PREMIER FINANCIAL BANCORP INC
Form 10-Q
May 10, 2013

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

FORM 10-Q

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from ___________ to ___________

Commission file number 000-20908

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

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

Registrant's telephone number (304) 525-1600

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

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

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

Accelerated filer o.

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

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

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

Common stock, no par value, – 7,963,892 shares outstanding at May 1, 2013

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PREMIER FINANCIAL BANCORP, INC.
MARCH 31, 2013

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, 2012 for further information in this regard.

Index to consolidated financial statements:

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2013 AND DECEMBER 31, 2012
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	(UNAUDITED) 2013	2012
ASSETS		
Cash and due from banks	$ 26,750	$ 32,473
Interest bearing bank balances	45,015	33,536
Federal funds sold	4,474	4,236
Cash and cash equivalents	76,239	70,245
Securities available for sale	275,408	283,975
Loans held for sale	490	200
Loans	700,536	704,625
Allowance for loan losses	(12,342)	(11,488)
Net loans	688,194	693,137
Federal Home Loan Bank stock, at cost	4,181	4,181
Premises and equipment, net	15,803	15,952
Real estate and other property acquired through foreclosure	13,098	13,366
Interest receivable	3,158	3,403
Goodwill	29,875	29,875
Other intangible assets	2,569	2,721
Deferred taxes	2,572	2,624
Other assets	164	1,108
Total assets	$ 1,111,751	$ 1,120,787
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 200,607	$ 198,084
Time deposits, $100,000 and over	146,605	146,198
Other interest bearing	589,207	586,301
Total deposits	936,419	930,583
Securities sold under agreements to repurchase	10,539	26,102
Other borrowed funds	15,522	16,049
Interest payable	447	489
Other liabilities	3,484	3,268
Total liabilities	966,411	976,491
Stockholders' equity		
Preferred stock, no par value; $12,000 liquidation preference, 5% cumulative, 1,000,000 shares authorized; 12,000 shares issued and outstanding	11,911	11,896
Common stock, no par value; 20,000,000 shares authorized; 7,962,693 shares issued and outstanding	72,895	72,849
Retained earnings	54,438	52,975
Accumulated other comprehensive income	6,096	6,576
Total stockholders' equity	145,340	144,296

Total liabilities and stockholders' equity	$ 1,111,751	$1,120,787

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31,	
	2013	2012
Interest income		
Loans, including fees	$9,760	$12,337
Securities available for sale		
Taxable	1,582	1,791
Tax-exempt	43	56
Federal funds sold and other	30	32
Total interest income	11,415	14,216
Interest expense		
Deposits	1,091	1,535
Repurchase agreements and other	12	26
FHLB advances and other borrowings	172	237
Total interest expense	1,275	1,798
Net interest income	10,140	12,418
Provision for loan losses	570	950
Net interest income after provision for loan losses	9,570	11,468
Non-interest income		
Service charges on deposit accounts	789	830
Electronic banking income	470	488
Secondary market mortgage income	94	25
Gain on disposition of securities	148	-
Other	144	174
	1,645	1,517
Non-interest expenses		
Salaries and employee benefits	3,592	3,963
Occupancy and equipment expenses	1,079	1,181
Outside data processing	820	872
Professional fees	156	284
Taxes, other than payroll, property and income	212	155
Write-downs, expenses, sales of other real estate owned, net	324	214
Amortization of intangibles	152	173
FDIC insurance	212	242
Loan collection expenses	137	669
Other expenses	703	841
	7,387	8,594
Income before income taxes	3,828	4,391
Provision for income taxes	1,324	1,561

Net income	$2,504	$2,830
Preferred stock dividends and accretion	(165)	(305)
Net income available to common stockholders	$2,339	$2,525
Net income per share:		
Basic	$0.29	$0.32
Diluted	0.28	0.31

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net income	$2,504	$2,830
Other comprehensive income:		
Unrealized gains (losses) arising during the period	(579)	1,006
Reclassification of realized amount	(148)	-
Net change in unrealized gain (loss) on securities	(727)	1,006
Less tax impact	247	(342)
Other comprehensive income (loss)	(480)	664
Comprehensive income	$2,024	$3,494

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED, DOLLARS IN THOUSANDS)

	2013	2012
Cash flows from operating activities		
Net income	$2,504	$2,830
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	337	362
Provision for loan losses	570	950
Amortization (accretion), net	359	(1,665)
OREO writedowns (gains on sales), net	(64)	(54)
Stock compensation expense	46	28
Loans originated for sale	(4,991)	(3,327)
Secondary market loans sold	4,795	2,475
Secondary market income	(94)	(25)
Gain on disposition of securities	(148)	-
Changes in :		
Interest receivable	245	44
Other assets	1,244	1,879
Interest payable	(43)	(55)
Other liabilities	216	(66)
Net cash from operating activities	4,976	3,376
Cash flows from investing activities		
Purchases of securities available for sale	(19,070)	(32,299)
Proceeds from maturities and calls of securities available for sale	26,640	10,255
Net change in loans	3,777	16,086
Purchases of premises and equipment, net	(191)	(377)
Proceeds from sales of other real estate acquired through foreclosure	1,127	727
Net cash from investing activities	12,283	(5,608)
Cash flows from financing activities		
Net change in deposits	5,851	23,173
Net change in agreements to repurchase securities	(15,563)	(1,571)
Repayment of Federal Home Loan Bank advances	-	(10,018)
Repayment of other borrowed funds	(527)	(517)
Common stock dividends paid	(876)	-
Preferred stock dividends paid	(150)	(278)
Net cash from financing activities	(11,265)	10,789
Net change in cash and cash equivalents	5,994	8,557
Cash and cash equivalents at beginning of period	70,245	82,888
Cash and cash equivalents at end of period	$76,239	$91,445

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED, DOLLARS IN THOUSANDS)

	2013	2012
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	$1,317	$1,853
Cash paid during period for income taxes	503	-
Loans transferred to real estate acquired through foreclosure	792	2,582

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		March 31, 2013 Net Income Qtr
Citizens Deposit Bank & Trust	Vanceburg, Kentucky	1991	$	367,713	$	1,181
Premier Bank, Inc.	Huntington, West Virginia	1998		736,277		1,765
Parent and Intercompany Eliminations				7,761		(442)
Consolidated Total			$	1,111,751	$	2,504

All significant intercompany transactions and balances have been eliminated.

