to six months, but in some cases until maturity of the loan. In some circumstances we restructure real estate secured loans in a bifurcated fashion whereby we have a fully amortizing "A" loan at a market interest rate and an interest-only "B" loan at a reduced interest rate. The majority of our restructured loans are collateral secured loans. If a borrower fails to perform under the modified terms, we place the loan(s) on nonaccrual status and begin the process of working with the borrower to liquidate the underlying collateral to satisfy the debt.

At December 31, 2013, we had 98 restructured loans totaling $91.3 million with borrowers who experienced deterioration in financial condition compared with 123 loans totaling $117.8 million at December 31, 2012. In general, these loans were granted interest rate reductions to provide cash flow relief to borrowers experiencing cash flow difficulties. Of these restructured loans for 2013, five loans totaling approximately $4.4 million were also granted principal payment deferrals until maturity. There were no concessions made to forgive principal relative to these loans, although we have recorded partial charge-offs for certain restructured loans. In general, these loans are secured by first liens on 1-4 residential or commercial real estate properties, or farmland. Restructured loans also included $2.8 million of commercial loans for 2013. At December 31, 2013, $44.3 million of TDRs were performing according to their modified terms.

The following table sets forth information with respect to TDRs, non-performing loans, real estate acquired through foreclosure, and other repossessed assets.

	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009
			(dollars in thousands)		
Total non-performing loans	$101,999	$ 94,603	$ 93,370	$ 60,393	$ 84,856
TDRs on accrual	44,346	77,344	74,144	25,543	24,135
Total non-performing loans and TDRs on accrual	$146,345	$171,947	$167,514	$ 85,936	$108,991
Real estate acquired through foreclosure	30,892	43,671	41,449	67,635	14,548
Other repossessed assets	—	—	5	52	80
Total non-performing assets and TDRs on accrual	$177,237	$215,618	$208,968	$153,623	$123,619
Total non-performing loans and TDRs on accrual to total loans	20.63%	19.12%	14.75%	6.60%	7.71%
Total non-performing assets and TDRs on accrual to total assets	16.47%	18.55%	14.36%	8.91%	6.74%

We consider any loan that is restructured for a borrower experiencing financial difficulties due to a borrower's potential inability to pay in accordance with contractual terms of the loan to be a troubled debt restructure. Specifically, we consider a concession involving a modification of the loan terms, such as (i) a reduction of the stated interest rate, (ii) reduction or deferral of principal, or (iii) reduction or deferral of accrued interest at a stated interest rate lower than the current market rate for new debt with similar risk all to be troubled debt restructurings. When a modification of terms is made for a competitive reason, we do not consider that to be a troubled debt restructuring. A primary example of a competitive modification would be an interest rate reduction for a performing customer's loan to a market rate as the result of a market decline in rates.

We continue to report restructured loans as restructured until such time as the loan is paid in full, otherwise settled, sold, or charged-off. If the borrower fails to perform, we place the loan on nonaccrual status and seek to liquidate the underlying collateral for these loans. Our nonaccrual policy for restructured loans is identical to our nonaccrual policy for all loans. Our policy calls for a loan to be reported as nonaccrual if it is maintained on a cash basis because of deterioration in the financial condition of the borrower, payment in full of principal and interest is not expected, or principal or interest has been in default for a period of 90 days or more unless the assets are both well secured and in the process of collection. Changes in value for impairment, including the amount attributed to the passage of time, are recorded entirely within the provision for loan losses. Upon determination that a loan is collateral dependent, the loan is charged down to the fair value of collateral less estimated costs to sell.

See Footnote 4, "Loans", to the financial statements for additional disclosure related to troubled debt restructuring.

Interest income that would have been earned on non-performing loans was $5.6 million, $4.9 million, and $4.0 million for the years ended December 31, 2013, 2012, and 2011, respectively. Interest income recognized on accruing non-performing loans was $895,000, $460,000, and $611,000 for the years ended December 31, 2013, 2012, and 2011, respectively.

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Allowance for Loan Losses – The allowance for loan losses is based on management's continuing review and evaluation of individual loans, loss experience, current economic conditions, risk characteristics of various categories of loans and such other factors that, in management's judgment, require current recognition in estimating loan losses.

The following table sets forth an analysis of loan loss experience as of and for the periods indicated:

	As of December 31,				
	2013	2012	2011	2010	2009
	(dollars in thousands)				
Balances at beginning of period	$ 56,680	$ 52,579	$ 34,285	$ 26,392	$ 19,652
Loans charged-off:					
Real estate	28,879	31,437	38,538	19,261	6,519
Commercial	2,828	3,784	4,197	2,675	301
Consumer	773	1,130	1,070	496	875
Agriculture	128	1,164	841	29	36
Total charge-offs	32,608	37,515	44,646	22,461	7,731
Recoveries:					
Real estate	1,622	1,040	184	114	133
Commercial	1,212	129	69	28	55
Consumer	266	125	87	104	76
Agriculture	252	72	—	8	7
Total recoveries	3,352	1,366	340	254	271
Net charge-offs	29,256	36,149	44,306	22,207	7,460
Provision for loan losses	700	40,250	62,600	30,100	14,200
Balance at end of period	$ 28,124	$ 56,680	$ 52,579	$ 34,285	$ 26,392
Allowance for loan losses to period-end loans	3.96%	6.30%	4.63%	2.63%	1.87%
Net charge-offs to average loans	3.71%	3.50%	3.56%	1.64%	0.54%
Allowance for loan losses to non-performing loans	27.57%	59.91%	56.31%	56.77%	31.10%
Allowance for loan losses for loans individually evaluated for impairment	$ 3,471	$ 21,034	$ 12,314	$ 5,119	$ 5,453
Loans individually evaluated for impairment	149,883	188,808	150,727	71,726	106,139
Allowance for loan losses to loans individually evaluated for impairment	2.32%	11.14%	8.17%	7.14%	5.14%
Allowance for loan losses for loans collectively evaluated for impairment	$ 24,653	$ 35,646	$ 40,265	$ 29,166	$ 20,939
Loans collectively evaluated for impairment	559,443	710,284	985,296	1,230,942	1,306,779
Allowance for loan losses to loans collectively evaluated for impairment	4.41%	5.02%	4.09%	2.37%	1.60%

Our allowance for loan losses is a reserve established through charges to earnings in the form of a provision for loan losses. The allowance for loan losses is comprised of general reserves and specific reserves.

We maintain a general reserve for each loan type in the loan portfolio. In determining the amount of the general reserve portion of our allowance for loan losses, management considers factors such as our historical loan loss experience, the growth, composition and diversification of our loan portfolio, current delinquency levels, loan quality grades, the results of recent regulatory examinations and general economic conditions. Based on these factors, we apply estimated percentages to the various categories of loans, not including any loan that has a specific allowance allocated to it, based on our historical experience, portfolio trends and economic and industry trends. This information is used by management to set the general reserve portion of the allowance for loan losses at a level it deems prudent.

Generally, all loans that have been identified as impaired are reviewed on a quarterly basis in order to determine whether a specific allowance is required. A loan is considered impaired when based on current information; it is probable that we will not receive all amounts due in accordance with the contractual terms of the loan agreement. Once a loan has been identified as impaired, management measures impairment in accordance with ASC 310.10, *"Impairment of a Loan."* When management's measured value of the impaired loan is less than the recorded investment in the loan, the amount of the impairment is recorded as a specific reserve. These specific reserves are determined on an individual loan basis based on management's current evaluation of our loss exposure for each credit given the payment status, financial condition of the borrower and value of any underlying collateral. Loans for which specific reserves have been provided are excluded from the general reserve calculations described below. Changes in specific reserves from period to period are the result of changes in the circumstances of individual loans such as charge-offs, pay-offs, changes in collateral values or other factors.

The allowance for loan losses represents management's estimate of the amount necessary to provide for known and inherent losses in the loan portfolio in the normal course of business. Due to the uncertainty of risks in the loan portfolio, management's judgment of the amount of the allowance necessary to absorb loan losses is approximate. The allowance for loan losses is also subject to regulatory examinations and may be adjusted in response to a determination by the regulatory agencies as to its adequacy in comparison with peer institutions.

We make specific allowances for each impaired loan based on its type and classification as discussed above. At year-end 2013, our allowance for loan losses to total non-performing loans decreased to 27.6% from 59.9% at year-end 2012. It is important to look more closely at this ratio as a significant portion of our impaired loans are collateral dependent and have been charged down to the estimated fair value of the underlying collateral less cost to sell. Please see the next table for comparison and disclosure of our recorded investment less allocated allowance relative to the unpaid principal balance. We have assessed these impaired loans for collectability and considered, among other things, the borrower's ability to repay, the value of the underlying collateral, and other market conditions to ensure that the allowance for loan losses is adequate to absorb probable incurred losses.

The following table presents the unpaid principal balance, recorded investment and allocated allowance related to loans individually evaluated for impairment in the commercial real estate and residential real estate portfolios as of December 31, 2013 and 2012.

	December 31, 2013		December 31, 2012	
	Commercial Real Estate	Residential Real Estate	Commercial Real Estate	Residential Real Estate
	(in thousands)			
Unpaid principal balance	$ 116,740	$ 56,665	$ 143,228	$ 61,923
Prior charge-offs	(22,410)	(7,153)	(17,306)	(5,124)
Recorded investment	94,330	49,512	125,922	56,799
Allocated allowance	(2,345)	(827)	(16,046)	(4,641)
Recorded investment, less allocated allowance	$ 91,985	$ 48,685	$ 109,876	$ 52,158
Recorded investment, less allocated allowance/ Unpaid principal balance	81.09%	89.45%	78.13%	86.77%

Based on previous charge-offs, our current recorded investment in the commercial real estate and residential real estate segments are significantly below the unpaid principal balance for the loans. Consideration of the recorded investment and allocated allowance further indicated, we are at 81.09% and 89.45% of the unpaid principal balance in the commercial real estate and residential real estate segments of the portfolio, respectively, at December 31, 2013.

The following table illustrates recent trends in loans collectively evaluated for impairment and the related allowance for loan losses by portfolio segment:

	December 31, 2013			December 31, 2012		
	Loans	Allowance	% to Total	Loans	Allowance	% to Total
Commercial	$ 47,883	$ 2,931	6.12%	$ 47,271	$ 4,139	8.76%
Commercial real estate	252,211	14,069	5.58	347,874	18,722	5.38
Residential real estate	225,851	6,935	3.07	272,460	11,594	4.26
Consumer	14,272	407	2.85	20,171	789	3.91
Agriculture	18,877	305	1.62	22,262	398	1.79
Other	349	6	1.72	246	4	1.63
Total	$559,443	$ 24,653	4.41%	$710,284	$ 35,646	5.02%

Loans collectively evaluated for impairment and the related allowance for loan losses trended downward from 5.02% at December 31, 2012 to 4.41% at December 31, 2013. The residential real estate segment constitutes approximately 40% of total loans collectively evaluated for impairment. The related allowance for the residential real estate segment trended downward from 4.26% at December 31, 2012 to 3.07% at December 31, 2013 as our net charge-offs declined from approximately $8.9 million in 2012 to $7.2 million in 2013. We also noted that residential housing prices improved over the past year as residential housing inventories declined. The commercial real estate segment constitutes approximately 45% of total loans collectively evaluated for impairment. The related allowance for the commercial real estate segment was largely consistent between years. It trended upward slightly from 5.38% at December 31, 2012 to 5.58% at December 31, 2013. This is consistent with our net charge-off experience in the commercial real estate segment of the portfolio which totaled approximately $21.5 million in 2012 to $20.0 million in 2013.

A significant portion of our portfolio is comprised of loans secured by real estate. A decline in the value of the real estate serving as collateral for our loans may impact our ability to collect those loans. In general, we obtain updated appraisals on property securing our loans when circumstances are warranted such as at the time of renewal or when market conditions have significantly changed. We use qualified licensed appraisers approved by our Board of Directors. These appraisers possess prerequisite certifications and knowledge of the local and regional marketplace.

Based on an evaluation of the loan portfolio, management presents a quarterly review of the allowance for loan losses to our Board of Directors, indicating any change in the allowance for loan losses since the last review and any recommendations as to adjustments in the allowance for loan losses.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as events change. We decreased the allowance for loan losses as a percentage of loans outstanding to 3.96% at December 31, 2013 from 6.30% at December 31, 2012. The level of the allowance is based on estimates and the ultimate losses may vary from these estimates.

We follow a loan grading program designed to evaluate the credit risk in our loan portfolio. Through this loan grading process, we maintain an internally classified watch list which helps management assess the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. Loans categorized as watch list loans show warning elements where the present status exhibits one or more deficiencies that require attention in the short-term or where pertinent ratios of the loan account have weakened to a point where more frequent monitoring is warranted. These loans do not have all of the characteristics of a classified loan (substandard or doubtful) but do show weakened elements as compared with those of a satisfactory credit. We review these loans to assist in assessing the adequacy of the allowance for loan losses.

In establishing the appropriate classification for specific assets, management considers, among other factors, the borrower's ability to repay, the borrower's repayment history, the current delinquent status, and the estimated value of the underlying collateral. -As a result of this process, loans are categorized as special mention, substandard or doubtful.

Loans classified as "special mention" do not have all of the characteristics of substandard or doubtful loans. They have one or more deficiencies which warrant special attention and which corrective action, such as accelerated collection practices, may remedy.

Loans classified as "substandard" are those loans with clear and defined weaknesses such as a highly leveraged position, unfavorable financial ratios, uncertain repayment sources or poor financial condition which may jeopardize the repayment of the debt as contractually agreed. They are characterized by the distinct possibility that we will sustain some losses if the deficiencies are not corrected.

Loans classified as "doubtful" are those loans which have characteristics similar to substandard loans but with an increased risk that collection or liquidation in full is highly questionable and improbable.

Specific reserves may be carried for accruing TDRs in compliance with restructured terms. Once a loan is deemed impaired or uncollectible as contractually agreed (other than performing TDRs), the loan is charged-off either partially or in-full against the allowance for loan losses, based upon the expected future cash flows discounted at the loan's effective interest rate, or the fair value of collateral less estimated cost to sell with respect to collateral-based loans if collateral dependent.

As of December 31, 2013, we had $189.6 million of loans classified as substandard, $5.9 million classified as special mention and none classified as doubtful or loss. This compares with $248.7 million of loans classified as substandard, $396,000 classified as doubtful, $34.7 million classified as special mention and none classified as loss as of December 31, 2012. The $59.1 million decrease in loans classified as substandard was primarily concentrated in the commercial real estate portfolio. As of December 31, 2013, we had allocations of $12.5 million in the allowance for loan losses related to these substandard loans. This compares to allocations of $34.0 million in the allowance for loan losses related to substandard loans at December 31, 2012.

We recorded a provision for loan losses of $700,000 for the year ended December 31, 2013, compared with $40.3 million for 2012 and $62.6 million for 2011. The total allowance for loan losses was $28.1 million, or 3.96% of total loans, at December 31, 2013, compared with $56.7 million, or 6.30% of total loans, at December 31, 2012, and $52.6 million, or 4.63% of total loans, at December 31, 2011. The decreased allowance is consistent with the decrease in our classified loans of $88.3 million from December 31, 2012 to December 31, 2013 and loan charge-off trends. Net charge-offs were $29.3 million for the year ended December 31, 2013, compared with $36.1 million for 2012 and $44.3 million for 2011. Charge-offs for 2013 were concentrated in the loans secured by real estate category of the portfolio. Real estate net charge-offs represents 93.17% of our net charge-offs for 2013. These net charge-offs consisted of $18.9 million of commercial real estate loans, $7.2 million of residential real estate loans, and $1.2 million of construction and land development loans.

The following table depicts management's allocation of the allowance for loan losses by loan type. Allowance funding and allocation is based on management's current evaluation of risk in each category, economic conditions, past loss experience, loan volume, past due history and other factors. Since these factors and management's assumptions are subject to change, the allocation is not necessarily predictive of future portfolio performance. The allocation is made by analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of loans.

	As of December 31,			
	2013		2012	
	Amount of Allowance	Percent of Loans to Total Loans	Amount of Allowance	Percent of Loans to Total Loans
	(dollars in thousands)			
Commercial	$ 3,221	7.45%	$ 4,402	5.85%
Commercial Real Estate:				
Construction	2,149	6.11	5,989	7.82
Farmland	1,623	10.04	2,600	8.99
Other	12,642	32.71	26,179	35.89
Residential Real Estate:				
Multi-family	1,449	6.61	2,464	5.67
1-4 Family	6,313	32.21	13,771	30.95
Consumer	416	2.03	857	2.27
Agriculture	305	2.71	403	2.48
Other	6	0.13	15	0.08
Total	$ 28,124	100.00%	$ 56,680	100.00%

	As of December 31,					
	2011		2010		2009	
	Amount of Allowance	Percent of Loans to Total Loans	Amount of Allowance	Percent of Loans to Total Loans	Amount of Allowance	Percent of Loans to Total Loans
	(dollars in thousands)					
Commercial	$ 4,207	6.27%	$ 2,147	6.93%	$ 2,040	6.36%
Commercial Real Estate:						
Construction	13,920	8.93	11,164	15.32	8,215	21.53
Farmland	2,023	8.01	702	6.56	643	5.94
Other	17,081	37.31	12,209	33.92	9,266	31.99
Residential Real Estate:						
Multi-family	1,797	5.31	517	5.75	578	4.60
1-4 Family	12,420	29.70	6,707	27.13	4,662	25.08
Consumer	792	2.29	701	2.45	538	2.62
Agriculture	325	2.09	134	1.86	163	1.77
Other	14	0.09	4	0.08	5	0.11
Unallocated	—	—	—	—	282	—
Total	$ 52,579	100.0%	$ 34,285	100.00%	$ 26,392	100.00%

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Foreclosed Properties – Foreclosed properties at December 31, 2013 were $30.9 million compared with $43.7 million at December 31, 2012. See Footnote 6, "Other Real Estate Owned", to the financial statements. During 2013, we acquired $20.6 million of OREO properties and sold properties totaling approximately $30.8 million. We value foreclosed properties at fair value less estimated costs to sell when acquired and expect to liquidate these properties to recover our investment in the due course of business.

Other real estate owned (OREO) is recorded at fair market value less estimated cost to sell at time of acquisition. Any write-down of the property at the time of acquisition is charged to the allowance for loan losses. Subsequent reductions in fair value are recorded as non-interest expense. To determine the fair value of OREO for smaller dollar, single family homes, we consult with internal real estate sales staff and external realtors, investors, and appraisers. If the internally evaluated market price is below our underlying investment in the property, we record an appropriate write-down.

For larger dollar commercial real estate properties, we obtain a new appraisal of the subject property in connection with the transfer to OREO. In some of these circumstances, an appraisal is in process at quarter end and we must make our best estimate of the fair value of the underlying collateral based on our internal evaluation of the property, our review of the most recent appraisal, and discussions with the currently engaged appraiser. Generally, we obtain updated appraisals annually unless a sale is imminent.

The following table presents the major categories of OREO at the year-ends indicated:

	2013	2012	2011
		(in thousands)	
Commercial Real Estate:			
Construction, land development, and other land	$ 19,049	$ 22,323	$ 31,280
Farmland	690	602	715
Other	4,888	15,175	6,364
Residential Real Estate:			
Multi-family	246	195	—
1-4 Family	6,019	5,376	3,090
	$ 30,892	$ 43,671	$ 41,449

Net activity relating to other real estate owned during the years indicated is as follows:

	2013	2012	2011
		(in thousands)	
OREO Activity			
OREO as of January 1	$ 43,671	$ 41,449	$ 67,635
Real estate acquired	20,606	33,528	41,917
Valuation adjustments for sales strategy change	—	—	(25,613)
Valuation adjustments for declining market values	(2,466)	(7,154)	(9,261)
Improvements	—	1	1,650
Loss on sale	(132)	(1,672)	(8,889)
Proceeds from sale of properties	(30,787)	(22,481)	(25,990)
OREO as of December 31	$ 30,892	$ 43,671	$ 41,449

Net loss on sales, write-downs, and operating expenses for OREO totaled $4.5 million for the year ended December 31, 2013, compared with $10.5 million for the same period of 2012.

We recorded approximately $3.4 million and $7.7 million of fair value write-downs related to new appraisals received for properties in the OREO portfolio during 2013 and 2012 respectively. We were successful in selling OREO totaling $30.9 million and $24.2 million during 2013 and 2012, respectively. We continue to have an elevated level of real estate secured non-performing loans. We expect to resolve a significant level of these non-performing loans through the acquisition and sale of the underlying real estate collateral.

Investment Securities – The securities portfolio serves as a source of liquidity and earnings and contributes to the management of interest rate risk. We have the authority to invest in various types of liquid assets, including short-term United States Treasury obligations and securities of various federal agencies, obligations of states and political subdivisions, corporate bonds, certificates of deposit at insured savings and loans and banks, bankers' acceptances and federal funds. We may also invest a portion of our assets in certain commercial paper and corporate debt securities. We are also authorized to invest in mutual funds and stocks whose assets conform to the investments that we are authorized to make directly. The investment portfolio increased by $28.5 million, or 16.0%, to $207.0 million at December 31, 2013, compared with $178.5 million at December 31, 2012.

