PREMIER FINANCIAL BANCORP INC
Form 10-Q
May 14, 2010

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

or

o 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 0-20908

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

Kentucky (State or other jurisdiction of incorporation organization)	61-1206757 (I.R.S. Employer Identification No.)
2883 Fifth Avenue Huntington, West Virginia (Address of principal executive offices)	25702 (Zip Code)

Registrant’s telephone number (304) 525-1600

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes þ No o.

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o.

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 the definitions of “large accelerated filer,” “accelerated filer, ”and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer o.	Accelerated filer o.	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company þ

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common stock, no par value, – 7,937,143 shares outstanding at May 1, 2010

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PREMIER FINANCIAL BANCORP, INC.
MARCH 31, 2010

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying information has not been audited by independent public accountants; however, in the opinion of management such information reflects all adjustments necessary for a fair presentation of the results for the interim period. All such adjustments are of a normal and recurring nature. Premier Financial Bancorp, Inc.'s ("Premier's") accounting and reporting policies are in accordance with accounting principles generally accepted in the United States of America. Certain accounting principles used by Premier involve a significant amount of judgment about future events and require the use of estimates in their application. The following policies are particularly sensitive in terms of judgments and the extent to which estimates are used: allowance for loan losses, the identification and evaluation of impaired loans, the impairment of goodwill, the realization of deferred tax assets and stock based compensation disclosures. These estimates are based on assumptions that may involve significant uncertainty at the time of their use. However, the policies, the estimates and the estimation process as well as the resulting disclosures are periodically reviewed by the Audit Committee of the Board of Directors and material estimates are subject to review as part of the external audit by the independent public accountants.

The accompanying financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the registrant's annual report on Form 10-K. Accordingly, the reader of the Form 10-Q may wish to refer to the registrant's Form 10-K for the year ended December 31, 2009 for further information in this regard.

Index to consolidated financial statements:

PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2010 AND DECEMBER 31, 2009
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	(UNAUDITED) 2010	2009
ASSETS		
Cash and due from banks	$ 53,705	$ 61,611
Federal funds sold	22,629	22,985
Securities available for sale	253,871	240,970
Loans held for sale	904	897
Loans	682,876	699,133
Allowance for loan losses	(8,068)	(7,569)
Net loans	674,808	691,564
Federal Home Loan Bank and Federal Reserve Bank stock	7,015	7,005
Premises and equipment, net	14,542	15,200
Real estate and other property acquired through foreclosure	9,672	9,251
Interest receivable	4,029	4,250
Goodwill	28,724	28,724
Other intangible assets	2,652	2,795
Prepaid FDIC insurance premiums	2,705	2,900
Deferred taxes	9,552	10,713
Other assets	3,097	2,885
Total assets	$ 1,087,745	$ 1,101,750
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 176,745	$ 172,182
Time deposits, $100,000 and over	138,908	149,890
Other interest bearing	584,530	591,712
Total deposits	900,183	913,784
Securities sold under agreements to repurchase	22,161	24,600
Federal Home Loan Bank advances	14,832	14,937
Other borrowed funds	15,553	16,027
Interest payable	1,100	1,037
Other liabilities	4,114	2,809
Total liabilities	957,943	973,194
Stockholders' equity		
Preferred stock, no par value; $1,000 liquidation preference,		
1,000,000 shares authorized, 22,252 shares issued and outstanding	21,759	21,705
Common stock, no par value; 20,000,000 shares authorized;		
7,937,143 shares issued and outstanding	71,422	71,412
Retained earnings	34,456	33,349
Accumulated other comprehensive income	2,165	2,090
Total stockholders' equity	129,802	128,556
Total liabilities and stockholders' equity	$ 1,087,745	$ 1,101,750

See Accompanying Notes to Consolidated Financial Statements

PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31, 2010	2009
Interest income		
Loans, including fees	$ 11,552	$ 7,425
Securities available for sale		
Taxable	1,973	1,636
Tax-exempt	65	57
Federal funds sold and other	27	18
Total interest income	13,617	9,136
Interest expense		
Deposits	2,223	2,353
Repurchase agreements and other	43	33
FHLB advances and other borrowings	288	192
Total interest expense	2,554	2,578
Net interest income	11,063	6,558
Provision for loan losses	571	102
Net interest income after provision for loan losses	10,492	6,456
Non-interest income		
Service charges on deposit accounts	922	725
Electronic banking income	340	236
Secondary market mortgage income	89	83
Other	166	126
	1,517	1,170
Non-interest expenses		
Salaries and employee benefits	4,071	2,794
Occupancy and equipment expenses	1,139	712
Outside data processing	1,009	755
Professional fees	225	341
Taxes, other than payroll, property and income	256	178
Write-downs, expenses, sales of other real estate owned, net	155	77
Amortization of intangibles	143	77
Supplies	120	108
FDIC insurance	455	91
Other expenses	937	631
	8,510	5,764
Income before income taxes	3,499	1,862
Provision for income taxes	1,186	633
Net income	$ 2,313	$ 1,229

Preferred stock dividends and accretion		332		-
Net income available to common stockholders	$	1,981	$	1,229
Net income per share:				
Basic	$	0.25	$	0.19
Diluted		0.24		0.19

See Accompanying Notes to Consolidated Financial Statements

PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31, 2010	2009
Net income	$ 2,313	$ 1,229
Other comprehensive income:		
Unrealized gains arising during the period	114	103
Reclassification of realized amount	-	-
Net change in unrealized gain (loss) on securities	114	103
Less tax impact	39	35
Other comprehensive income:	75	68
Comprehensive income	$ 2,388	$ 1,297

See Accompanying Notes to Consolidated Financial Statements

PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2010	2009
Cash flows from operating activities		
Net income	$2,313	$1,229
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	365	270
Provision for loan losses	571	102
Amortization (accretion), net	(836)	98
OREO writedowns (gains on sales), net	(31)	94
Stock compensation expense	10	14
Loans originated for sale	(3,901)	(4,213)
Secondary market loans sold	3,983	5,147
Secondary market income	(89)	(83)
Gain on sale of buildings	(81)	-
Changes in :		
Interest receivable	221	877
Other assets	1,265	93
Interest payable	63	(70)
Other liabilities	1,305	(22)
Net cash from operating activities	5,158	3,536
Cash flows from investing activities		
Purchases of securities available for sale	(67,895)	(34,215)
Proceeds from maturities and calls of securities available for sale	54,934	54,428
Redemption of FRB and FHLB stock, (net of purchases)	(10)	143
Net change in federal funds sold	356	(24,253)
Net change in loans	15,739	15
Purchases of premises and equipment, net	374	(499)
Proceeds from sales of other real estate acquired through foreclosure	874	144
Net cash from investing activities	4,372	(4,237)
Cash flows from financing activities		
Net change in deposits	(13,329)	15,739
Common Stock dividends paid	(874)	(703)
Preferred Stock dividends paid	(278)	-
Net change in short-term Federal Home Loan Bank advances	-	(1,000)
Repayment of Federal Home Loan Bank advances	(42)	(44)
Repayment of other borrowed funds	(474)	(482)
Net change in federal funds purchased	-	77
Net change in agreements to repurchase securities	(2,439)	(5,101)
Net cash from financing activities	(17,436)	8,486
Net change in cash and cash equivalents	(7,906)	7,785