Recently Issued Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (AOCI)." The amendment requires an entity to present the reclassification adjustments out of AOCI and into net income for each component reported. These amounts may be disclosed before-tax or after-tax, and must be disclosed in either the income statement or the notes to the financial statements. This update is intended to supplement changes made in 2012 to increase the prominence of items reported in other comprehensive income. The standard became effective for the Company on January 1, 2013. The adoption of this guidance resulted in the disclosures in Note 9 below and did not have a material impact upon the Company's financial statements.
In July 2012, the FASB amended existing guidance relating to testing indefinite-lived intangible assets for impairment. The amendment permits an assessment of qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, it is concluded that it is not more likely than not that the indefinite-lived intangible asset is impaired, then no further action is required. However, after the same assessment, if it is concluded that it is more likely than not that the indefinite-lived intangible asset is impaired, then a quantitative impairment test should be performed whereby the fair value of the indefinite-lived intangible asset is compared to the carrying amount. The amendments in this guidance are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact upon the Company's 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 March 31, 2013 are summarized as follows:

2013	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. sponsored agency MBS - residential	$31,987	$1,665	$-	$33,652
U. S. sponsored agency CMO's - residential	214,658	6,118	(57)	220,719
Total mortgage-backed securities of government sponsored agencies	246,645	7,783	(57)	254,371
U. S. government sponsored agency securities	10,076	106	(2)	10,180
Obligations of states and political subdivisions	7,408	418	-	7,826
Other securities	2,041	1,062	(72)	3,031
Total available for sale	$266,170	$9,369	$(131)	$275,408

Amortized cost and fair value of investment securities, by category, at December 31, 2012 are summarized as follows:

2012	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. sponsored agency MBS - residential	$35,172	$1,928	$-	$37,100
U. S. sponsored agency CMO's - residential	206,466	6,392	(11)	212,847
Total mortgage-backed securities of government sponsored agencies	241,638	8,320	(11)	249,947
U. S. government sponsored agency securities	22,062	182	-	22,244
Obligations of states and political subdivisions	7,419	441	-	7,860
Other securities	2,892	1,105	(73)	3,924
Total available for sale	$274,011	$10,048	$(84)	$283,975

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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 - continued

The amortized cost and fair value of securities at March 31, 2013 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	$727	$675
Due after one year through five years	11,621	12,061
Due after five years through ten years	5,708	5,789
Due after ten years	377	864
Corporate preferred securities	1,092	1,648
Mortgage-backed securities of government sponsored agencies	246,645	254,371
Total available for sale	$266,170	$275,408

Securities with unrealized losses at March 31, 2013 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government sponsored agency securities	$2,998	$(2)	$-	$-	$2,998	$(2)
U.S government sponsored agency CMO – residential	14,298	(57)	-	-	14,298	(57)
Other securities	-	-	4	(72)	4	(72)
Total temporarily impaired	$17,296	$(59)	$4	$(72)	$17,300	$(131)

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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 - continued

Securities with unrealized losses at December 31, 2012 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S government sponsored agency CMO – residential	$2,077	$(11)	$-	$-	$2,077	$(11)
Other securities	-	-	4	(73)	4	(73)
Total temporarily impaired	$2,077	$(11)	$4	$(73)	$2,081	$(84)

The investment portfolio is predominately high quality interest-bearing debt securities with defined maturity dates backed by the U.S. Government or Government sponsored entities. The unrealized losses at March 31, 2013 and December 31, 2012 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 March 31, 2013 and December 31, 2012 are summarized as follows:

	2013	2012
Residential real estate	$214,468	$214,743
Multifamily real estate	28,115	28,673
Commercial real estate:		
Owner occupied	102,108	91,902
Non owner occupied	175,653	178,849
Commercial and industrial	84,045	84,430
Consumer	26,057	28,128
All other	70,090	77,900
	$700,536	$704,625

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 three months ending March 31, 2013 was as follows:

Loan Class	Balance Dec 31, 2012	Provision for loan losses	Loans charged-off	Recoveries	Balance March 31, 2013
Residential real estate	$2,163	$(28)	$71	$2	$2,066
Multifamily real estate	331	16	-	-	347
Commercial real estate:					
Owner occupied	1,117	(158)	67	299	1,191
Non owner occupied	1,888	79	-	-	1,967
Commercial and industrial	3,046	1,010	10	50	4,096
Consumer	244	(39)	47	16	174
All other	2,699	(310)	56	168	2,501
Total	$11,488	$570	$251	$535	$12,342

Activity in the allowance for loan losses by portfolio segment for the three months ending March 31, 2012 was as follows:

Loan Class	Balance Dec 31, 2011	Provision for loan losses	Loans charged-off	Recoveries	Balance March 31, 2012
Residential real estate	$2,134	$276	$65	$23	$2,368
Multifamily real estate	284	150	-	-	434
Commercial real estate:					
Owner occupied	918	121	15	-	1,024
Non owner occupied	2,381	(22)	38	-	2,321
Commercial and industrial	1,880	544	2	-	2,422
Consumer	298	47	66	26	305
All other	1,900	(166)	335	38	1,437
Total	$9,795	$950	$521	$87	$10,311

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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

Purchased Loans

The Company holds purchased loans for which there was, at their acquisition date, evidence of deterioration of credit quality since their origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows at March 31, 2013 and December 31, 2012.

	2013	2012
Residential real estate	$ 197	$ 202
Multifamily real estate	3,136	3,173
Commercial real estate:		
Owner occupied	269	271
Non owner occupied	5,854	5,896
Commercial and industrial	498	511
All other	4,471	4,496
Total carrying amount	$ 14,425	$ 14,549
Carrying amount, net of allowance	$ 13,925	$ 14,049

For those purchased loans disclosed above, the Company did not increase the allowance for loan losses for the three-months ended March 31, 2013 or the three-months ended March 31, 2012.