The following table sets forth the carrying value of our securities portfolio at the dates indicated.

	December 31, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)							
Securities available for sale								
U.S. Government and federal agencies	$ 31,026	$ 284	$ (1,444)	$ 29,866	$ 5,603	$ 530	$ —	$ 6,133
Agency mortgage-backed: residential	102,435	458	(1,950)	100,943	94,298	1,141	(257)	95,182
State and municipal	12,965	608	(28)	13,545	52,485	2,335	(87)	54,733
Corporate	18,002	769	(610)	18,161	18,851	1,150	(37)	19,964
Other debt	572	60	—	632	572	46	—	618
Equity	135	62	—	197	1,359	487	—	1,846
Total available for sale	$165,135	$ 2,241	$ (4,032)	$163,344	$173,168	$ 5,689	$ (381)	$178,476
Securities held to maturity								
State and municipal	$ 43,612	$ 3	$ (668)	$ 42,947	$ —	$ —	$ —	$ —
Total held to maturity	$ 43,612	$ 3	$ (668)	$ 42,947	$ —	$ —	$ —	$ —

The following table sets forth the contractual maturities, fair values and weighted-average yields for our available for sale securities held at December 31, 2013:

	Due Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale										
U.S. Government and federal agencies	$ —	— %	$ 3,337	2.53%	$ 6,293	2.82%	$ 20,236	2.20%	$ 29,866	2.36%
Agency mortgage-backed: residential	—	—	356	5.38	2,468	2.56	98,119	2.38	100,943	2.39
State and municipal	686	6.39	2,427	5.14	10,063	5.08	369	6.19	13,545	5.23
Corporate bonds	—	—	5,724	5.77	1,124	5.14	11,313	2.19	18,161	3.36
Other debt	—	—	—	—	—	—	632	6.50	632	6.50
Total	$ 686	6.39%	$11,844	4.72%	$19,948	4.04%	$130,669	2.36%	$163,147	2.73%
Equity									197	
Total available for sale									$163,344	

The following table sets forth the contractual maturities, amortized cost and weighted-average yields for our held to maturity securities held at December 31, 2013:

	Due Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Held to maturity										
State and municipal	$ —	— %	$ 293	1.55%	$20,092	3.48%	$23,227	4.48%	$43,612	4.00%
Total held to maturity	$ —	— %	$ 293	1.55%	$20,092	3.48%	$23,227	4.48%	$43,612	4.00%

Average yields in the table above were calculated on a tax equivalent basis using a federal income tax rate of 35%. Mortgage-backed securities are securities that have been developed by pooling a number of real estate mortgages. These securities are issued by federal agencies such as Government National Mortgage Association ("Ginnie Mae"), Fannie Mae and Freddie Mac, as well as non-agency company issuers. These securities are deemed to have high credit ratings, and minimum regular monthly cash flows of principal and interest. Cash flows from agency backed mortgage-backed securities are guaranteed by the issuing agencies.

Unlike U.S. Treasury and U.S. government agency securities, which have a lump sum payment at maturity, mortgage-backed securities provide cash flows from regular principal and interest payments and principal prepayments throughout the lives of the securities. Mortgage-backed securities that are purchased at a premium will generally return decreasing net yields as interest rates drop because home owners tend to refinance their mortgages. Thus, the premium paid must be amortized over a shorter period. Therefore, those securities purchased at a discount will obtain higher net yields in a decreasing interest rate environment. As interest rates rise, the opposite will generally be true. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and consequently, average life will not be shortened. If interest rates begin to fall, prepayments will generally increase. Non-agency issuer mortgage-backed securities do not carry a government guarantee. We limit our purchases of these securities to bank qualified issues with high credit ratings. We regularly monitor the performance and credit ratings of these securities and evaluate these securities, as we do all of our securities, for other-than-temporary impairment on a quarterly basis. At December 31, 2013, 97.3% of the agency mortgage-backed securities we held had contractual final maturities of more than ten years with a weighted average life of 23.1 years.

In December 2011, based upon relevant market information, we determined that our basis in twelve equity securities with an unrealized loss position for more the 12 months was not recoverable in the near term. Therefore, during 2011, we recorded an other-than-temporary impairment charge totaling $41,000 for these securities which had an adjusted cost basis of $206,000. No such impairment charges were recorded in 2012 or 2013.

At December 31, 2013, the Company held one equity security. This security was in an unrealized gain position as of December 31, 2013. Management monitors the underlying financial condition of the issuers and current market pricing for this equity security monthly.

In 2013, to better manage our interest rate risk, we transferred from available for sale to held to maturity selected municipal securities in our portfolio having a book value of approximately $44.9 million, a market value of approximately $43.7, and a net unrealized loss of approximately $1.3 million. This transfer was completed after careful consideration of our intent and ability to hold these securities to maturity.

Deposits – We attract both short-term and long-term deposits from the general public by offering a wide range of deposit accounts and interest rates. In recent years, we have been required by market conditions to rely increasingly on short to mid-term certificate accounts and other deposit alternatives, including brokered and wholesale deposits, which are more responsive to market interest rates. We use forecasts based on interest rate risk simulations to assist management in monitoring our use of certificates of deposit and other deposit products as funding sources and the impact of their use on interest income and net interest margin in various rate environments. Our remaining brokered deposits matured during 2013. We are currently restricted from accepting, renewing, or rolling-over brokered deposits without the prior receipt of a waiver on a case-by-case basis from our regulators.

We primarily rely on our banking office network to attract and retain deposits in our local markets and leverage our online Ascencia division to attract out-of-market deposits. Market interest rates and rates on deposit products offered by competing financial institutions can significantly affect our ability to attract and retain deposits. During 2013, total deposits decreased $77.4 million compared with 2012. During 2012, total deposits decreased $258.7 million compared with 2011. The decrease in deposits for 2013 and 2012 was primarily in certificates of deposit balances and money market accounts.

To evaluate our funding needs in light of deposit trends resulting from continually changing conditions, we evaluate simulated performance reports that forecast changes in margins along with other pertinent economic data. We continue to offer attractively priced deposit products along our product line to allow us to retain deposit customers and reduce interest rate risk during various rising and falling interest rate cycles.

We offer savings accounts, NOW accounts, money market accounts and fixed rate certificates with varying maturities. The flow of deposits is influenced significantly by general economic conditions, changes in interest rates and competition. Our management adjusts interest rates, maturity terms, service fees and withdrawal penalties on our deposit products periodically. The variety of deposit products allows us to compete more effectively in obtaining funds and to respond with more flexibility to the flow of funds away from depository institutions into outside investment alternatives. However, our ability to attract and maintain deposits and the costs of these funds has been, and will continue to be, significantly affected by market conditions.

The following table sets forth the average daily balances and weighted average rates paid for our deposits for the periods indicated:

	For the Years Ended December 31,					
	2013		2012		2011	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)					
Demand	$ 106,153		$ 113,325		$ 106,769	
Interest Checking	84,917	0.23%	89,820	0.37%	89,103	0.74%
Money Market	69,842	0.50	63,212	0.49	81,925	0.96
Savings	39,158	0.29	38,665	0.40	36,511	0.62
Certificates of Deposit	703,982	1.35	912,061	1.52	1,120,154	1.65
Total Deposits	$1,004,052		$1,217,083		$1,434,462	
Weighted Average Rate		1.01%		1.20%		1.40%

The following table sets forth the average daily balances and weighted average rates paid for our certificates of deposit for the periods indicated:

	For the Years Ended December 31,					
	2013		2012		2011	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(dollars in thousands)					
Certificates of Deposit						
Less than $100,000	$405,758	1.28%	$478,502	1.40%	$ 569,667	1.59%
$100,000 or more	298,224	1.44	433,559	1.64	550,487	1.71
Total	$703,982	1.35%	$912,061	1.52%	$1,120,154	1.65%

The following table shows at December 31, 2013 the amount of our time deposits of $100,000 or more by time remaining until maturity:

Maturity Period	
Three months or less	$ 38,062
Three months through six months	30,559
Six months through twelve months	108,079
Over twelve months	118,265
Total	$294,965

We strive to maintain competitive pricing on our deposit products which we believe allows us to retain a substantial percentage of our customers when their time deposits mature.

Borrowing – Deposits are the primary source of funds for our lending and investment activities and for our general business purposes. We can also use advances (borrowings) from the FHLB of Cincinnati to supplement our pool of lendable funds, meet deposit withdrawal requirements and manage the terms of our liabilities. Advances from the FHLB are secured by our stock in the FHLB, and substantially all of our first mortgage residential loans. At December 31, 2013, we had $4.5 million in advances outstanding from the FHLB and the capacity to increase our borrowings an additional $18.7 million. The FHLB of Cincinnati functions as a central reserve bank providing credit for savings banks and other member financial institutions. As a member, we are required to own capital stock in the FHLB and are authorized to apply for advances on the security of such stock and certain of our home mortgages and other assets (principally, securities which are obligations of, or guaranteed by, the United States) provided that we meet certain standards related to creditworthiness.

The following table sets forth information about our FHLB advances as of and for the periods indicated:

	December 31,		
	2013	2012	2011
	(dollars in thousands)		
Average balance outstanding	$4,990	$6,325	$15,315
Maximum amount outstanding at any month-end during the period	5,517	7,015	38,937
End of period balance	4,492	5,604	7,116
Weighted average interest rate:			
At end of period	3.07%	3.21%	3.31%
During the period	3.15%	3.27%	3.51%

Subordinated Capital Note – At December 31, 2013, our bank subsidiary, PBI Bank, had a subordinated capital note outstanding in the amount of $5.9 million. The note is unsecured, bears interest at the BBA three-month LIBOR floating rate plus 300 basis points, and qualifies as Tier 2 capital. Interest only was due quarterly through September 30, 2010, at which time quarterly principal payments of $225,000 plus interest commenced. The note matures July 1, 2020. At December 31, 2013, the interest rate on this note was 3.25%.

Junior Subordinated Debentures – At December 31, 2013, we had four issues of junior subordinated debentures outstanding totaling $25.0 million as shown in the table below.

Description	Liquidation Amount Trust Preferred Securities	Issuance Date	Optional Prepayment Date (2)	Interest Rate (1)	Junior Subordinated Debt and Investment in Trust	Maturity Date
	(dollars in thousands)				(dollars in thousands)	
Porter Statutory Trust II	$ 5,000	2/13/2004	3/17/2009	3-month LIBOR + 2.85%	$ 5,155	2/13/2034
Porter Statutory Trust III	3,000	4/15/2004	6/17/2009	3-month LIBOR + 2.79%	3,093	4/15/2034
Porter Statutory Trust IV	14,000	12/14/2006	3/1/2012	3-month LIBOR + 1.67%	14,434	3/1/2037
Asencia Statutory Trust I	3,000	2/13/2004	3/17/2009	3-month LIBOR + 2.85%	3,093	2/13/2034
	$ 25,000				$ 25,775	

(1) As of December 31, 2013, the 3-month LIBOR was 0.25%.
(2) The debentures are callable on or after the optional prepayment date at their principal amount plus accrued interest.

The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the subordinated debentures at maturity or their earlier redemption at the liquidation preference. The subordinated debentures, which mature February 13, 2034, April 15, 2034, and March 1, 2037, are redeemable before the maturity date at our option on or after March 17, 2009, June 17, 2009, and March 1, 2012, respectively, at their principal amount plus accrued interest.

We have the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed 20 consecutive quarters. After such period, we must pay all deferred interest and resume quarterly interest payments or we will be in default. Effective with the fourth quarter of 2011, we began deferring interest payments on our junior subordinated debentures.

Deferring interest payments on our junior subordinated notes resulted in the deferral of distributions on our trust preferred securities. We are prohibited from paying cash dividends on our common stock until such time as we have paid all deferred distributions on our trust preferred securities.

The trust preferred securities issued by our subsidiary trusts are currently included in our Tier 1 capital for regulatory purposes. On March 1, 2005, the Federal Reserve Board adopted final rules that continue to allow trust preferred securities to be included in Tier 1 capital, subject to quantitative and qualitative limits. Currently, no more than 25% of our Tier 1 capital can consist of trust preferred securities and qualifying perpetual preferred stock. To the extent the amount of our trust preferred securities exceeds the 25% limit, the excess would be includable in Tier 2 capital. The new quantitative limits were effective March 31, 2011. As of December 31, 2013, Porter Bancorp's trust preferred securities totaled 25% of its Tier 1 capital and 43% of its Tier 2 capital.

Each of the trusts issuing the trust preferred securities holds junior subordinated debentures we issued with a 30 year maturity. The final rules provide that in the last five years before the junior subordinated debentures mature, the associated trust preferred securities will be excluded from Tier 1 capital and included in Tier 2 capital. In addition, the trust preferred securities during this five-year period would be amortized out of Tier 2 capital by one-fifth each year and excluded from Tier 2 capital completely during the year before maturity.

Liquidity

Liquidity risk arises from the possibility we may not be able to satisfy current or future financial commitments, or may become unduly reliant on alternative funding sources. The objective of liquidity risk management is to ensure that we meet the cash flow requirements of depositors and borrowers, as well as our operating cash needs, taking into account all on- and off-balance sheet funding demands. Liquidity risk management also involves ensuring that we meet our cash flow needs at a reasonable cost. We maintain an investment and funds management policy, which identifies the primary sources of liquidity, establishes procedures for monitoring and measuring liquidity, and establishes minimum liquidity requirements in compliance with regulatory guidance. Our Asset Liability Committee continually monitors and reviews our liquidity position.

Funds are available from a number of sources, including the sale of securities in the available for sale portion of the investment portfolio, principal pay-downs on loans and mortgage-backed securities, customer deposit inflows, brokered deposits and other wholesale funding. Historically, we have utilized brokered and wholesale deposits to supplement our funding strategy. We are currently restricted from accepting, renewing, or rolling-over brokered deposits without the prior receipt of a waiver on a case-by-case basis from our regulators. At December 31, 2013 we had no brokered deposits.

Traditionally, we have borrowed from the FHLB to supplement our funding requirements. At December 31, 2013, we had an unused borrowing capacity with the FHLB of $18.7 million. After December 31, 2011, as a result of our financial results, the FHLB changed our collateral arrangements from a blanket pledge of residential mortgage loans to a detailed loan listing requirement. Our borrowing capacity under the detailed loan listing requirement is based on the market value of the underlying pledged loans rather than the unpaid principal balance of the pledged loans. The listing requirement also increases the level of collateral required for borrowings.

We also have available on a secured basis federal funds borrowing lines from correspondent banks totaling $5.0 million. Management believes our sources of liquidity are adequate to meet expected cash needs for the foreseeable future, however, the availability of these lines could be affected by our financial position. We are also subject to FDIC interest rate restrictions for deposits. As such, we are permitted to offer up to the "national rate" plus 75 basis points as published weekly by the FDIC.

We have used cash to pay dividends on common stock, if and when declared by the Board of Directors, and to service debt. Porter Bancorp's main sources of funding include dividends paid by PBI Bank, management fees received from PBI Bank and affiliated banks and financing obtained in the capital markets. During 2011, Porter Bancorp contributed $13.1 million to its subsidiary, PBI Bank, which substantially decreased its liquid assets. The contribution was made to strengthen the Bank's capital in an effort to help it comply with its capital ratio requirements under the consent order. Liquid assets decreased from $20.3 million at December 31, 2010 to $2.7 million at December 31, 2013. Since the Bank is unlikely to be in a position to pay dividends to the parent company for the foreseeable future, cash inflows for the parent are limited to earnings on investment securities, sales of investment securities, and interest on deposits with the Bank. These cash inflows along with the liquid assets held at December 31, 2013, are needed to cover ongoing operating expenses of the parent company which have been reduced and are budgeted at $950,000 for 2014. Parent company liquidity could be improved if a capital raise was accomplished. See the "Supervision-Porter Bancorp-Dividends" section of Item 1. "Business" and the "Dividends" section of Item 5. "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" of this Annual Report on Form 10-K.

Capital

In the fourth quarter of 2011, we began deferring the payment of regular quarterly cash dividends on our Series A Preferred Stock. As a result of the dividend deferral, the holder of our Series A Preferred Stock (currently the U.S. Treasury) has the right to appoint up to two representatives to our Board of Directors. We will continue to accrue any deferred dividends, which will be deducted from income to common shareholders for financial statement purposes.

In addition, effective with the fourth quarter of 2011, we began deferring interest payments on our junior subordinated notes with resulted in a deferral of distributions on our trust preferred securities. Therefore, we will not be able to pay cash dividends on our common stock until such time that we have paid all deferred distributions on our trust preferred securities. If we defer interest payments on our trust preferred securities for 20 consecutive quarters, we must pay all deferred interest and resume quarterly interest payments or we will be in default.

Stockholders' equity decreased $11.3 million to $35.9 million at December 31, 2013, compared with $47.2 million at December 31, 2012. The decrease was due to the current year net loss, further reduced by $1.9 million of dividends declared (accrued and unpaid) on cumulative preferred stock and an increase in unrealized loss on available for sale securities.

In 2010, we completed a $32.0 million private placement to accredited investors. Following completion of the transactions involved, Porter Bancorp had issued (i) 2,465,569 shares of common stock, (ii) 317,042 shares of Series C Preferred Stock and (iii) warrants to purchase to purchase 1,163,045 shares of non-voting common stock at a price of $11.50 per share.

The Series C Preferred Stock has no voting rights (except when required by law), has a liquidation preference over our common stock, and dividend rights equivalent to our common stock. Each share of Series C Preferred Stock automatically converts into 1.05 shares of common stock at such time as, after giving effect to the automatic conversion, the holder of the Series C Preferred Stock (together with its affiliates and any other persons with which it is acting in concert or whose holdings would otherwise be required to be aggregated for purposes of federal banking law) beneficially holds, directly or indirectly, less than 9.9% of the number of shares of common stock then issued and outstanding.

The warrants are exercisable into non-voting common stock until they expire on September 16, 2015. The non-voting common stock has no voting rights (except when required by law), but otherwise has the same dividend and other rights as our common stock. Upon issuance, each share of non-voting common stock automatically converts into 1.05 shares of common stock at such time as, after giving effect to the automatic conversion, the holder of the non-voting common stock (together with its affiliates and any other persons with which it is acting in concert or whose holdings would otherwise be required to be aggregated for purposes of federal banking law) holds, directly or indirectly, beneficially less than 9.9% of the number of shares of common stock then issued and outstanding.

On November 21, 2008, we issued to the U.S. Treasury 35,000 shares of our Series A Preferred Stock and a warrant to purchase up to 330,561 shares of our common stock for $15.88 per share in exchange for aggregate consideration of $35.0 million. The warrant is immediately exercisable and has a 10-year term. The Series A Preferred Stock qualifies as Tier 1 capital and pays cumulative cash dividends quarterly. The annual dividend rate increased from 5% to 9% beginning in November 2013. The Series A Preferred Stock is non-voting (except when required by law) and after issuance may be redeemed by the Company at $1,000 per share plus accrued unpaid dividends. Accrued and unpaid dividends on our Series A Preferred Stock, plus accrued and unpaid interest on those dividends, totaled $4.3 million at December 31, 2013.

Kentucky banking laws limit the amount of dividends that may be paid to a holding company by its subsidiary banks without prior approval. These laws limit the amount of dividends that may be paid in any calendar year to current year's net income, as defined in the laws, combined with the retained net income of the preceding two years, less any dividends declared during those periods. During 2014, the amount available to be paid by PBI Bank to Porter Bancorp would be 2014 earnings to date. However, PBI Bank has agreed with its primary regulators to obtain their written consent prior to declaring or paying any future dividends.

Each of the federal bank regulatory agencies has established risk-based capital requirements for banking organizations. See Item 1. Business – Supervision and Regulation – Porter Bancorp – Capital Adequacy Requirements and PBI Bank – Capital Requirements. In addition, PBI Bank has agreed with its primary regulators to maintain a ratio of total capital to total risk-weighted assets ("total risk-based capital ratio") of at least 12.0%, and a ratio of Tier 1 capital to total assets ("leverage ratio") of 9.0%.

The following table shows the ratios of Tier 1 capital and total capital to risk-adjusted assets and the leverage ratios for Porter Bancorp and PBI Bank at December 31, 2013:

	Regulatory Minimums	Well-Capitalized Minimums	Minimum Capital Ratios Under Consent Order	Porter Bancorp	PBI Bank
Tier 1 Capital	4.0%	6.0%	N/A	7.34%	9.35%
Total risk-based capital	8.0	10.0	12.0%	11.03	11.44
Tier 1 leverage ratio	4.0	5.0	9.0	4.95	6.28

At December 31, 2013, PBI Bank's Tier 1 leverage ratio was 6.28% which is below the 9% minimum capital ratio required by the Consent Order and its total risk-based capital ratio was 11.44% which is below the 12% minimum capital ratio required by the Consent Order. Bank regulatory agencies can exercise discretion when an institution does not maintain minimum capital levels or meet the other terms of a consent order. The agencies may initiate changes in management, issue mandatory directives, impose monetary penalties or refrain from formal sanctions, depending on individual circumstances. Any action taken by bank regulatory agencies could damage our reputation and have a material adverse effect on our business.

