

PREMIER FINANCIAL BANCORP INC  
Form 10-Q  
August 15, 2011

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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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 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 ☒ 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 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 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)

Accelerated filer ☐.

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Large accelerated filer  
o.

Non-accelerated filer  
o  
(Do not check if  
smaller reporting  
company)

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

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 August 1, 2011

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PREMIER FINANCIAL BANCORP, INC.  
JUNE 30, 2011  
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JUNE 30, 2011

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, 2010 for further information in this regard.

Index to consolidated financial statements:

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PREMIER FINANCIAL BANCORP, INC.  
CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2011 AND DECEMBER 31, 2010  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	(UNAUDITED)	
	2011	2010
<b>ASSETS</b>		
Cash and due from banks	\$ 37,946	\$20,001
Interest bearing bank balances	21,825	78,649
Federal funds sold	3,540	23,598
Cash and cash equivalents	63,311	122,248
Securities available for sale	300,577	256,520
Loans held for sale	1,409	1,477
Loans	704,022	725,964
Allowance for loan losses	(11,748 )	(9,865 )
Net loans	692,274	716,099
Federal Home Loan Bank and Federal Reserve Bank stock	5,835	7,096
Premises and equipment, net	16,332	16,566
Real estate and other property acquired through foreclosure	11,574	11,249
Interest receivable	3,424	3,742
Goodwill	29,875	29,875
Other intangible assets	3,769	4,185
Prepaid FDIC insurance premiums	1,602	2,068
Deferred taxes	7,613	10,743
Other assets	2,512	1,383
Total assets	\$ 1,140,107	\$ 1,183,251
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Non-interest bearing	\$ 196,535	\$214,665
Time deposits, \$100,000 and over	156,625	158,962
Other interest bearing	586,998	611,664
Total deposits	940,158	985,291
Federal fund purchased	1,444	-
Securities sold under agreements to repurchase	26,058	29,637
Federal Home Loan Bank advances	10,289	12,896
Other borrowed funds	19,158	20,178
Interest payable	848	899
Other liabilities	2,872	2,953
Total liabilities	1,000,827	1,051,854
<b>Stockholders' equity</b>		
Preferred stock, no par value; \$22,252 liquidation preference, 5% cumulative, 1,000,000 shares authorized; 22,252 shares issued and outstanding	21,895	21,841
Common stock, no par value; 20,000,000 shares authorized; 7,937,143 shares issued and outstanding	71,512	71,465
Retained earnings	41,616	39,526

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Accumulated other comprehensive income (loss)	4,257	(1,435 )
Total stockholders' equity	139,280	131,397
Total liabilities and stockholders' equity	\$ 1,140,107	\$1,183,251

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010  
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Interest income				
Loans, including fees	\$11,287	\$11,018	\$22,227	\$22,570
Securities available for sale				
Taxable	2,121	2,048	4,057	4,021
Tax-exempt	60	65	122	130
Federal funds sold and other	40	34	93	61
Total interest income	13,508	13,165	26,499	26,782
Interest expense				
Deposits	1,826	2,190	3,758	4,413
Repurchase agreements and other	40	39	87	82
FHLB advances and other borrowings	270	223	533	511
Total interest expense	2,136	2,452	4,378	5,006
Net interest income	11,372	10,713	22,121	21,776
Provision for loan losses	1,820	1,409	2,340	1,980
Net interest income after provision for loan losses	9,552	9,304	19,781	19,796
Non-interest income				
Service charges on deposit accounts	981	1,069	1,869	1,991
Electronic banking income	479	372	928	712
Secondary market mortgage income	52	95	140	184
Other	222	158	408	324
	1,734	1,694	3,345	3,211
Non-interest expenses				
Salaries and employee benefits	4,012	3,916	8,043	7,987
Occupancy and equipment expenses	1,282	1,193	2,518	2,332
Outside data processing	1,180	1,021	2,387	2,030
Professional fees	222	266	482	491
Taxes, other than payroll, property and income	222	257	415	513
Write-downs, expenses, sales of other real estate owned, net	323	312	407	467
Amortization of intangibles	205	135	415	278
Conversion expenses	463	-	842	-
FDIC insurance	469	417	977	872
Other expenses	1,338	1,038	2,537	2,095
	9,716	8,555	19,023	17,065
Income before income taxes	1,570	2,443	4,103	5,942
Provision for income taxes	541	224	1,403	1,410

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Net income	\$1,029	\$2,219	\$2,700	\$4,532
Preferred stock dividends and accretion	305	305	611	637
Net income available to common stockholders	\$724	\$1,914	\$2,089	\$3,895
Net income per share:				
Basic	\$0.09	\$0.24	\$0.26	\$0.49
Diluted	0.09	0.23	0.26	0.48

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010  
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net income	\$1,029	\$2,219	\$2,700	\$4,532
Other comprehensive income:				
Unrealized gains arising during the period	6,953	1,765	8,642	1,879
Reclassification of realized amount	(18 )	-	(18 )	-
Net change in unrealized gain (loss) on securities	6,935	1,765	8,624	1,879
Less tax impact	2,358	600	2,932	639
Other comprehensive income:	4,577	1,165	5,692	1,240
Comprehensive income	\$5,606	\$3,384	\$8,392	\$5,772

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED JUNE 30, 2011 AND 2010  
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2011	2010
Cash flows from operating activities		
Net income	\$2,700	\$4,532
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	748	732
Provision for loan losses	2,340	1,980
Amortization (accretion), net	(885 )	(1,617 )
OREO writedowns (gains on sales), net	32	1
Stock compensation expense	47	24
Loans originated for sale	(8,387 )	(8,331 )
Secondary market loans sold	8,606	8,612
Secondary market income	(140 )	(184 )
Gain on sale of buildings	-	(81 )
Gain on sale of securities	(18 )	-
Changes in :		
Interest receivable	318	194
Other assets	(476 )	316
Interest payable	(51 )	31
Other liabilities	197	99
Net cash from operating activities	5,031	6,308
Cash flows from investing activities		
Purchases of securities available for sale	(89,429 )	(130,360 )
Proceeds from the sale of securities available for sale	2,017	-
Proceeds from maturities and calls of securities available for sale	51,366	139,113
Redemption of FRB and FHLB stock, (net of purchases)	1,261	(398 )
Net change in loans	20,890	9,247
Purchases of premises and equipment, net	(514 )	28
Proceeds from sales of other real estate acquired through foreclosure	1,767	1,431
Net cash from investing activities	(12,642 )	19,061
Cash flows from financing activities		
Net change in deposits	(44,854 )	(20,117 )
Common Stock dividends paid	-	(1,746 )
Preferred Stock dividends paid	(834 )	(556 )
Net change in short-term Federal Home Loan Bank advances	(2,400 )	-
Repayment of Federal Home Loan Bank advances	(83 )	(4,085 )
Repayment of other borrowed funds	(1,020 )	(948 )
Net change in federal funds purchased	1,444	22
Net change in agreements to repurchase securities	(3,579 )	(3,152 )
Net cash from financing activities	(51,326 )	(30,582 )
Net change in cash and cash equivalents	(58,937 )	(5,213 )

Cash and cash equivalents at beginning of period	122,248	84,596
Cash and cash equivalents at end of period	\$63,311	\$79,383

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
SIX MONTHS ENDED JUNE 30, 2011 AND 2010  
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2011	2010
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	\$4,429	\$4,975
Cash paid during period for income taxes	2,305	1,350
Loans transferred to real estate acquired through foreclosure	2,124	1,841

See Accompanying Notes to Consolidated Financial Statements

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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 (the “Banks”):

Subsidiary	Location	Year Acquired	Total Assets	June 30, 2011 Net Income	
				Qtr	Six Mos
Citizens Deposit Bank & Trust	Vanceburg, Kentucky	1991	\$207,342	\$576	\$1,109
Farmers Deposit Bank	Eminence, Kentucky	1996	59,246	(67 )	(49 )
Ohio River Bank	Ironton, Ohio	1998	97,475	(113 )	123
Premier Bank, Inc.	Huntington, West Virginia	1998	767,654	1,134	2,440
Mt. Vernon Financial Holdings, Inc.	Huntington, West Virginia	1999	241	-	-
Parent and Intercompany Eliminations			8,148	(501 )	(923 )
Consolidated Total			\$1,140,107	\$1,029	\$2,700

All significant intercompany transactions and balances have been eliminated.