For the majority of these loans, the Company cannot reasonably estimate the cash flows expected to be collected on the loans and therefore has continued to account for the loans using the cost recovery method of income recognition. As such, no portion of a purchase discount adjustment has been determined to meet the definition of an accretable yield adjustment. If, in the future, cash flows from the borrower(s) can be reasonably estimated, a portion of the purchase discount would be allocated to an accretable yield adjustment based upon the present value of the future estimated cash flows versus the current carrying value of the loan and the accretable yield portion would be recognized as interest income over the remaining life of the loan. Until such accretable yield can be calculated, under the cost recovery method of income recognition, all payments will be used to reduce the carrying value of the loan and no income will be recognized on the loan until the carrying value is reduced to zero. Any loan accounted for under the cost recovery method is also still included as a non-accrual loan in the amounts presented in the tables below.

During 2012, the Company determined that the cash flows from borrowers on a limited number of purchased loans could be reasonably estimated. As such, a portion of the non-accretable difference was reclassified to accretable yield and is being recognized as interest income over the remaining life of the loan(s).

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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 accretable yield, or income expected to be collected, on the purchased loans above is as follows at March 31, 2013 and March 31, 2012. There was no accretable yield on the purchased loans above prior to October 1, 2012.

	2013	2012
Balance at January 1	$635	$-
New loans purchased	-	-
Accretion of income	(9)	-
Reclassifications from non-accretable difference	-	-
Disposals	-	-
Balance at December 31	$626	$-

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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

Past Due and Non-performing Loans

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of March 31, 2013 and December 31 2012. 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.

March 31, 2013	Principal Owed on Non-accrual Loans	Recorded Investment in Non-accrual Loans	Loans Past Due Over 90 Days, still accruing
Residential real estate	$ 3,125	$ 2,780	$ 2,363
Multifamily real estate	5,534	4,313	1,634
Commercial real estate:			
Owner occupied	1,013	837	836
Non owner occupied	3,224	2,131	592
Commercial and industrial	12,880	11,229	852
Consumer	179	165	-
All other	12,661	5,260	252
Total	$ 38,616	$ 26,715	$ 6,529

December 31, 2012	Principal Owed on Non-accrual Loans	Recorded Investment in Non-accrual Loans	Loans Past Due Over 90 Days, still accruing
Residential real estate	$ 3,145	$ 2,813	$ 208
Multifamily real estate	5,501	4,390	227
Commercial real estate:			
Owner occupied	1,153	976	783
Non owner occupied	3,207	2,174	74
Commercial and industrial	11,407	9,897	555
Consumer	278	267	-
All other	5,468	5,289	2,043
Total	$ 30,159	$ 25,806	$ 3,890

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.

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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 presents the aging of the recorded investment in past due loans as of March 31, 2013 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	$214,468	$2,284	$4,129	$6,413	$208,055
Multifamily real estate	28,115	2,469	5,322	7,791	20,324
Commercial real estate:					
Owner occupied	102,108	614	1,068	1,682	100,426
Non owner occupied	175,653	4,218	2,448	6,666	168,987
Commercial and industrial	84,045	851	4,410	5,261	78,784
Consumer	26,057	245	52	297	25,760
All other	70,090	284	5,496	5,780	64,310
Total	$700,536	$10,965	$22,925	$33,890	$666,646

The following table presents the aging of the recorded investment in past due loans as of December 31, 2012 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	$214,743	$9,356	$2,040	$11,396	$203,347
Multifamily real estate	28,673	695	3,893	4,588	24,085
Commercial real estate:					
Owner occupied	91,902	6,212	1,129	7,341	84,561
Non owner occupied	178,849	5,267	2,248	7,515	171,334
Commercial and industrial	84,430	2,306	2,485	4,791	79,639
Consumer	28,128	602	176	778	27,350
All other	77,900	468	7,332	7,800	70,100
Total	$704,625	$24,906	$19,303	$44,209	$660,416

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

	Allowance for Loan Losses				Loan Balances			
Loan Class	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
Residential real estate	$278	$ 1,788	$ -	$2,066	$4,364	$ 209,907	$ 197	$214,468
Multifamily real estate	-	347	-	347	1,663	23,316	3,136	28,115
Commercial real estate:								
Owner occupied	54	1,137	-	1,191	2,342	99,497	269	102,108
Non-owner occupied	362	1,605	-	1,967	1,308	168,491	5,854	175,653
Commercial and industrial	3,105	991	-	4,096	10,480	73,067	498	84,045
Consumer	-	174	-	174	-	26,057	-	26,057
All other	387	1,614	500	2,501	5,441	60,178	4,471	70,090
Total	$4,186	$ 7,656	$ 500	$12,342	$25,598	$ 660,513	$ 14,425	$700,536

The following table presents 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, 2012:

	Allowance for Loan Losses				Loan Balances			
Loan Class	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
Residential real estate	$358	$ 1,805	$ -	$2,163	$4,609	$ 209,932	$ 202	$214,743
Multifamily real estate	-	331	-	331	1,670	23,830	3,173	28,673
Commercial real estate:								
Owner occupied	74	1,043	-	1,117	2,511	89,120	271	91,902
Non-owner occupied	362	1,526	-	1,888	2,627	170,326	5,896	178,849

Commercial and industrial	2,173	873	-	3,046	10,799	73,120	511	84,430
Consumer	-	244	-	244	-	28,128	-	28,128
All other	375	1,824	500	2,699	4,271	69,133	4,496	77,900
Total	$3,342	$ 7,646	$ 500	$11,488	$26,487	$ 663,589	$ 14,549	$704,625

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NOTE 3–LOANS - continued

In the tables below, total individually evaluated impaired loans include certain purchased loans that were acquired with deteriorated credit quality that are still individually evaluated for impairment.