Off Balance Sheet Arrangements

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

Our commitments associated with outstanding standby letters of credit and commitments to extend credit as of December 31, 2013 are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect our actual future cash funding requirements:

	One year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
			(dollars in thousands)		
Commitments to extend credit	$24,717	$ 22,359	$ 2,235	$12,100	$61,411
Standby letters of credit	1,998	—	500	—	2,498
Total	$26,715	$ 22,359	$ 2,735	$12,100	$63,909

Standby Letters of Credit – Standby letters of credit are written conditional commitments we issue to guarantee the performance of a borrower to a third party. If the borrower does not perform in accordance with the terms of the agreement with the third party, we may be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the borrower. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

Commitments to Extend Credit – We enter into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of our commitments to extend credit are contingent upon borrowers maintaining specific credit standards at the time of loan funding. We minimize our exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of December 31, 2013:

	One year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
			(dollars in thousands)		
Time deposits	$431,601	$ 224,846	$ 23,481	$ 24	$679,952
FHLB borrowing (1)	776	1,290	810	1,616	4,492
Subordinated capital note	900	1,800	1,800	1,350	5,850
Junior subordinated debentures	—	—	—	25,000	25,000
Total	$433,277	$ 227,936	$ 26,091	$27,990	$715,294

(1) Fixed rate mortgage-matched borrowings with rates ranging from 0% to 5.25%, and maturities ranging from 2014 through 2033, averaging 3.07%.

Impact of Inflation and Changing Prices

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

We have an asset and liability structure that is essentially monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Periods of high inflation are often accompanied by relatively higher interest rates, and periods of low inflation are accompanied by relatively lower interest rates. As market interest rates rise or fall in relation to the rates earned on our loans and investments, the value of these assets decreases or increases respectively.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

To minimize the volatility of net interest income and exposure to economic loss that may result from fluctuating interest rates, we manage our exposure to adverse changes in interest rates through asset and liability management activities within guidelines established by our Asset Liability Committee ("ALCO"). The ALCO, which is comprised of senior management representatives, has the responsibility for approving and ensuring compliance with asset/liability management policies. Interest rate risk is the exposure to adverse changes in the net interest income as a result of market fluctuations in interest rates. The ALCO, on an ongoing basis, monitors interest rate and liquidity risk in order to implement appropriate funding and balance sheet strategies. Management considers interest rate risk to be our most significant market risk.

We utilize an earnings simulation model to analyze net interest income sensitivity. We then evaluate potential changes in market interest rates and their subsequent effects on net interest income. The model projects the effect of instantaneous movements in interest rates of both 100 and 200 basis points that are sustained for one year. Assumptions based on the historical behavior of our deposit rates and balances in relation to changes in interest rates are also incorporated into the model. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

Our interest sensitivity profile was asset sensitive at December 31, 2013 and December 31, 2012. Given an instantaneous 100 basis point increase in interest rates our base net interest income would increase by an estimated 2.5% at December 31, 2013 compared with an increase of 4.0% at December 31, 2012.

The following table indicates the estimated impact on net interest income under various interest rate scenarios for the year ended December 31, 2013, as calculated using the static shock model approach:

Change in Interest Rates	Change in Future Net Interest Income: Dollar Change	Change in Future Net Interest Income: Percentage Change
	(dollars in thousands)	
+ 200 basis points	$ 1,317	4.85%
+ 100 basis points	666	2.45

We did not run a model simulation for declining interest rates as of December 31, 2013, because the Federal Reserve's federal funds target rate currently stands between 0.00% to 0.25%. Therefore, further short-term rate reductions are not practical. As we implement strategies to mitigate the risk of rising interest rates in the future, these strategies will lessen our forecasted "base case" net interest income in the event of no interest rate changes.

Our interest sensitivity at any point in time will be affected by a number of factors. These factors include the mix of interest sensitive assets and liabilities as well as their relative pricing schedules. It is also influenced by market interest rates, deposit growth, loan growth, decay rates and prepayment speed assumptions.

The following table sets forth the amounts of our interest-earning assets and interest-bearing liabilities outstanding at December 31, 2013, which we anticipate, based upon certain assumptions, to reprice or mature in each of the future time periods shown. The projected repricing of assets and liabilities anticipates prepayments and scheduled rate adjustments, as well as contractual maturities under an interest rate unchanged scenario within the selected time intervals. While we believe such assumptions are reasonable, we cannot assure you that assumed repricing rates will approximate our actual future activity.

	Volume Subject to Repricing Within						
	0 – 90 Days	91 – 181 Days	182 – 365 Days	1 – 5 Years	Over 5 Years	Non-Interest Sensitive	Total
	(dollars in thousands)						
Assets:							
Federal funds sold and short-term investments	$103,669	$ —	$ —	$ —	$ —	$ —	$ 103,669
Investment securities	22,949	4,496	8,075	65,237	103,077	3,122	206,956
FHLB stock	10,072	—	—	—	—	—	10,072
Loans held for sale	149	—	—	—	—	—	149
Loans, net of allowance	245,336	55,836	81,536	206,152	120,466	(28,124)	681,202
Fixed and other assets	—	—	—	—	—	74,072	74,072
Total assets	$382,175	$ 60,332	$ 89,611	$ 271,389	$223,543	$ 49,071	$1,076,121
Liabilities and Stockholders' Equity							
Interest-bearing checking, savings, and money market accounts	$200,267	$ —	$ —	$ —	$ —	$ —	$ 200,267
Certificates of deposit	92,791	93,567	242,368	249,501	1,725	—	679,952
Borrowed funds	33,508	186	363	2,683	1,072	—	37,812
Other liabilities	—	—	—	—	—	122,159	122,159
Stockholders' equity	—	—	—	—	—	35,931	35,931
Total liabilities and stockholders' equity	$326,566	$ 93,753	$ 242,731	$ 252,184	$ 2,490	$158,397	$1,076,121
Period gap	$ 55,609	$(33,421)	$(153,120)	$ 19,205	$220,746		
Cumulative gap	$ 55,609	$ 22,188	$(130,932)	$(111,727)	$109,019		
Period gap to total assets	5.17%	(3.11)%	(14.23)%	1.78%	20.51%		
Cumulative gap to total assets	5.17%	2.06%	(12.17)%	(10.38)%	10.13%		
Cumulative interest-earning assets to cumulative interest-bearing liabilities	117.03%	105.28%	80.25%	87.79%	111.88%		

Our one-year cumulative gap position as of December 31, 2013 was negative $130.9 million or 12.2% of assets. This is a one-day position that is continually changing and is not necessarily indicative of our position at any other time. Any gap analysis has inherent shortcomings because certain assets and liabilities may not move proportionally as interest rates change.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements and reports are included in this section:

Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2013 and 2012

Consolidated Statements of Operations for the Years Ended December 31, 2013, 2012, and 2011

Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2013, 2012, and 2011

Consolidated Statements of Change in Stockholders' Equity for the Years Ended December 31, 2013, 2012, and 2011

Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012, and 2011

Notes to Consolidated Financial Statements

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Porter Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(1) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of; our principal executive and principal financial officers and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the 1992 Internal Control-Integrated Framework. Based on that assessment, we believe that, as of December 31, 2013, our internal control over financial reporting is effective based on those criteria.

/s/ John T. Taylor	/s/ Phillip W. Barnhouse
John T. Taylor Chief Executive Officer	Phillip W. Barnhouse Chief Financial Officer

March 14, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Porter Bancorp, Inc.
Louisville, Kentucky

We have audited the accompanying consolidated balance sheets of Porter Bancorp, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive loss, and cash flows for each of the three years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Porter Bancorp, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred substantial losses in 2013, 2012 and 2011, largely as a result of asset impairments. In addition, the Company's bank subsidiary is not in compliance with a regulatory enforcement order issued by its primary federal regulator requiring, among other things, increased minimum regulatory capital ratios. Additional losses or the continued inability to comply with the regulatory enforcement order may result in additional adverse regulatory action. These events raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Crowe Horwath, LLP

Louisville, Kentucky
March 14, 2014

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PORTER BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31,
(Dollar amounts in thousands except share data)

	2013	2012
Assets		
Cash and due from financial institutions	$ 109,407	$ 46,512
Federal funds sold	1,727	3,060
Cash and cash equivalents	111,134	49,572
Securities available for sale	163,344	178,476
Securities held to maturity (fair value of $42,947 and $0, respectively)	43,612	—
Mortgage loans held for sale	149	507
Loans, net of allowance of $28,124 and $56,680, respectively	681,202	842,412
Premises and equipment	19,983	20,805
Other real estate owned	30,892	43,671
Federal Home Loan Bank stock	10,072	10,072
Bank owned life insurance	8,911	8,398
Accrued interest receivable and other assets	6,822	8,718
Total assets	$1,076,121	$1,162,631
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing	$ 107,486	$ 114,310
Interest bearing	880,219	950,749
Total deposits	987,705	1,065,059
Repurchase agreements	2,470	2,634
Federal Home Loan Bank advances	4,492	5,604
Accrued interest payable and other liabilities	14,673	10,169
Subordinated capital note	5,850	6,975
Junior subordinated debentures	25,000	25,000
Total liabilities	1,040,190	1,115,441
Commitments and contingent liabilities (Note 18)	—	—
Stockholders' equity		
Preferred stock, no par, 1,000,000 shares authorized		
Series A - 35,000 issued and outstanding; Liquidation preference of $35 million at December 31, 2013 and 2012	35,000	34,840
Series C – 317,042 issued and outstanding; Liquidation preference of $3.6 million at December 31, 2013 and 2012	3,283	3,283
Total preferred stockholders' equity	38,283	38,123
Common stock, no par, 86,000,000 shares authorized, 12,840,999 and 12,002,421 shares issued and outstanding, respectively	112,236	112,236
Additional paid-in capital	20,887	20,283
Retained deficit	(130,182)	(126,517)
Accumulated other comprehensive income (loss)	(5,293)	3,065
Total common stockholders' equity	(2,352)	9,067
Total stockholders' equity	35,931	47,190
Total liabilities and stockholders' equity	$1,076,121	$1,162,631

See accompanying notes.

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PORTER BANCORP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31,
(Dollar amounts in thousands except per share data)

	2013	2012	2011
Interest income			
Loans, including fees	$38,015	$ 52,918	$ 67,679
Taxable securities	3,706	3,333	4,008
Tax exempt securities	933	887	1,123
Federal funds sold and other	574	591	744
	43,228	57,729	73,554
Interest expense			
Deposits	10,137	14,623	20,147
Federal Home Loan Bank advances	157	207	537
Junior subordinated debentures	622	671	632
Subordinated capital note	221	266	283
Federal funds purchased and other	6	7	440
	11,143	15,774	22,039
Net interest income	32,085	41,955	51,515
Provision for loan losses	700	40,250	62,600
Net interest income (loss) after provision for loan losses	31,385	1,705	(11,085)
Non-interest income			
Service charges on deposit accounts	2,058	2,239	2,609
Income from fiduciary activities	517	1,177	993
Bank card interchange fees	718	727	668
Other real estate owned rental income	399	420	200
Net gain on sales of securities	723	3,236	1,108
Income from bank owned life insurance	534	312	314
Other	970	1,479	1,941
	5,919	9,590	7,833
Non-interest expense			
Salaries and employee benefits	15,501	16,648	15,218
Occupancy and equipment	3,583	3,642	3,729
Goodwill impairment	—	—	23,794
Loan collection expense	4,707	2,442	2,509
Other real estate owned expense	4,516	10,549	47,525
FDIC insurance	2,378	2,835	3,470
State franchise tax	1,944	2,174	2,228
Professional fees	1,892	1,985	1,392
Communications	711	710	678
Borrowing prepayment fees	—	—	486
Insurance expense	648	373	172
Postage and delivery	423	454	485
Other	2,587	2,480	2,587
	38,890	44,292	104,273
Loss before income taxes	(1,586)	(32,997)	(107,525)
Income tax expense (benefit)	—	(65)	(218)
Net loss	(1,586)	(32,932)	(107,307)
Less:			
Dividends on preferred stock	1,919	1,750	1,750
Accretion on Series A preferred stock	160	179	177
(Earnings) loss allocated to participating securities	(267)	(1,429)	(4,080)
Net loss attributable to common shareholders	$ (3,398)	$(33,432)	$(105,154)
Basic and diluted loss per common share	$ (0.29)	$ (2.85)	$ (8.98)

See accompanying notes.

PORTER BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
Years Ended December 31,
(in thousands)

	2013	2012	2011
Net income (loss)	$(1,586)	$(32,932)	$(107,307)
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on securities:			
Unrealized gain (loss) arising during the period (net of tax of $0, $0, and $1,457, respectively)	(7,635)	2,137	2,705
Reclassification of other than temporary impairment (net of tax of $0, $0, and $14, respectively)	—	—	27
Reclassification of amount realized through sales (net of tax of $0, $0, and $388, respectively)	(723)	(3,236)	(720)
Other comprehensive income (loss)	(8,358)	(1,099)	2,012
Comprehensive loss	$(9,944)	$(34,031)	$(105,295)

See accompanying notes.

PORTER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31,
(Dollar amounts in thousands except share and per share data)

	Shares				Amount							
	Common	Series A Preferred	Series B Preferred	Series C Preferred	Common	Series A Preferred	Series B Preferred	Series C Preferred	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balances, December 31, 2010	11,846,107	35,000	—	317,042	$ 112,236	$ 34,484	$ —	$ 3,283	$ 19,438	$ 17,822	$ 2,152	$ 189,415
Issuance of unvested stock	2,800	—	—	—	—	—	—	—	—	—	—	—
Forfeited unvested stock	(24,435)	—	—	—	—	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	—	—	403	—	—	403
Net loss	—	—	—	—	—	—	—	—	—	(107,307)	—	(107,307)
Net change in accumulated other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	—	—	2,012	2,012
Dividends on Series A preferred stock	—	—	—	—	—	—	—	—	—	(1,750)	—	(1,750)
Dividends on Series C preferred stock ($0.02 per share)	—	—	—	—	—	—	—	—	—	(7)	—	(7)
Accretion of Series A preferred stock discount	—	—	—	—	—	177	—	—	—	(177)	—	—
Cash dividends declared ($0.02 per share)	—	—	—	—	—	—	—	—	—	(237)	—	(237)
Balances, December 31, 2011	11,824,472	35,000	—	317,042	$ 112,236	$ 34,661	$ —	$ 3,283	$ 19,841	$ (91,656)	$ 4,164	$ 82,529
Issuance of unvested stock	191,140	—	—	—	—	—	—	—	—	—	—	—
Forfeited unvested stock	(13,191)	—	—	—	—	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	—	—	442	—	—	442
Net loss	—	—	—	—	—	—	—	—	—	(32,932)	—	(32,932)
Net change in accumulated other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	—	—	(1,099)	(1,099)
Dividends on Series A preferred stock	—	—	—	—	—	—	—	—	—	(1,750)	—	(1,750)
Accretion of Series A preferred stock discount	—	—	—	—	—	179	—	—	—	(179)	—	—
Balances, December 31, 2012	12,002,421	35,000	—	317,042	$ 112,236	$ 34,840	$ —	$ 3,283	$ 20,283	$(126,517)	$ 3,065	$ 47,190
Issuance of unvested stock	875,569	—	—	—	—	—	—	—	—	—	—	—
Forfeited unvested stock	(36,991)	—	—	—	—	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	—	—	604	—	—	604
Net loss	—	—	—	—	—	—	—	—	—	(1,586)	—	(1,586)
Net change in accumulated												

other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	—	—	(8,358)	(8,358)
Dividends on Series A preferred stock	—	—	—	—	—	—	—	—	—	(1,919)	—	(1,919)
Accretion of Series A preferred stock discount	—	—	—	—	—	160	—	—	—	(160)	—	—
Balances, December 31, 2013	12,840,999	35,000	—	317,042	$ 112,236	$ 35,000	$ —	$ 3,283	$ 20,887	$(130,182)	$ (5,293)	$ 35,931

See accompanying notes.

PORTER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31,
(in thousands)

	2013	2012	2011
Cash flows from operating activities			
Net loss	$ (1,586)	$ (32,932)	$(107,307)
Adjustments to reconcile net loss to net cash from operating activities			
Depreciation and amortization	2,017	2,288	2,389
Provision for loan losses	700	40,250	62,600
Net amortization on securities	2,132	3,335	1,552
Goodwill impairment charge	—	—	23,794
Stock-based compensation expense	604	442	436
Deferred income taxes	—	—	12,958
Net gain on sales of loans originated for sale	(87)	(338)	(713)
Loans originated for sale	(4,035)	(16,365)	(24,881)
Proceeds from sales of loans originated for sale	4,469	16,827	24,649
Net loss on sales of other real estate owned	132	1,672	8,889
Net write-down of other real estate owned	2,466	7,154	34,874
Net realized gain on sales of investment securities	(723)	(3,236)	(1,067)
Earnings on bank owned life insurance, net of premium expense	(513)	(292)	(301)
Net change in accrued interest receivable and other assets	1,364	16,150	(7,062)
Net change in accrued interest payable and other liabilities	2,585	791	(575)
Net cash from operating activities	9,525	35,746	30,235
Cash flows from investing activities			
Purchases of available for sale securities	(72,814)	(162,840)	(123,609)
Sales of available for sale securities	8,061	93,199	50,318
Maturities and prepayments of available for sale securities	26,506	48,800	23,378
Proceeds from sale of other real estate owned	30,772	21,940	14,142
Improvements to other real estate owned	—	(1)	(1,650)
Loan originations and payments, net	139,548	167,272	92,190
Purchases of premises and equipment, net	(281)	(511)	(332)
Net cash from investing activities	131,792	167,859	54,437
Cash flows from financing activities			
Net change in deposits	(77,354)	(258,704)	(143,905)
Net change in repurchase agreements	(164)	896	(9,878)
Repayment of Federal Home Loan Bank advances	(1,112)	(1,512)	(32,906)
Advances from Federal Home Loan Bank	—	—	25,000
Repayment of subordinated capital note	(1,125)	(675)	(900)
Cash dividends paid on preferred stock	—	—	(1,319)
Cash dividends paid on common stock	—	—	(237)
Net cash from financing activities	(79,755)	(259,995)	(164,145)
Net change in cash and cash equivalents	61,562	(56,390)	(79,473)
Beginning cash and cash equivalents	49,572	105,962	185,435
Ending cash and cash equivalents	$111,134	$ 49,572	$ 105,962
Supplemental cash flow information:			
Interest paid	$ 10,711	$ 15,402	$ 22,218
Income taxes paid (refunded)	—	(12,726)	2,000
Supplemental non-cash disclosure:			
Transfer from loans to other real estate	$ 20,606	$ 33,528	$ 41,917
Financed sales of other real estate owned	15	541	11,848
Transfer from available for sale to held to maturity securities	44,934	—	—
AOCI component of transfer from available for sale to held to maturity	(1,281)	—	—

See accompanying notes.

PORTER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation – The consolidated financial statements include Porter Bancorp, Inc. (Company or PBI) and its subsidiary, PBI Bank (Bank). The Company owns a 100% interest in the Bank.

The Company provides financial services through its offices in Central Kentucky and Louisville. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and real estate loans. Substantially all loans are collateralized by specific items of collateral including business assets, commercial real estate, and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area. Other financial instruments which potentially represent concentrations of credit risk include deposit accounts in other financial institutions and federal funds sold.

Use of Estimates – To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, goodwill and other intangible assets, fair value of other real estate owned, stock compensation, deferred tax assets, and fair values of financial instruments are particularly subject to change.

Cash Flows – Cash and cash equivalents include cash, deposits with other financial institutions under 90 days, and federal funds sold. Net cash flows are reported for customer and loan deposit transactions, interest-bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

Securities – Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determined fair values are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method anticipating prepayments on mortgage backed securities. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans Held for Sale – Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights released. If sold with servicing retained, the carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Mortgage banking derivatives used in the ordinary course of business consist of mandatory forward sales contracts and rate lock loan commitments. Forward contracts represent future commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Rate lock commitments represent commitments to fund loans at a specific rate. These derivatives involve underlying items, such as interest rates, and are designed to transfer risk. Substantially all of these instruments expire within 60 days from the date of issuance. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amounts required to be received or paid.

We adopted FASB ASC topic 815, *"Derivative and Hedging"* during the first quarter of 2009. Our commitments to deliver loans and our rate lock loan commitments were insignificant at year end.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. The recorded investment in loans includes the outstanding principal balance and unamortized deferred origination costs and fees.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well collateralized and in process of collection. Consumer and credit card loans are typically charged off no later than 90 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is not expected.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses – The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. We estimate the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in our judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. We determine the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported at the fair value of the collateral. For troubled debt restructurings that subsequently default, we determine the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on our actual loss history experienced over the most recent three years with weighting towards the most recent periods. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: changes in lending policies, procedures, and practices; effects of any change in risk selection and underwriting standards; national and local economic trends and conditions; industry conditions; trends in volume and terms of loans; experience, ability and depth of lending management and other relevant staff; levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; and effects of changes in credit concentrations.

A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for loan losses. We identified the following portfolio segments: commercial, commercial real estate, residential real estate, consumer, agricultural, and other.