On April 8, 2011, Premier consummated the merger of five of its subsidiary banks to form Premier Bank, Inc., an \$820 million West Virginia chartered bank with 23 locations in West Virginia, Virginia, Washington, the District of Columbia and Maryland. Premier filed applications with state and federal banking regulatory authorities in September 2010 to merge two of its wholly owned West Virginia banks (First Central Bank and Traders Bank) and the two subsidiary banks obtained via the acquisition of Abigail Adams National Bancorp (Adams National Bank and Consolidated Bank & Trust) with and into Boone County Bank, also a West Virginia chartered bank under the name “Premier Bank, Inc.” In the first quarter of 2011, Premier received the required approvals from all federal and state banking regulatory authorities to go ahead with its plans. As of the close of business on Friday, April 8, 2011, the five banks were merged to form Premier Bank, Inc.

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

NOTE 1 - BASIS OF PRESENTATION- continued

Recently Issued Accounting Pronouncements

In April 2011, the FASB amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring. The amendments clarify the guidance for a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, the ASU clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor's ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. This guidance is effective for interim and annual reporting periods beginning after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly identified troubled debt restructurings, the amendments should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011. The adoption of this guidance is not expected to have a material effect on the Company's results of operations or financial position.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." The ASU requires entities to present items of net income and other comprehensive income either in one continuous statement - referred to as the statement of comprehensive income - or in two separate, but consecutive, statements of net income and other comprehensive income. The ASU is effective for the first interim period and annual period beginning after December 15, 2011. The adoption of this guidance is not expected to have a material impact upon the Corporation's financial statements.

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This ASU represents the converged guidance of the FASB and the IASB (the "Boards") on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. Included in the ASU are requirements to disclose additional quantitative disclosures about unobservable inputs for all Level 3 fair value measurements, as well as qualitative disclosures about the sensitivity inherent in recurring Level 3 fair value measurements. The ASU is effective during interim and annual periods beginning after December 15, 2011. The Corporation is currently evaluating the impact this new ASU will have on its financial statements.

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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 June 30, 2011 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. agency MBS - residential	\$30,685	\$2,092	\$-	\$32,777
U. S. agency CMO's - residential	201,122	3,007	(258 )	203,871
Total mortgage-backed securities of government sponsored agencies	231,807	5,099	(258 )	236,648
U. S. government sponsored agency securities	48,121	148	(6 )	48,263
Obligations of states and political subdivisions	9,864	373	(11 )	10,226
Other securities	4,335	1,169	(64 )	5,440
Total available for sale	\$294,127	\$6,789	\$(339 )	\$300,577

Amortized cost and fair value of investment securities, by category, at December 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	\$36,798	\$1,922	\$-	\$38,720
U. S. agency CMO's - residential	153,502	670	(5,388 )	148,784
Total mortgage-backed securities of government sponsored agencies	190,300	2,592	(5,388 )	187,504
U. S. government sponsored agency securities	52,912	154	(639 )	52,427
Obligations of states and political subdivisions	10,152	196	(42 )	10,306
Other securities	5,330	954	(1 )	6,283
Total available for sale	\$258,694	\$3,896	\$(6,070 )	\$256,520

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PREMIER FINANCIAL BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## NOTE 2–SECURITIES - continued

The amortized cost and fair value of securities at June 30, 2011 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	\$3,722	\$3,729
Due after one year through five years	29,352	29,641
Due after five years through ten years	25,469	25,668
Due after ten years	2,685	3,433
Corporate preferred securities	1,092	1,458
Mortgage-backed securities of government sponsored agencies	231,807	236,648
Total available for sale	\$294,127	\$300,577

Securities with unrealized losses at June 30, 2011 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
U.S. government sponsored agency securities	\$2,494	\$(6 )	\$-	\$-	\$2,494	\$(6 )
Obligations of states and political subdivisions	954	(11 )	-	-	954	(11 )
U.S. agency CMO-residential	35,822	(258 )			35,822	(258 )
Other securities	13	(64 )	-	-	13	(64 )
Total temporarily impaired	\$39,283	\$(339 )	\$-	\$-	\$39,283	\$(339 )



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PREMIER FINANCIAL BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## NOTE 2–SECURITIES - continued

Securities with unrealized losses at December 31, 2010 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 Fair Value	Unrealized Loss	12 Months or More Fair Value	Unrealized Loss	Fair Value	Total Unrealized Loss
U.S. government sponsored agency securities	\$ 28,724	\$ (639)	\$ -	\$ -	\$ 28,724	\$ (639)
Obligations of states and political subdivisions	1,987	(42)	-	-	1,987	(42)
U.S. government sponsored agency CMO-residential	1,012	(10)			1,012	(10)
U.S. agency CMO-residential	129,647	(5,378)			129,647	(5,378)
Other securities	443	(1)	-	-	443	(1)
Total temporarily impaired	\$161,813	\$ (6,070)	\$ -	\$ -	\$161,813	\$ (6,070)

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 June 30, 2011 and December 31, 2010 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.

## NOTE 3 - LOANS

Major classifications of loans at June 30, 2011 and December 31, 2010 are summarized as follows:

	2011	2010
Commercial, secured by real estate	\$318,666	\$319,048
Commercial, other	79,421	82,591
Real estate construction	35,218	48,213
Residential real estate, including home equity	228,735	233,513
Agricultural	2,553	2,564
Consumer	31,321	32,926
Other	8,108	7,109

\$704,022      \$725,964

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

## NOTE 3—LOANS - continued

Activity in the allowance for loan losses by portfolio segment for the six months ending June 30, 2011 was as follows:

Loan Class	Balance Dec 31, 2010	Provision for loan losses	Loans charged-off	Recoveries	Balance June 30, 2011
Residential real estate	\$2,666	\$152	\$168	\$16	\$2,666
Multifamily real estate	252	95	-	2	349
Commercial real estate:					
Owner occupied	1,141	(155 )	-	2	988
Non owner occupied	1,644	253	261	3	1,639
Commercial and industrial	2,421	2,218	16	8	4,631
Consumer	366	18	60	40	364
All other	1,375	(241 )	73	50	1,111
Total	\$9,865	\$2,340	\$578	\$121	\$11,748

Activity in the allowance for loan losses by portfolio segment for the three months ending June 30, 2011 was as follows:

Loan Class	Balance March 31, 2011	Provision for loan losses	Loans charged-off	Recoveries	Balance June 30, 2011
Residential real estate	\$2,760	\$(16 )	\$88	\$10	\$2,666
Multifamily real estate	303	44	-	2	349
Commercial real estate:					
Owner occupied	1,258	(270 )	-	-	988
Non owner occupied	1,896	(14 )	245	2	1,639
Commercial and industrial	2,262	2,369	-	-	4,631
Consumer	386	(5 )	32	15	364
All other	1,417	(288 )	33	15	1,111
Total	\$10,282	\$1,820	\$398	\$44	\$11,748

Changes in the allowance for loan losses for the three and six months ended June 30, 2010 are as follows:

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Balance, beginning of period	\$8,068	\$7,569
Gross charge-offs	(378 )	(583 )
Recoveries	102	235

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Provision for loan losses	1,409	1,980
Balance, end of period	\$ 9,201	\$ 9,201

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

## NOTE 3—LOANS - continued

The following table sets forth information with respect to the Company's nonperforming loans at June 30, 2011 and December 31, 2010.

	2011	2010
Non-accrual loans	\$51,387	\$47,131
Accruing loans which are contractually past due 90 days or more	308	414
Restructured loans	350	2,639
Total	\$52,045	\$50,184

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2011 and December 31, 2010. The recorded investment in non-accrual loans is less than the principal owed on non-accrual loans due to discounts applied to the carrying value of the loan at time of their acquisition and interest payments made by the borrower which have been used to reduce the recorded investment in the loan rather than recognized as interest income.