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2013 The table includes $9,333 of loans acquired with deteriorated credit quality that the Company cannot reasonably estimate cash flows such that they are accounted for on the cost recovery method and are still individually evaluated for impairment.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	$1,813	$1,631	$-
Multifamily real estate	6,372	4,493	-
Commercial real estate:			
Owner occupied	2,714	2,045	-
Non owner occupied	2,644	1,586	-
Commercial and industrial	2,026	823	-
All other	4,601	4,601	-
	20,170	15,179	-
With an allowance recorded:			
Residential real estate	$2,945	$2,930	$278
Commercial real estate:			
Owner occupied	566	566	54
Non owner occupied	809	790	362
Commercial and industrial	10,584	10,155	3,105
All other	12,710	5,311	887
	27,614	19,752	4,686
Total	$47,784	$34,931	$4,686

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NOTE 3–LOANS - continued

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2012. The table includes $9,421 of loans acquired with deteriorated credit quality that the Company cannot reasonably estimate cash flows such that they are accounted for on the cost recovery method and are still individually evaluated for impairment.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	$1,886	$1,714	$-
Multifamily real estate	6,332	4,533	-
Commercial real estate:			
Owner occupied	2,876	2,196	-
Non owner occupied	3,912	2,916	-
Commercial and industrial	2,031	837	-
All other	3,426	3,427	-
	20,463	15,623	-
With an allowance recorded:			
Residential real estate	$3,118	$3,097	$358
Commercial real estate:			
Owner occupied	586	586	74
Non owner occupied	809	789	362
Commercial and industrial	10,771	10,473	2,173
All other	5,517	5,340	875
	20,801	20,285	3,842
Total	$41,264	$35,908	$3,842

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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 three months ended March 31, 2013 and March 31, 2012. The table includes loans acquired with deteriorated credit quality that are still individually evaluated for impairment.

	Three months ended March 31, 2013			Three months ended March 31, 2012		
Loan Class	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
Residential real estate	$4,686	$ 50	$ 50	$10,165	$ 128	$ 123
Multifamily real estate	4,513	30	30	8,598	1,307	1,303
Commercial real estate:						
Owner occupied	2,696	38	29	9,171	894	885
Non-owner occupied	3,041	2	2	11,602	35	26
Commercial and industrial	11,144	4	4	7,767	107	107
Consumer	-	-	-	37	1	1
All other	9,339	82	82	8,583	97	81
Total	$35,419	$ 206	$ 197	$55,923	$ 2,569	$ 2,526

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NOTE 3–LOANS - continued

Troubled Debt Restructurings

A loan is classified as a troubled debt restructuring ("TDR") when loan terms are modified due to a borrower's financial difficulties and a concession is granted to a borrower that would not have otherwise been considered. Most of the Company’s loan modifications involve a restructuring of loan terms prior to maturity to temporarily reduce the payment amount and/or to require only interest for a temporary period, usually up to six months. These modifications generally do not meet the definition of a TDR because the modifications are considered to be an insignificant delay in payment. The determination of an insignificant delay in payment is evaluated based upon the facts and circumstances of the individual borrower(s).

The following table presents TDR’s as of March 31, 2013 and December 31, 2012:

March 31, 2013	TDR’s on Non-accrual	Other TDR’s	Total TDR’s
Residential real estate	$ 928	$ 237	$ 1,165
Commercial real estate:			
Owner occupied	-	4,392	4,392
Non owner occupied	-	4,887	4,887
Commercial and industrial	1,657	865	2,522
All other	16	2,193	2,209
Total	$ 2,601	$ 12,574	$ 15,175

December 31, 2012	TDR’s on Non-accrual	Other TDR’s	Total TDR’s
Residential real estate	$ 1,020	$ 240	$ 1,260
Commercial real estate:			
Owner occupied	-	4,224	4,224
Non owner occupied	-	4,920	4,920
Commercial and industrial	2	2,525	2,527
All other	-	2,197	2,197
Total	$ 1,022	$ 14,106	$ 15,128

At March 31, 2013 $224,000 in specific reserves was allocated to loans that had restructured terms. At December 31, 2012 $220,000 in specific reserves was allocated to loans that had restructured terms.

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NOTE 3–LOANS - continued

The following table presents TDR's that occurred during the three ended March 31, 2013 and March 31, 2012:

	Three months ended March 31, 2013			Three months ended March 31, 2012		
Loan Class	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial	-	$ -	$ -	2	$ 1,999	$ 1,999
All other	1	16	16	-	-	-
Total	1	$ 16	$ 16	2	$ 1,999	$ 1,999

The troubled debt restructurings described above did not increase the allowance for loan losses during the period ending March 31, 2013 and increased the allowance for loan losses by $40,000 during the period ending March 31, 2012.

During the three months ended March 31, 2013 and the three months ended March 31, 2012, there were no TDR's for which there as a payment default within twelve months following the modification.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified 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 non-homogeneous loans, such as commercial, commercial real estate, multifamily residential and commercial purpose loans secured residential real estate, on a monthly basis. For consumer loans, including consumer loans secured by residential real estate, the analysis involves monitoring the performing status of the loan. At the time such loans become past due by 30 days or more, the Company evaluates the loan to determine if a change in risk category is warranted. 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 March 31, 2013 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	$195,696	$9,726	$8,963	$83	$214,468
Multifamily real estate	19,484	1,699	6,932	-	28,115
Commercial real estate:					
Owner occupied	83,669	13,401	5,038	-	102,108
Non owner occupied	163,454	5,734	6,465	-	175,653
Commercial and industrial	71,356	667	12,022	-	84,045
Consumer	25,855	142	60	-	26,057
All other	55,222	673	13,504	691	70,090
Total	$614,736	$32,042	$52,984	$774	$700,536

As of December 31, 2012, 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	$195,210	$10,115	$9,327	$91	$214,743
Multifamily real estate	19,747	1,912	7,014	-	28,673
Commercial real estate:					
Owner occupied	74,529	8,994	8,379	-	91,902
Non owner occupied	163,337	7,685	7,827	-	178,849
Commercial and industrial	70,180	2,739	11,508	3	84,430
Consumer	27,931	123	74	-	28,128
All other	64,009	814	12,386	691	77,900
Total	$614,943	$32,382	$56,515	$785	$704,625

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NOTE 4- 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 2013 the Banks could, without prior approval, declare dividends to Premier of approximately $2.1 million plus any 2013 net profits retained to the date of the dividend declaration.