- Commercial loans are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial loans are advances for equipment purchases, or to provide working capital, or to meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment or other business assets. Financial information is obtained from the borrowers to evaluate their ability to repay the loans.
- Commercial real estate loans are affected by the local commercial real estate market and the local economy. Commercial real estate loans include loans on properties occupied by the borrowers and on properties for commercial purposes. Construction and development loans are a component of this segment. These loans are generally secured by land under development or homes and commercial buildings under construction. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service the debt.
- Residential real estate loans are affected by the local residential real estate market, local economy, and, for variable rate mortgages, movement in indices tied to these loans. For owner occupied residential loans, the borrowers' repayment ability is evaluated through a review of credit scores and debt to income ratios. For non-owner occupied residential loans, such as rental real estate, financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service the debt. Appraisals are obtained to support the loan amount.
- Consumer loans are dependent on local economies. Consumer loans are generally secured by consumer assets, but may be unsecured. We evaluate the borrowers' repayment ability through a review of credit scores and an evaluation of debt to income ratios.
- Agriculture loans are dependent on the industries tied to these loans and are generally secured by livestock, crops, and/or equipment, but may be unsecured. We evaluate the borrowers' repayment ability through a review of credit scores and an evaluation of debt to income ratios.
- Other loans include loans to municipalities, loans secured by stock, and overdrafts. For municipal loans, we evaluate the borrowers' revenue streams as well as ability to repay form general funds. For loans secured by stock, we evaluate the market value of the stock securing the loan in relation to the loan amount. Overdrafts are funded based on pre-established criteria related to the deposit account relationship.

We analyze all relevant risk characteristics for each portfolio segment and have determined that loans in each segment possess similar general risk characteristics that are analyzed in connection with our loan underwriting processes and procedures. In determining the allocated allowance, we utilize weighted average loss rates for the past three years most heavily weighting the current year. Commercial real estate loans are our largest segment and had the highest level of qualitative adjustments due to trends in our markets for underlying collateral values and risks related to tenant rents and for economic factors such as decreased sales demand, elevated inventory levels, and declining collateral values. Residential real estate loan considerations include macro factors such as unemployment rates, trends in vacancy rates, and home value trends. The commercial portfolio qualitative adjustments are related to industry concentrations and geographical market. Our agricultural, consumer, and other portfolios are less significant in terms of size and risk is assessed based on the smaller dollar size of these loans and the more geographical areas where the collateral is located.

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Other Real Estate Owned – Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value, less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Premises and Equipment – Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 5 to 33 years. Furniture, fixtures and equipment are depreciated using the straight-line or accelerated method with useful lives ranging from 3 to 7 years.

Federal Home Loan Bank (FHLB) Stock – The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Intangible Assets – Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Other intangible assets consist of core deposit and trust account intangible assets arising from whole bank and branch acquisitions. They are initially measured at fair value and then are amortized on an accelerated or straight-line basis over their estimated useful lives, which range from 7 to 10 years.

Bank Owned Life Insurance – The Bank has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Long-Term Assets – Premises and equipment, other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Repurchase Agreements – Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Benefit Plans – Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Stock-Based Compensation – Compensation cost is recognized for stock options and unvested stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes – Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Loan Commitments and Related Financial Instruments – Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer-financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Comprehensive Loss – Comprehensive loss consists of net income and other comprehensive loss. Other comprehensive loss includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity.

Preferred Stock – Series A Preferred stock was issued in 2008 and is outstanding under the United States Department of the Treasury's Capital Purchase Program. Issued in conjunction with the Preferred Stock were common stock warrants. See Note 16 for a discussion of the terms and conditions of that transaction. The proceeds received in the offering were allocated on a pro rata basis to the Preferred Stock and the Warrants based on relative fair values. In estimating the fair value of the Warrants, the Company utilized the Black-Scholes model which includes assumptions regarding the Company's common stock prices, stock price volatility, dividend yield, the risk free interest rate and the estimated life of the Warrant. The fair value of the Preferred Stock was determined using a discounted cash flow methodology. The value assigned to the Preferred Stock will be amortized up to the $35.0 million liquidation value of such preferred stock, with the cost of such amortization being reported as additional preferred stock dividends. Dividends are accrued quarterly. Quarterly cash payment of dividends was deferred effective with the fourth quarter of 2011. (See Note 16 for more specific disclosure.)

Series B and C Preferred stock were issued in 2010 and Series C Preferred stock remains outstanding. See Note 16 for a discussion of the terms and conditions of this transaction.

Earnings (Loss) Per Common Share – Basic earnings (loss) per common share are net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share include the dilutive effect of additional potential common shares issuable under stock options and warrants. Earnings (loss) and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements.

Earnings (Loss) Allocated to Participating Securities – Our issued and outstanding Series C Preferred Stock is automatically convertible into common stock at such time as the holder together with its affiliates beneficially own less than 9.9% of the then outstanding common shares of the company. We also have issued and outstanding unvested common shares to employees and directors through our stock incentive plan. Earnings (loss) are allocated to these participating securities based on their percentage of total issued and outstanding shares.

Loss Contingencies – Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. (See Note 24 for more specific disclosure.)

Dividend Restriction – Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to shareholders. (See Note 17 for more specific disclosure.)

Fair Value of Financial Instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 19. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications – Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net loss or stockholders’ equity.

NOTE 2 – GOING CONCERN CONSIDERATIONS AND FUTURE PLANS

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future. However, the events and circumstances described in this Note create substantial doubt about the Company’s ability to continue as a going concern.

For the year ended December 31, 2013, we reported a net loss to common shareholders of $3.4 million. This loss coupled with the comprehensive loss for the year reduced shareholders equity to $35.9 million, from $47.2 million at the end of 2012. This reduction was attributable primarily to OREO expense of $4.5 million resulting from fair value write-downs driven by new appraisals and reduced marketing prices, net loss on sales, and ongoing operating expense, along with $4.7 million in loan collection expenses. The reduction was also attributable to a reduction in the fair value of securities of $8.4 million, net, as well as the accrual of dividends and accretion to preferred shareholders of $2.1 million. We also had lower net interest margin due to lower average loans outstanding, loans re-pricing at lower rates, and the level of non-performing loans in our portfolio. Net loss to common shareholders of $3.4 million, for the year ended December 31, 2013, compares with net loss to common shareholders of $33.4 million for year ended December 31, 2012. This loss coupled with the other comprehensive loss on securities of $1.1 million reduced shareholders equity to $47.2 million at December 31, 2012, from $82.5 million at the end of 2011.

At December 31, 2013, we continued to be involved in various legal proceedings in which we dispute the material factual allegations. After conferring with our legal advisors, we believe we have meritorious grounds on which to prevail. If we do not prevail, the ultimate outcome of any one of these matters could have a material adverse effect on our financial condition, results of operations, or cash flows. These matters are more fully described in Note 24 – “Contingencies”.

For the year ended December 31, 2012, we reported net loss to common shareholders of $33.4 million. This loss was attributable primarily to $40.3 million of provision for loan losses expense due to continued decline in credit trends in our portfolio that resulted in net charge-offs of $36.1 million, OREO expense of $10.5 million resulting from fair value write-downs driven by new appraisals and reduced marketing prices, net loss on sales, and ongoing operating expense. We also had lower net interest margin due to lower average loans outstanding, loans re-pricing at lower rates, and the level of non-performing loans in our portfolio. Net loss to common shareholders of $33.4 million, for the year ended December 31, 2012, compares with net loss to common shareholders of $105.2 million for year ended December 31, 2011.

In the fourth quarter of 2011, we began deferring the payment of regular quarterly cash dividends on our Series A Preferred Stock. At December 31, 2013, cumulative accrued and unpaid dividends on this stock totaled $4.3 million. The dividend rate increased from 5% annually to 9% in November 2013. As a result of the dividend deferral, the holder of our Series A Preferred Stock (currently the U.S. Treasury) has the right to appoint up to two representatives to our Board of Directors. We continue to accrue deferred dividends, which are deducted from income to common shareholders for financial statement purposes. Dividends are expected to increase to $ 3.2 million for 2014.

In June 2011, the Bank agreed to a Consent Order with the FDIC and KDFI in which the Bank agreed, among other things, to improve asset quality, reduce loan concentrations, and maintain a minimum Tier 1 leverage ratio of 9% and a minimum total risk based capital ratio of 12%. The Consent Order was included in our Current Report on 8-K filed on June 30, 2011. In October 2012, the Bank entered into a new Consent Order with the FDIC and KDFI again agreeing to maintain a minimum Tier 1 leverage ratio of 9% and a minimum total risk based capital ratio of 12%. The Bank also agreed that if it should be unable to reach the required capital levels, and if directed in writing by the FDIC, then the Bank would within 30 days develop, adopt and implement a written plan to sell or merge itself into another federally insured financial institution or otherwise immediately obtain a sufficient capital investment into the Bank to fully meet the capital requirements. We have not been directed by the FDIC to implement such a plan.

We expect to continue to work with our regulators toward capital ratio compliance as outlined in the written capital plan previously submitted by the Bank. The new Consent Order also requires the Bank to continue to adhere to the plans implemented in response to the June 2011 Consent Order, and includes the substantive provisions of the June 2011 Consent Order. The new Consent Order was included in our Current Report on 8-K filed on September 19, 2012. As of December 31, 2013, the capital ratios required by the Consent Order were not met.

In order to meet these capital requirements, the Board of Directors and management are continuing to evaluate strategies to achieve the following objectives:

- Increasing capital through a possible public offering or private placement of common stock to new and existing shareholders. We have engaged a financial advisor to assist our Board in evaluating our options for increasing capital and redeeming our Series A Preferred Stock.
- Continuing to operate the Company and Bank in a safe and sound manner. This strategy may require us to continue to reduce the size of our balance sheet, reduce our lending concentrations, consider selling loans, and reduce other noninterest expense through the disposition of OREO.
- Continuing with succession planning and adding resources to the management team. John T. Taylor was named President and CEO for PBI Bank and appointed to the Board of Directors in July 2012. Mr. Taylor succeeded Maria Bouvette as CEO of the Company in 2013. John R. Davis was appointed Chief Credit Officer of PBI Bank in August 2012, with responsibility for establishing and executing the credit quality policies and overseeing credit administration for the organization. We have augmented our staffing in the commercial lending area, now led by Joe C. Seiler.
- Evaluating our internal processes and procedures, distribution of labor, and work-flow to ensure we have adequately and appropriately deployed resources in an efficient manner in the current environment. To this end, we believe the opportunity exists to centralize key processes that will lead to improved execution and cost savings.
- Executing on our commitment to improve credit quality and reduce loan concentrations and balance sheet risk.
    - We have reduced the size of our loan portfolio significantly from $1.3 billion at December 31, 2010, to $1.1 billion at December 31, 2011, to $899.1 million at December 31, 2012, and $709.3 million at December 31, 2013.
    - Our Consent Order calls for us to reduce our construction and development loans to not more than 75% of total risk-based capital. We are now in compliance as construction and development loans totaled $43.3 million, or 52% of total risk-based capital, at December 31, 2013, down from $70.3 million, or 82% of total risk-based capital, at December 31, 2012.
    - Our Consent Order also requires us to reduce non-owner occupied commercial real estate loans, construction and development loans, and multi-family residential real estate loans as a group, to not more than 250% of total risk-based capital. While we have made significant progress over the last year, we were not in compliance with this concentration limit at December 31, 2013. These loans totaled $237.0 million, or 284% of total risk-based capital, at December 31, 2013 and $311.1 million, or 362% of total risk-based capital, at December 31, 2012.

    - We are working to reduce our loan concentrations by curtailing new construction and development lending and new non-owner occupied commercial real estate lending. We are also receiving principal reductions from amortizing credits and pay-downs from our customers who sell properties built for resale. We have reduced the construction loan portfolio from $199.5 million at December 31, 2010 to $43.3 million at December 31, 2013. Our non-owner occupied commercial real estate loans declined from $293.3 million at December 31, 2010 to $237.0 million at December 31, 2013.

- Executing on our commitment to sell other real estate owned and reinvest in quality income producing assets.

    - The remediation process for loans secured by real estate has led the Bank to acquire significant levels of OREO in 2012, 2011, and 2010. This trend has continued at a slower pace in 2013. The Bank acquired $33.5 million, $41.9 million, and $90.8 million during 2012, 2011, and 2010, respectively. For the year ended December 31, 2013, we acquired $20.6 million of OREO.

    - We have incurred significant losses in disposing of this real estate. We incurred losses totaling $9.3 million, $42.8 million, and $13.9 million in 2012, 2011, and 2010, respectively, from sales at less than carrying values and fair value write-downs attributable to declines in appraisal valuations and changes in our pricing strategies. During the year ended December 31, 2013, we incurred OREO losses totaling $2.6 million, which consisted of $132,000 in loss on sale and $2.5 million from declining values as evidenced by new appraisals and reduced marketing prices in connection with our sales strategies.

    - To ensure we maximize the value we receive upon the sale of OREO, we continually evaluate sales opportunities. We are targeting multiple sales opportunities through internal marketing and the use of brokers, auctions, technology sales platforms, and bulk sale strategies. Proceeds from the sale of OREO totaled $30.8 million during the year ended December 31, 2013 and $22.5 million, $26.0 million and $25.0 million during 2012, 2011, and 2010, respectively.

    - At December 31, 2012, the OREO portfolio consisted of 51% construction, development, and land assets. At December 31, 2013, this concentration increased to 62%; however, the balance decreased from $22.9 million to $19.2 million. This is consistent with our reduction of construction, development and other land loans, which have declined to $43.3 million at December 31, 2013 compared with $70.3 million at December 31, 2012. Commercial real estate represents 19% of the OREO portfolio at December 31, 2013 compared with 35% at December 31, 2012. 1-4 family residential properties represent 16% of the OREO portfolio at December 31, 2013 compared with 12% at December 31, 2012.

- Evaluating other strategic alternatives, such as the sale of assets or branches.

Bank regulatory agencies can exercise discretion when an institution does not meet the terms of a consent order. Based on individual circumstances, the agencies may issue mandatory directives, impose monetary penalties, initiate changes in management, or take more serious adverse actions.

These financial statements do not include any adjustments that may result should the Company be unable to continue as a going concern.

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NOTE 3 – SECURITIES

The fair value of available for sale and held to maturity securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
December 31, 2013				
Available for sale				
U.S. Government and federal agency	$ 31,026	$ 284	$ (1,444)	$ 29,866
Agency mortgage-backed: residential	102,435	458	(1,950)	100,943
State and municipal	12,965	608	(28)	13,545
Corporate bonds	18,002	769	(610)	18,161
Other debt securities	572	60	—	632
Total debt securities	165,000	2,179	(4,032)	163,147
Equity	135	62	—	197
Total available for sale	$165,135	$ 2,241	$ (4,032)	$163,344
Held to maturity				
State and municipal	$ 43,612	$ 3	$ (668)	$ 42,947
Total held to maturity	$ 43,612	$ 3	$ (668)	$ 42,947
December 31, 2012				
Available for sale				
U.S. Government and federal agency	$ 5,603	$ 530	$ —	$ 6,133
Agency mortgage-backed: residential	94,298	1,141	(257)	95,182
State and municipal	52,485	2,335	(87)	54,733
Corporate bonds	18,851	1,150	(37)	19,964
Other debt securities	572	46	—	618
Total debt securities	171,809	5,202	(381)	176,630
Equity	1,359	487	—	1,846
Total	$173,168	$ 5,689	$ (381)	$178,476

Sales and calls of available for sale securities were as follows:

	2013	2012	2011
		(in thousands)	
Proceeds	$8,061	$93,199	$50,318
Gross gains	873	3,543	1,108
Gross losses	150	307	—

The tax provision related to these net gains and losses realized on sales were $253,000, $1.1 million, and $388,000, respectively.

The amortized cost and fair value of our debt securities are shown by contractual maturity. Expected maturities may differ from actual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, mortgage-backed, are shown separately.

	December 31, 2013	
	Amortized Cost	Fair Value
	(in thousands)	
Maturity		
Available for sale		
Within one year	$ 15,306	$ 14,693
One to five years	13,269	14,300
Five to ten years	33,418	32,579
Beyond ten years	572	632
Agency mortgage-backed: residential	102,435	100,943
Total	$165,000	$163,147
Held to maturity		
One to five years	$ 797	$ 792
Five to ten years	37,411	36,854
Beyond ten years	5,404	5,301
Total	$ 43,612	$ 42,947

Securities pledged at year-end 2013 and 2012 had carrying values of approximately $84.2 million and $76.4 million, respectively, and were pledged to secure public deposits and repurchase agreements.

At year-end 2013 and 2012, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Securities with unrealized losses at year-end 2013 and 2012, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)					
2013						
Available for sale						
U.S. Government and federal agency	$24,129	$ (1,444)	$ —	$ —	$ 24,129	$ (1,444)
Agency mortgage-backed: residential	58,257	(1,672)	10,344	(278)	68,601	(1,950)
State and municipal	458	(28)	—	—	458	(28)
Corporate bonds	11,313	(610)	—	—	11,313	(610)
Total temporarily impaired	$94,157	$ (3,754)	$10,344	$ (278)	$104,501	$ (4,032)
Held to maturity						
State and municipal	39,743	(654)	1,031	(14)	40,774	(668)
Total temporarily impaired	$39,743	$ (654)	$ 1,031	$ (14)	$ 40,774	$ (668)
2012						
Available for sale						
Agency mortgage-backed: residential	$23,375	$ (257)	$ —	$ —	$ 23,375	$ (257)
State and municipal	7,961	(87)	—	—	7,961	(87)
Corporate bonds	3,777	(37)	—	—	3,777	(37)
Equity securities	2	—	—	—	2	—
Total temporarily impaired	$35,115	$ (381)	$ —	$ —	$ 35,115	$ (381)

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, underlying credit quality of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, the sector or industry trends and cycles affecting the issuer, and the results of reviews of the issuer's financial condition. As of December 31, 2013, management does not believe any securities in our portfolio with unrealized losses should be classified as other than temporarily impaired at this time. Management currently intends to hold all securities with unrealized losses until recovery, which for fixed income securities may be at maturity.

At December 31, 2013, the Company held one equity security. This security was in an unrealized gain position as of December 31, 2013. Management monitors the underlying financial condition of the issuers and current market pricing for this equity security monthly.

In 2013, to better manage our interest rate risk, we transferred from available for sale to held to maturity selected municipal securities in our portfolio having a book value of approximately $44.9 million, a market value of approximately $43.7 million, and a net unrealized loss of approximately $1.3 million. This transfer was completed after careful consideration of our intent and ability to hold these securities to maturity.

NOTE 4 – LOANS

Loans at year-end by class were as follows:

	2013	2012
	(in thousands)	
Commercial	$ 52,878	$ 52,567
Commercial Real Estate:		
Construction	43,326	70,284
Farmland	71,189	80,825
Other	232,026	322,687
Residential Real Estate:		
Multi-family	46,858	50,986
1-4 Family	228,505	278,273
Consumer	14,365	20,383
Agriculture	19,199	22,317
Other	980	770
Subtotal	709,326	899,092
Less: Allowance for loan losses	(28,124)	(56,680)
Loans, net	$681,202	$842,412

Activity in the allowance for loan losses for the years indicated was as follows:

	2013	2012	2011
		(in thousands)	
Beginning balance	$ 56,680	$ 52,579	$ 34,285
Provision for loan losses	700	40,250	62,600
Loans charged-off	(32,608)	(37,515)	(44,646)
Loan recoveries	3,352	1,366	340
Ending balance	$ 28,124	$ 56,680	$ 52,579

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2013:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
			(in thousands)				
Beginning balance	$ 4,402	$ 34,768	$ 16,235	$ 857	$ 403	$ 15	$ 56,680
Provision for loan losses	435	1,691	(1,261)	66	(222)	(9)	700
Loans charged off	(2,828)	(21,176)	(7,703)	(773)	(128)	—	(32,608)
Recoveries	1,212	1,131	491	266	252	—	3,352
Ending balance	$ 3,221	$ 16,414	$ 7,762	$ 416	$ 305	$ 6	$ 28,124

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2012:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
			(in thousands)				
Beginning balance	$ 4,207	$ 33,024	$ 14,217	$ 792	$ 325	$ 14	$ 52,579
Provision for loan losses	3,850	23,275	10,884	1,070	1,170	1	40,250
Loans charged off	(3,784)	(22,366)	(9,071)	(1,130)	(1,164)	—	(37,515)
Recoveries	129	835	205	125	72	—	1,366
Ending balance	$ 4,402	$ 34,768	$ 16,235	$ 857	$ 403	$ 15	$ 56,680

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method as of December 31, 2013:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
			(in thousands)				
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 290	$ 2,345	$ 827	$ 9	$ —	$—	$ 3,471
Collectively evaluated for impairment	2,931	14,069	6,935	407	305	6	24,653
Total ending allowance balance	$ 3,221	$ 16,414	$ 7,762	$ 416	$ 305	$ 6	$ 28,124
Loans:							
Loans individually evaluated for impairment	$ 4,995	$ 94,330	$ 49,512	$ 93	$ 322	$631	$149,883
Loans collectively evaluated for impairment	47,883	252,211	225,851	14,272	18,877	349	559,443
Total ending loans balance	$ 52,878	$ 346,541	$275,363	$ 14,365	$ 19,199	$980	$709,326

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method as of December 31, 2012:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Agriculture	Other	Total
			(in thousands)				
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 263	$ 16,046	$ 4,641	$ 68	$ 5	$ 11	$ 21,034
Collectively evaluated for impairment	4,139	18,722	11,594	789	398	4	35,646
Total ending allowance balance	$ 4,402	$ 34,768	$ 16,235	$ 857	$ 403	$ 15	$ 56,680
Loans:							
Loans individually evaluated for impairment	$ 5,296	$ 125,922	$ 56,799	$ 212	$ 55	$524	$188,808
Loans collectively evaluated for impairment	47,271	347,874	272,460	20,171	22,262	246	710,284
Total ending loans balance	$ 52,567	$ 473,796	$329,259	$ 20,383	$ 22,317	$770	$899,092

Impaired Loans

Impaired loans include restructured loans and loans on nonaccrual or classified as doubtful, whereby collection of the total amount is improbable, or loss, whereby all or a portion of the loan has been written off or a specific allowance for loss had been provided.