Cash and cash equivalents at beginning of period	61,611	22,148
Cash and cash equivalents at end of period	$53,705	$29,933

See Accompanying Notes to Consolidated Financial Statements

PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2010	2009
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	$2,491	$2,648
Loans transferred to real estate acquired through foreclosure	1,264	163

See Accompanying Notes to Consolidated Financial Statements

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 1 - BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Premier Financial Bancorp, Inc. (the Company) and its wholly owned subsidiaries:

Subsidiary	Location	Year Acquired	Total Assets	March 31, 2010 Net Income Quarter
Citizens Deposit Bank & Trust	Vanceburg, Kentucky	1991	$ 124,608	$ 380
Farmers Deposit Bank	Eminence, Kentucky	1996	62,207	134
Ohio River Bank	Ironton, Ohio	1998	94,112	312
First Central Bank, Inc.	Philippi, West Virginia	1998	126,105	369
Boone County Bank, Inc.	Madison, West Virginia	1998	174,531	456
Traders Bank, Inc.	Ravenswood, West Virginia	2008	159,262	297
Adams National Bank	Washington, DC	2009	263,206	543
Consolidated Bank & Trust	Richmond, Virginia	2009	76,473	245
Mt. Vernon Financial Holdings, Inc.	Huntington, West Virginia	1999	220	(6)
Parent and Intercompany Eliminations			7,021	(417)
Consolidated Total			$ 1,087,745	$ 2,313

All significant intercompany transactions and balances have been eliminated.

In June 2009, the FASB amended previous guidance relating to transfers of financial assets and eliminates the concept of a qualifying special purpose entity. This guidance must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. This guidance must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. The disclosure provisions were also amended and apply to transfers that occurred both before and after the effective date of this guidance. The adoption of this guidance did not have a material impact on the Company's consolidated results of operations or financial position.

In June 2009, the FASB amended guidance for consolidation of variable interest entity guidance by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Additional disclosures about an enterprise's involvement in variable interest entities are also required. This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Early adoption is prohibited. The adoption of this guidance did not have a material impact on the Company's consolidated results of operations or financial position.

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 2 –SECURITIES

Amortized cost and fair value of investment securities, by category, at March 31, 2010 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. agency MBS - residential	$48,363	$2,124	$-	$50,487
U. S. agency CMO’s	16,945	699	-	17,644
Total mortgage-backed securities of government sponsored entities	65,308	2,823	-	68,131
U. S. government sponsored entity securities	169,805	282	(640)	169,447
Obligations of states and political subdivisions	10,153	195	(96)	10,252
Other securities	5,325	726	(10)	6,041
Total available for sale	$250,591	$4,026	$(746)	$253,871

Amortized cost and fair value of investment securities, by category, at December 31, 2009 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. agency MBS - residential	$52,563	$1,934	$(15)	$54,482
U. S. agency CMO’s	18,771	789	-	19,560
Total mortgage-backed securities of government sponsored entities	71,334	2,723	(15)	74,042
U. S. Treasury securities	1,000	5	-	1,005
U. S. government sponsored entity securities	149,951	407	(291)	150,067
Obligations of states and political subdivisions	10,195	175	(123)	10,247
Other securities	5,323	322	(36)	5,609
Total available for sale	$237,803	$3,632	$(465)	$240,970

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 2–SECURITIES - continued

The amortized cost and fair value of securities at March 31, 2010 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available for sale		
Due in one year or less	$7,276	$7,305
Due after one year through five years	82,008	82,315
Due after five years through ten years	91,223	90,770
Due after ten years	3,684	4,044
Corporate preferred securities	1,092	1,306
Mortgage-backed securities of government sponsored entities	65,308	68,131
Total available for sale	$250,591	$253,871

Securities with unrealized losses at March 31, 2010 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government sponsored entity securities	$103,298	$(619)	$1,028	$(21)	$104,326	$(640)
Obligations of states and political subdivisions	2,899	(89)	271	(7)	3,170	(96)
Other securities	989	(10)	-	-	989	(10)
Total temporarily impaired	$107,187	$(718)	$1,299	$(28)	$108,486	$(746)

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 2–SECURITIES - continued

Securities with unrealized losses at December 31, 2009 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government sponsored entity securities	$52,300	$(291)	$-	$-	$52,300	$(291)
Obligations of states and political subdivisions	3,439	(123)	-	-	3,439	(123)
U.S. agency MBS-residential	5,197	(15)			5,197	(15)
Other securities	964	(36)	-	-	964	(36)
Total temporarily impaired	$61,900	$(465)	$-	$-	$61,900	$(465)

The investment portfolio is predominately high quality interest-bearing debt securities with defined maturity dates backed by the U.S. Government or Government sponsored entities. The unrealized losses at March 31, 2010 and December 31, 2009 are price changes resulting from changes in the interest rate environment and are not considered to be other than temporary declines in the value of the securities. Their fair value is expected to recover as the bonds approach their maturity date and/or market conditions improve.

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3 – LOANS

Major classifications of loans at March 31, 2010 and December 31, 2009 are summarized as follows:

	2010	2009
Commercial, secured by real estate	$301,443	$304,607
Commercial, other	73,816	76,140
Real estate construction	44,575	51,637
Residential real estate	209,989	211,552
Agricultural	2,380	2,710
Consumer and home equity	47,369	49,312
Other	3,304	3,175
	$682,876	$699,133

The following table sets forth information with respect to the Company's impaired loans at March 31, 2010 and December 31, 2009.

	2010	2009
Impaired loans at period end with an allowance	$16,723	$14,494
Impaired loan at period end with no allowance	49,380	49,370
Amount of allowance for loan losses allocated	1,452	1,279

The following table sets forth information with respect to the Company's nonperforming loans at March 31, 2010 and December 31, 2009.

	2010	2009
Non-accrual loans	$48,346	$46,299
Accruing loans which are contractually past due 90 days or more	748	489
Restructured loans	12,233	11,974
Total	$61,327	$58,762

NOTE 4 – ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the three months ended March 31, 2010 and 2009 are as follows:

	Three Months Ended March 31,	
	2010	2009
Balance, beginning of period	$7,569	$8,544
Gross charge-offs	(205)	(165)
Recoveries	133	106
Provision for loan losses	571	102
Balance, end of period	$8,068	$8,587

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 5 – FEDERAL HOME LOAN BANK ADVANCES

The Banks own stock of the Federal Home Loan Bank (FHLB) of Cincinnati, Ohio, the FHLB of Pittsburgh, Pennsylvania, and the FHLB of Atlanta, Georgia. This stock allows the Banks to borrow advances from the FHLB.