	Principal Owed on Non-accrual Loans	Recorded Investment in Non-accrual Loans	Loans Past Due Over 90 Days, still accruing
June 30, 2011			
Residential real estate	\$ 4,896	\$ 3,768	\$195
Multifamily real estate	10,788	8,598	-
Commercial real estate			
Owner occupied	13,158	11,143	-
Non owner occupied	9,841	7,710	-
Commercial and industrial	10,452	8,234	76
Consumer	82	80	13
All other	15,961	11,854	24
Total	\$ 65,178	\$ 51,387	\$308

	Principal Owed on Non-accrual Loans	Recorded Investment in Non-accrual Loans	Loans Past Due Over 90 Days, still accruing
December 31, 2010			
Residential real estate	\$ 4,845	\$ 3,764	\$80
Multifamily real estate	6,764	4,742	-
Commercial real estate			
Owner occupied	12,680	10,493	-
Non owner occupied	14,624	12,081	-

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Commercial and industrial	7,939	5,813	319
Consumer	15	15	15
All other	14,805	10,223	-
Total	\$ 61,672	\$ 47,131	\$414

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## NOTE 3—LOANS - continued

Nonaccrual loans and impaired loans are defined differently. Some loans may be included in both categories, and some may only be included in one category. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table presents the aging of the recorded investment in past due loans as of June 30, 2011 by class of loans:

Loan Class	Total Loans	30-89 Days Past Due	Greater than 90 days past due	Total Past Due	Loans Not Past Due
Residential real estate	\$228,735	\$3,832	\$2,551	\$6,383	\$222,352
Multifamily real estate	37,443	1,434	5,617	7,051	30,392
Commercial real estate:					
Owner occupied	107,535	2,410	5,768	8,178	99,357
Non owner occupied	159,244	1,285	3,785	5,070	154,174
Commercial and industrial	79,421	400	7,563	7,963	71,458
Consumer	31,321	428	72	500	30,821
All other	60,323	2,269	11,851	14,120	46,203
Total	\$704,022	\$12,058	\$37,207	\$49,265	\$654,757

The following table presents the aging of the recorded investment in past due loans as of December 31, 2010 by class of loans:

Loan Class	Total Loans	30-89 Days Past Due	Greater than 90 days past due	Total Past Due	Loans Not Past Due
Residential real estate	\$233,513	\$5,902	\$2,266	\$8,168	\$225,345
Multifamily real estate	41,037	4,471	2,140	6,611	34,426
Commercial real estate:					
Owner occupied	106,924	5,638	5,797	11,435	95,489
Non owner occupied	155,839	1,141	6,907	8,048	147,791
Commercial and industrial	82,591	1,216	5,965	7,181	75,410
Consumer	32,926	395	29	424	32,502
All other	73,134	4,852	10,203	15,055	58,079
Total	\$725,964	\$23,615	\$33,307	\$56,922	\$669,042





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## NOTE 3—LOANS - continued

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2011:

Loan Class	Allowance for Loan Losses			Loan Balances		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Residential real estate	\$119	\$2,547	\$2,666	\$319	\$228,416	\$228,735
Multifamily real estate	2	347	349	7,804	29,639	37,443
Commercial real estate:						
Owner occupied	216	772	988	12,268	95,267	107,535
Non-owner occupied	386	1,253	1,639	8,030	151,214	159,244
Commercial and industrial	3,741	890	4,631	8,564	70,857	79,421
Consumer	22	342	364	41	31,280	31,321
All other	378	733	1,111	13,107	47,216	60,323
Total	\$4,864	\$6,884	\$11,748	\$50,133	\$653,889	\$704,022

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2010:

Loan Class	Allowance for Loan Losses			Loan Balances		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Residential real estate	\$48	\$2,618	\$2,666	\$207	\$233,306	\$233,513
Multifamily real estate	-	252	252	4,742	36,295	41,037
Commercial real estate:						
Owner occupied	280	861	1,141	11,892	95,032	106,924
Non-owner occupied	619	1,025	1,644	12,220	143,619	155,839
Commercial and industrial	1,389	1,032	2,421	8,544	74,047	82,591
Consumer	23	343	366	43	32,883	32,926
All other	163	1,212	1,375	11,452	61,682	73,134
Total	\$2,522	\$7,343	\$9,865	\$49,100	\$676,864	\$725,964



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## NOTE 3—LOANS - continued

The following table presents the average balance of loans individually evaluated for impairment and interest income recognized on these loans for the six months ended June 30, 2011:

Loan Class	Six months ended June 30, 2011		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
Residential real estate	\$281	\$ 84	\$ 93
Multifamily real estate	6,748	16	16
Commercial real estate:			
Owner occupied	11,949	25	26
Non-owner occupied	10,147	30	32
Commercial and industrial	8,441	189	192
Consumer	41	4	4
All other	12,865	25	25
Total	\$50,472	\$ 373	\$ 388

The following table presents the average balance of loans individually evaluated for impairment and interest income recognized on these loans for the three months ended June 30, 2011:

Loan Class	Three months ended June 30, 2011		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
Residential real estate	\$319	\$ 82	\$ 91
Multifamily real estate	7,751	16	16
Commercial real estate:			
Owner occupied	11,977	12	12
Non-owner occupied	9,111	23	24
Commercial and industrial	8,390	16	18
Consumer	40	3	3
All other	13,571	19	17
Total	\$51,159	\$ 171	\$ 181

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## NOTE 3—LOANS - continued

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2011:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	\$-	\$-	\$-
Multifamily real estate	9,802	7,722	-
Commercial real estate			
Owner occupied	11,514	9,541	-
Non owner occupied	8,329	6,559	-
Commercial and industrial	4,625	3,256	-
All other	12,304	8,202	-
	46,574	35,280	-
With an allowance recorded:			
Residential real estate	\$319	\$319	\$119
Multifamily real estate	82	82	2
Commercial real estate			
Owner occupied	2,769	2,727	216
Non owner occupied	1,821	1,470	386
Commercial and industrial	6,565	5,308	3,741
Consumer	41	41	22
All other	4,908	4,906	378
	16,505	14,853	4,864
Total	\$63,079	\$50,133	\$4,864

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	\$207	\$10	\$-
Multifamily real estate	6,764	4,742	-
Commercial real estate			
Owner occupied	10,437	8,720	-
Non owner occupied	6,338	5,105	-
Commercial and industrial	5,043	3,837	-
All other	13,868	9,289	-
	42,657	31,703	-

With an allowance recorded:			
Residential real estate	\$197	\$197	\$48
Commercial real estate			
Owner occupied	3,596	3,172	280
Non owner occupied	8,484	7,115	619
Commercial and industrial	5,891	4,707	1,389
Consumer	43	43	23
All other	2,165	2,163	163
	20,376	17,397	2,522
Total	\$63,033	\$49,100	\$2,522

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## NOTE 3—LOANS - continued

## Troubled Debt Restructurings

A loan is classified as a troubled debt restructuring ("TDR") when a concession is granted to the borrower that would not have otherwise been considered due to a borrower's financial difficulties. Most of the Company's TDRs involve a restructuring of loan terms to reduce the payment amount and/or to require only interest for a period prior to maturity. The following table presents TDR's as of June 30, 2011 and December 31, 2010:

June 30, 2011	TDR's on Non-accrual	Other TDR's	Total TDR's
Residential real estate	\$ 59	\$ 354	\$413
Non owner occupied	-	98	98
Commercial and industrial	-	4	4
Consumer	17	5	22
Total	\$ 76	\$461	\$537

December 31, 2010	TDR's on Non-accrual	Other TDR's	Total TDR's
Residential real estate	\$ -	\$ 1,078	\$ 1,078
Multifamily real estate	-	-	-
Commercial real estate			
Owner occupied	-	365	365
Non owner occupied	-	511	511
Commercial and industrial	-	292	292
Consumer	-	3	3
All other	-	390	390
Total	\$ -	\$ 2,639	\$2,639

At June 30, 2011, \$15,000 in specific reserves was allocated to loans that had restructured terms. At December 31, 2010, \$5,000 in specific reserves was allocated to loans that had restructured terms.