	2013	2012 (in thousands)	2011
Average of impaired loans during the year	$169,324	$175,828	$95,331
Interest income recognized during impairment	3,291	3,976	2,594
Cash basis interest income recognized	958	355	412

The following table presents information related to loans individually evaluated for impairment by class of loan as of and for the year ended December 31, 2013:

	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated (in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With No Related Allowance Recorded:						
Commercial	$ 2,131	$ 1,533	$ —	$ 1,622	$ 30	$ 30
Commercial real estate:						
Construction	64	38	—	467	164	164
Farmland	4,074	3,898	—	4,259	268	268
Other	1,568	1,404	—	1,724	367	366
Residential real estate:						
Multi-family	444	392	—	541	3	3
1-4 Family	11,011	10,083	—	11,533	115	116
Consumer	9	9	—	21	—	—
Agriculture	401	322	—	213	—	—
Other	14	13	—	10	11	11
With An Allowance Recorded:						
Commercial	3,734	3,462	290	3,905	99	—
Commercial real estate:						
Construction	10,409	9,264	218	20,173	88	—
Farmland	6,117	4,238	65	5,579	37	—
Other	94,508	75,488	2,062	77,726	1,324	—
Residential real estate:						
Multi-family	13,883	12,117	393	13,121	208	—
1-4 Family	31,327	26,920	434	27,755	557	—
Consumer	84	84	9	134	3	—
Agriculture	—	—	—	2	—	—
Other	861	618	—	539	17	—
Total	$180,639	$149,883	$ 3,471	$169,324	$ 3,291	$ 958

The following table presents information related to loans individually evaluated for impairment by class of loan as of and for the year ended December 31, 2012:

	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
	(in thousands)					
With No Related Allowance Recorded:						
Commercial	$ 1,460	$ 1,234	$ —	$ 1,637	$ 5	$ 4
Commercial real estate:						
Construction	1,155	1,109	—	1,745	2	2
Farmland	4,448	4,448	—	4,706	57	57
Other	2,134	1,892	—	3,436	3	3
Residential real estate:						
Multi-family	643	643	—	910	—	—
1-4 Family	13,539	13,158	—	11,291	56	56
Consumer	70	70	—	219	8	5
Agriculture	45	45	—	366	2	—
Other	—	—	—	—	—	—
With An Allowance Recorded:						
Commercial	4,108	4,062	263	3,964	169	27
Commercial real estate:						
Construction	26,645	25,455	1,543	19,514	348	5
Farmland	8,557	6,456	734	5,794	43	2
Other	100,289	86,562	13,769	83,087	2,011	185
Residential real estate:						
Multi-family	14,906	14,906	1,643	11,187	468	—
1-4 Family	32,835	28,092	2,998	27,404	787	9
Consumer	142	142	68	29	—	—
Agriculture	10	10	5	6	—	—
Other	524	524	11	533	17	—
Total	$211,510	$188,808	$ 21,034	$175,828	$ 3,976	$ 355

Troubled Debt Restructuring

A troubled debt restructuring (TDR) is where the Company has agreed to a loan modification in the form of a concession for a borrower who is experiencing financial difficulty. The majority of the Company's TDRs involve a reduction in interest rate, a deferral of principal for a stated period of time, or an interest only period. All TDRs are considered impaired and the Company has allocated reserves for these loans to reflect the present value of the concessionary terms granted to the customer.

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The following table presents the types of TDR loan modifications by portfolio segment outstanding as of December 31, 2013 and 2013:

	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms	Total TDRs
		(in thousands)	
December 31, 2013			
Commercial			
Rate reduction	$ 1,933	$ —	$ 1,933
Principal deferral	—	869	869
Commercial Real Estate:			
Construction			
Rate reduction	275	6,345	6,620
Principal deferral	499	—	499
Farmland			
Rate reduction	150	—	150
Principal deferral	—	2,365	2,365
Other			
Rate reduction	22,457	21,235	43,692
Principal deferral	691	—	691
Interest only payments	2,439	1,489	3,928
Residential Real Estate:			
Multi-family			
Rate reduction	4,354	6,655	11,009
Interest only payments	641	—	641
1-4 Family			
Rate reduction	10,312	7,958	18,270
Consumer			
Rate reduction	84	—	84
Other			
Rate reduction	511	—	511
Total TDRs	$ 44,346	$ 46,916	$ 91,262
December 31, 2012			
Commercial			
Rate reduction	$ 1,972	$ —	$ 1,972
Principal deferral	887	—	887
Interest only payments	—	958	958
Commercial Real Estate:			
Construction			
Rate reduction	4,834	4,459	9,293
Farmland			
Rate reduction	150	—	150
Principal deferral	725	2,438	3,163
Other			
Rate reduction	36,515	22,631	59,146
Principal deferral	1,195	—	1,195
Interest only payments	2,466	2,107	4,573
Residential Real Estate:			
Multi-family			
Rate reduction	13,087	—	13,087
Interest only payments	652	—	652
1-4 Family			
Rate reduction	14,323	7,871	22,194
Consumer			
Rate reduction	14	—	14
Other			
Rate reduction	524	—	524
Total TDRs	$ 77,344	$ 40,464	$117,808

At December 31, 2013 and 2012, 49% and 66%, respectively, of the Company's TDRs were performing according to their modified terms. The Company allocated $2.9 million and $15.1 million as of December 31, 2013 and 2012, respectively, in reserves to customers whose loan terms have been modified in TDRs. The Company has committed to lend additional amounts totaling $261,000 and $259,000 as of December 31, 2013 and 2012, respectively, to customers with outstanding loans that are classified as TDRs.

The following table presents a summary of the types of TDR loan modifications by portfolio type that occurred during the twelve months ended December 31, 2013 and 2012:

	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms (in thousands)	Total TDRs
December 31, 2013			
Commercial			
Rate reduction	$ 34	$ —	$ 34
Commercial Real Estate:			
Construction			
Rate reduction	—	1,291	1,291
Principal deferral	499	—	499
Other			
Rate reduction	385	—	385
Residential Real Estate:			
1-4 Family			
Rate reduction	2,145	—	2,145
Consumer			
Rate reduction	84	—	84
Total TDRs	$ 3,147	$ 1,291	$ 4,438
December 31, 2012			
Commercial			
Rate reduction	$ 1,972	$ —	$ 1,972
Interest only payments	—	958	958
Commercial Real Estate:			
Construction			
Rate reduction	—	831	831
Farmland			
Rate reduction	150	—	150
Other			
Rate reduction	16,468	1,089	17,557
Principal deferral	1,194	—	1,194
Interest only payments	2,466	2,107	4,573
Residential Real Estate:			
Multi-family			
Rate reduction	12,805	—	12,805
1-4 Family			
Rate reduction	7,514	—	7,514
Consumer			
Rate reduction	14	—	14
Total TDRs	$ 42,583	$ 4,985	$47,568

As of December 31, 2013 and 2012, 71% and 90%, respectively, of the Company's TDRs that occurred during 2013 and 2012, respectively, were performing in accordance with their modified terms. The Company has allocated $345,000 and $4.8 million, respectively, in reserves to customers whose loan terms have been modified during 2013 and 2012, respectively. For modifications occurring during the twelve months ended December 31, 2013 and 2012, the post-modification balances approximate the pre-modification balances.

During 2013 and 2012, approximately $1.3 million and $12.0 million of TDRs, respectively, defaulted on their restructured loan and the default occurred within the 12 month period following the loan modification. The defaults in 2013 were all construction loans, while the defaults in 2012 consisted of $6.6 million in commercial real estate loans, $3.2 million in construction loans, $1.2 million in 1-4 family residential real estate loans, and $958,000 in commercial loans. A default is considered to have occurred once the TDR is past due 90 days or more or it has been placed on nonaccrual.

Non-performing Loans

Non-performing loans include impaired loans and smaller balance homogeneous loans, such as residential mortgage and consumer loans, that are collectively evaluated for impairment.

The following table presents the recorded investment in nonaccrual and loans past due 90 days and still on accrual by class of loan as of December 31, 2013 and 2012:

	Nonaccrual		Loans Past Due 90 Days And Over Still Accruing	
	2013	2012	2013	2012
	(in thousands)			
Commercial	$ 2,886	$ 2,437	$—	$ 36
Commercial Real Estate:				
Construction	8,528	7,808	—	—
Farmland	7,844	10,030	—	—
Other	48,447	46,036	—	—
Residential Real Estate:				
Multi-family	7,513	1,516	—	—
1-4 Family	26,098	26,501	230	50
Consumer	9	135	2	—
Agriculture	322	54	—	—
Other	120	—	—	—
Total	$101,767	$94,517	$232	$ 86

The following table presents the aging of the recorded investment in past due loans by class as of December 31, 2013 and 2012:

	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days And Over Past Due	Nonaccrual	Total Past Due And Nonaccrual
			(in thousands)		
December 31, 2013					
Commercial	$ 156	$ 123	$ —	$ 2,886	$ 3,165
Commercial Real Estate:					
Construction	261	—	—	8,528	8,789
Farmland	484	41	—	7,844	8,369
Other	4,375	—	—	48,447	52,822
Residential Real Estate:					
Multi-family	1,181	—	—	7,513	8,694
1-4 Family	4,059	577	230	26,098	30,964
Consumer	145	34	2	9	190
Agriculture	35	—	—	322	357
Other	—	—	—	120	120
Total	$10,696	$ 775	$ 232	$ 101,767	$ 113,470

	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days And Over Past Due	Nonaccrual	Total Past Due And Nonaccrual
			(in thousands)		
December 31, 2012					
Commercial	$ 1,279	$ 90	$ 36	$ 2,437	$ 3,842
Commercial Real Estate:					
Construction	10,510	5,815	—	7,808	24,133
Farmland	922	58	—	10,030	11,010
Other	5,138	13,037	—	46,036	64,211
Residential Real Estate:					
Multi-family	8,762	—	—	1,516	10,278
1-4 Family	11,145	1,221	50	26,501	38,917
Consumer	310	75	—	135	520
Agriculture	153	7	—	54	214
Other	—	—	—	—	—
Total	$38,219	$20,303	$ 86	$ 94,517	$ 153,125

Credit Quality Indicators – We categorize loans into risk categories at origination based upon original underwriting. Subsequent to origination, we categorized loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Loans are analyzed individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $500,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. We do not have any non-rated loans. The following definitions are used for risk ratings:

Watch – Loans classified as watch are those loans which have experienced a potentially adverse development which necessitates increased monitoring.

Special Mention – Loans classified as special mention do not have all of the characteristics of substandard or doubtful loans. They have one or more deficiencies which warrant special attention and which corrective action, such as accelerated collection practices, may remedy.

Substandard – Loans classified as substandard are those loans with clear and defined weaknesses such as a highly leveraged position, unfavorable financial ratios, uncertain repayment sources or poor financial condition which may jeopardize the repayment of the debt as contractually agreed. They are characterized by the distinct possibility that we will sustain some losses if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful are those loans which have characteristics similar to substandard loans but with an increased risk that collection or liquidation in full is highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be "Pass" rated loans. As of December 31, 2013 and 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
			(in thousands)			
December 31, 2013						
Commercial	$ 35,438	$ 8,517	$ 329	$ 8,594	$ —	$ 52,878
Commercial Real Estate:						
Construction	16,706	10,771	2,277	13,572	—	43,326
Farmland	46,909	9,121	1,735	13,424	—	71,189
Other	93,327	51,522	734	86,443	—	232,026
Residential Real Estate:						
Multi-family	16,506	17,320	—	13,032	—	46,858
1-4 Family	130,833	43,785	784	53,103	—	228,505
Consumer	12,718	968	6	673	—	14,365
Agriculture	16,742	1,802	—	655	—	19,199
Other	350	510	—	120	—	980
Total	$369,529	$144,316	$ 5,865	$ 189,616	$ —	$709,326

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
			(in thousands)			
December 31, 2012						
Commercial	$ 27,085	$ 10,153	$ 6,495	$ 8,772	$ 62	$ 52,567
Commercial Real Estate:						
Construction	26,085	21,713	3,647	18,839	—	70,284
Farmland	47,017	13,461	3,532	16,815	—	80,825
Other	122,603	66,223	14,955	118,635	271	322,687
Residential Real Estate:						
Multi-family	18,387	14,637	—	17,962	—	50,986
1-4 Family	159,975	47,030	5,167	66,101	—	278,273
Consumer	17,232	2,211	35	842	63	20,383
Agriculture	19,256	1,467	869	725	—	22,317
Other	246	524	—	—	—	770
Total	$437,886	$177,419	$34,700	$ 248,691	$ 396	$899,092

NOTE 5 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	2013	2012
	(in thousands)	
Land and buildings	$ 24,673	$ 24,860
Furniture and equipment	17,211	18,074
	41,884	42,934
Accumulated depreciation	(21,901)	(22,129)
	$ 19,983	$ 20,805

Depreciation expense was $1,043,000, $1,165,000 and $1,205,000 for 2013, 2012 and 2011, respectively.

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NOTE 6 – OTHER REAL ESTATE OWNED

Other real estate owned (OREO) is real estate acquired as a result of foreclosure or by deed in lieu of foreclosure. It is classified as real estate owned until such time as it is sold. When property is acquired as a result of foreclosure or by deed in lieu of foreclosure, it is recorded at its fair market value less cost to sell. Any write-down of the property at the time of acquisition is charged to the allowance for loan losses. Subsequent reductions in fair value are recorded as non-interest expense.

To determine the fair value of OREO for smaller dollar single family homes, we consult with internal real estate sales staff and external realtors, investors, and appraisers. If the internally evaluated market price is below our underlying investment in the property, appropriate write-downs are taken. For larger dollar residential and commercial real estate properties, we obtain a new appraisal of the subject property in connection with the transfer to other real estate owned. We obtain updated appraisals each year on the anniversary date of ownership unless a sale is imminent

The following table presents the major categories of OREO at the period-ends indicated:

	2013	2012
	(in thousands)	
Commercial Real Estate:		
Construction, land development, and other land	$19,199	$22,912
Farmland	695	618
Other	6,064	15,577
Residential Real Estate:		
Multi-family	248	200
1-4 Family	4,916	5,518
	31,122	44,825
Valuation allowance	(230)	(1,154)
	$30,892	$43,671

	2013	2012
	(in thousands)	
OREO Valuation Allowance Activity:		
Beginning balance	$ 1,154	$ 1,667
Provision to allowance	2,466	7,154
Write-downs	(3,390)	(7,667)
Ending balance	$ 230	$ 1,154

Activity relating to other real estate owned during the years indicated is as follows:

	2013	2012
	(in thousands)	
OREO Activity		
OREO as of January 1	$ 43,671	$ 41,449
Real estate acquired	20,606	33,528
Valuation adjustments for declining market values	(2,466)	(7,154)
Improvements	—	1
Loss on sale	(132)	(1,672)
Proceeds from sale of properties	(30,787)	(22,481)
OREO as of December 31	$ 30,892	$ 43,671

Expenses related to other real estate owned include:

	2013	2012	2011
		(in thousands)	
Net loss on sales	$ 132	$ 1,672	$ 8,889
Provision to allowance	2,466	7,154	34,874
Operating expense	1,918	1,723	3,762
Total	$4,516	$10,549	$47,525

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NOTE 7 – INTANGIBLE ASSETS

Acquired intangible assets were as follows as of year-end:

	2013		2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
Amortized intangible assets:				
Core deposit intangibles	$ 4,183	$ 3,008	$ 4,183	$ 2,581
Trust account intangibles	100	100	100	53

Aggregate amortization expense was $428,000, $467,000 and $468,000 for 2013, 2012 and 2011, respectively.

Estimated aggregate amortization expense for intangible assets for each of the next five years is as follows (in thousands):

2014	$397
2015	335
2016	334
2017	109
2018	—

NOTE 8 – DEPOSITS

The following table shows deposits by category:

	December 31, 2013	December 31, 2012
	(in thousands)	
Non-interest bearing	$ 107,486	$ 114,310
Interest checking	84,626	87,234
Money market	79,349	63,715
Savings	36,292	39,227
Certificates of deposit	679,952	760,573
Total	$ 987,705	$ 1,065,059

Time deposits of $100,000 or more were approximately $294,965,000 and $319,527,000 at year-end 2013 and 2012, respectively.

Scheduled maturities of total time deposits for each of the next five years are as follows (in thousands):

	Total
2014	$431,601
2015	210,516
2016	14,330
2017	10,021
2018	13,460
Thereafter	24
	$679,952

Historically, the Bank has utilized brokered and wholesale deposits to supplement its funding strategy. At December 31, 2012, the Bank held $15.0 million in brokered deposits, which matured and were redeemed in the second quarter of 2013. As stipulated in the Consent Order, PBI Bank is currently restricted from accepting, renewing, or rolling-over brokered deposits without the prior receipt of a waiver on a case-by-case basis from our regulators.

NOTE 9 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are financing arrangements that mature within two years. At maturity, the securities underlying the agreements are returned to the Company. Securities sold under agreements to repurchase are secured by agency, mortgage-backed, and municipal securities. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2013	2012
	(in thousands)	
Balance at year-end	$2,470	$2,634
Average daily balance during the year	$3,113	$2,088
Average interest rate during the year	0.20%	0.35%
Maximum month-end balance during the year	$4,747	$2,634
Weighted average interest rate at year-end	0.17%	0.23%
Fair value of securities sold under agreements to repurchase at year-end	$2,470	$2,634

NOTE 10 – ADVANCES FROM FEDERAL HOME LOAN BANK

At year-end, advances from the Federal Home Loan Bank were as follows:

	2013	2012
	(in thousands)	
Monthly amortizing advances with fixed rates from 0.00% to 5.25% and maturities ranging from 2014 through 2033, averaging 3.07% for 2013	$4,492	$5,604

Each advance is payable per terms on agreement, with a prepayment penalty. No prepayment penalties were incurred during 2012 or 2013. The advances were collateralized by approximately $138.4 million and $163.3 million of first mortgage loans, under a blanket lien arrangement at year-end 2013 and 2012, respectively. Our borrowing capacity is based on the market value of the underlying pledged loans rather than the unpaid principal balance of the pledged loans. The availability of our borrowing capacity could be affected by our financial position and the FHLB could require additional collateral or, among other things, exercise its rights to deny a funding request, at its discretion. Additionally, any new advances are limited to a one year maturity or less. At December 31, 2013, our additional borrowing capacity with the FHLB was $18.7 million.

Scheduled principal payments on the above during the next five years and thereafter (in thousands):

	Advances
2014	$ 776
2015	663
2016	627
2017	543
2018	267
Thereafter	1,616
	$ 4,492

At year-end 2013, the Company had approximately $5.0 million of federal funds lines of credit available on a secured basis from correspondent institutions; however, the availability of these lines could be affected by our financial position.

NOTE 11 – SUBORDINATED CAPITAL NOTE

The subordinated capital note issued by PBI Bank totaled $5.9 million at December 31, 2013. The note is unsecured, bears interest at the BBA three-month LIBOR floating rate plus 300 basis points, and qualifies as Tier 2 capital. Interest only was due quarterly through September 30, 2010, at which time quarterly principal payments of $225,000 plus interest commenced. Scheduled principal payments of $900,000 per year are due each of the next five years with $1,350,000 due thereafter. The note matures July 1, 2020. At December 31, 2013, the interest rate on this note was 3.25%.