Advances from the FHLB at March 31, 2010 and December 31, 2009 were as follows:

	2010	2009
Payments due at maturity in May 2010 and March 2012, fixed rate at rates from 1.81% to 6.64%, averaging 3.09%	$14,479	$14,542
Payments due monthly with maturities from November 2011 to July 2012, fixed rates from 4.10% to 4.40%, averaging 4.27%	353	395
Overnight borrowed funds	-	-
	$14,832	$14,937

Advances are secured by the FHLB stock, certain pledged investment securities and substantially all single family first mortgage loans of the participating Banks. Scheduled principal payments due on advances during the five years subsequent to March 31, 2010 are as follows:

2010 (remaining nine months)	$4,317
2011	422
2012	10,093
2013	-
2014	-
Thereafter	-
	$14,832

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 6 - STOCKHOLDERS' EQUITY AND REGULATORY MATTERS

The Company's principal source of funds for dividend payments to shareholders is dividends received from the subsidiary Banks. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, as defined, combined with the retained net profits of the preceding two years, subject to the capital requirements and additional restrictions as discussed below. During 2010 the Banks could, without prior approval, declare dividends of approximately $2.5 million plus any 2010 net profits retained to the date of the dividend declaration.

The Company and the subsidiary Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Banks must meet specific guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.

These quantitative measures established by regulation to ensure capital adequacy require the Company and Banks to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of March 31, 2010, that the Company and the Banks meet all quantitative capital adequacy requirements to which they are subject.

Shown below is a summary of regulatory capital ratios for the Company:

	Mar 31, 2010	December 31, 2009	Regulatory Minimum Requirements	To Be Considered Well Capitalized
Tier I Capital (to Risk-Weighted Assets)	14.1%	13.6%	4.0%	6.0%
Total Capital (to Risk-Weighted Assets)	15.2%	14.6%	8.0%	10.0%
Tier I Capital (to Average Assets)	9.1%	8.9%	4.0%	5.0%

Adams National Bank entered into an agreement with the Office of the Comptroller of the Currency ("OCC") on October 1, 2008 restricting the bank from declaring or paying dividends, without prior approval from the OCC. During 2009, Farmers Deposit Bank requested and received approval from its primary regulatory authority to make a dividend payment to the Company in an amount that exceeded the retained net profits of the preceding two years. As such, Farmers Deposit will be required to continue to request permission to pay any additional dividends to the Company for up to two years.

As of March 31, 2010, the most recent notification from each of the Banks' primary Federal regulators categorized the subsidiary Banks as well capitalized under the regulatory framework for prompt corrective action, except Adams National Bank. To be categorized as well capitalized, the Banks must maintain minimum Total risk-based, Tier I risk-based and Tier I leverage ratios as

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 6 - STOCKHOLDERS' EQUITY AND REGULATORY MATTERS - continued

set forth in the preceding table. There are no conditions or events since that notification that management believes have changed the Banks' categories. Adams National Bank is subject to a written agreement with the OCC and is required to maintain minimum capital ratios in excess of the ratios required to be defined as well capitalized under the framework for prompt corrective action. This requirement means that the bank may not be deemed to be well capitalized while the written agreement is in effect. At March 31, 2010, Adams National Bank's capital ratios met or exceeded the minimum capital ratios required by its written agreement with the OCC.

NOTE 7 – PREFERRED STOCK

On October 2, 2009, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program, the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "Purchase Agreement") with the United States Department of the Treasury ("U.S. Treasury"). Pursuant to the Purchase Agreement, the Company issued and sold to the U.S. Treasury 22,252 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, with a liquidation preference of one thousand dollars per share (the "Series A Preferred Stock") and a ten-year warrant (the "Warrant") to purchase 628,587 shares of the Company's common stock, no par value, at an exercise price of $5.31 per share, for an aggregate purchase price of $22,252 in cash.

Under standardized TARP Capital Purchase Program terms, cumulative dividends on the Series A Preferred Stock will accrue on the liquidation preference at a rate of 5% per annum until November 14, 2014, and at a rate of 9% per annum thereafter. These dividends will be paid only if, as and when declared by Premier's Board of Directors. The Series A Preferred Stock has no maturity date and ranks senior to the Company's common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of Premier. Subject to the approval of the Appropriate Federal Banking Agency (as defined in the Securities Purchase Agreement, which for Premier is the Board of Governors of the Federal Reserve System), the Series A Preferred Stock is redeemable at the option of Premier at 100% of its liquidation preference plus accrued and unpaid dividends, without penalty, delay or the need to raise additional replacement capital.

The Series A Preferred Stock is non-voting, but has class voting rights on (i) any authorization or issuance of shares ranking senior to the Series A Preferred Stock; (ii) any amendment to the rights of the Series A Preferred Stock; or (iii) any merger, consolidation, share exchange, reclassification or similar transaction which would adversely affect the rights of the Series A Preferred Stock. In the event that the cumulative dividends described above are not paid in full for an aggregate of six dividend periods or more, whether or not consecutive, the authorized number of directors of Premier would automatically be increased by two and the holders of the Series A Preferred Stock would have the right to elect two directors. The right to elect directors would end when dividends have been paid in full for four consecutive dividend periods.

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 7 – PREFERRED STOCK - continued

The U.S. Treasury has agreed not to exercise voting power with respect to any common stock issued to it upon exercise of the Warrant. The common stock will be issued from authorized but unissued common stock and thus will dilute the interests of existing Premier common shareholders. As of December 31, 2009, the Warrant has not yet been exercised.

Pursuant to the terms of the Purchase Agreement, the ability of the Company to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of its common stock will be subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share ($0.11) declared on the common stock prior to October 2, 2009.

NOTE 8 – STOCK COMPENSATION EXPENSE

From time to time the Company grants stock options to its employees. The Company estimates the fair value of the options at the time they are granted to employees and expenses that fair value over the vesting period of the option grant.

On March 17, 2010, 47,700 incentive stock options were granted out of the 2002 Plan at an exercise price of $8.90, the closing market price of Premier on the grant date. These options vest in three equal annual installments ending on March 17, 2013. On February 18, 2009, 47,100 incentive stock options were granted out of the 2002 Plan at an exercise price of $6.55. These options vest in three equal annual installments ending on February 18, 2012. On February 20, 2008, 45,300 incentive stock options were granted out of the 2002 Plan at an exercise price of $12.92. These options vest in three equal annual installments ending on February 20, 2011. On January 17, 2007, 37,000 incentive stock options were granted out of the 2002 Plan at an exercise price of $14.22. These options vested in three equal annual installments and were fully vested on January 17, 2010.

The fair value of the Company's employee stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. The assumptions used in the Black-Scholes option-pricing model are as follows

	2010		2009		2008	
Risk-free interest rate	3.65	%	2.74	%	3.50	%
Expected option life (yrs)	10.00		10.00		7.00	
Expected stock price volatility	24.67	%	19.26	%	23.00	%
Dividend yield	4.94	%	6.72	%	3.10	%
Weighted average fair value of options granted during the year	$1.41		$0.37		$2.55	

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 8– STOCK COMPENSATION EXPENSE - continued

The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield in effect at the time of the grant. The expected option life was estimated since there has been little option exercise history. The expected stock price volatility is based on historical volatilities of the Company’s common stock. The estimated dividend yield is the dividend yield at the time of the option grant.