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NOTE 3—LOANS - continued

Credit Quality Indicators:

The Company categorizes 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. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a monthly basis. The Company uses the following definitions for risk ratings:

**Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, 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.

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## NOTE 3—LOANS - continued

As of June 30, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

Loan Class	Pass	Special Mention	Substandard	Doubtful	Total Loans
Residential real estate	\$206,445	\$10,007	\$11,964	\$319	\$228,735
Multifamily real estate	21,376	6,489	9,578	-	37,443
Commercial real estate:					
Owner occupied	81,722	7,420	18,002	391	107,535
Non-owner occupied	140,765	4,852	13,627	-	159,244
Commercial and industrial	58,877	11,873	8,611	60	79,421
Consumer	30,872	331	77	41	31,321
All other	44,047	2,939	12,764	573	60,323
Total	\$584,104	\$43,911	\$74,623	\$1,384	\$704,022

As of December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

Loan Class	Pass	Special Mention	Substandard	Doubtful	Total Loans
Residential real estate	\$210,519	\$13,696	\$9,091	\$207	\$233,513
Multifamily real estate	24,231	5,955	10,851	-	41,037
Commercial real estate:					
Owner occupied	79,147	11,024	16,373	380	106,924
Non-owner occupied	136,019	3,086	16,734	-	155,839
Commercial and industrial	56,842	17,112	8,524	113	82,591
Consumer	32,537	233	113	43	32,926
All other	57,106	4,336	11,119	573	73,134
Total	\$596,401	\$55,442	\$72,805	\$1,316	\$725,964



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## NOTE 4 – FEDERAL HOME LOAN BANK ADVANCES

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

Advances from the FHLB at June 30, 2011 and December 31, 2010 were as follows:

	2011	2010
Payments due at maturity in March 2012, fixed rate at 1.81%	\$ 10,167	\$ 10,291
Payments due monthly with maturities from November 2011 to July 2012, fixed rates from 4.10% to 4.40%, averaging 4.26%	122	205
Overnight borrowed funds	-	2,400
	\$ 10,289	\$ 12,896

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 June 30, 2011 are as follows:

2011 (remaining six months)	\$ 202
2012	10,087
2013	-
2014	-
2015	-
Thereafter	-
	\$ 10,289

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**NOTE 5 - 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 2011 the Banks could, without prior approval, declare dividends of approximately \$1.3 million plus any 2011 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 June 30, 2011, 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:

	June 30, 2011		December 31, 2010		Regulatory Minimum Requirements		To Be Considered Well Capitalized	
Tier I Capital (to Risk-Weighted Assets)	14.9	%	14.1	%	4.0	%	6.0	%
Total Capital (to Risk-Weighted Assets)	16.1	%	15.3	%	8.0	%	10.0	%
Tier I Capital (to Average Assets)	8.9	%	8.5	%	4.0	%	5.0	%

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 at least two years.

As of June 30, 2011, 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. To be categorized as well capitalized, the Banks must maintain



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NOTE 5 - STOCKHOLDERS' EQUITY AND REGULATORY MATTERS - continued

minimum Total risk-based, Tier I risk-based and Tier I leverage ratios as 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 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. Adams National Bank was merged into Premier Bank, Inc. on April 8, 2011. With the surrender of the Adams National Bank charter as part of the merger to form Premier Bank, the October 1, 2008 Written Agreement between Adams National Bank and the OCC ceased to have any future effect on the Company or Premier Bank.

On July 29, 2010, Consolidated Bank and Trust Company ("CB&T" or "the Bank"), a wholly owned subsidiary of Premier, the Federal Reserve Bank of Richmond ("FRB") and the State Corporation Commission Bureau of Financial Institutions ("Virginia Bureau") entered into a written agreement ("Written Agreement") requiring CB&T to perform certain actions primarily designed to improve the credit quality of the Bank. Abigail Adams National Bancorp, Inc. ("AANBI"), as parent of CB&T, and Premier, as parent of AANBI, were also named as parties to the Written Agreement to ensure that the Bank complies with the Written Agreement. On April 8, 2011, CB&T was merged into Premier Bank, Inc. As such, the provisions of the Written Agreement that applied to the Bank are no longer in effect.

In addition to ensuring the Bank complied with provisions of the Written Agreement, Premier is also specifically subject to a provision requiring prior written approval of the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors of the Federal Reserve System for declaring or paying any dividends, and a provision requiring prior written approval of the FRB before incurring, increasing or guaranteeing any debt or purchasing or redeeming any shares of its stock.

The dividend rights of holders of Premier's common shares are also qualified and subject to the dividend rights of holders of Premier's Series A Preferred Shares. Due to restrictions placed on it by the Federal Reserve Board of Governors in conjunction with the July 29, 2010 Written Agreement between Consolidated Bank & Trust and the FRB, Premier deferred its November 15, 2010 and February 15, 2011 quarterly dividends on its Series A Preferred Shares. On May 13, 2011, Premier was given permission by the FRB and the Board of Governors to pay the deferred November 15, 2010 and February 15, 2011 quarterly dividends on its Series A Preferred Shares in conjunction with the regularly scheduled May 15, 2011 dividend payment.

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NOTE 6 – 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. As previously disclosed, Premier has already deferred two dividend payments on the Series A Preferred Stock as a result of the Federal Reserve Board’s refusal to initially approve the November 15, 2010 and February 15, 2011 dividends under the Written Agreement dated July 29, 2010, among CB&T, a wholly owned subsidiary of Premier; the FRB, and the Virginia Bureau. These deferred dividends were paid along with the regularly scheduled May 15, 2011 Series A Preferred Stock quarterly dividend.

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## NOTE 6 – 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 June 30, 2011, 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 7 – 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 16, 2011, 102,000 incentive stock options were granted out of the 2002 Employee Stock Option Plan at an exercise price of \$6.95, the closing market price of Premier on the grant date. These options vest in three equal annual installments ending on March 16, 2014. On March 17, 2010, 47,700 incentive stock options were granted out of the 2002 Plan at an exercise price of \$8.90. 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.

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

	2011		2010		2009	
Risk-free interest rate	3.58	%	3.65	%	2.74	%
Expected option life (yrs)	10.00		10.00		10.00	
Expected stock price volatility	30.01	%	24.67	%	19.26	%
Dividend yield	4.03	%	4.94	%	6.72	%
Weighted average fair value of options granted during the year	\$ 1.63		\$ 1.41		\$0.37	

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## NOTE 7– 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 dividend yield was estimated using historical dividends and dividend yields since at the time of the option grant the Company is restricted from paying dividends by its primary regulator.

Compensation expense of \$47,000 was recorded for the first six months of 2011 compared to \$24,000 for the first six months of 2010. For the three months ended June 30, \$30,000 was recorded for 2011 while \$14,000 was recorded for 2010. 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 \$150,000 at June 30, 2011. This unrecognized expense is expected to be recognized over the next 32 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 June 30:

	----- 2011 -----		----- 2010 -----	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	255,649	\$10.77	212,449	\$11.18
Grants	102,000	6.95	47,700	8.90
Exercises	-	-	-	-
Forfeitures or expired	-	-	(2,000 )	12.42
Outstanding at June 30,	357,649	\$9.68	258,149	\$10.75
Exercisable at June 30,	209,996		165,699	
Weighted average remaining life of options outstanding	6.9		6.9	
Weighted average fair value of options granted during the year	\$1.63		\$1.41	

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

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## NOTE 7 – STOCK COMPENSATION EXPENSE - continued

Additional information regarding stock options outstanding and exercisable at June 30, 2011, is provided in the following table:

Range of Exercise Prices	----- Outstanding -----			----- Currently Exercisable -----			
	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	231,216	\$ 7.53	\$ 50	83,563	5.4	\$ 7.93	\$ 19
\$10.01 to \$12.50	28,333	11.62	-	28,333	3.6	11.62	-
\$12.51 to \$15.00	70,600	13.46	-	70,600	6.2	13.46	-
\$15.01 to \$17.50	27,500	16.00	-	27,500	4.6	16.00	-
Outstanding – June 30, 2011	357,649	9.68	\$ 50	209,996	5.3	11.34	\$ 19

## NOTE 8 – 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 June 30, 2011 and 2010 is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Basic earnings per share				
Income available to common stockholders	\$724	\$1,914	\$2,089	\$3,895
Weighted average common shares outstanding	7,937	7,937	7,937	7,937
Earnings per share	\$0.09	\$0.24	\$0.26	\$0.49
Diluted earnings per shares				
Income available to common stockholders	\$724	\$1,914	\$2,089	\$3,895
Weighted average common shares outstanding	7,937	7,937	7,937	7,937
Add dilutive effects of potential additional common stock	176	261	159	234
Weighted average common and dilutive potential common shares outstanding	8,113	8,198	8,096	8,171
Earnings per share assuming dilution	\$0.09	\$0.23	\$0.26	\$0.48



Stock options for 209,049 and 197,299 shares of common stock were not considered in computing diluted earnings per share for the three months ended June 30, 2011 and 2010 because they were antidilutive.