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NOTE 12 – JUNIOR SUBORDINATED DEBENTURES

The junior subordinated debentures are redeemable at par prior to the maturity dates of February 13, 2034, April 15, 2034, and March 1, 2037, at the option of the Company as defined within the trust indenture. The Company has the option to defer interest payments on the junior subordinated debentures from time to time for a period not to exceed twenty (20) consecutive quarters. If payments are deferred, the Company is prohibited from paying dividends to its common stockholders. Effective with the fourth quarter of 2011, we began deferring interest payments on the junior subordinated notes which resulted in a deferral of distributions on our trust preferred securities. Therefore, future cash dividends on our common stock are subject to the prior payment of all deferred distributions on our trust preferred securities. Dividends accrued and unpaid on our junior subordinated debentures totaled $1.5 million at December 31, 2013. A summary of the junior subordinated debentures is as follows:

Description	Issuance Date	Optional Prepayment Date (2)	Interest Rate (1)	Junior Subordinated Debt Owed to Trust	Maturity Date
Porter Statutory Trust II	02-13-2004	03-17-2009	3-month LIBOR + 2.85%	$ 5,000,000	02-13-2034
Porter Statutory Trust III	04-15-2004	06-17-2009	3-month LIBOR + 2.79%	3,000,000	04-15-2034
Porter Statutory Trust IV	12-14-2006	03-01-2012	3-month LIBOR + 1.67%	14,000,000	03-01-2037
Ascencia Statutory Trust I	02-13-2004	03-17-2009	3-month LIBOR + 2.85%	3,000,000	02-13-2034
				$25,000,000	

(1) As of December 31, 2013, the 3-month LIBOR was 0.25%.
(2) The debentures are callable on or after the optional prepayment date at their principal amount plus accrued interest.

NOTE 13 – OTHER BENEFIT PLANS

401(K) Plan – The Company 401(k) Savings Plan allows employees to contribute up to 15% of their compensation, which is matched equal to 50% of the first 4% of compensation contributed. The Company, at its discretion, may make an additional contribution. Total contributions made by the Company to the plan amounted to approximately $195,000, $148,000 and $131,000 in 2013, 2012 and 2011, respectively.

Supplemental Executive Retirement Plan – During 2004, the Company created a supplemental executive retirement plan covering certain executive officers. Under the plan, the Company pays each participant, or their beneficiary, a specific defined benefit amount over 10 years, beginning with the individual's retirement or early termination of service for reasons other than cause. A liability is accrued for the obligation under these plans. The expense incurred for the plan was $87,000, $151,000 and $49,000 for the years ended December 31, 2013, 2012 and 2011, respectively. The related liability was $1,348,000, $1,338,000 and $1,208,000 at December 31, 2013, 2012 and 2011, respectively, and is included in other liabilities on the balance sheets.

The Company purchased life insurance on the participants of the plan. The cash surrender value of all insurance policies was $8,911,000 and $8,398,000 at December 31, 2013 and 2012, respectively. Income earned from the cash surrender value of life insurance totaled $513,000, $292,000 and $301,000 for the years ended December 31, 2013, 2012 and 2011, respectively. The income is recorded as other non-interest income.

NOTE 14 – INCOME TAXES

Income tax expense (benefit) was as follows:

	2013	2012	2011
		(in thousands)	
Current	$ —	$ (65)	$(12,093)
Deferred	9,489	754	(17,403)
Net operating loss	(10,430)	(12,581)	(2,439)
Establishment of valuation allowance	—	—	31,717
Change in valuation allowance	941	11,827	—
	$ —	$ (65)	$ (218)

Effective tax rates differ from federal statutory rate of 35% applied to income (loss) before income taxes due to the following.

	2013	2012 (in thousands)	2011
Federal statutory rate times financial statement income (loss)	$(555)	$(11,549)	$(37,634)
Effect of:			
Establishment of valuation allowance	—	—	31,717
Change in valuation allowance	941	11,827	—
Goodwill impairment charge	—	—	6,169
Tax-exempt income	(324)	(314)	(392)
Nontaxable life insurance income	(180)	(102)	(105)
Federal tax credits	—	—	(45)
Other, net	118	73	72
Total	$ —	$ (65)	$ (218)

Year-end deferred tax assets and liabilities were due to the following.

	December 31, 2013	December 31, 2012
	(in thousands)	
Deferred tax assets:		
Net operating loss carry-forward	$ 25,460	$ 15,051
Allowance for loan losses	9,843	19,838
Other real estate owned write-down	9,478	10,408
Alternative minimum tax credit carry-forward	692	692
Net assets from acquisitions	644	592
Other than temporary impairment on securities	89	374
Net unrealized loss on securities	1,067	—
New market tax credit carry-forward	208	208
Nonaccrual loan interest	911	—
Amortization of non-compete agreements	16	19
Other	1,640	936
	50,048	48,118
Deferred tax liabilities:		
FHLB stock dividends	1,276	1,276
Fixed assets	333	409
Originated mortgage servicing rights	75	98
Net unrealized gain on securities	—	1,858
Other	570	549
	2,254	4,190
Net deferred tax assets before valuation allowance	47,794	43,928
Valuation allowance	(47,794)	(43,928)
Net deferred tax asset	$ —	$ —

Our estimate of the realizability of the deferred tax asset is dependent on our estimate of projected future levels of taxable income as all carryback ability was fully absorbed by our tax loss of $40.1 million for 2011. In analyzing future taxable income levels, we considered all evidence currently available, both positive and negative. Based on our analysis, we established a valuation allowance for all deferred tax assets as of December 31, 2011.

The Company does not have any beginning and ending unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. There were no interest and penalties recorded in the income statement or accrued for the year ended December 31, 2013 related to unrecognized tax benefits.

The Company and its subsidiaries are subject to U.S. federal income tax and the Company is subject to income tax in the state of Kentucky. The Company is no longer subject to examination by taxing authorities for years before 2010.

NOTE 15 – RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates in 2013 were as follows (in thousands):

Beginning balance	$1,210
New loans	—
Repayments	(117)
Ending balance	$1,093

Deposits from principal officers, directors, and their affiliates at year-end 2013 and 2012 were $1.4 million.

Our loan participation totals include participation loans purchased from and sold to two affiliate banks, The Peoples Bank, Mt. Washington and The Peoples Bank, Taylorsville. Our chairman emeritus, J. Chester Porter and his brother and our director, William G. Porter, each own a 50% interest in Lake Valley Bancorp, Inc., the parent holding company of The Peoples Bank, Taylorsville, Kentucky. J. Chester Porter and William G. Porter serve as directors of The Peoples Bank, Taylorsville. Our chairman emeritus, J. Chester Porter owns an interest of approximately 36.0% and his brother and our director, William G. Porter, owns an interest of approximately 3.0% in Crossroads Bancorp, Inc., the parent holding company of The Peoples Bank, Mount Washington, Kentucky. J. Chester Porter serves as a director of The Peoples Bank, Mount Washington. Prior to 2013, we were a party to management services agreements with each of these banks. Each agreement provided that our executives and employees would provide management and accounting services to the subject bank, including overall responsibility for establishing and implementing policy and strategic planning. We received a $4,000 monthly fee from The Peoples Bank, Taylorsville and a $2,000 monthly fee from The Peoples Bank, Mount Washington for these services prior to 2013. Beginning in 2013, these agreements were not renewed and we ceased providing management services to the two affiliate banks.

As of December 31, 2013, we had $4.9 million of participations in loans sold to these affiliate banks. As of December 31, 2012, we had $2.7 million of participations in loans purchased from, and $6.5 million of participations in real estate loans sold to, these affiliate banks. At December 31, 2013, $1.0 million of loan participations sold to Peoples Bank, Taylorsville, and $629,000 sold to Peoples Bank, Mt. Washington were on nonaccrual.

In 2013, PBI Bank entered into a Real Estate Listing and Property Management Agreement with Hogan Development Company, an entity in which our director, W. Glenn Hogan, has an ownership interest. Under these agreements, Hogan Development Company assists PBI Bank in onboarding, managing, and selling the Bank's other real estate owned. The majority of the fees paid under this agreement are related to sales commissions earned upon the sale of bank-owned real estate. The agreement is periodically reviewed and evaluated by the independent members of our Audit Committee. Payments to Hogan Development Company under this agreement totaled $776,000 in 2013.

NOTE 16 – PREFERRED STOCK AND STOCK PURCHASE WARRANTS

In 2010, we completed a $32.0 million private placement to accredited investors. Following completion of the transactions involved, Porter Bancorp had issued (i) 2,465,569 shares of common stock, (ii) 317,042 shares of Series C Preferred Stock and (iii) warrants to purchase 1,163,045 shares of non-voting common stock at a price of $11.50 per share.

The Series C Preferred Stock has no voting rights (except when required by law), has a liquidation preference over our common stock, and dividend rights equivalent to our common stock. Each share of Series C Preferred Stock automatically converts into 1.05 shares of common stock at such time as, after giving effect to the automatic conversion, the holder of such Series C Preferred Stock (together with its affiliates and any other persons with which it is acting in concert or whose holdings would otherwise be required to be aggregated for purposes of federal banking law) beneficially holds, directly or indirectly, less than 9.9% of the number of shares of common stock then issued and outstanding.

The warrants are exercisable into non-voting common stock until they expire on September 16, 2015. The non-voting common stock has no voting rights (except when required by law), but otherwise has substantially the same rights as our common stock. Upon issuance, each share of non-voting common stock automatically converts into 1.05 shares of common stock at such time as, after giving effect to the automatic conversion, the holder of non-voting common stock (together with its affiliates and any other persons with which it is acting in concert or whose holdings would otherwise be required to be aggregated for purposes of federal banking law) holds, directly or indirectly, beneficially less than 9.9% of the number of shares of common stock then issued and outstanding.

On November 21, 2008, we issued to the U.S. Treasury 35,000 shares of our Series A Preferred Stock and a warrant to purchase up to 330,561 shares of our common stock for $15.88 per share in exchange for aggregate consideration of $35.0 million. The warrant is exercisable and has a 10-year term. The Series A Preferred Stock qualifies as Tier 1 capital and pays cumulative cash dividends quarterly at an annual rate of 5% for the first five years, and 9% beginning in November 2013. The Series A Preferred Stock is non-voting (except when required by law) and may be redeemed by the Company at $1,000 per share plus accrued unpaid dividends.

In the fourth quarter of 2011, we began deferring the payment of regular quarterly cash dividends on our Series A Preferred Stock. As a result of the dividend deferral, the holder of our Series A Preferred Stock (currently the U.S. Treasury) has the right to appoint up to two representatives to our Board of Directors. We will continue to accrue any deferred dividends, which will be deducted from income to common shareholders for financial statement purposes. Dividends accrued and unpaid on our Series A Preferred Stock totaled $4.3 million at December 31, 2013.

NOTE 17 – CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

On June 24, 2011, PBI Bank entered into a Consent Order with the FDIC and the Kentucky Department of Financial Institutions. The consent order requires the Bank to complete a management study, to maintain Tier 1 capital as a percentage of total assets of at least 9% and a total risk based capital ratio of at least 12%, to develop a plan to reduce our risk position in each substandard asset in excess of $1 million, to complete board review of the adequacy of the allowance for loan losses prior to quarterly Call Report submissions, to adopt procedures which strengthen the loan review function and ensure timely and accurate grading of credit relationships, to charge-off all assets classified as loss, to develop a plan to reduce concentrations of construction and development loans to not more than 75% of total risk based capital and non-owner occupied commercial real estate loans to not more than 250% of total risk based capital, to limit asset growth to no more than 5% in any quarter or 10% annually, to not extend additional credit to any borrower classified substandard unless the board of directors adopts prior to the extension a detailed statement giving reasons why the extension is in the best interest of the bank, and to not declare or pay any dividend without the prior consent of our regulators. We are also restricted from accepting, renewing, or rolling-over brokered deposits without the prior receipt of a waiver on a case-by-case basis from our regulators.

On September 21, 2011, we entered into a Written Agreement with the Federal Reserve Bank of St. Louis. Pursuant to the Agreement, we made formal commitments to use our financial and management resources to serve as a source of strength for the Bank and to assist the Bank in addressing weaknesses identified by the FDIC and the KDFI, to pay no dividends without prior written approval, to pay no interest or principal on subordinated debentures or trust preferred securities without prior written approval, and to submit an acceptable plan to maintain sufficient capital.

In October 2012, the Bank entered into a new Consent Order with the FDIC and KDFI again agreeing to maintain a minimum Tier 1 leverage ratio of 9% and a minimum total risk based capital ratio of 12%. The Bank cannot be considered well-capitalized while under the Consent Order. The Bank also agreed that if it should be unable to reach the required capital levels, and if directed in writing by the FDIC, then the Bank would within 30 days develop, adopt and implement a written plan to sell or merge itself into another federally insured financial institution or otherwise immediately obtain a sufficient capital investment into the Bank to fully meet the capital requirements. We have not been directed by the FDIC to implement such a plan.

The new Consent Order also requires the Bank to continue to adhere to the plans implemented in response to the June 2011 Consent Order, and includes the substantive provisions of the June 2011 Consent Order. As of December 31, 2013, the capital ratios required by the Consent Order were not met.

The following table shows the ratios and amounts of Tier 1 capital and total capital to risk-adjusted assets and the leverage ratios for Porter Bancorp, Inc. and PBI Bank at the dates indicated (dollars in thousands):

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
As of December 31, 2013:				
Total risk-based capital (to risk-weighted assets)				
Consolidated	$80,203	11.03%	$ 58,178	8.00%
Bank	83,055	11.44	58,064	8.00
Tier I capital (to risk-weighted assets)				
Consolidated	53,371	7.34	29,089	4.00
Bank	67,897	9.35	29,032	4.00
Tier I capital (to average assets)				
Consolidated	53,371	4.95	43,156	4.00
Bank	67,897	6.28	43,221	4.00

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
As of December 31, 2012:				
Total risk-based capital (to risk-weighted assets)				
Consolidated	$85,942	9.81%	$ 70,111	8.00%
Bank	85,829	9.82	69,913	8.00
Tier I capital (to risk-weighted assets)				
Consolidated	56,597	6.46	35,056	4.00
Bank	67,365	7.71	34,957	4.00
Tier I capital (to average assets)				
Consolidated	56,597	4.50	50,297	4.00
Bank	67,365	5.37	50,199	4.00

The Consent Order requires the Bank to achieve the minimum capital ratios presented below:

	Actual as of December 31, 2013		Ratio Required by Consent Order	
	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	$83,055	11.44%	$87,096	12.00%
Tier I capital to average assets	67,987	6.28	97,247	9.00

At December 31, 2013, PBI Bank's Tier 1 leverage ratio improved to 6.28% which is below the 9% minimum capital ratio required by the Consent Order and its total risk-based capital ratio improved to 11.44% which is below the 12% minimum capital ratio required by the Consent Order. Bank regulatory agencies can exercise discretion when an institution does not meet the terms of a Consent Order. Based on individual circumstances, the agencies may issue mandatory directives, impose monetary penalties, initiate changes in management, or take more serious adverse actions.

Kentucky banking laws limit the amount of dividends that may be paid to a holding company by its subsidiary banks without prior approval. These laws limit the amount of dividends that may be paid in any calendar year to current year's net income, as defined in the laws, combined with the retained net income of the preceding two years, less any dividends declared during those periods. PBI Bank has agreed with its primary regulators to obtain their written consent prior to declaring or paying any future dividends. As a practical matter, PBI Bank cannot pay dividends for the foreseeable future.

NOTE 18 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, lines of credit and letters of credit are issued to meet customer-financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The Company holds instruments, in the normal course of business, with clients that are considered financial guarantees. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. The Company evaluates each credit request of its customers in accordance with established lending policies. Based on these evaluations and the underlying policies, the amount of required collateral (if any) is established. Collateral held varies but may include negotiable instruments, accounts receivable, inventory, property, plant and equipment, income producing properties, residential real estate, and vehicles. The Company's access to these collateral items is generally established through the maintenance of recorded liens or, in the case of negotiable instruments, possession. No liability is currently established for the standby letters of credit.

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows:

	2013		2012	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Commitments to make loans	$ 3,125	$ 5,751	$ 2,490	$ 3,546
Unused lines of credit	11,814	40,721	11,910	34,925
Standby letters of credit	995	1,504	1,085	1,176

Commitments to make loans are generally made for periods of one year or less.

NOTE 19 – FAIR VALUES

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We use various valuation techniques to determine fair value, including market, income and cost approaches. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that an entity has the ability to access as of the measurement date, or observable inputs.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. When that occurs, we classify the fair value hierarchy on the lowest level of input that is significant to the fair value measurement. We used the following methods and significant assumptions to estimate fair value.

Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges, if available. This valuation method is classified as Level 1 in the fair value hierarchy. For securities where quoted prices are not available, fair values are calculated on market prices of similar securities, or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Matrix pricing relies on the securities' relationship to similarly traded securities, benchmark curves, and the benchmarking of like securities. Matrix pricing utilizes observable market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. In instances where broker quotes are used, these quotes are obtained from market makers or broker-dealers recognized to be market participants. This valuation method is classified as Level 2 in the fair value hierarchy. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators. This valuation method is classified as Level 3 in the fair value hierarchy. Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Impaired Loans: An impaired loan is evaluated at the time the loan is identified as impaired and is recorded at fair value less costs to sell. Fair value is measured based on the value of the collateral securing the loan and is classified as Level 3 in the fair value hierarchy. Fair value is determined using several methods. Generally, the fair value of real estate is determined based on appraisals by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach.

Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. These routine adjustments are made to adjust the value of a specific property relative to comparable properties for variations in qualities such as location, size, and income production capacity relative to the subject property of the appraisal. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

We routinely apply an internal discount to the value of appraisals used in the fair value evaluation of our impaired loans. The deductions to the appraisal take into account changing business factors and market conditions, as well as potential value impairment in cases where our appraisal date predates a likely change in market conditions. These deductions range from 10% for routine real estate collateral to 25% for real estate that is determined (1) to have a thin trading market or (2) to be specialized collateral. This is in addition to estimated discounts for cost to sell of six to ten percent.

We also apply discounts to the expected fair value of collateral for impaired loans where the likely resolution involves litigation or foreclosure. Resolution of this nature generally results in receiving lower values for real estate collateral in a more aggressive sales environment. We have utilized discounts ranging from 10% to 33% in our impairment evaluations when applicable.

Impaired loans are evaluated quarterly for additional impairment. We obtain updated appraisals on properties securing our loans when circumstances are warranted such as at the time of renewal or when market conditions have significantly changed. This determination is made on a property-by-property basis in light of circumstances in the broader economic climate and our assessment of deterioration of real estate values in the market in which the property is located. The first stage of our assessment involves management's inspection of the property in question. Management also engages in conversations with local real estate professionals, investors, and market makers to determine the likely marketing time and value range for the property. The second stage involves an assessment of current trends in the regional market. After thorough consideration of these factors, management will either internally evaluate fair value or order a new appraisal.

Other Real Estate Owned (OREO) : OREO is evaluated at the time of acquisition and recorded at fair value as determined by independent appraisal or internal market evaluation less cost to sell. Our quarterly evaluations of OREO for impairment are driven by property type. For smaller dollar single family homes, we consult with internal real estate sales staff and external realtors, investors, and appraisers. Based on these consultations, we determine asking prices for OREO properties we are marketing for sale. If the internally evaluated fair value is below our recorded investment in the property, appropriate write-downs are taken.

For larger dollar commercial real estate properties, we obtain a new appraisal of the subject property in connection with the transfer to other real estate owned. In some of these circumstances, an appraisal is in process at quarter end, and we must make our best estimate of the fair value of the underlying collateral based on our internal evaluation of the property, review of the most recent appraisal, and discussions with the currently engaged appraiser. We obtain updated appraisals on the anniversary date of ownership unless a sale is imminent.

We routinely apply an internal discount to the value of appraisals used in the fair value evaluation of our OREO. The deductions to the appraisal take into account changing business factors and market conditions, as well as potential value impairment in cases where our appraisal date predates a likely change in market conditions. These deductions range from 10% for routine real estate collateral to 25% for real estate that is determined (1) to have a thin trading market or (2) to be specialized collateral. This is in addition to estimated discounts for cost to sell of six to ten percent.

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Financial assets measured at fair value on a recurring basis are summarized below:

Description	Carrying Value	Fair Value Measurements at December 31, 2013 Using (in thousands) Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
U.S. Government and federal agency	$ 29,866	$ —	$ 29,866	$ —
Agency mortgage-backed: residential	100,943	—	100,943	—
State and municipal	13,545	—	13,545	—
Corporate bonds	18,161	—	18,161	—
Other debt securities	632	—	—	632
Equity securities	197	197	—	—
Total	$163,344	$ 197	$ 162,515	$ 632

Description	Carrying Value	Fair Value Measurements at December 31, 2012 Using (in thousands) Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
U.S. Government and federal agency	$ 6,133	$ —	$ 6,133	$ —
Agency mortgage-backed: residential	95,182	—	95,182	—
State and municipal	54,733	—	54,733	—
Corporate bonds	19,964	—	19,964	—
Other debt securities	618	—	—	618
Equity securities	1,846	1,846	—	—
Total	$178,476	$ 1,846	$ 176,012	$ 618

There were no transfers between Level 1 and Level 2 during 2013 or 2012.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended December 31, 2013 and 2012:

	Other Debt Securities 2013	Other Debt Securities 2012
	(in thousands)	
Balances of recurring Level 3 assets at January 1	$618	$606
Total gain (loss) for the period:		
Included in other comprehensive income (loss)	14	12
Transfers into Level 3	—	—
Sales	—	—
Balance of recurring Level 3 assets at December 31	$632	$618

Our other debt security valuation is determined internally by calculating discounted cash flows using the security's coupon rate of 6.5% and an estimated current market rate of 9.0% based upon the current yield curve plus spreads that adjust for volatility, credit risk, and optionality. We also consider the issuer(s) publicly filed financial information as well as assumptions regarding the likelihood of deferrals and defaults.