Compensation expense of $10,000 was recorded for the first three months of 2010 while $14,000 was recorded for the first three months of 2009. Stock-based compensation expense is recognized ratably over the requisite service period for all awards. Unrecognized stock-based compensation expense related to stock options totaled $70,000 at March 31, 2010. This unrecognized expense is expected to be recognized over the next 35 months based on the vesting periods of the options.

A summary of the Company’s stock option activity and related information is presented below for the three months ended March 31:

	- - - - - - 2010 - - - - - -		- - - - - - 2009 - - - - - -	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	212,449	$11.18	181,916	$12.47
Grants	47,700	8.90	47,100	6.55
Exercises	-	-	-	-
Forfeitures or expired	-	-	(11,567)	12.01
Outstanding at March 31,	260,149	$10.76	217,449	$8.68
Exercisable at March 31,	167,203		131,631	
Weighted average remaining life of options outstanding	7.1		5.7	
Weighted average fair value of options granted during the year	$1.41		$0.37	

Options outstanding at period-end are expected to fully vest.

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 8– STOCK COMPENSATION EXPENSE - continued

Additional information regarding stock options outstanding and exercisable at March 31, 2010, is provided in the following table:

	- - - - - - - - Outstanding - - - - - - - -			- - - - - - - - Currently Exercisable - - - - - - - -			
Range of Exercise Prices	Number	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
$6.50 to $10.00	132,216	$ 8.00	$ 109	53,126	5.0	$ 8.05	$ 44
$10.01 to $12.50	28,333	11.62	-	28,333	4.8	11.62	-
$12.51 to $15.00	71,600	13.47	-	57,744	7.3	13.60	-
$15.01 to $17.50	28,000	16.00	-	28,000	5.9	16.00	-
Outstanding - Mar 31, 2010	260,149	10.76	$ 109	167,203	5.9	11.90	$ 44

NOTE 9 – EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the earnings per common share and earnings per common share assuming dilution computations for the three months ended March 31, 2010 and 2009 is presented below:

	Three Months Ended March 31, 2010	2009
Basic earnings per share		
Income available to common stockholders	$ 1,981	$ 1,229
Weighted average common shares outstanding	7,937	6,393
Earnings per share	$ 0.25	$ 0.19
Diluted earnings per shares		
Income available to common stockholders	$ 1,981	$ 1,229
Weighted average common shares outstanding	7,937	6,393
Add dilutive effects of potential additional common stock	202	-
Weighted average common and dilutive potential common shares outstanding	8,139	6,393
Earnings per share assuming dilution	$ 0.24	$ 0.19

Stock options for 213,049 and 217,449 shares of common stock were not considered in computing diluted earnings per share for the three months ended March 31, 2010 and 2009 because they were antidilutive.

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 10 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an 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. There are three levels of inputs that may be used to measure fair value:

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

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; or other inputs that are observable or can be corroborated by observable market data.

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

When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Company looks to observable market data for similar assets and liabilities. However, certain assets and liabilities are not traded in observable markets and the Company must use other valuation methods to develop a fair value.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument measured on a recurring basis:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). 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 (Level 3). 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.

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PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 10 – FAIR VALUE - continued

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements at March 31, 2010 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale				
Mortgage-backed securities				
U. S. agency MBS - residential	$50,487	$-	$50,487	$ -
U. S. agency CMO's	17,644	-	17,644	-
Total mortgage-backed securities of government sponsored entities	68,131	-	68,131	-
U. S. government sponsored entity securities	169,447	-	169,447	-
Obligations of states and political subdivisions	10,252	-	10,112	140
Other securities	6,041	-	6,041	-
Total available for sale	$253,871	$-	$253,731	$ 140

		Fair Value Measurements at December 31, 2009 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale				
Mortgage-backed securities				
U. S. agency MBS - residential	$54,482	$-	$54,482	$ -
U. S. agency CMO's	19,560	-	19,560	-

Total mortgage-backed securities of government sponsored entities	74,042	-	74,042	-
U. S. Treasury securities	1,005	-	1,005	-
U. S. government sponsored entity securities	150,067	-	150,067	-
Obligations of states and political subdivisions	10,247	-	10,107	140
Other securities	5,609	-	5,609	-
Total available for sale	$240,970	$-	$240,830	$ 140

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 10 – FAIR VALUE - continued

The carrying amounts and estimated fair values of financial instruments at March 31, 2010 and December 31, 2009 were as follows:

	March 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and due from banks	$53,705	$53,705	$61,611	$61,611
Federal funds sold	22,629	22,629	22,985	22,985
Securities available for sale	253,871	253,871	240,970	240,970
Loans held for sale	904	904	897	897
Loans, net	674,808	677,957	691,564	691,708
Federal Home Loan Bank and Federal Reserve Bank stock	7,015	n/a	7,005	n/a
Interest receivable	4,029	4,029	4,250	4,250
Financial liabilities				
Deposits	$(900,183)	$(902,952)	$(913,784)	$(917,859)
Securities sold under agreements to repurchase	(22,161)	(22,161)	(24,600)	(24,600)
Federal Home Loan Bank advances	(14,832)	(14,862)	(14,937)	(15,028)
Other borrowed funds	(15,553)	(15,516)	(16,027)	(15,984)
Interest payable	(1,100)	(1,100)	(1,037)	(1,037)

Carrying amount is the estimated fair value for cash and due from banks, Federal funds sold, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. It was not practicable to determine the fair value of Federal Home Loan Bank and Federal Reserve Bank stock due to the restrictions placed on its transferability. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of debt is based on current rates for similar financing. The fair value of commitments to extend credit and standby letters of credit is not material.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument measured on a non-recurring basis:

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. 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. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 10 – FAIR VALUE - continued

Other real estate owned (OREO): The fair value of OREO is based on appraisals less cost to sell at the date of foreclosure. 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. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell.

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

		Fair Value Measurements at March 31, 2010 Using		
	March 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$15,271	$-	$-	$ 15,271
Other real estate owned	9,672	-	-	9,672

		Fair Value Measurements at December 31, 2009 Using		
	Dec 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans	$13,215	$-	$-	$ 13,215
Other real estate owned	9,251	-	-	9,251

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $16,723,000 at March 31, 2010 with a valuation allowance of $1,452,000 and a carrying amount of $14,494,000 at December 31, 2009 with a valuation allowance of $1,279,000, resulting in a provision for loan losses of $173,000 for the period ended March 31, 2010.

PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 11 – SUBSEQUENT EVENTS

On April 29, 2010 Citizens Deposit Bank and Trust ("Citizens"), a wholly-owned subsidiary of Premier agreed to purchase four banking offices from Integra Bank N.A. ("Integra Bank"). The banking offices are located in Maysville and Mount Olivet, Kentucky and Ripley and Aberdeen, Ohio.