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PREMIER FINANCIAL BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 9 – 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).

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## NOTE 9 – 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 June 30, 2011 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	\$32,777	\$-	\$32,777	\$ -
U. S. agency CMO's - residential	203,871	-	203,871	-
Total mortgage-backed securities of government sponsored agencies	236,648	-	236,648	-
U. S. government sponsored agency securities	48,263	-	48,263	-
Obligations of states and political subdivisions	10,226	-	10,086	140
Other securities	5,440	-	5,440	-
Total available for sale	\$300,577	\$-	\$300,437	\$ 140

		Fair Value Measurements at December 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	\$38,720	\$-	\$38,720	\$ -
U. S. agency CMO's - residential	148,784	-	148,784	-
Total mortgage-backed securities of government sponsored agencies	187,504	-	187,504	-
U. S. government sponsored agency securities	52,427	-	52,427	-

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Obligations of states and political subdivisions	10,306	-	10,166	140
Other securities	6,283	-	6,283	-
Total available for sale	\$256,520	\$-	\$256,380	\$ 140

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## NOTE 9 – FAIR VALUE - continued

The carrying amounts and estimated fair values of financial instruments at June 30, 2011 and December 31, 2010 were as follows:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash and due from banks	\$59,771	\$59,771	\$98,650	\$98,650
Federal funds sold	3,540	3,540	23,598	23,598
Securities available for sale	300,577	300,577	256,520	256,520
Loans held for sale	1,409	1,409	1,477	1,477
Loans, net	692,274	696,458	716,099	715,992
Federal Home Loan Bank and Federal Reserve Bank stock	5,835	n/a	7,096	n/a
Interest receivable	3,424	3,424	3,742	3,742
<b>Financial liabilities</b>				
Deposits	\$(940,158 )	\$(944,427 )	\$(985,291 )	\$(986,261 )
Federal funds purchased	(1,444 )	(1,444 )	-	-
Securities sold under agreements to repurchase	(26,058 )	(26,058 )	(29,637 )	(29,637 )
Federal Home Loan Bank advances	(10,289 )	(10,420 )	(12,896 )	(13,045 )
Other borrowed funds	(19,158 )	(19,128 )	(20,178 )	(20,148 )
Interest payable	(848 )	(848 )	(899 )	(899 )

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.



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## NOTE 9 – 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 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 June 30, 2011 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	June 30, 2011			
Assets:				
Impaired loans:		\$-	\$-	
Residential Real Estate	\$ 200	\$-	\$-	\$ 200
Multifamily Real Estate	80	-	-	80
Commercial Real Estate				
Owner Occupied	2,511	-	-	2,511
Non-owner Occupied	1,084	-	-	1,084
Commercial and Industrial	1,567	-	-	1,567
Consumer	19	-	-	19
All Other	4,528	-	-	4,528
Total impaired loans	9,989	\$-	\$-	\$ 9,989
Other real estate owned:				
Residential Real Estate	\$ 830	\$-	\$-	\$ 830
Multifamily Real Estate	3,376	-	-	3,376
Commercial Real Estate				
Owner Occupied	243	-	-	243
Non-owner Occupied	3,156	-	-	3,156
Commercial and Industrial	55	-	-	55
All Other	3,914	-	-	3,914
Total OREO	\$ 11,574	\$-	\$-	\$ 11,574





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## NOTE 9 – FAIR VALUE - continued

	Dec 31, 2010	Fair Value Measurements at December 31, 2010 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans:		\$-	\$-	
Residential Real Estate	\$ 149	\$-	\$-	\$ 149
Multifamily Real Estate	-	-	-	-
Commercial Real Estate				
Owner Occupied	2,892	-	-	2,892
Non-owner Occupied	6,496	-	-	6,496
Commercial and Industrial	3,318	-	-	3,318
Consumer	20	-	-	20
All Other	2,000	-	-	2,000
Total impaired loans	\$ 14,875	\$-	\$-	\$ 14,875
Other real estate owned				
Residential Real Estate	\$ 818	\$-	\$-	\$ 818
Multifamily Real Estate	3,385	-	-	3,385
Commercial Real Estate				
Owner Occupied	352	-	-	352
Non-owner Occupied	2,778	-	-	2,778
Commercial and Industrial	66	-	-	66
All Other	3,850	-	-	3,850
Total OREO	\$ 11,249	\$-	\$-	\$ 11,249

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$14,853,000 at June 30, 2011 with a valuation allowance of \$4,864,000 and a carrying amount of \$17,397,000 at December 31, 2010 with a valuation allowance of \$2,522,000, resulting in a provision for loan losses of \$2,342,000 for the six months ended June 30, 2011, compared to a \$942,000 provision for loan losses for the six months ended June 30, 2010; and a \$2,327,000 provision for loan losses for the three months ended June 30, 2011, compared to a \$769,000 provision for loan losses for the three months ended June 30, 2010. The detail of impaired loans by loan class is contained in Note 3 above.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of \$11,574,000, which is made up of the outstanding balance of \$12,338,000, net of a valuation allowance of \$764,000 at June 30, 2011, resulting in write downs of \$362,000 for the six months ended June 30, 2011 and \$76,000 for the three months ended

June 30, 2011. At December 31, 2010, other real estate owned had a net carrying amount of \$11,249,000, made up of the outstanding balance of \$11,659,000, net of a \$410,000 valuation allowance.

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NOTE 10 – SUBSEQUENT EVENTS

On July 14, 2011, Premier submitted a request to the FRB for written approval from the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors to declare and pay its quarterly dividend obligation to the U.S. Treasury due on August 15, 2011. In a letter dated July 21, 2011, the FRB and Board of Governors approved Premier's July 14, 2011 request to pay the current \$278,150 dividend due August 15, 2011. See Note 6 for additional details on Premier's Series A, Fixed Rate Cumulative Perpetual Preferred Stock.

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PREMIER FINANCIAL BANCORP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011

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," "believe," "anticipate," "estimate," "expect," "intend," "plan," "project," "predict," "continue" and similar expressions are intended to identify 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 six months ended June 30, 2011 was \$2,700,000, or \$0.26 per diluted share, compared to net income of \$4,532,000, or \$0.48 per diluted share, for the six months ended June 30, 2010. The decrease in net income in 2011 is largely due to a higher provision for loan losses, increased data processing and conversion expenses and expenses associated with the merger of five subsidiary banks to create Premier Bank, Inc. in the second quarter of 2011. These expense increases were partially offset by an increase in net interest income and non-interest income. The annualized returns on common shareholders' equity and average assets were approximately 3.67% and 0.45% for the six months ended June 30, 2011 compared to 7.09% and 0.82% for the same period in 2010. For the quarter ended June 30, 2011, annualized returns on average common shareholders' equity and average assets were approximately 2.53% and 0.35% compared to 6.96% and 0.81% for the same quarter of 2010.

Net income for the three month ended June 30, 2011 was \$1,029,000, or \$0.09 per share, compared to net income of \$2,219,000, or \$0.23 per diluted share, for the three months ended June 30, 2010. The decrease in income in 2011 is largely due to a higher provision for loan losses, increased data processing and conversion expenses, and expenses associated with the merger of five subsidiaries banks to create Premier Bank, Inc. These expense increases were partially offset by an increase in net interest income and non-interest income. The second quarter 2010 results were also enhanced by a decrease in income tax expense.