Financial assets measured at fair value on a non-recurring basis are summarized below:

		Fair Value Measurements at December 31, 2013 Using (in thousands)		
Description	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial	$ 3,172	$ —	$ —	$ 3,172
Commercial real estate:				
Construction	9,046	—	—	9,046
Farmland	4,173	—	—	4,173
Other	73,426	—	—	73,426
Residential real estate:				
Multi-family	11,724	—	—	11,724
1-4 Family	26,486	—	—	26,486
Consumer	75	—	—	75
Agriculture	—	—	—	—
Other	618	—	—	618
Other real estate owned, net:				
Commercial real estate:				
Construction	19,057	—	—	19,057
Farmland	690	—	—	690
Other	6,019	—	—	6,019
Residential real estate:				
Multi-family	246	—	—	246
1-4 Family	4,880	—	—	4,880

		Fair Value Measurements at December 31, 2012 Using (in thousands)		
Description	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial	$ 3,799	$ —	$ —	$ 3,799
Commercial real estate:				
Construction	23,912	—	—	23,912
Farmland	5,722	—	—	5,722
Other	72,793	—	—	72,793
Residential real estate:				
Multi-family	13,263	—	—	13,263
1-4 Family	25,094	—	—	25,094
Consumer	74	—	—	74
Agriculture	5	—	—	5
Other	513	—	—	513
Other real estate owned, net:				
Commercial real estate:				
Construction	22,323	—	—	22,323
Farmland	602	—	—	602
Other	15,175	—	—	15,175
Residential real estate:				
Multi-family	195	—	—	195
1-4 Family	5,376	—	—	5,376

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $132.2 million, with a valuation allowance of $3.5 million, at December 31, 2013, resulting in no additional provision for loan losses for the year ended December 31, 2013. At December 31, 2012, impaired loans had a carrying amount of $152.2 million, with a valuation allowance of $21.0 million, resulting in an additional provision for loan losses of $13.1 million for the year ended December 31, 2012.

Other real estate owned, which is measured at the lower of carrying or fair value less costs to sell, had a net carrying amount of $30.9 million as of December 31, 2013, compared with $43.7 million at December 31, 2012. Write-downs of $2.5 million and $7.2 million were recorded on other real estate owned for the years ended December 31, 2013 and 2012, respectively.

The following table presents qualitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2013:

	Fair Value (in thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired loans – Commercial	$ 3,172	Market value approach	Adjustment for receivables and inventory discounts	16% - 32% (24%)
Impaired loans – Commercial real estate	$ 86,645	Sales comparison approach	Adjustment for differences between the comparable sales	0% - 69% (20%)
Impaired loans – Residential real estate	$ 38,210	Sales comparison approach	Adjustment for differences between the comparable sales	0% - 68% (15%)
Other real estate owned – Commercial real estate	$ 25,766	Sales comparison approach	Adjustment for differences between the comparable sales	3% - 51% (22%)
		Income approach	Discount or capitalization rate	7% - 16% (11%)
Other real estate owned – Residential real estate	$ 5,126	Sales comparison approach	Adjustment for differences between the comparable sales	2% - 54% (11%)

The following table presents qualitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2012:

	Fair Value (in thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired loans – Commercial	$ 3,799	Market value approach	Adjustment for receivables and inventory discounts	16% - 32% (24%)
Impaired loans – Commercial real estate	$ 89,461	Sales comparison approach	Adjustment for differences between the comparable sales	0% - 69% (19%)
Impaired loans – Residential real estate	$ 38,357	Sales comparison approach	Adjustment for differences between the comparable sales	0% - 38% (15%)
Other real estate owned – Commercial real estate	$ 38,100	Sales comparison approach	Adjustment for differences between the comparable sales	3% - 50% (18%)
		Income approach	Discount or capitalization rate	9% - 16% (12%)
Other real estate owned – Residential real estate	$ 5,571	Sales comparison approach	Adjustment for differences between the comparable sales	0% - 30% (9%)

Carrying amount and estimated fair values of financial instruments were as follows at year-end 2013:

	Carrying Amount	Fair Value Measurements at December 31, 2013 Using Level 1	Level 2 (in thousands)	Level 3	Total
Financial assets					
Cash and cash equivalents	$111,134	$ 106,885	$ 4,249	$ —	$ 111,134
Securities available for sale	163,344	197	162,515	632	163,344
Securities held to maturity	43,612	—	42,947	—	42,947
Federal Home Loan Bank stock	10,072	N/A	N/A	N/A	N/A
Mortgage loans held for sale	149	—	149	—	149
Loans, net	681,202	—	—	695,999	695,999
Accrued interest receivable	3,891	—	1,343	2,548	3,891
Financial liabilities					
Deposits	$987,705	$ 107,486	$ 879,707	$ —	$ 987,193
Securities sold under agreements to repurchase	2,470	—	2,470	—	2,470
Federal Home Loan Bank advances	4,492	—	4,495	—	4,495
Subordinated capital notes	5,850	—	—	5,586	5,586
Junior subordinated debentures	25,000	—	—	13,526	13,526
Accrued interest payable	2,535	—	1,042	1,493	2,535

Carrying amount and estimated fair values of financial instruments were as follows at year-end 2012:

	Carrying Amount	Fair Value Measurements at December 31, 2012 Using			
		Level 1	Level 2	Level 3	Total
			(in thousands)		
Financial assets					
Cash and cash equivalents	$ 49,572	$ 41,938	$ 7,634	$ —	$ 49,572
Securities available for sale	178,476	1,846	176,012	618	178,476
Federal Home Loan Bank stock	10,072	N/A	N/A	N/A	N/A
Mortgage loans held for sale	507	—	507	—	507
Loans, net	842,412	—	—	853,996	853,996
Accrued interest receivable	5,138	—	1,150	3,988	5,138
Financial liabilities					
Deposits	$1,065,059	$114,310	$955,216	$ —	$1,069,526
Securities sold under agreements to repurchase	2,634	—	2,634	—	2,634
Federal Home Loan Bank advances	5,604	—	5,607	—	5,607
Subordinated capital notes	6,975	—	—	6,599	6,599
Junior subordinated debentures	25,000	—	—	13,821	13,821
Accrued interest payable	2,104	—	1,173	931	2,104

The methods and assumptions used to estimate fair value are described as follows:

(a) Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values and are classified as either Level 1 or Level 2. Noninterest bearing deposits are Level 1 whereas interest bearing due from bank accounts and fed funds sold are Level 2.

(b) FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(c) Loans, Net

Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

(d) Mortgage Loans Held for Sale

The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

(e) Deposits

The fair values disclosed for non-interest bearing deposits are, by definition, equal to the amount payable on demand at the reporting date resulting in a Level 1 classification. The carrying amounts of variable rate interest bearing deposits approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate interest bearing deposits are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

(f) Securities Sold Under Agreements to Repurchase

The carrying amounts of borrowings under repurchase agreements approximate their fair values resulting in a Level 2 classification.

(g) Other Borrowings

The fair values of the Company’s FHLB advances are estimated using discounted cash flow analyses based on the current borrowing rates resulting in a Level 2 classification.

The fair values of the Company's subordinated capital notes and junior subordinated debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

(h) Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification based on the level of the asset or liability with which the accrual is associated.

NOTE 20 – STOCK PLANS AND STOCK BASED COMPENSATION

The Company has two stock incentive plans. On February 23, 2006, the Company adopted the Porter Bancorp, Inc. 2006 Stock Incentive Plan. In May 2013, the Board approved an amendment to the plan to increase the number of shares authorized for issuance by 800,000 shares. The 2006 Plan now permits the issuance of up to 1,263,050 shares of the Company's common stock upon the exercise of stock options or upon the grant of stock awards. As of December 31, 2013, the Company had granted 787,426 unvested shares net of forfeitures and vesting under the stock incentive plan. Shares issued under the plan vest annually on the anniversary date of the grant over three to ten years. The Company has 349,497 shares remaining available for issue under the plan.

On May 15, 2006, the Board of Directors approved the Porter Bancorp, Inc. 2006 Non-Employee Directors Stock Ownership Incentive Plan, which was approved by holders of the Company's voting common stock on June 8, 2006. On May 22, 2008, shareholders voted to amend the plan to change the form of incentive award from stock options to unvested shares. Under the terms of the plan, 100,000 shares are reserved for issuance to non-employee directors upon the exercise of stock options or upon the grant of unvested stock awards granted under the plan. Prior to the amendment, options were granted automatically under the plan at fair market value on the date of grant. The options vest over a three-year period and have a five year term. Unvested shares are granted automatically under the plan at fair market value on the date of grant and vest semi-annually on the anniversary date of the grant over three years.

On May 16, 2012, holders of the Company's voting common stock voted to further amend the 2006 Non-Employee Directors Stock Ownership Incentive Plan to award restricted shares having a fair market value of $25,000 annually to each non-employee director, and to increase the number of shares issuable under the Directors' Plan from 100,000 shares to 400,000 shares. Shares issued under the amended plan vest on December 31 in the year they are granted.

To date, the Company has issued 47,428 unvested shares, net of forfeitures and vesting, to non-employee directors. At December 31, 2013, 113,362 shares remain available for issuance under this plan.

The fair value of the 2013 unvested shares issued to certain employees was $820,000, or $1.18 per weighted-average share. The fair value of the 2013 unvested shares issued to the directors was $155,000 or $0.85 per weighted average share. The Company recorded $604,000 and $442,000 of stock-based compensation during 2013 and 2012, respectively, to salaries and employee benefits. There was no significant impact on compensation expense resulting from forfeited or expiring shares. We expect substantially all of the unvested shares outstanding at the end of the period will vest according to the vesting schedule. No deferred tax benefit was recognized related to this expense for either period.

The following table summarizes unvested share activity as of and for the periods indicated for the Stock Incentive Plan:

	Twelve Months Ended December 31, 2013		Twelve Months Ended December 31, 2012	
	Shares	Weighted Average Grant Price	Shares	Weighted Average Grant Price
Outstanding, beginning	153,316	$ 5.92	96,688	$ 13.40
Granted	693,214	1.18	97,197	1.74
Vested	(22,113)	12.19	(27,378)	13.04
Forfeited	(36,991)	6.22	(13,191)	15.22
Outstanding, ending	787,426	$ 1.56	153,316	$ 5.92

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The following table summarizes unvested share activity as of and for the periods indicated for the Non-Employee Directors Stock Ownership Incentive Plan:

	Twelve Months Ended December 31, 2013		Twelve Months Ended December 31, 2012	
	Shares	Weighted Average Grant Price	Shares	Weighted Average Grant Price
Outstanding, beginning	80,078	$ 1.77	3,538	$ 7.91
Granted	182,355	0.85	93,943	1.65
Vested	(215,005)	1.01	(17,403)	2.37
Forfeited	—	—	—	—
Outstanding, ending	47,428	$ 1.69	80,078	$ 1.77

Unrecognized stock based compensation expense related to unvested shares for 2014 and beyond is estimated as follows (in thousands):

2014	$518
2015	394
2016	238
2017	41
2018 & thereafter	—

NOTE 21 – EARNINGS (LOSS) PER SHARE

The factors used in the basic and diluted earnings per share computation follow:

	2013	2012	2011
	(in thousands, except share and per share data)		
Net loss	$ (1,586)	$ (32,932)	$ (107,307)
Less:			
Preferred stock dividends	1,919	1,750	1,750
Accretion of Series A preferred stock discount	160	179	177
Loss attributable to unvested shares	(171)	(482)	(1,092)
Loss attributable to Series C preferred	(96)	(947)	(2,988)
Net loss attributable to common shareholders, basic and diluted	$ (3,398)	$ (33,432)	$ (105,154)
Basic			
Weighted average common shares including unvested common shares and Series C Preferred outstanding	12,722,782	12,248,936	12,169,987
Less: Weighted average unvested common shares	595,150	169,323	121,632
Less: Weighted average Series C preferred shares	332,894	332,894	332,894
Weighted average common shares outstanding	11,794,738	11,746,719	11,715,461
Basic loss per common share	$ (0.29)	$ (2.85)	$ (8.98)
Diluted			
Add: Dilutive effects of assumed exercises of common and Preferred Series C stock warrants	—	—	—
Weighted average common shares and potential common shares	11,794,738	11,746,719	11,715,461
Diluted loss per common share	$ (0.29)	$ (2.85)	$ (8.98)

Stock options for 29,530 shares for common stock for 2011 were not considered in computing diluted earnings per common share because they were anti-dilutive. The Company had no outstanding stock options at December 31, 2013 or 2012. A warrant for the purchase of 330,561 shares of the Company's common stock at an exercise price of $15.88 was outstanding at December 31, 2013, 2012 and 2011 but was not included in the diluted EPS computation as inclusion would have been anti-dilutive. Additionally, warrants for the purchase of 1,449,459 shares of non-voting common stock at an exercise price of $10.95 per share were outstanding at December 31, 2013 and 2012, but were not included in the diluted EPS computation as inclusion would have been anti-dilutive.

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NOTE 22 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of Porter Bancorp Inc. is presented as follows:

CONDENSED BALANCE SHEETS

December 31,

	2013	2012
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 1,815	$ 995
Securities available for sale	829	2,464
Investment in banking subsidiary	63,815	71,711
Investment in and advances to other subsidiaries	776	776
Other assets	740	535
Total assets	$67,975	$76,481
LIABILITIES AND SHAREHOLDERS' EQUITY		
Debt	$25,775	$25,775
Accrued expenses and other liabilities	6,269	3,516
Shareholders' equity	35,931	47,190
Total liabilities and shareholders' equity	$67,975	$76,481

CONDENSED STATEMENTS OF OPERATIONS

Years ended December 31,

	2013	2012	2011
		(in thousands)	
Interest income	$ 82	$ 114	$ 215
Dividends from subsidiaries	20	21	20
Other income	966	72	1,272
Interest expense	(642)	(692)	(652)
Other expense	(2,064)	(1,453)	(3,614)
Loss before income tax and undistributed subsidiary income	(1,638)	(1,938)	(2,759)
Income tax expense	—	864	468
Equity in undistributed subsidiary income (loss)	52	(30,130)	(104,080)
Net loss	$(1,586)	$(32,932)	$(107,307)

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CONDENSED STATEMENTS OF CASH FLOWS

Years ended December 31,

	2013	2012	2011
		(in thousands)	
Cash flows from operating activities			
Net loss	$(1,586)	$(32,932)	$(107,307)
Adjustments:			
Equity in undistributed subsidiary (income) loss	(52)	30,130	104,080
Income tax valuation allowance	—	—	1,095
Gain on sale of assets	(727)	—	—
Change in other assets	(240)	(21)	157
Change in other liabilities	833	776	(273)
Other	640	478	1,404
Net cash (used in) operating activities	(1,132)	(1,569)	(844)
Cash flows from investing activities			
Investments in subsidiaries	—	—	(13,100)
Sales of securities	1,952	—	—
Net cash (used in) from investing activities	1,952	—	(13,100)
Cash flows from financing activities			
Dividends paid on preferred stock	—	—	(1,319)
Dividends paid on common stock	—	—	(237)
Net cash (used in) financing activities	—	—	(1,556)
Net change in cash and cash equivalents	820	(1,569)	(15,500)
Beginning cash and cash equivalents	995	2,564	18,064
Ending cash and cash equivalents	$ 1,815	$ 995	$ 2,564

NOTE 23 – QUARTERLY FINANCIAL DATA (UNAUDITED)

	Interest Income	Net Interest Income	Provision For Loan Losses	OREO Expense	Net Income (Loss)	Earnings (Loss) Per Common Share Basic	Earnings (Loss) Per Common Share Diluted
	(in thousands, except per share data)						
2013							
First quarter	$11,258	$ 8,298	$ 450	$ 791	$ (69)	$ (0.04)	$ (0.04)
Second quarter	11,168	8,352	—	1,657	(1,309)	(0.14)	(0.14)
Third quarter	10,543	7,849	250	669	298	(0.01)	(0.01)
Fourth quarter	10,259	7,586	—	1,399	(506)	(0.09)	(0.09)
2012							
First quarter	$15,755	$ 11,454	$ 3,750	$1,257	$ 1,502	$ 0.08	$ 0.08
Second quarter	14,812	10,795	4,000	1,205	151	(0.03)	(0.03)
Third quarter	13,987	10,132	25,500	5,204	(27,732)(1)	(2.29)	(2.29)
Fourth quarter	13,175	9,574	7,000	2,883	(6,853)	(0.59)	(0.59)

(1) Third quarter net income was lower than the previous quarter due to increased provision for loan losses expense during the quarter as a result of the continued decline in credit trends in our portfolio. The provision was also negatively impacted by a strategy change related to classified loans which we expected to more quickly remediate by litigation or foreclosure.

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NOTE 24 – CONTINGENCIES

In the normal course of operations, we are defendants in various legal proceedings. Litigation is subject to inherent uncertainties and unfavorable rulings could occur. We record contingent liabilities resulting from claims against us when a loss is assessed to be probable and the amount of the loss is reasonably estimable. Assessing probability of loss and estimating probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third party claimants and courts. Recorded contingent liabilities are based on the best information available and actual losses in any future period are inherently uncertain. Currently, we have accrued approximately $1.8 million related to ongoing litigation matters for which we believe liability is probable and reasonably estimable. Accruals are not made in cases where liability is not probable or the amount cannot be reasonably estimated. We provide disclosure of matters where we believe liability is reasonably possible and which may be material to our consolidated financial statements.

Signature Point Litigation. On June 18, 2010, three real estate development companies filed suit in Kentucky state court against PBI Bank and Managed Assets of Kentucky ("MAKY"). *Signature Point Condominiums LLC, et al. v. PBI Bank, et al* ., Jefferson Circuit Court, Case No 10-CI-04295. On July 16, 2013, a jury in Louisville, Kentucky returned a verdict against PBI Bank, awarding the plaintiffs compensatory damages of $1,515,000 and punitive damages of $5,500,000. The case arose from a settlement in which PBI Bank agreed to release the plaintiffs and guarantors from obligations of more than $26 million related to a real estate project in Louisville. The plaintiffs were granted a right of first refusal to repurchase a tract of land within the project. In exchange, the plaintiffs conveyed the real estate securing the loans to PBI Bank. After plaintiffs declined to exercise their right of first refusal, PBI Bank sold the tract to the third party. Plaintiffs alleged the Bank had knowledge of the third party offer before the conveyance of the land by the Plaintiffs to the Bank. Plaintiffs asserted claims of fraud, breach of fiduciary duty, breach of the duty of good faith and fair dealing, tortious interference with prospective business advantage and conspiracy to commit fraud, negligence, and conspiracy against PBI Bank.

After conferring with its legal advisors, PBI Bank believes the findings and damages are excessive and contrary to law, and that it has meritorious grounds on which it is moving forward to appeal. We will continue to defend this matter vigorously. Although we have made provisions in our condensed consolidated financial statements for this self-insured matter, the amount of our legal accrual is less than the original amount of the damages awarded, plus accrued interest. The ultimate outcome of this matter could have a material adverse effect on our financial condition, results of operations or cash flows.

SBAV LP Litigation. In 2010, the Company sold common shares, convertible preferred shares and warrants to purchase common shares to accredited investors for $32 million in a private placement. In the placement, SBAV LP, an affiliate of Clinton Group, Inc. ("CGI") purchased common shares and warrants for $5,000,016.

On July 11, 2011, CGI sent a letter to the Company, which was also attached as an exhibit to a Schedule 13D CGI filed with the Securities and Exchange Commission on the same date. In its letter CGI questioned the Company's executive leadership team's ability to properly manage the Bank's operations, compliance with GAAP, financial disclosures and relationships with regulators, referencing the consent order PBI Bank entered into with the Federal Deposit Insurance Corporation and the Commonwealth of Kentucky Department of Financial Institutions on June 24, 2011. CGI also stated its belief "that it is likely that a number of representations and warranties made when the CGI affiliate entered into an agreement to purchase shares were false," and demanded that the Company take immediate steps to "redress such breaches and make CGI and the other purchasers whole."

During the third quarter of 2011, the Company's Risk Policy and Oversight Committee, comprised of independent directors, undertook an investigation of the allegations raised in the CGI 13D to evaluate their merit and to ascertain the reasonableness of the Bank's allowance for loan losses and OREO valuations at the time of Clinton's investment. The Oversight Committee reported its conclusions to the Company's Board of Directors in October 2011. While recognizing that opportunities for procedural improvements existed in the Bank's lending and non-performing asset administration, the Oversight Committee concluded that this did not rise to a level that would result in the financial statements, or representations and warranties with respect to the financial statements, being misleading to investors in the 2010 private placement offering of the Company's stock. The Oversight Committee further concluded investors were afforded ample opportunity and access to information for their due diligence, including documentation involving asset valuation estimates, on-site management discussions and additional inquiries during visits to the Company headquarters, and access to loan files of their choosing and the appraisals contained therein, and the Company's disclosures were adequate in all material respects.

On January 30, 2012, CGI delivered a demand to inspect the Company's records pursuant to the Kentucky Business Corporation Act. The Company provided records to CGI in accordance with Kentucky law.