Citizens will assume approximately $73.4 million of deposit liabilities related to the four branches and acquire $18.3 million of branch related loans, as well as $38.1 million of additional commercial real estate and $10.6 million of other commercial loans selected by Citizens originated from other Integra offices. The Kentucky branches include approximately $47.3 million of deposits, while the Ohio branches include approximately $26.1 million of deposits. Citizens expects that the branch purchase transaction will have a minimal impact on the bank's liquidity, as it has been designed to minimize the amount of cash required from either party.

Citizens will pay a deposit premium for the deposit liabilities it assumes and will also acquire the commercial and commercial real estate loans included in the branch sale transaction at par value. The final deposit premium will be determined at the closing date and is dependent upon the deposit mix and balances at each of the branches but is estimated to approximate 3.38%. The four banking offices will be sold at their book values, as will the fixed assets. The transaction is subject to customary closing conditions, including regulatory approval. The parties expect the branch sale transaction to close in the third quarter of 2010.

PREMIER FINANCIAL BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2010

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

FORWARD-LOOKING STATEMENTS

Management's discussion and analysis contains forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. However, such performance involves risks and uncertainties, and there are certain important factors that may cause actual results to differ materially from those anticipated. These important factors include, but are not limited to, economic conditions (both generally and more specifically in the markets in which Premier operates), competition for Premier's customers from other providers of financial services, government legislation and regulation (which changes from time to time), changes in interest rates, Premier's ability to originate quality loans, collect delinquent loans and attract and retain deposits, the impact of Premier's growth, Premier's ability to control costs, and new accounting pronouncements, all of which are difficult to predict and many of which are beyond the control of Premier. The words "may," "could," "should," "would," "will," "beli "anticipate," "estimate," "expect," "intend," "plan," "project," "predict," "continue" and similar expressions are intended t forward-looking statements.

A. Results of Operations

A financial institution's primary sources of revenue are generated by interest income on loans, investments and other earning assets, while its major expenses are produced by the funding of these assets with interest bearing liabilities. Effective management of these sources and uses of funds is essential in attaining a financial institution's optimal profitability while maintaining a minimum amount of interest rate risk and credit risk.

Net income for the three months ended March 31, 2010 was $2,313,000, or $0.25 per share, compared to net income of $1,229,000, or $0.19 per share for the three months ended March 31, 2009. The increase in income in 2010 is largely due to the acquisition of Abigail Adams National Bancorp, Inc. (Abigail Adams) and its two subsidiary banks, Adams National Bank (Adams) and Consolidated Bank and Trust (CB&T) on October 1, 2009 (collectively the "Acquired Banks"). The operations of the Acquired Banks are only included in Premier's results from the date of acquisition and therefore, are included in the first quarter 2010 results but not the first quarter 2009 results. The operations of Adams and CB&T added $788,000 of net income in the first three months of 2010. Excluding this income, the remaining Premier operations increased net income in the first three months of 2010 by $296,000, or 24.1%, compared to the same period of 2009, as the decrease in interest expense exceeded the decrease in interest income while the decrease in net overhead costs more than offset an increase in the provision for loan losses. The annualized returns on common shareholders' equity and average assets were approximately 7.29% and 0.85% for the three months ended March 31, 2010 compared to 5.44% and 0.68% for the same period in 2009.

Net interest income for the three months ended March 31, 2010 totaled $11.06 million, up $4.5 million, or 68.7%, from the $6.56 million of net interest income earned in the first three months of 2009, as the $4.25 million of additional net interest income of the Acquired Banks added to the 3.9% increase in net interest income of Premier's other operations. Interest income in 2010 increased by $4.48 million, or 49.0%, as a result of the $4.77 million of interest income added by the operations of the Acquired Banks. Excluding the operations of the Acquired Banks, interest income decreased by $285,000, or 3.1%, in 2010. Interest income on loans decreased by $126,000, largely due to a lower average volume of loans outstanding. Interest earned on investments decreased by $156,000, due to lower average yields even though on a higher average volume of investments. Interest earned on federal funds sold and interest bearing bank balances decreased by $3,000, largely due lower yields earned resulting from the Federal

Reserve Board of Governors' policy to stimulate the economy by maintaining the federal funds sold rate near 0.00% to 0.25%.

PREMIER FINANCIAL BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2010

Interest expense decreased in total in the first three months of 2010 by $24,000, or 0.9%, when compared to the same three months of 2009, which includes the $515,000 increase in interest expense in 2010 from the operations of the Acquired Banks. Excluding the Acquired Banks' operations, interest expense decreased by $539,000, or 20.9%, in 2010 compared to the first quarter of 2009, more than offsetting the decrease in interest income from the remaining Premier operations. Interest expense on deposits (excluding the operations of the Acquired Banks) decreased by $558,000, or 23.7%, largely due to lower rates paid, although on a higher average balance of deposits outstanding. Interest expense on repurchase agreements and other short-term borrowings decreased by $5,000, largely due to a lower average balance. Interest expense on FHLB advances decreased by $8,000, due to decreases in the average balance outstanding from principal payments made during the last twelve months. Slightly offsetting these decreases, interest expense on other borrowings increased by $32,000 due to higher rates paid on a higher average outstanding balance. The Board of Governors' policy to reduce the federal funds rate to nearly zero, coupled with the U.S. Treasury actively buying investment securities, has significantly reduced the yield on much of Premier's earning assets including investments, federal funds sold and variable rate loans. Premier has tried to offset some of the lower interest income by lowering the rates paid on its deposits and repurchase agreements with customers. However, the higher yield on the loans acquired from Adams and CB&T coupled with the lower rates paid on the interest bearing deposits and borrowings assumed from Adams and CB&T have combined to boost Premier's overall net interest margin. Premier's net interest margin in the first three months of 2010 was 4.47% compared to 4.01% for the same period in 2009. A portion of the additional interest income on loans from the acquired banks is the result of recognizing into interest income the remaining fair value discount on a note that was fully paid-off during the quarter. These events cannot be predicted with certainty and may positively or negatively affect interest income on loans in future months.

PREMIER FINANCIAL BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2010

Additional information on Premier's net interest income for the first quarter of 2010 and first quarter of 2009 is contained in the following table.