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PREMIER FINANCIAL BANCORP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011

Net interest income for the six months ended June 30, 2011 totaled \$22.12 million, up \$345,000, or 1.6%, from the \$21.78 million of net interest income earned in the first six months of 2010. Interest income in 2011 decreased by \$283,000, or 1.1%, largely due to a \$343,000 decrease in interest income on loans. Interest income on loans decreased due to lower average yields earned even as the average volume of loans outstanding increased compared to the first six months of 2010. The lower average yield earned on loans was made worse by an increase in loans placed on non-accrual status during the quarter, whereby the accrued interest on these loans was reversed against the current year's loan interest income. Interest earned on investments increased by \$28,000 due to a higher volume of investments, tempered by lower average yields on those investments. Interest earned on federal funds sold and interest bearing bank balances increased by \$32,000 largely due to a higher volume of assets held in this category and a slightly higher yield.

More than offsetting the decrease in interest income, interest expense decreased in total during the first six months of 2011 by \$628,000, or 12.5%, when compared to the same six months of 2010. Interest expense on deposits decreased by \$655,000, or 14.8%, largely due to a continuing decrease in the rates paid on deposits, although on a higher average balance of interest-bearing deposits outstanding. Interest expense on repurchase agreements and other short-term borrowings increased by \$5,000, largely due to a higher average balance outstanding. Interest expense on FHLB advances decreased by \$113,000, or 54.6%, due to a decrease in the average balance outstanding and the average rate paid due to the payoff of higher rate borrowings at maturity during the second quarter of 2010. Interest expense on other borrowings increased by \$135,000, or 44.4%, in the first six months of 2011 compared to the first six months of 2010, largely due to an increase in borrowings during the third quarter of 2010 at a slightly higher cost.

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 lower yield on the loans and investments, coupled with the higher rates paid on other borrowings, have combined to reduce Premier's overall net interest margin. Premier's net interest margin in the first six months of 2011 was 4.11% compared to 4.38% for the same period in 2010. A portion of the interest income on loans is the result of loans purchased at a discount being fully paid-off during the period. When a loan that has been discounted as a result being purchased in a business acquisition is paid-off, any remaining discount is recognized as interest income on loans. These events cannot be predicted with certainty and may positively or negatively affect interest income on loans in future months.

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PREMIER FINANCIAL BANCORP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011

Additional information on Premier's net interest income for the first six months of 2011 and 2010 is contained in the following table.

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

	Six Months Ended June 30, 2011				Six Months Ended June 30, 2010			
	Balance	Interest	Yield/Rate		Balance	Interest	Yield/Rate	
<b>Assets</b>								
<b>Interest Earning Assets</b>								
Federal funds sold and other	\$86,272	\$93	0.22	%	\$64,903	\$61	0.19	%
<b>Securities available for sale</b>								
Taxable	280,049	4,057	2.90		243,908	4,021	3.30	
Tax-exempt	8,318	122	4.44		8,397	130	4.69	
Total investment securities	288,367	4,179	2.94		252,305	4,151	3.34	
Total loans	712,433	22,227	6.29		687,921	22,570	6.62	
Total interest-earning assets	1,087,072	26,499	4.92	%	1,005,129	26,782	5.38	%
Allowance for loan losses	(10,255 )				(7,916 )			
Cash and due from banks	27,435				19,853			
Other assets	78,574				76,010			
Total assets	\$1,182,826				\$1,093,076			
<b>Liabilities and Equity</b>								
<b>Interest-bearing liabilities</b>								
Interest-bearing deposits	\$766,720	3,758	0.99		\$733,902	4,413	1.21	
Short-term borrowings	25,509	87	0.69		22,024	82	0.75	
FHLB advances	10,657	94	1.78		13,881	207	3.12	
Other borrowings	19,640	439	4.51		15,536	304	3.95	
Total interest-bearing liabilities	822,526	4,378	1.07	%	785,343	5,006	1.29	%
Non-interest bearing deposits	221,898				172,290			
Other liabilities	3,479				4,446			
Shareholders' equity	134,923				130,997			
Total liabilities and equity	\$1,182,826				\$1,093,076			
<b>Net interest earnings</b>								
		\$22,121				\$21,776		
Net interest spread			3.85	%			4.09	%
Net interest margin			4.11	%			4.38	%

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PREMIER FINANCIAL BANCORP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011

Additional information on Premier's net interest income for the second quarter of 2011 and second quarter of 2010 is contained in the following table.

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

	Three Months Ended June 30, 2011			Three Months Ended June 30, 2010			
	Balance	Interest	Yield/Rate	Balance	Interest	Yield/Rate	
<b>Assets</b>							
<b>Interest Earning Assets</b>							
Federal funds sold and other	\$72,662	\$40	0.22 %	\$66,559	\$34	0.20 %	
<b>Securities available for sale</b>							
Taxable	293,972	2,121	2.89	246,936	2,048	3.32	
Tax-exempt	8,262	60	4.40	8,327	65	4.73	
Total investment securities	302,234	2,181	2.93	255,263	2,113	3.36	
Total loans	706,158	11,287	6.41	683,509	11,018	6.47	
Total interest-earning assets	1,081,054	13,508	5.02 %	1,005,331	13,165	5.26 %	
Allowance for loan losses	(10,486 )			(8,150 )			
Cash and due from banks	30,497			19,509			
Other assets	77,079			75,863			
Total assets	\$1,178,143			\$1,092,553			
<b>Liabilities and Equity</b>							
<b>Interest-bearing liabilities</b>							
Interest-bearing deposits	\$761,236	1,826	0.96	\$732,456	2,190	1.20	
Short-term borrowings	23,732	40	0.68	20,037	39	0.78	
FHLB advances	10,203	47	1.85	12,885	71	2.39	
Other borrowings	19,386	223	4.61	15,296	152	3.99	
Total interest-bearing liabilities	814,557	2,136	1.05 %	780,674	2,452	1.26 %	
Non-interest bearing deposits	224,021			175,690			
Other liabilities	3,039			4,541			
Shareholders' equity	136,526			131,648			
Total liabilities and equity	\$1,178,143			\$1,092,553			
<b>Net interest earnings</b>							
		\$11,372			\$10,713		
Net interest spread			3.97 %			4.00 %	
Net interest margin			4.23 %			4.29 %	

Net interest income for the quarter ending June 30, 2011 totaled \$11.37 million, up \$659,000, or 6.2%, from the \$10.71 million of net interest income earned in the second quarter of 2010. Interest income in the second quarter of 2011 increased by \$343,000, or 2.6%, as a \$269,000 increase in interest income on loans was supported by a \$68,000 increase in interest income on investments. Interest income on loans increased largely due to a higher volume of loans outstanding while loan yields decreased slightly. A portion of the interest income on loans is the result of loans

purchased at a discount being fully paid-off during the period. When a loan that has been discounted as a result being purchased in a business acquisition is paid-off, any remaining discount is recognized as interest income on loans. These events cannot be predicted with certainty and may positively or negatively affect interest income on loans in future months. The lower average yield earned on loans was made worse by an increase in loans placed on non-accrual status during the quarter whereby the accrued interest on these loans was reversed against the current year's loan interest income. Interest earned on investments increased by \$68,000 due to a higher average volume of investments, although average yields on investments have decreased. Interest earned on federal funds sold and interest bearing bank balances increased by \$6,000 largely due to a higher average volume of assets held in this category and a slightly higher yield.