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

These quantitative measures established by regulation to ensure capital adequacy require the Company and Banks to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of March 31, 2013 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:

	March 31, 2013		December 31, 2012		Regulatory Minimum Requirements		To Be Considered Well Capitalized	
Tier I Capital (to Risk-Weighted Assets)	16.6	%	16.1	%	4.0	%	6.0	%
Total Capital (to Risk-Weighted Assets)	17.9	%	17.4	%	8.0	%	10.0	%
Tier I Capital (to Average Assets)	10.3	%	10.0	%	4.0	%	5.0	%

As of March 31, 2013, 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 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.

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NOTE 5 – 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.

Premier sought and obtained regulatory permission to participate in the U.S. Treasury's auction to sell its investment in Premier's Series A Preferred Stock. In the auction, Premier successfully bid to repurchase 10,252 shares of the 22,252 outstanding shares and on August 10, 2012 the 10,252 shares repurchased at the auction closing price of $901.03.

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 5 – 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 March 31, 2013, the Warrant has not yet been exercised. Since the Series A Preferred Stock was disposed of by the U.S. Treasury, Premier has the right to repurchase the Warrant at its appraised value. If Premier chooses not to repurchase the Warrant, the U.S. Treasury may liquidate the Warrant at its current market price.

NOTE 6 – 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 20, 2013, 52,900 incentive stock options were granted out of the 2012 Long Term Incentive Plan at an exercise price of $11.39, the closing market price of Premier’s common stock on the grant date. These options vest in three equal annual installments ending on March 20, 2016. On March 21, 2012, 105,700 incentive stock options were granted out of the 2002 Employee Stock Option Plan at an exercise price of $7.47, the closing market price of Premier’s common stock on the grant date. These options vest in three equal annual installments ending on March 21, 2015. On March 18, 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 18, 2014.

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

	2013		2012		2011	
Risk-free interest rate	1.96	%	2.31	%	3.58	%
Expected option life (yrs)	10.00		10.00		10.00	
Expected stock price volatility	35.24	%	34.93	%	30.01	%
Dividend yield	3.86	%	2.68	%	4.03	%
Weighted average fair value of options granted during the year	$2.85		$2.34		$1.63	

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NOTE 6 – 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 $46,000 was recorded for the first three months of 2013 while $28,000 was recorded for the first three months of 2012. Stock-based compensation expense is recognized ratably over the requisite vesting period for all awards. Unrecognized stock-based compensation expense related to stock options totaled $243,000 at March 31, 2013. This unrecognized expense is expected to be recognized over the next 35 months based on the vesting periods of the options.

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

	- - - - - - 2013 - - - - - -		- - - - - - 2012 - - - - - -	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	392,366	$9.24	350,949	$10.77
Grants	52,900	11.39	105,700	7.47
Exercises	-	-	-	-
Forfeitures or expired	-	-	(4,332)	7.70
Outstanding at March 31,	445,266	$9.50	452,317	$9.19
Exercisable at March 31,	296,017		268,364	
Weighted average remaining life of options outstanding	6.8		7.0	
Weighted average fair value of options granted during the year	$2.85		$2.34	

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

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NOTE 6 – STOCK COMPENSATION EXPENSE - continued

Additional information regarding stock options outstanding and exercisable at March 31, 2013, is provided in the following table:

	- - - - - - - - Outstanding - - - - - - - -			- - - - - - - - Currently Exercisable - - - - - - - -			
Range of Exercise Prices	Number	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
$6.50 to $10.00	280,433	$ 7.48	$ 1,208	184,084	6.8	$ 7.57	$ 777
$10.01 to $12.50	76,233	11.46	25	23,333	1.8	11.62	4
$12.51 to $15.00	63,600	13.46	-	63,600	4.4	13.46	-
$15.01 to $17.50	25,000	16.00	-	25,000	2.9	16.00	-
Outstanding - Mar 31, 2013	445,266	9.50	$ 1,233	296,017	5.6	9.87	$ 781

NOTE 7 – EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the earnings per common share and earnings per common share assuming dilution computations for the three months ended March 31, 2013 and 2012 is presented below:

	Three Months Ended March 31, 2013	2012
Basic earnings per share		
Income available to common stockholders	$2,339	$2,525
Weighted average common shares outstanding	7,962,693	7,937,143
Earnings per share	$0.29	$0.32
Diluted earnings per shares		
Income available to common stockholders	$2,339	$2,525
Weighted average common shares outstanding	7,962,693	7,937,143
Add dilutive effects of potential additional common stock	432,207	88,490
Weighted average common and dilutive potential common shares outstanding	8,394,900	8,025,633
Earnings per share assuming dilution	$0.28	$0.31

Stock options for 111,933 and 456,649 shares of common stock were not considered in computing diluted earnings per share for the three months ended March 31, 2013 and 2012 because they were antidilutive.

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NOTE 8 – 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 8 – FAIR VALUE - continued

The carrying amounts and estimated fair values of financial instruments at March 31, 2013 were as follows:

	Carrying Amount	Fair Value Measurements at March 31, 2013 Using			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash and due from banks	$71,765	$71,765	$-	$-	$71,765
Federal funds sold	4,474	4,474	-	-	4,474
Securities available for sale	275,408	-	275,268	140	275,408
Loans held for sale	490	-	-	490	490
Loans, net	688,194	-	-	693,330	693,330
Federal Home Loan Bank stock	4,181	n/a	n/a	n/a	n/a
Interest receivable	3,158	-	781	2,377	3,158
Financial liabilities					
Deposits	$(936,419)	$(588,538)	$(351,119)	$-	$(939,657)
Securities sold under agreements to repurchase	(10,539)	-	(10,539)	-	(10,539)
Other borrowed funds	(15,522)	-	(15,496)	-	(15,496)
Interest payable	(447)	(6)	(441)	-	(447)

The carrying amounts and estimated fair values of financial instruments at December 31, 2012 were as follows:

	Carrying Amount	Fair Value Measurements at December 31, 2012 Using			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash and due from banks	$ 66,009	$ 66,009	$ -	$ -	$ 66,009
Federal funds sold	4,236	4,236	-	-	4,236
Securities available for sale	283,975	-	283,835	140	283,975
Loans held for sale	200	-	-	200	200
Loans, net	693,137	-	-	691,519	691,519
Federal Home Loan Bank stock	4,181	n/a	n/a	n/a	n/a
Interest receivable	3,403	-	827	2,576	3,403
Financial liabilities					
Deposits	$ (930,583)	$ (577,274)	$ (356,730)	$ -	$ (934,004)
Securities sold under agreements to repurchase	(26,102)	-	(26,102)	-	(26,102)
Other borrowed funds	(16,049)	-	(16,022)	-	(16,022)

Interest payable	(489)	(6)	(483)	-	(489)

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

NOTE 8 – FAIR VALUE - continued

Assets and Liabilities Measured on a Recurring Basis

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

		Fair Value Measurements at March 31, 2013 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	$33,652	$-	$33,652	$ -
U. S. agency CMO's - residential	220,719	-	220,719	-
Total mortgage-backed securities of government sponsored agencies	254,371	-	254,371	-
U. S. government sponsored agency securities	10,180	-	10,180	-
Obligations of states and political subdivisions	7,826	-	7,686	140
Other securities	3,031	-	3,031	-
Total available for sale	$275,408	$-	$275,268	$ 140

		Fair Value Measurements at December 31, 2012 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	$37,100	$-	$37,100	$ -
U. S. agency CMO's - residential	212,847	-	212,847	-
Total mortgage-backed securities of government sponsored agencies	249,947	-	249,947	-
U. S. government sponsored agency securities	22,244	-	22,244	-

Obligations of states and political subdivisions	7,860	-	7,720	140
Other securities	3,924	-	3,924	-
Total available for sale	$283,975	$-	$283,835	$ 140

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NOTE 8 – FAIR VALUE - continued

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 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 unique to each property and result in a Level 3 classification of the inputs for determining fair value. Management periodically evaluates the appraised values and will discount a property’s appraised value to account for a number of factors including but not limited to the cost of liquidating the collateral, the age of the appraisal, observable deterioration since the appraisal, or other factors unique to the property. To the extent an adjusted appraised value is lower than the carrying value of an impaired loan, a specific allocation of the allowance for loan losses is assigned to the loan.

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. Management periodically evaluates the appraised values and will discount a property’s appraised value to account for a number of factors including but not limited to the cost of liquidating the collateral, the age of the appraisal, observable deterioration since the appraisal, or other factors unique to the property. To the extent an adjusted appraised value is lower than the carrying value of an OREO property, a direct charge to earnings is recorded as an OREO writedown.

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NOTE 8 – FAIR VALUE - continued

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2013 are summarized below:

		Fair Value Measurements at March 31, 2013 Using		
	Carrying Value	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	$2,652	$-	$-	$ 2,652
Commercial real estate:				
Owner occupied	512	-	-	512
Non owner occupied	428	-	-	428
Commercial and industrial	7,050	-	-	7,050
All other	4,424	-	-	4,424
Total impaired loans	15,066	$-	$-	$ 15,066
Other real estate owned:				
Residential real estate	$50	$-	$-	$ 50
Commercial real estate				
Non-owner occupied	520	-	-	520
All other	6,650	-	-	6,650
Total OREO	$7,220	$-	$-	$ 7,220

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $19,752,000 at March 31, 2013 with a valuation allowance of $4,686,000 and a carrying amount of $20,285,000 at December 31, 2012 with a valuation allowance of $3,842,000, resulting in a provision for loan losses of $845,000 for the three months ended March 31, 2013, compared to a $528,000 provision for loan losses for the three months ended March 31, 2012. 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 $7,220,000 which is made up of the outstanding balance of $8,912,000 net of a valuation allowance of $1,692,000 at March 31, 2013. There were no additional write downs during the three months ended March 31, 2013, compared to $44,000 of additional write downs during the three months ended March 31, 2012. At December 31, 2012, other real estate owned had a net carrying amount of $7,968,000, made up of the outstanding balance of $9,945,000, net of a valuation allowance of $1,977,000.

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PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 – FAIR VALUE - continued

The significant unobservable inputs related to assets and liabilities measured at fair value on a non-recurring basis at March 31, 2013 are summarized below:

	March 31, 2013	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Impaired loans:				
Residential real estate	$ 2,652	sales comparison	adjustment for differences between the comparable sales	0.8%-16.7%(9.0%)
Commercial real estate:				
Owner occupied	512	sales comparison	adjustment for limited salability of specialized property	40.0%-70.0%(44.1%)
Non owner occupied	428	sales comparison	adjustment for limited salability of specialized property	50.5%-50.5%(50.5%)
Commercial and industrial	7,050	sales comparison	adjustment for limited salability of specialized property	0.0%-68.7%(39.8%)
All other	4,424	sales comparison	adjustment for percentage of completion of construction	10.0%-91.4%(66.3%)
Total impaired loans	15,066			
Other real estate owned:				
Residential real estate	$ 50	sales comparison	adjustment for differences between the comparable sales	62.3%-62.3%(62.3%)
Commercial real estate				
Non owner occupied	520	sales comparison	adjustment for differences between the comparable sales	1.9%-1.9%(1.9%)
All other	6,650	sales comparison	adjustment for estimated realizable value	4.7%-15.9%(12.3%)
Total OREO	$ 7,220			

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

NOTE 8 – FAIR VALUE - continued

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2012 are summarized below:

		Fair Value Measurements at December 31, 2012 Using		
	Carrying Value	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	$2,739	$-	$-	$ 2,739
Commercial real estate:				
Owner occupied	512	-	-	512
Non owner occupied	427	-	-	427
Commercial and industrial	8,300	-	-	8,300
All other	4,465	-	-	4,465
Total impaired loans	16,443	$-	$-	$ 16,443
Other real estate owned:				
Residential real estate	$255	$-	$-	$ 255
Commercial real estate:				
Owner occupied	250	-	-	250
Non owner occupied	1,031	-	-	1,031
All other	6,432	-	-	6,432
Total OREO	$7,968	$-	$-	$ 7,968

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

NOTE 8 – FAIR VALUE - continued

The significant unobservable inputs related to assets and liabilities measured at fair value on a non-recurring basis at December 31, 2012 are summarized below:

	December 31, 2012	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Impaired loans:				
Residential real Estate	$ 2,739	sales comparison	adjustment for differences between the comparable sales	0.8%-76.8%(10.5%)
Commercial real Estate				
Owner occupied	512	sales comparison	adjustment for limited salability of specialized property	40.0%-70.0%(44.1%)
Non owner occupied	427	sales comparison	adjustment for limited salability of specialized property	59.0%-59.0%(59.0%)
Commercial and industrial	8,300	sales comparison	adjustment for limited salability of specialized property	0.0%-70.0%(44.3%)
All other	4,465	sales comparison	adjustment for percentage of completion of construction	64.0%-91.4%(64.8%)
Total impaired loans	16,443			
Other real estate owned:				
Residential real estate	$ 255	sales comparison	adjustment for differences between the comparable sales	0.0%-62.3%(44.1%)
Commercial real estate				
Owner occupied	250	sales comparison	adjustment for estimated realizable value	0.0%-17.9%(7.2%)
Non owner occupied	1,031	sales comparison	adjustment for differences between the comparable sales	82.7%-82.7%(82.7%)
All Other	6,432	sales comparison	adjustment for estimated realizable value	4.7%-16.6%(12.7%)
Total OREO	$ 7,968			

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

NOTE 9 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table details the changes in the single component of accumulated other comprehensive income for the three months ended March 31, 2013:

Accumulated Other Comprehensive Income	Unrealized Gain on Securities Available for Sale
Balance, December 31, 2012	$6,576
Reclassification adjustments to net income:	
Realized gain on disposition of securities	(148)
Provision for income taxes	50
Unrealized losses arising during the period, net of tax	(382)
Balance, March 31, 2013	$6,096

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

FORWARD-LOOKING STATEMENTS

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

A. Results of Operations

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

Net income for the three months ended March 31, 2013 was $2,504,000, or $0.28 per diluted share, compared to net income of $2,830,000, or $0.31 per diluted share for the three months ended March 31, 2012. The decrease in income in the first three months of 2013 is largely due to a decrease in interest income on loans, which more than offset a decrease in interest expense, a decrease in the provision for loan losses, a decrease in non-interest expense and an increase in non-interest income. The decrease in interest income on loans in the first three months of 2013 is largely due to approximately $2.1 million of income recognized from purchase discounts and interest income collected on non-accrual loans liquidated during the first quarter of 2012. The annualized returns on average common shareholders' equity and average assets were approximately 6.97% and 0.90% for the three months ended March 31, 2013 compared to 7.98% and 0.99% for the same period in 2012.

Net interest income for the three months ended March 31, 2013 totaled $10.14 million, down $2.28 million, or 18.3%, from the $12.42 million of net interest income earned in the first three months of 2012. Interest income in 2013 decreased by $2.80 million, or 19.7%, largely due to a $2.58 million decrease in interest income on loans. Interest income on loans in the first quarter of 2012 included approximately $2.1 million of income recognized from purchase discounts and interest income collected on non-accrual loans liquidated during the quarter. The timing of these liquidations is difficult to predict, which creates fluctuations in reported loan interest income. Interest earned on investments decreased by $222,000, or 12.0%, due to lower average yields on a lower average volume of investments. Interest earned on federal funds sold and interest bearing bank balances decreased by $2,000, largely due to a lower average volume of assets held in this category.

Partially offsetting the decrease in interest income in the first quarter of 2013 was $523,000 of interest expense savings. Interest expense decreased in total during the first three months of 2013 by $523,000, or 29.1%, when compared to the same three months of 2012. Interest expense on deposits decreased by $444,000, or 28.9%, largely due to a continuing decrease in average rates paid on deposits on a slightly lower average balance of deposits outstanding. Interest expense on repurchase agreements and other short-term borrowings decreased by $14,000, largely due to lower rates paid and a lower average balance outstanding. All FHLB advances were repaid in 2012 saving $41,000 of interest expense in the first quarter of 2013 compare to 2012. Interest expense on other borrowings decreased by $24,000, or 12.2%, in the first three months of 2013 compared to the first three months of 2012, largely due to a decrease in the average amount of borrowings outstanding.

The Federal Reserve System Board of Governors' policy to maintain the federal funds rate at 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 the lower interest income by lowering the rates paid on its deposits and repurchase agreements with customers. However, with the recognition of additional loan interest income upon the liquidation of non-accrual loans in 2012 coupled with the lower amount of decrease in the rates paid on deposit accounts versus the decrease in earning asset yields, Premier's overall net interest margin decreased in the first quarter of 2013. Premier's net interest margin during the first three months of 2013 was 3.99% compared to 4.82% for the same period in 2012. A portion of the interest income on loans is the result of recognizing into interest income the remaining fair value discounts on notes acquired via a business acquisition if that note was paid-off during the period. These events cannot be predicted with certainty and may positively or negatively affect the comparison of interest income on loans in future periods.

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PREMIER FINANCIAL BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2013

Additional information on Premier's net interest income for the first quarter of 2013 and first quarter of 2012 is contained in the following table.

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

	Three Months Ended March 31, 2013			Three Months Ended March 31, 2012		
	Balance	Interest	Yield/Rate	Balance	Interest	Yield/Rate
Assets						
Interest Earning Assets						
Federal funds sold and other	$48,607	$30	0.25 %	$65,385	$32	0.20 %
Securities available for sale						
Taxable	277,806	1,582	2.28	282,408	1,791	2.54
Tax-exempt	6,037	43	4.32	7,846	56	4.33
Total investment securities	283,843	1,625	2.32	290,254	1,847	2.60
Total loans	701,631	9,760	5.64	680,046	12,337	7.28
Total interest-earning assets	1,034,081	11,415	4.48 %	1,035,685	14,216	5.52 %
Allowance for loan losses	(11,836)			(9,834)		
Cash and due from banks	26,617			28,441		
Other assets	69,182			76,265		
Total assets	$1,118,044			$1,130,557		
Liabilities and Equity						
Interest-bearing liabilities						
Interest-bearing deposits	$737,548	1,091	0.60	$739,260	1,535	0.83
Short-term borrowings	19,649	12	0.25	22,386	26	0.47
FHLB advances	-	-	-	7,502	41	2.19
Other borrowings	15,759	172	4.43	17,641	196	4.46
Total interest-bearing liabilities	772,956	1,275	0.67 %	786,789	1,798	0.92 %
Non-interest bearing deposits	195,247			192,916		
Other liabilities	3,759			3,896		
Shareholders' equity	146,082			146,956		
Total liabilities and equity	$1,118,044			$1,130,557		
Net interest earnings		$10,140			$12,418	
Net interest spread			3.81 %			4.60 %
Net interest margin			3.99 %			4.82 %