PREMIER FINANCIAL BANCORP, INC.
AVERAGE CONSOLIDATED BALANCE SHEETS
AND NET INTEREST INCOME ANALYSIS

	Three Months Ended March 31, 2010			Three Months Ended March 31, 2009		
	Balance	Interest	Yield/Rate	Balance	Interest	Yield/Rate
Assets						
Interest Earning Assets						
Federal funds sold and other	$ 63,229	$ 27	0.17 %	$ 41,113	$ 18	0.18 %
Securities available for sale						
Taxable	239,056	1,954	3.27	151,572	1,636	4.32
Tax-exempt	10,258	84	4.96	7,241	57	4.77
Total investment securities	249,314	2,038	3.34	158,813	1,693	4.34
Total loans	692,382	11,552	6.77	464,705	7,425	6.48
Total interest-earning assets	1,004,925	13,617	5.50 %	664,631	9,136	5.58 %
Allowance for loan losses	(7,679)			(8,569)		
Cash and due from banks	20,201			24,380		
Other assets	76,158			47,084		
Total assets	$ 1,093,605			$ 727,526		
Liabilities and Equity						
Interest-bearing liabilities						
Interest-bearing deposits	$ 735,364	2,223	1.23	$ 493,293	2,353	1.93
Short-term borrowings	24,033	43	0.73	15,690	33	0.85
FHLB advances	14,888	136	3.70	5,658	72	5.16
Other borrowings	15,779	152	3.91	15,300	120	3.18
Total interest-bearing liabilities	790,064	2,554	1.31 %	529,941	2,578	1.97 %
Non-interest bearing deposits	168,852			103,380		
Other liabilities	4,350			3,762		
Shareholders' equity	130,339			90,443		
Total liabilities and equity	$ 1,093,605			$ 727,526		
Net interest earnings		$ 11,063			$ 6,558	
Net interest spread			4.19 %			3.61 %
Net interest margin			4.47 %			4.01 %

PREMIER FINANCIAL BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2010

Non-interest income increased $347,000 to $1,517,000 for the first three months of 2010. Included in this increase is $320,000 of non-interest income from the operations of the Acquired Banks. Excluding their operations, service charges on deposit accounts decreased by $3,000, or 0.4%, and other non-interest income decreased by $6,000, or 4.8%. These decreases were more than offset by a $30,000, or 12.7%, increase in electronic banking income (income from debit/credit cards, ATM fees and internet banking charges) and a $6,000, or 7.2%, increase in secondary market mortgage income. Secondary market mortgage income increased as the number of mortgage borrowers have increased and the increased requirements to approve the purchase of mortgage loans by government agency buyers have become more widely accepted. Premier concentrates its efforts on selling high quality mortgage loans and routinely searches for new buyers for these loans; however, the volume of future sales may depend on factors beyond the control of the Company. Electronic banking income increased largely due to continued increases in Premier's deposit customer base and customers' greater propensity to use electronic means to conduct their banking business. Premier's conversion to a more modern banking software system in 2005 has allowed Premier to offer more electronic banking services and made it easier for customers to conduct their banking electronically.

Non-interest expenses for the first quarter of 2010 totaled $8,510,000, or 3.16% of average assets on an annualized basis, compared to $5,764,000, or 3.21% of average assets for the same period of 2009. The $2,746,000 increase in non-interest expenses in 2010 when compared to the first quarter of 2009 is largely due to the $2,943,000 of additional non-interest expenses from the operations of the Acquired Banks. Excluding their operations, non-interest expenses in the first quarter of 2010 decreased by $197,000, or 3.4%. Excluding the operations of the Acquired Banks, staff costs increased by $29,000, or 1.0%, in 2010 largely due to normal salary and benefit increases. Outside data processing increased by $38,000, or 5.0%, due to increases in processing fees and the outsourcing of statement rendering services. Taxes not on income increased by $62,000, or 34.8%, due to increases in taxes on equity resulting from the additional equity from the acquisition of Abigail Adams and the issuance of preferred stock to the U.S. Treasury. FDIC insurance increased by $126,000, or 138%, due to a combination of FDIC insurance rate increases and the expiration of offsetting FDIC insurance credits used to offset some FDIC insurance in 2009. The increase in these expenses were more than offset by decreases in occupancy and equipment expenses, professional fees, OREO expenses and writedowns, supplies and other operating expenses. Occupancy and equipment expenses decreased by $119,000, or 16.7%, largely due to $81,000 from gains on the sale of three buildings in the first quarter of 2010 and a $38,000 decrease in equipment depreciation expense including information technology and furniture and fixtures, as many of these assets have become fully depreciated. Professional fees decreased by $205,000, or 60.1%, in 2010 largely due to legal fees expensed in 2009 related to the acquisition of Abigail Adams and other legal fees incurred to settle outstanding lawsuits. OREO expenses and writedowns decreased by $60,000, or 77.9%, in 2010, largely due to writedowns of OREO property in the first quarter of 2009 partially offset by higher OREO expenses in 2010. Supplies expense decreased by $16,000 in the first quarter of 2010 while other operating expenses decreased in total by $52,000, largely due to customer fraud losses incurred in the first quarter of 2009.

Income tax expense was $1,186,000 for the first three months of 2010 compared to $633,000 for the first three months of 2009. The effective tax rate for the three months ended March 31, 2010 was 33.9% compared to the 34.0% effective tax rate for the same period in 2009. The increase in income tax expense can be primarily attributed to the increase in pre-tax income detailed above.

PREMIER FINANCIAL BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2010

B. Financial Position

Total assets at March 31, 2010 decreased by $14.0 million to just under $1.088 billion from the $1.102 billion at December 31, 2009. However, earning assets decreased by only $3.7 million from $972.5 million at year-end 2009 to end the quarter at $968.8 million. The decrease in earning asets was largely due to a decrease in total loans outstanding partially offset by an increase in securities available for sale (see below).

Cash and due from banks at March 31, 2010 was $53.7 million, a $7.9 million decrease from the $61.6 million at December 31, 2009. Federal funds sold decreased by $356,000 from the $23.0 million reported at December 31, 2009. Changes in these two highly liquid assets are generally in response to increases in deposits, the demand for deposit withdrawals or the funding of loans or investment purchases and are part of Premier's management of its liquidity and interest rate risks. The decrease in cash and due from banks plus the decrease in federal funds sold during the first three months of 2010 was largely in response to meet the demand for deposit withdrawals and the retirement of customer repurchase agreements during that time, as these two sources of funding decreased in total by $16.0 million during the first quarter of 2010.

Securities available for sale totaled $253.9 million at March 31, 2010, a $12.9 million increase from the $241.0 million at December 31, 2009. The increase was largely due to surplus funds from the repayment or complete payoff of loans in the first quarter exceeding new loan volume. These surplus funds were partially used to satisfy the demand for deposit withdrawals but the remaining balance of funds was used to buy investment grade bonds. During the first quarter of 2010, longer-term bond yields began increasing in anticipation of potential future increases in the Federal Reserve Board of Governors' policy on interest rates. Premier used some of its surplus liquid assets to purchase bonds in an effort to improve its overall yield on earning assets. The investment portfolio is predominately high quality interest-bearing bonds with defined maturity dates backed by the U.S. Government or Government sponsored agencies. The unrealized gains at March 31, 2010 and December 31, 2009 are price changes resulting from changes in the interest rate environment. Additional details on investment activities can be found in the Consolidated Statements of Cash Flows.

Total loans at March 31, 2010 were $682.9 million compared to $699.1 million at December 31, 2009, a decrease of approximately $16.3 million. Nearly $6.9 million of the decrease in loans came from the Acquired Banks as decreasing the total assets of these two banks is part of management's strategy to improve the ratio of the banks' capital to assets. The remaining decrease in loans was largely due to loan payoffs and principal payments which more than offset sluggish loan demand during the first quarter of 2010.