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PREMIER FINANCIAL BANCORP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011

Also adding to the increase in net interest income in the second quarter of 2011, interest expense decreased in total during the second quarter of 2011 by \$316,000, or 12.9%, when compared to the same quarter of 2010. Interest expense on deposits decreased by \$364,000, or 16.6%, largely due to a continuing decrease in the rates paid on deposits, although on a higher average balance of interest-bearing deposits. Interest expense on repurchase agreements and other short-term borrowings increased by \$1,000, largely due to a higher average balance outstanding, substantially offset by lower rates paid. Interest expense on FHLB advances decreased by \$24,000, due to a decrease in the average balance outstanding and the average rate paid due to the payoff of higher rate borrowings at maturity during the second quarter of 2010. Interest expense on other borrowings increased by \$71,000 in the second quarter of 2011 compared to the second quarter of 2010, largely due to an increase in borrowings during the third quarter of 2010 at a slightly higher cost. 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 lower yield on the loans and investments, coupled with the higher rates paid on other borrowings, have combined to reduce Premier's overall net interest margin. Premier's net interest margin during the second quarter of 2011 was 4.23% compared to 4.29% for the same period in 2010.

Non-interest income (including \$18,000 of gains on the sale of securities) increased by \$134,000, or 4.2%, to \$3,345,000 for the first six months of 2011 compared to the same period of 2010. Service charges on deposit accounts decreased by \$122,000, or 6.1%, as customers reduced their propensity to incur overdraft charges as they managed their checking accounts more closely during the economic downturn. Secondary market mortgage income decreased by \$44,000, 23.9%, in the first six months of 2011 when compared to the first six months of 2010 due to stricter underwriting criteria of secondary market mortgage purchasers resulting in longer timeframes for approval and fewer loans approved during the period of time. These decreases were more than offset by a \$216,000, or 30.3%, increase in electronic banking income (income from debit/credit cards, ATM fees and internet banking charges) and a \$66,000 increase in other non-interest income. 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. Other non-interest income increased largely due to increases in checkbook sales, safe deposit box rental income, credit life income, check cashing fees and letter of credit fees.

For the quarter ending June 30, 2011, non-interest income (including \$18,000 of gains on the sale of securities) increased \$40,000 to \$1,734,000 compared to \$1,694,000 recognized during the same quarter in 2010. Service charges on deposit accounts decreased by \$88,000, or 8.2%, and secondary market mortgage income decreased by \$43,000, or 45.3%. These decreases were more than offset by a \$107,000, or 28.8%, increase in electronic banking income and a \$46,000 increase in other non-interest income.

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Non-interest expenses for the first six months of 2011 totaled \$19.02 million, or 3.24% of average assets on an annualized basis, compared to \$17.07 million, or 3.15% of average assets for the same period of 2010. The \$1.95 million increase in non-interest expenses in 2011 when compared to the first six months of 2010 is largely due to \$842,000 of conversion expenses incurred during 2011, as Premier is changing its operating and customer delivery systems to a more unified platform to be completed in the third quarter of 2011. Also contributing to the increase in non-interest expenses in 2011 was a \$357,000, or 17.6%, increase in data processing expenses, a \$186,000, or 8.0% increase in occupancy and equipment expenses, a \$105,000, or 12.0% increase in FDIC insurance expense, an \$82,000 increase in supplies expense, a \$56,000, or 0.7% increase in staff costs, and a \$137,000, or 49.2% increase in core deposit amortization expense. Data processing expense has increased due to higher rates charged by Premier's data providers and an increase in the number of accounts processed. Occupancy and equipment expense increased due to \$81,000 in gains on the sale of three buildings in the first quarter of 2010, which served to reduce the reported expense for the first six months of 2010, plus expenses incurred in 2011 due to the upgrade of information technology equipment. FDIC insurance expense increased largely due to an increase in the assessed deposit base, resulting in part from the four branches acquired in the third quarter of 2010, while core deposit amortization expense increased due to the core deposit intangible assets associated with the same branch purchase in 2010. These expense increases were partially offset by a \$98,000, or 19.1%, decrease in equity based taxes and a \$60,000, or 12.8%, decrease in other real estate owned expenses.

Non-interest expenses for the second quarter of 2011 totaled \$9.72 million, or 3.31% of average assets on an annualized basis, compared to \$8.56 million, or 3.14% of average assets for the same period of 2010. The \$1.16 million increase in non-interest expenses in the second quarter of 2011 when compared to the second quarter of 2010 is largely due to \$463,000 of conversion expenses incurred during the second quarter of 2011. Also contributing to the increase in non-interest expenses in the second quarter of 2011 was a \$159,000, or 15.6%, increase in data processing expenses, an \$89,000, or 7.5%, increase in occupancy and equipment expenses, a \$96,000, or 2.5% increase in staff costs, a \$52,000, or 12.5% increase in FDIC insurance expense, an \$88,000 increase in supplies expense and a \$70,000, or 51.9%, increase in core deposit amortization expense. Data processing expense has increased due to higher rates charged by Premier's data providers and an increase in the number of accounts processed. Occupancy and equipment expense increased largely due to the upgrade of information technology equipment. FDIC insurance expense increased largely due to an increase in the assessed deposit base, resulting in part from the four branches acquired in the third quarter of 2010, while core deposit amortization expense increased due to the core deposit intangible assets associated with the same branch purchase in 2010. These expenses were partially offset by a \$44,000, or 16.5%, decrease in professional fees and a \$35,000, or 13.6%, decrease in equity based taxes.

Income tax expense was \$1.4 million for the first six months of 2011 compared to \$1.4 million for the first six months of 2010, although income before income taxes was 30.9% higher in the first six months of 2010. The effective tax rate for the six months ended June 30, 2011 was 34.2% compared to 23.7% for the same period in 2010. The lower proportional income tax expense and lower effective tax rate in 2010 is largely due to the recognition of a \$538,000, net of federal income tax expense, West Virginia income tax benefit resulting from Premier's projected ability to fully realize its West Virginia state deferred tax assets during the second quarter of 2010. The majority of the state deferred tax assets were made up of West Virginia net operating loss carryforwards, some of which were incurred as a result of Premier's historical operations and some of which were obtained from the Traders Bankshares acquisition in 2008. The 2010 projection took into account changes in West Virginia's corporation income tax rules regarding consolidated income tax returns and the likelihood that the projected taxable income from the Abigail Adams National Bancorp acquisition in 2009 would likely accelerate the utilization of all carryforwards. Income tax expense for the quarter ending June 30, 2011 was \$541,000, a 34.5% effective tax rate, compared to \$224,000, a 9.2% effective tax

rate) for the same period in 2010. The lower income tax expense in the second quarter of 2010 is directly related to the West Virginia income tax benefit detailed above.

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B. Financial Position

Total assets at June 30, 2011 decreased by \$43.1 million to just over \$1.140 billion from the \$1.183 billion at December 31, 2010. Likewise, earning assets decreased by \$56.0 million from the \$1.092 billion at year-end 2010 to end the quarter at \$1.036 billion. The decrease in earning assets was largely due to a decrease in interest bearing deposits with other banks as funds were used to satisfy \$45.1 million of deposit withdrawals.

Cash and due from banks at June 30, 2011 was \$37.9 million, a \$17.9 million increase from the \$20.0 million at December 31, 2010. The increase is largely the result of higher required cash reserves of the newly formed Premier Bank, Inc. than the sum of the reserve requirements of the individual five banks Premier merged together to form Premier Bank, Inc. Larger banks, such as Premier Bank, Inc., are required to have a higher percentage of cash reserves on hand than smaller banks, such as the five individual banks that were merged together. Interest bearing bank balances decreased by \$56.8 million from the \$78.6 million reported at December 31, 2010. Most of these bank balances were held in various Federal Reserve Bank accounts. These bank balances were reduced to fund deposit withdrawals during the second quarter and to fund the increase in the required cash reserves discussed above. Federal funds sold decreased by \$20.1 million to \$3.5 million at June 30, 2011. Changes in these 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 federal funds sold was part of Premier's management of its interest rate risk as the Company funded an increase in investment securities during the first six months of 2011.