On December 17, 2012, SBAV LP filed a lawsuit against Porter Bancorp, PBI Bank, J. Chester Porter and Maria L. Bouvette in New York state court. The proceeding was removed to New York federal district court on January 16, 2013. On July 10, 2013, the New York federal district court granted the defendants' motion to transfer the case to federal district court in Kentucky. *SBAV LP v. Porter Bancorp, et. al* ., Civ. Action 3:13-CV-710 (W.D.KY). The complaint alleges violation of the Kentucky Securities Act, negligent misrepresentation and, against defendants Porter Bancorp and Bouvette, breach of contract. The plaintiff seeks damages in an amount in excess of $4,500,000, or the difference between the $5,000,016 purchase price and the value of the securities when sold by the plaintiff, plus interest at the applicable statutory rate, costs and reasonable attorneys' fees. The Kentucky court has set a trial date for January 20, 2015. On September 13, 2013, defendants filed a motion to dismiss all claims in the complaint for pleading failures and for failure to state a claim upon which relief may be granted; that motion is currently pending. Discovery is temporarily stayed pending a ruling on defendants' request that discovery not proceed pending the court's decision on the motion to dismiss. We dispute the material factual allegations made in the complaint and intend to defend the plaintiff's claims vigorously.

Thomas E. Perez, Secretary of the United States Department of Labor (DOL) v. PBI Bank, Inc. On December 26, 2013, DOL filed a lawsuit in U.S. District Court for the Northern District of Indiana (Civ. Action 3:13-CV-1400-PPS) alleging that PBI Bank, in the capacity of Trustee for the Miller's Health System's Inc. Employee Stock Ownership Plan's 2007 acquisition of Miller's Health Systems, Inc., authorized the alleged imprudent and disloyal purchase of company stock for $40 million, a price allegedly far in excess of the stock's fair market value. The suit also alleges, among other things, that PBI approved 100% seller financing for the transaction at an excessive rate of interest.

Miller's Health is a Warsaw, Indiana based company that, at the time of the transaction, managed 31 long-term care facilities and 10 assisted living facilities. Miller's Health also provides physical and occupational therapy and speech-language pathology to residents in its facilities. We dispute the material factual allegations made in the complaint and intend to defend the plaintiff's claims vigorously.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2013. Based on that evaluation, management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. Management's Report on Internal Control Over Financial Reporting is set forth under Item 8 "Financial Statements and Supplementary Data.

There was no change in our internal control over financial reporting during the fourth quarter of 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

We have adopted a code of ethics applicable to our Chief Executive Officer and our senior financial officers, which is posted on our website at http://www.pbibank.com . If we amend or waive any of the provisions of the Code of Ethics applicable to our Chief Executive Officer or senior financial officers, we intend to disclose the amendment or waiver on our website. We will provide to any person without charge, upon request, a copy of this Code of Ethics. You can request a copy by contacting Porter Bancorp, Inc., Chief Financial Officer, 2500 Eastpoint Parkway, Louisville, Kentucky, 40223, (telephone) 502-499-4800.

Additional information required by this Item 10 is omitted because we are filing a definitive proxy statement pursuant to Regulation 14A on or before April 30, 2014, which includes the required information. The required information contained in our proxy statement is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this Item 11 is omitted because we are filing a definitive proxy statement pursuant to Regulation 14A on or before April 30, 2014, which includes the required information. The required information contained in our proxy statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 is omitted because we are filing a definitive proxy statement pursuant to Regulation 14A on or before April 30, 2014, which includes the required information. The required information contained in our proxy statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item 13 is omitted because we are filing a definitive proxy statement pursuant to Regulation 14A on or before April 30, 2014, which includes the required information. The required information contained in our proxy statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information required by this Item 14 is omitted because we are filing a definitive proxy statement pursuant to Regulation 14A on or before April 30, 2014, which includes the required information. The required information contained in our proxy statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. The following financial statements are included in this Form 10-K:

Consolidated Balance Sheets as of December 31, 2013 and 2012
Consolidated Statements of Operations for the Years Ended December 31, 2013, 2012, and 2011
Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2013, 2012, and 2011
Consolidated Statements of Change in Stockholders' Equity for the Years Ended December 31, 2013, 2012, and 2011
Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012, and 2011
Notes to Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm

(a) 2. List of Financial Statement Schedules

Financial statement schedules are omitted because the information is not applicable.

(a) 3. List of Exhibits

The Exhibit Index of this report is incorporated by reference. The compensatory plans or arrangement required to be filed as exhibits to this Form 10-K pursuant to Item 15(c) are noted with an asterisk in the Exhibit Index.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PORTER BANCORP, INC.

March 14, 2014

By: /s/ John T. Taylor
John T. Taylor
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

Signature	Title	Date
/s/ John T. Taylor John T. Taylor	Chief Executive Officer	March 14, 2014
/s/ Phillip W. Barnhouse Phillip W. Barnhouse	Chief Financial Officer	March 14, 2014
/s/ David L. Hawkins David L. Hawkins	Director	March 14, 2014
/s/ W. Glenn Hogan W. Glenn Hogan	Director	March 14, 2014
/s/ Sidney L. Monroe Sidney L. Monroe	Director	March 14, 2014
/s/ William G. Porter William G. Porter	Director	March 14, 2014
/s/ Stephen A. Williams Stephen A. Williams	Director	March 14, 2014
/s/ W. Kirk Wycoff W. Kirk Wycoff	Director	March 14, 2014

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EXHIBIT INDEX

Exhibit No. (1)	Description
3.1	Amended and Restated Articles of Incorporation of Registrant, dated December 7, 2005. Exhibit 3.1 to Form S-1 Registration Statement (Reg. No. 333-133198) filed April 11, 2006 is hereby incorporated by reference.
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation, dated November 18, 2008. Exhibit 3.1 to Form 8-K filed November 24, 2008 is hereby incorporated by reference.
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation, dated June 29, 2010. Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 7, 2010 is hereby incorporated by reference.
3.4	Articles of Amendment to the Amended and Restated Articles of Incorporation, dated June 30, 2010. Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the SEC on July 7, 2010 is hereby incorporated by reference.
3.5	Articles of Amendment to the Amended and Restated Articles of Incorporation, dated October 22, 2010. Exhibit 4.8 to Form S-3 Registration Statement (Reg. No. 333-170678) filed November 18, 2010 is hereby incorporated by reference.
3.6	Bylaws of the Registrant, dated November 30, 2005. Exhibit 3.2 to Form S-1 Registration Statement (Reg. No. 333-133198) filed April 11, 2006 is hereby incorporated by reference.
4.1	Warrant to purchase up to 299,829 shares. Exhibit 4.1 to Form 8-K filed November 24, 2008 is hereby incorporated by reference.
4.2	Securities Purchase Agreement between the Registrant and the Purchasers thereto, dated as of June 30, 2010. Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 7, 2010 is hereby incorporated by reference.
4.3	Registration Rights Agreement between the Registrant and the Purchasers thereto, dated as of June 30, 2010. Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on July 7, 2010 is hereby incorporated by reference.
4.4	Letter Agreement between the Registrant and SBAV LP, dated as of July 23, 2010. Exhibit 10 to the Registrant's Current Report on Form 8-K filed with the SEC on July 29, 2010 is hereby incorporated by reference.
10.1+	Porter Bancorp, Inc. Amended and Restated 2006 Stock Incentive Plan. Exhibit 10.2 to Form S-1 Registration Statement (Reg. No. 333-133198) filed April 11, 2006 is hereby incorporated by reference.
10.2+	Form of Porter Bancorp, Inc. Stock Option Award Agreement. Exhibit 10.3 to Form S-1 Registration Statement (Reg. No. 333-133198) filed April 11, 2006 is hereby incorporated by reference.
10.3+	Form of Porter Bancorp, Inc. Restricted Stock Award Agreement. Exhibit 10.4 to Form S-1 Registration Statement (Reg. No. 333-133198) filed April 11, 2006 is hereby incorporated by reference.
10.4+	Form of Ascencia Bank (now known as PBI Bank) Supplemental Executive Retirement Plan. Exhibit 10.5 to Form S-1 Registration Statement (Reg. No. 333-133198) filed April 11, 2006 is hereby incorporated by reference.
10.5+	Form of Amendment to PBI Bank Supplemental Executive Retirement Plan. Exhibit 10.7 to Form 10-K filed March 26, 2009 is hereby incorporated by reference.
10.6+	Porter Bancorp, Inc. 2006 Non-Employee Directors Stock Ownership Incentive Plan, as amended May 22, 2008. Annex A Definitive Proxy Statement filed April 17, 2008 is hereby incorporated by reference.
10.7+	Amendment to Porter Bancorp, Inc. 2006 Non-Employee Directors Stock Ownership Incentive Plan, as amended May 22, 2008.
10.8	Promissory Installment Note of Maria L. Bouvette and J. Chester Porter, as borrowers, to David L. Hawkins, as lender. Exhibit 10.7 to Form S-1/A Registration Statement (Reg. No. 333-133198) filed May 24, 2006 is hereby incorporated by reference.
10.9	Letter Agreement, dated November 21, 2008 including the Securities Purchase Agreement – Standard Terms incorporated by reference therein, between the Company and the U.S. Treasury. Exhibit 10.1 to Form 8-K filed November 24, 2008 is hereby incorporated by reference.

Exhibit No. (1)	Description
10.10	Form of Waiver of Senior Executive Officers. Exhibit 10.2 to Form 8-K filed November 24, 2008 is hereby incorporated by reference.
10.11+	Porter Bancorp, Inc. 2011 Incentive Compensation Bonus Plan (incorporated by reference to Exhibit 10.14 to 2011 Form 10K).
10.12	Consent with Federal Deposit Insurance Corporation and Kentucky Department of Financial Institutions dated June 24, 2011. Exhibit 99.1 to Form 8-K filed June 30, 2011.
10.13	Employment Agreement with John T. Taylor (Exhibit 10 to Form 8-K filed August 6, 2012 is hereby incorporated by reference).
10.14	Employment Agreement with John R. Davis (Exhibit 10.1 to Form 8-K filed September 25, 2012 is hereby incorporated by reference).
10.15	Employment Agreement with Joseph C. Seiler (Exhibit 10.1 to Form 10-Q filed August 8, 2013 is hereby incorporated by reference).
10.16	Employment Agreement with Phillip W. Barnhouse (Exhibit 10.2 to Form 10-Q filed August 8, 2013 is hereby incorporated by reference).
21.1	List of Subsidiaries of Porter Bancorp, Inc.
23.1	Consent of Crowe Horwath LLP, Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14 or 15d-14
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14 or 15d-14
32.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(b) or 15d-14(b) and 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(b) or 15d-14(b) and U.S.C. Section 1350
99.1	Certification of Principal Executive Officer pursuant to Section 30.15 of the U.S. Treasury's Interim Final Rule on TARP Standards for Compensation and Corporate Governance.
99.2	Certification of Principal Executive Officer pursuant to Section 30.15 of the U.S. Treasury's Interim Final Rule on TARP Standards for Compensation and Corporate Governance.
101	The following financial statements from the Company's Annual Report on Form 10K for the year ended December 31, 2011, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, (vi) Notes to Consolidated Financial Statements.

\+ Management contract or compensatory plan or arrangement.

(1) The Company has other long-term debt agreements that meet the exclusion set forth in Section 601(b)(4)(iii)(A) of Regulation S-K. The Company hereby agrees to furnish a copy of such agreements to the Securities and Exchange Commission upon request.

Exhibit 21.1

SUBSIDIARIES OF PORTER BANCORP, INC.

Direct Subsidiary	Jurisdiction of Organization	Does Business As
PBI Bank	Kentucky	PBI Bank
Ascencia Statutory Trust I	Connecticut	Ascencia Statutory Trust I
Porter Statutory Trust II	Connecticut	Porter Statutory Trust II
Porter Statutory Trust III	Connecticut	Porter Statutory Trust III
Porter Statutory Trust IV	Connecticut	Porter Statutory Trust IV
PBIB Corporation, Inc.	Kentucky	PBIB Corporation, Inc.

Indirect Subsidiary	Jurisdiction of Organization	Does Business As	Parent Entity
PBI Title Services, LLC	Kentucky	PBI Title Services, LLC	PBI Bank
Durham-Mudd Insurance Agency, Inc.	Kentucky	Durham-Mudd Insurance Agency, Inc.	PBI Bank

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-189005 and 333-188988 on Form S-8 of Porter Bancorp, Inc. of our report dated March 14, 2014 with respect to the consolidated financial statements of Porter Bancorp, Inc., which report appears in this Annual Report on Form 10-K of Porter Bancorp, Inc. for the year ended December 31, 2013.

Crowe Horwath LLP

Louisville, Kentucky
March 14, 2014

Exhibit 31.1

PORTER BANCORP, INC.
RULE 13A-14(A) CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, John T. Taylor, Chief Executive Officer of Porter Bancorp, Inc. (the "Company"), certify that:

1. I have reviewed this Annual Report on Form 10-K of the Company;

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(s) 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(s) 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.

Dated: March 14, 2014

/s/ John T. Taylor
John T. Taylor
Chief Executive Officer

Exhibit 31.2

PORTER BANCORP, INC.
RULE 13A-14(A) CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Phillip W. Barnhouse, Chief Financial Officer of Porter Bancorp, Inc. (the “Company”), certify that:

1. I have reviewed this Annual Report on Form 10-K of the Company;

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(s) 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(s) 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.

Dated: March 14, 2014

/s/ Phillip W. Barnhouse
Phillip W. Barnhouse
Chief Financial Officer

Exhibit 32.1

SECTION 906 CERTIFICATION

In connection with the Annual Report on Form 10-K of Porter Bancorp, Inc. (the "Company") for the annual period ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John T. Taylor, Chief Executive Officer of the Company, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

PORTER BANCORP, INC.

Dated: March 14, 2014

By: /s/ John T. Taylor
John T. Taylor
Chief Executive Officer

Exhibit 32.2

SECTION 906 CERTIFICATION

In connection with the Annual Report on Form 10-K of Porter Bancorp, Inc. (the "Company") for the annual period ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Phillip W. Barnhouse, Chief Financial Officer of the Company, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

PORTER BANCORP, INC.

Dated: March 14, 2014

By: /s/ Phillip W. Barnhouse
Phillip W. Barnhouse
Chief Financial Officer

Exhibit 99.1

PORTER BANCORP, INC.
TARP CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, John T. Taylor, Chief Executive Officer of Porter Bancorp, Inc. (the "Company"), certify that:

(1) The compensation committee (the "Compensation Committee") of the Board of Directors (the "Board") of the Company has met at least every six months during the prior fiscal year with the senior risk officers of the Company to discuss and evaluate senior executive officer compensation plans and employee compensation plans and the risks these plans pose to the Company;

(2) The Compensation Committee has identified and limited the features in the senior executive officer compensation plans that could lead senior executive officers to take unnecessary and excessive risks that could threaten the value of the Company, has identified any features in the employee compensation plans that pose risks to the Company, and has limited those features to ensure that the Company is not unnecessarily exposed to risks;

(3) The Compensation Committee has reviewed at least every six months the terms of each employee compensation plan and identified and limited the features in the plan that could encourage the manipulation of reported earnings of the Company to enhance the compensation of an employee;

(4) The Compensation Committee will certify to these reviews;

(5) The Compensation Committee will provide a narrative description of how it limited the features in (i) senior executive officer compensation plans that could lead senior executive officers to take unnecessary and excessive risks that could threaten the value of the Company, (ii) employee compensation plans to ensure that the Company is not unnecessarily exposed to risks, and (iii) employee compensation plans that could encourage the manipulation of reported earnings of the Company to enhance the compensation of an employee;

(6) The Company has required that all bonuses, retention awards, and incentive compensation of the senior executive officers and next twenty most highly compensated employees be subject to a provision for recovery or "clawback" by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;

(7) The Company has prohibited any golden parachute payment to the senior executive officers and the next five most highly compensated employees. For this purpose, a golden parachute payment is any payment triggered by involuntary termination with or without cause; bankruptcy, insolvency or receivership of the Company; or a change in control of the Company;

(8) The Company has limited bonuses, retention awards, and incentive compensation paid to or accrued by employees to whom the bonus payment limitation applies;

(9) The Company will permit a non-binding shareholder resolution on the senior executive officer compensation disclosures provided under the Federal securities laws in accordance with any guidance, rules, and regulations promulgated by the SEC;

(10) The Company and its employees have complied with the excessive or luxury expenditures policy, as defined in the regulations and guidance established under section 111 of EESA; and any expenses that, pursuant to the policy, required approval of the Board of Directors, a committee of the Board of Directors, a senior executive officer, or an executive officer with a similar level of responsibility were properly approved;

(11) The Company will disclose the amount, nature, and justification for the offering of any perquisites whose total value exceeds $25,000 for each of the employees subject to the bonus payment limitations;

(12) The Company will disclose whether the Company, the Board, or the Compensation Committee has engaged a compensation consultant, and the services the compensation consultant or any affiliate provided;

(13) The Company has prohibited any tax gross-ups on compensation to the senior executive officers and the next twenty most highly compensated employees;

(14) The Company has substantially complied with any compensation requirements set forth in the agreement between the Company and the Treasury, as may have been amended;

(15) The Company has submitted to Treasury a complete and accurate list of the senior executive officers and the twenty next most highly compensated employees for the current fiscal year with the non-senior executive officers ranked in descending order of level of annual compensation, and with the name, title, and employer of each senior executive officer and most highly compensated employee identified; and,

(16) The officer certifying understands that a knowing and willful false or fraudulent statement made in connection with the certification may be punished by fine, imprisonment or both.

Dated: March 14, 2014

By: /s/ John T. Taylor
John T. Taylor
Chief Executive Officer

Exhibit 99.2

PORTER BANCORP, INC.
TARP CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Phillip W. Barnhouse, Chief Financial Officer of Porter Bancorp, Inc. (the "Company"), certify that:

(1) The compensation committee (the "Compensation Committee") of the Board of Directors (the "Board") of the Company has met at least every six months during the prior fiscal year with the senior risk officers of the Company to discuss and evaluate senior executive officer compensation plans and employee compensation plans and the risks these plans pose to the Company;

(2) The Compensation Committee has identified and limited the features in the senior executive officer compensation plans that could lead senior executive officers to take unnecessary and excessive risks that could threaten the value of the Company, has identified any features in the employee compensation plans that pose risks to the Company, and has limited those features to ensure that the Company is not unnecessarily exposed to risks;

(3) The Compensation Committee has reviewed at least every six months the terms of each employee compensation plan and identified and limited the features in the plan that could encourage the manipulation of reported earnings of the Company to enhance the compensation of an employee;

(4) The Compensation Committee will certify to these reviews;

(5) The Compensation Committee will provide a narrative description of how it limited the features in (i) senior executive officer compensation plans that could lead senior executive officers to take unnecessary and excessive risks that could threaten the value of the Company, (ii) employee compensation plans to ensure that the Company is not unnecessarily exposed to risks, and (iii) employee compensation plans that could encourage the manipulation of reported earnings of the Company to enhance the compensation of an employee;

(6) The Company has required that all bonuses, retention awards, and incentive compensation of the senior executive officers and next twenty most highly compensated employees be subject to a provision for recovery or "clawback" by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;

(7) The Company has prohibited any golden parachute payment to the senior executive officers and the next five most highly compensated employees. For this purpose, a golden parachute payment is any payment triggered by involuntary termination with or without cause; bankruptcy, insolvency or receivership of the Company; or a change in control of the Company;

(8) The Company has limited bonuses, retention awards, and incentive compensation paid to or accrued by employees to whom the bonus payment limitation applies;

(9) The Company will permit a non-binding shareholder resolution on the senior executive officer compensation disclosures provided under the Federal securities laws in accordance with any guidance, rules, and regulations promulgated by the SEC;

(10) The Company and its employees have complied with the excessive or luxury expenditures policy, as defined in the regulations and guidance established under section 111 of EESA; and any expenses that, pursuant to the policy, required approval of the Board of Directors, a committee of the Board of Directors, a senior executive officer, or an executive officer with a similar level of responsibility were properly approved;

(11) The Company will disclose the amount, nature, and justification for the offering of any perquisites whose total value exceeds $25,000 for each of the employees subject to the bonus payment limitations;

(12) The Company will disclose whether the Company, the Board, or the Compensation Committee has engaged a compensation consultant, and the services the compensation consultant or any affiliate provided;

(13) The Company has prohibited any tax gross-ups on compensation to the senior executive officers and the next twenty most highly compensated employees;

(14) The Company has substantially complied with any compensation requirements set forth in the agreement between the Company and the Treasury, as may have been amended;

(15) The Company has submitted to Treasury a complete and accurate list of the senior executive officers and the twenty next most highly compensated employees for the current fiscal year, with the non-senior executive officers ranked in descending order of level of annual compensation, and with the name, title, and employer of each senior executive officer and most highly compensated employee identified; and,

(16) The officer certifying understands that a knowing and willful false or fraudulent statement made in connection with the certification may be punished by fine, imprisonment or both.

Dated: March 14, 2014

By: /s/ Phillip W. Barnhouse
Phillip W. Barnhouse
Chief Financial Officer