Deposits totaled $900.2 million as of March 31, 2010, a $13.6 million decrease from the $913.8 million in deposits at December 31, 2009. The overall decrease in deposits is largely due to a $24.3 million decrease in time and other interest bearing deposits at Adams again as part of management's strategy to improve the ratio of the bank's capital to assets. The remaining banks, during the first quarter of 2010, experienced a $4.7 million increase in non-interest bearing deposits and a $6.6 million increase in other interest bearing deposits partially offset by a $648,000 decrease in time deposits $100,000 and over. Similarly, repurchase agreements with corporate and public entity customers decreased during the first quarter of 2010, declining by $2.4 million to $22.2 million as of March 31, 2010. Decreases at Adams accounted for $3.1 million of this decrease with the remaining banks increasing their repurchase agreement balances by $692,000 in total during the first quarter of 2010.

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Long-term Federal Home Loan Bank (FHLB) advances declined by $105,000 in the first three months of 2010 due to regularly scheduled principal payments and accretion of a yield adjustment on the FHLB advance assumed via acquisition of Adams. Other borrowed funds decreased by $474,000 during the first quarter of 2010 due to regularly scheduled principal payments. See Note 5 to the consolidated financial statements for additional information on the Company's outstanding FHLB advances.

The following table sets forth information with respect to the Company's nonperforming assets at March 31, 2010 and December 31, 2009.

	(In Thousands)	
	2010	2009
Non-accrual loans	$48,346	$46,299
Accruing loans which are contractually past due 90 days or more	748	489
Restructured	12,233	11,974
Total non-performing loans	61,327	58,762
Other real estate acquired through foreclosure (OREO)	9,672	9,251
Total non-performing assets	$70,999	$68,013
Non-performing loans as a percentage of total loans	8.98 %	8.40 %
Non-performing assets as a percentage of total assets	6.53 %	6.17 %

Total non-performing loans have increased since year-end, due to increases in non-accrual loans, loans past due 90 days or more and loans restructured in an effort help borrowers meet their obligation to repay their loans. These increases were in addition to an increase in other real estate acquired through foreclosure. The increase in other real estate owned is largely due to the foreclosure of approximately $1.3 million of non-accrual loans partially offset by sales of $879,000 of OREO properties. The significant level of non-accrual loans and OREO is due to the non-performing assets that came with the acquisition of Abigail Adams and its two subsidiary banks.

At December 31, 2009, the Acquired Banks accounted for $48.0 million or 70.5% of Premier's non-performing assets while at March 31, 2010 the Acquired Banks accounted for $49.9 million or 70.3% of Premier's non-performing assets. However, since these assets were recorded at an estimated fair value on the date of acquisition, the amount of credit risk assumed by Premier is not nearly as great as the volume of non-performing assets suggests taken at face value. The estimate of fair value on all loans, but particularly on non-performing assets, included factors for the measurement of credit risk, interest rate risk and re-salability in the most advantageous market for the loans in an orderly transaction between market participants. These estimates included significant discounts on the non-accrual loans. Since the estimated fair value of these loans was believed to have accounted for the reasonably estimable credit risk in the loans, consistent with new accounting guidance for acquisitions after 2008, no allowance for loan losses for these loans was recorded at the date of acquisition. Under previous accounting standards, the loan loss allowance of acquired banks would have carried over to Premier's books and records, as was the case for Traders and Citizens First. The following table illustrates the face value of the non-performing assets of the Acquired Banks as of March 31, 2010 and December 31, 2009 and the discounted net carrying value of those non-performing assets.

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NON-PERFORMING ASSETS AT ACQUIRED SUBSIDIARY BANKS
(Dollars in thousands)

	March 31, 2010		December 31, 2009	
	Face Value	Discounted Net Carrying Value	Face Value	Discounted Net Carrying Value
Non-performing Assets				
Non-accrual loans	$53,027	$41,907	$48,430	$39,306
Loans 90+ days past due	51	49	119	115
Other real estate owned	9,242	7,947	9,830	8,535
Total non-performing assets	$62,320	$49,903	$58,379	$47,956

(1) Face value includes reductions for interest payments received on loans while on non-accrual status in accordance with the cost recovery method of accounting for non-accrual loans.

Many of the non-accrual loans obtained from the Acquired Banks are continuing to be accounted for under cost recovery methods of income recognition as permitted by the guidance for accounting for non-accrual loans acquired in a business combination. Most of the non-accrual loans at the Acquired Banks were placed in that status due to a lack of predictable cash flows from the borrower. At acquisition by Premier, these loans were recorded at their estimated fair value. These estimates included significant discounts on the non-accrual loans. Yet, the lack of predictable cash flows from the borrowers remains. As a result, accounting guidance requires these loans to continue to be accounted for under cost recovery methods of income recognition, even though the estimated collateral value may exceed the discounted net carrying value.

Premier continues to make a significant effort to reduce its past due and non-performing loans by reviewing loan files, using the courts to bring borrowers current with the terms of their loan agreements and/or the foreclosure and sale of OREO properties. As in the past, when these plans are executed, Premier may experience increases in non-performing loans and non-performing assets. Furthermore, any resulting increases in loans placed on non-accrual status will have a negative impact on future loan interest income. Also, as these plans are executed, other loans may be identified that would necessitate additional charge-offs and potentially additional provisions for loan losses.

During the first quarter of 2010, the Company recorded $571,000 of provisions for loan losses, largely due to estimated increases in overall credit risk in the loan portfolio. The continuing level of non-performing loans plus the increase in net charge-offs are evidence of the increasing credit risk in the loan portfolio. The longer the downturn in the national and local economy continues, the greater the risk that one or more of Premier's loan customers may be affected in a negative way and therefore struggle to meet their commitment to repay their loan. The $571,000 first quarter 2010 provision for loan losses compares to $102,000 of provisions recorded during the first quarter of 2009. The provisions for loan losses were made in accordance with Premier's policies regarding management's estimation of probable incurred losses in the loan portfolio and the adequacy of the allowance for loan losses, which are in accordance with accounting principles generally accepted in the United States of America. In the coming months, Premier will continue to monitor the impact that national housing market price declines may have on its local markets and collateral valuations as management evaluates the adequacy of the allowance for loan losses. While some price deterioration is expected, it is not currently anticipated that Premier's markets will be impacted as severely as other areas of the country due to the historically modest increases in real estate values in the Company's markets. However, as local and national unemployment rates remain at elevated levels and the downturn in housing prices extends further into the future, there is an increasing risk of price deterioration in real estate values in the Company's markets. Future provisions to the allowance for loan losses, positive or negative, will depend on future improvement or deterioration in estimated credit risk in the loan portfolio as well as whether additional payments are received on loans having significant credit risk.