Securities available for sale totaled \$300.6 million at June 30, 2011, a \$44.1 million increase from the \$256.5 million at December 31, 2010. The increase was largely due to the investment of surplus funds from the repayment or complete payoff of loans during the first six months of 2011 that exceeded the funding of new loans, plus the investment of additional funds previously held either in federal funds sold or interest bearing bank balances. During the first six months of 2011, Premier used surplus liquid assets to purchase bonds in the short- to mid-term maturity range in an effort to improve its overall yield on earning assets without unduly increasing interest rate risk. The investment portfolio is predominately high quality residential mortgage backed securities backed by the U.S. Government or Government sponsored agencies. Both; the unrealized gains at June 30, 2011 and the unrealized losses at December 31, 2010 are believed to be price changes resulting from decreases or increases in the long-term interest rate environment and management anticipates receiving all principal and interest on these investments as they mature or are called. Additional details on investment activities can be found in the Consolidated Statements of Cash Flows.

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Total loans at June 30, 2011 were \$704.0 million compared to \$726.0 million at December 31, 2010, a decrease of approximately \$22.0 million. The decrease in loans was largely due to loan payoffs and principal payments exceeding sluggish new loan demand during the first six months of 2011. New loan demand is minimal due to the slow pace of the economic recovery in 2011.

Deposits totaled \$940.2 million as of June 30, 2011, a \$45.1 million decrease from the \$985.3 million in deposits at December 31, 2010. The overall decrease in deposits is largely due to the withdrawal of \$37.6 million of funds by the District of Columbia government. Local government deposits are typically volatile deposits, as local governments routinely seek higher returns on their deposit accounts. Non-interest bearing deposits decreased by \$18.1 million during the first six months of 2011, as the DC government withdrawals exceeded the growth in non-interest bearing deposits during the period. Interest bearing time deposits \$100,000 and over decreased by \$2.3 million during the first six months of 2011, reversing some of the \$4.8 million decrease in interest bearing time deposits \$100,000 and over during the first quarter of 2011. Other interest bearing deposits decreased by \$24.7 million during the first six months of 2011, more than offsetting the \$3.9 million increase in all other interest bearing deposits during the first three months of 2011. A little over half of the decrease during the first six months of 2011 resulted from the DC government withdrawals. Similar to the decrease in total deposits, repurchase agreements with corporate and public entity customers decreased in the first six months of 2011, declining by \$3.6 million to \$26.1 million, reversing some of the \$7.2 million decrease in repurchase agreements during the first quarter of 2011. The Company also borrowed \$1.4 million in federal funds purchased on an overnight basis at June 30, 2011.

Federal Home Loan Bank (FHLB) advances declined by \$2.6 million in the first six months of 2011 due to regularly scheduled principal payments and Premier's bank subsidiaries repaying the \$2.4 million of overnight FHLB borrowings they had outstanding at December 31, 2010. Other borrowed funds decreased by \$1.0 million during the first six months of 2011 due to regularly scheduled principal payments plus accelerated principal payments. See [Note 4](#) 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 June 30, 2011 and December 31, 2010.

	(In Thousands)			
	2011		2010	
Non-accrual loans	\$51,387		\$47,131	
Accruing loans which are contractually past due 90 days or more	308		414	
Restructured	350		2,639	
Total non-performing loans	52,045		50,184	
Other real estate acquired through foreclosure (OREO)	11,574		11,249	
Total non-performing assets	\$63,619		\$61,433	
Non-performing loans as a percentage of total loans	7.39	%	6.91	%
Non-performing assets as a percentage of total assets	5.58	%	5.19	%



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Total non-performing loans have increased since year-end, largely due to an increase in non-accrual loans. During the first quarter of 2011, four large loan relationships totaling approximately \$10.7 million were placed on non-accrual status and processes put into place to begin foreclosure due to the borrowers' inability to continue to service their loans. Any accrued interest on these loans was reversed against current year interest income on loans. During the first six months of 2011, a total of \$14.3 million of loans have been placed on non-accrual status, while approximately \$7.9 million of payments and payoffs have been received on non-accrual loans during that time. The change in other real estate owned ("OREO") during the first six months of 2011 is largely due to the foreclosure of approximately \$2.1 million of loans partially offset by sales of \$1.4 million of OREO properties and writedowns of \$362,000. The writedowns were substantially offset by \$330,000 of gains on the disposition of the OREO sold. The significant level of non-accrual loans and OREO is due to the non-performing assets that came with the acquisition of Abigail Adams National Bancorp and its two subsidiary banks (the "Acquired Banks").

At December 31, 2010, the Acquired Banks accounted for \$48.7 million or 79.2% of Premier's non-performing assets while at June 30, 2011 the Acquired Banks accounted for \$47.4 million or 74.4% 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 the Traders Bank and Citizens First Bank acquisitions. The following table illustrates the face value of the non-performing assets of the Acquired Banks as of June 30, 2011 and December 31, 2010 and the discounted net carrying value of those non-performing assets.

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

	June 30, 2011		December 31, 2010	
	Face Value	Discounted Net Carrying Value	Face Value	Discounted Net Carrying Value
Non-performing Assets				
Non-accrual loans	\$49,024	\$39,712	\$52,337	\$41,480
Loans 90+ days past due	6	5	335	319
Other real estate owned	9,110	7,639	8,198	6,903
Total non-performing assets	\$58,140	\$47,356	\$60,870	\$48,702

(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.





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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 second quarter of 2011, the Company recorded \$1.8 million of provisions for loan losses compared to \$1.4 million of provisions for loan losses during the same quarter of 2010. The increase in the level of provision expense during the second quarter of 2011 was largely to provide for a calculated increase in exposure to credit risk related to one borrowing relationship in Premier's Kentucky market. The actual amount of realized losses, if any, has yet to be determined and may not be determined for some time into the future. However, in management's opinion, sufficient evidence existed in the second quarter to reduce the likelihood of full repayment and increase the related estimated credit risk. As the pace of economic recovery continues to be sluggish in Premier's markets, the ability of borrowers to consistently make their loan payments is increasingly being tested. Evidence of the increased credit risk includes higher levels of non-accrual loans, loan charge-offs and other real estate owned as a result of foreclosures. For the first six months of 2011, total provision for loan losses equaled \$2.3 million. This compares to \$2.0 million of provisions for loan losses during the first six months of 2010. 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 Appalachian 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 \$578,000 during the first six months of 2011. 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 six months of 2011 totaled \$121,000 resulting in net charge-offs for the first six months of 2011 of \$457,000. These amounts compare to the \$583,000 of gross charge-offs and \$235,000 of recoveries recorded during the first six months of 2010, resulting in net charge-offs of \$348,000. The allowance for loan losses at June 30, 2011 was 1.66% of total loans compared to 1.36% at December 31, 2010. The increase in the ratio is largely due to the \$2.3 million of additional provisions for loan losses exceeding the \$457,000 of net charge-offs recorded in the first six months of 2011 as well as the \$21.9 million decrease in total loans outstanding.

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, 2010. 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, 2010. There have been no significant changes in the application of these accounting policies since December 31, 2010.

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.

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:

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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 \$300.6 million of securities at fair value as of June 30, 2011.

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 June 30, 2011, total shareholders' equity of \$139.3 million was approximately 12.2% of total assets. This compares to total shareholders' equity of \$131.4 million or 11.1% of total assets on December 31, 2010.

Tier I capital totaled \$101.4 million at June 30, 2011, which represents a Tier I leverage ratio of approximately 8.9%. This ratio is up slightly from the 8.5% at December 31, 2010 as the growth in Tier I capital was divided by a decrease in total assets during the first six months of 2011.

Book value per common share was \$14.79 at June 30, 2011, and \$13.80 at December 31, 2010. The increase in book value per common share was the result of the \$0.26 per share earned during the first six months of 2011, less the approximately \$0.08 per share reduction for the \$611,000 of preferred stock dividends and related accretion. Also increasing the book value per share was \$5,692,000 of other comprehensive income for the first six months of 2011 related to the after tax increase in the market value of investment securities available for sale, which increased book value by approximately \$0.72 per share.

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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 2010 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 2010 10-K.

Item 4. 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, 2010 for disclosures with respect to Premier's risk factors at December 31, 2010. There have been no material changes since year-end 2010 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 [Removed and reserved]

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.

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

## 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: August 15, 2011 /s/ Robert W. Walker  
Robert W. Walker  
President & Chief Executive Officer

Date: August 15, 2011 /s/ Brien M. Chase  
Brien M. Chase  
Senior Vice President & Chief Financial Officer