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Gross charge-offs totaled $205,000 during the first three months of 2010. Any collections on these loans would be presented in future financial statements as recoveries of the amounts charged against the allowance. Recoveries recorded during the first three months of 2010 totaled $133,000 resulting in net charge-offs for the first quarter of 2010 of $71,000. This compares to $59,000 of net charge-offs recorded in the first quarter of 2009. The allowance for loan losses at March 31, 2010 was 1.18% of total loans compared to 1.08% at December 31, 2009. The increase in the ratio is largely due to the $571,000 of additional provisions for loan losses exceeding the $71,000 of net charge-offs recorded in the first quarter of 2010 as well as the decrease in total loans outstanding.

The ratio of the allowance for loan losses to total loans has decreased significantly as a result of the acquisition of Abigail Adams. As discussed earlier, the loans acquired from Abigail Adams were recorded at their estimated fair value. Since the estimated fair value of these loans was believed to have accounted for the reasonably estimable credit risk in the loans, consistent with new accounting guidance for acquisitions after 2008, no allowance for loan losses for these loans was recorded at the date of acquisition. In the six months since the acquisition, the Acquired Banks have recorded an allowance for loan losses of approximately $540,000 largely due to identified additional risks of loss on impaired loans. Excluding the net loan portfolios of the Acquired Banks, Premier's remaining operations have a collective allowance for loan losses of approximately 1.66% of total loans at March 31, 2010. This compares to an approximately 1.60% collective ratio for these same entities at December 31, 2009.

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C. Critical Accounting Policies

The Company follows financial accounting and reporting policies that are in accordance with generally accepted accounting principles in the United States of America. These policies are presented in Note 1 to the consolidated audited financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2009. Some of these accounting policies, as discussed below, are considered to be critical accounting policies. Critical accounting policies are those policies that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company has identified four accounting policies that are critical accounting policies, and an understanding of these policies is necessary to understand the financial statements. These policies relate to determining the adequacy of the allowance for loan losses, the identification and evaluation of impaired loans, the impairment of goodwill and the realization of deferred tax assets. A detailed description of these accounting policies is contained in the Company's annual report on Form 10-K for the year ended December 31, 2009. There have been no significant changes in the application of these accounting policies since December 31, 2009.

Management believes that the judgments, estimates and assumptions used in the preparation of the consolidated financial statements are appropriate given the factual circumstances at the time.

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D. Liquidity

Liquidity objectives for the Company can be expressed in terms of maintaining sufficient cash flows to meet both existing and unplanned obligations in a cost effective manner. Adequate liquidity allows the Company to meet the demands of both the borrower and the depositor on a timely basis, as well as pursuing other business opportunities as they arise. Thus, liquidity management embodies both an asset and liability aspect while attempting to maximize profitability. In order to provide for funds on a current and long-term basis, the Company's subsidiary banks rely primarily on the following sources:

1. Core deposits consisting of both consumer and commercial deposits and certificates of deposit of $100,000 or more. Management believes that the majority of its $100,000 or more certificates of deposit are no more volatile than its other deposits. This is due to the nature of the markets in which the subsidiaries operate.

2. Cash flow generated by repayment of loans and interest.

3. Arrangements with correspondent banks for purchase of unsecured federal funds.

4. The sale of securities under repurchase agreements and borrowing from the Federal Home Loan Bank.

5. Maintenance of an adequate available-for-sale security portfolio. The Company owns $253.9 million of securities at fair value as of March 31, 2010.

The cash flow statements for the periods presented in the financial statements provide an indication of the Company's sources and uses of cash as well as an indication of the ability of the Company to maintain an adequate level of liquidity.

E. Capital

At March 31, 2010, total shareholders' equity of $129.8 million was 11.9% of total assets. This compares to total shareholders' equity of $128.6 million or 11.7% of total assets on December 31, 2009.

Tier I capital totaled $96.2 million at March 31, 2010, which represents a Tier I leverage ratio of 9.1%. This ratio is up slightly from the 8.9% at December 31, 2009 as the growth in Tier I capital was divided by a decrease in total assets during the first quarter of 2010.

Book value per common share was $13.61 at March 31, 2010, and $13.46 at December 31, 2009. The increase in book value per share was the result of the $0.25 per share earned during the quarter less the $0.11 per share common dividend and the $332,000 of preferred stock dividends and accretion. Also increasing the book value per share was $75,000 of other comprehensive income for the first three months of 2010 related to the after tax increase in the market value of investment securities available for sale.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company currently does not engage in any derivative or hedging activity. Refer to the Company's 2009 10-K for analysis of the interest rate sensitivity. The Company believes there have been no significant changes in the interest rate sensitivity since previously reported on the Company's 2009 10-K.

Item 4(T). Controls and Procedures

A. Disclosure Controls & Procedures

Premier management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to the Securities and Exchange Act of 1934 Rule 13a-15c as of the end of the period covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion.

B. Changes in Internal Controls over Financial Reporting

There were no changes in internal controls over financial reporting during the first fiscal quarter that have materially affected or are reasonably likely to materially affect Premier's internal controls over financial reporting.

C. Inherent Limitations on Internal Control

"Internal controls" are procedures, which are designed with the objective of providing reasonable assurance that (1) transactions are properly authorized; (2) assets are safeguarded against unauthorized or improper use; and (3) transactions are properly recorded and reported, all so as to permit the preparation of reports and financial statements in conformity with generally accepted accounting principles. However, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their cost. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Finally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings None

Item 1A. Risk Factors

Please refer to Premier's Annual Report on Form 10-K for the year ended December 31, 2009 for disclosures with respect to Premier's risk factors at December 31, 2009. There have been no material changes since year-end 2009 in the specified risk factors disclosed in the Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds None

Item 3. Defaults Upon Senior Securities None

Item 4. Submission of Matters to a vote of Security Holders None

Item 5. Other Information None

Item 6. Exhibits

(a) The following exhibits are furnished in accordance with the provisions of Item 601 of Regulation S-K.

2.1 Branch Purchase Agreement by and between Integra Bank National Association and Citizens Deposit Bank and Trust, Inc. dated April 29, 2010 filed as Exhibit 2.1 to Premier's Form 8-K dated April 27, 2010 is incorporated herein by reference.

2.2 Loan Purchase Agreement by and between Integra Bank National Association and Citizens Deposit Bank and Trust, Inc. dated April 29, 2010 filed as Exhibit 2.2 to Premier's Form 8-K dated April 27, 2010 is incorporated herein by reference.

10.1 Amendment 1 to the Agreement for Account Processing Outsourcing Services between Premier Financial Bancorp, Inc. and Fiserv Solutions, Inc. dated April 27, 2010 filed as Exhibit 10.1 to Premier's Form 8-K dated April 27, 2010 is incorporated herein by reference.

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification Pursuant to 18 U.S.C §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

PREMIER FINANCIAL BANCORP, INC.

Date: May 14, 2010 /s/ Robert W. Walker
Robert W. Walker
President & Chief Executive Officer

Date: May 14, 2010 /s/ Brien M. Chase
Brien M. Chase
Senior Vice President & Chief Financial Officer