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Non-interest income increased by $128,000, or 8.4%, to $1,645,000 for the first three months of 2013 compared to the same three months of 2012. However, this increase includes a $148,000 gain on the disposition of an investment security that was called during the first quarter of 2013. Excluding this gain, service charges on deposit accounts decreased by $41,000, or 4.9%, electronic banking income (income from debit/credit cards, ATM fees and internet banking charges) decreased by $18,000, or 3.7%, and income from other sources decreased by $30,000, or 17.2%. These decreases were partially offset by a $69,000, or nearly three-fold, increase in income from selling mortgages in the secondary market. The increase in secondary market mortgage income is largely due to the stabilization of requirements for customers to qualify for mortgages that are eligible for sale in the secondary market and an increase in customer demand for refinancing existing mortgage loans compared to one-year ago.

Non-interest expenses for the first quarter of 2013 totaled $7,387,000, or 2.68% of average assets on an annualized basis, compared to $8,594,000, or 3.06% of average assets for the same period of 2012. The $1.2 million decrease in non-interest expenses in 2013 when compared to the first quarter of 2012 is largely due to a $532,000, or 79.5% decrease in loan collection expenses, namely foreclosure and other loan collection expenses associated with the liquidation of non-accrual loans during the first quarter of 2012. Also contributing to the decrease in non-interest expenses during the first quarter of 2013 was a $371,000, or 9.4%, decrease in staff costs following the decrease in the number employees resulting from the internal bank mergers to form Premier Bank, Inc. in 2011 and to consolidate the Kentucky and Ohio operations under Citizens Deposit Bank and Trust in the second half of 2012. Other decreases in non-interest expense during the first quarter of 2013 include a $102,000, or 8.6%, decrease in occupancy and equipment expense, a $52,000, or 6.0%, decrease in data processing costs, a $128,000, or 45.1%, decrease in professional fees, and a $42,000, or 35.3%, decrease in supplies expense. Occupancy expense decreased largely due to lower rent expense and leasehold improvement depreciation from the consolidation of rented facilities. Equipment expense decreased largely due to lower software subscription expenditures and lower depreciation and maintenance expense. Data processing costs decreased due to lower amounts paid for electronic banking processing. Professional fees decreased as a result of lower legal, audit and consulting costs. These expense decreases more than offset an $110,000, or 51.4%, increase in expenses and writedowns on other real estate owned (OREO), and a $57,000, or 36.8%, increase in taxes not on income. The increase in expenses on OREO includes a decrease in rental income earned from an OREO property that was sold in late 2012. The increase in taxes not on income is largely due to an increase in amount subject to Virginia's franchise tax resulting from the formation of Premier Bank.

Income tax expense was $1,324,000 for the first three months of 2013 compared to $1,561,000 for the first three months of 2012. The effective tax rate for the three months ended March 31, 2013 was 34.6% compared to the 35.5% effective tax rate for the same period in 2012. The decrease in income tax expense can be primarily attributed to the decrease in pre-tax income detailed above, while the decrease in the effective income tax rate can be attributed to a decrease in the amount of income subject to state income taxes when compared to the first quarter 2012.

PREMIER FINANCIAL BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2013

B. Financial Position

Total assets at March 31, 2013 decreased by $9.0 million to $1.112 billion from the $1.121 billion at December 31, 2012. However, earning assets decreased by only $939,000 from the $1.031 billion at year-end 2012 to end the quarter at $1.030 billion. The decrease in total assets was largely due to a decrease in securities available for sale, net loans outstanding and cash and due from banks partially offset by an increase in interest bearing bank balances (see below).

Cash and due from banks at March 31, 2013 was $26.8 million, a $5.7 million decrease from the $32.5 million at December 31, 2012. Interest bearing bank balances increased by $11.5 million from the $33.5 million reported at December 31, 2012, while federal funds sold increased by $0.2 million to $4.5 million at March 31, 2013. 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 increase in interest bearing bank balances during the first three months of 2013 was largely in response to increases in available funds from loan payoffs, investment maturities and surplus cash on hand at December 31, 2012, net of funds used to satisfy decreases in liabilities during the quarter.

Securities available for sale totaled $275.4 million at March 31, 2013, an $8.6 million decrease from the $284.0 million at December 31, 2012. The decrease was largely due to monthly principal payments on Premier's mortgage backed securities portfolio which returns approximately $4.6 million per month in cash flow to be reinvested, used to fund loans, or satisfy deposit and customer repurchase agreement withdrawals. In addition, Premier received additional funds from maturating and called securities. Not all of these funds were reinvested in the investment portfolio. During the first quarter of 2013, some of these funds were used to satisfy customer repurchase agreement withdrawals (see below). The investment portfolio is predominately high quality residential mortgage backed securities backed by the U.S. Government or Government sponsored agencies. The unrealized losses at March 31, 2013 and December 31, 2012 are believed to be price changes resulting from increases in the long-term interest rate environment and management anticipates receiving all principal and interest on these investments as they come due. Additional details on investment activities can be found in the Consolidated Statements of Cash Flows.

Total loans at March 31, 2013 were $700.5 million compared to $704.6 million at December 31, 2012, a decrease of approximately $4.1 million, or 0.6%. The decrease in loans was largely due to payoffs, transfers of loans to OREO upon foreclosure and principal payments on loans which more than offset loan demand during the first quarter of 2013.

Deposits totaled $936.4 million as of March 31, 2013, a $5.8 million increase from the $930.6 million in deposits at December 31, 2012. The overall increase in deposits is due to a $2.5 million, or 1.3%, increase in non-interest bearing deposit accounts combined with a $3.7 million, or 2.3%, increase in interest bearing transaction accounts and a $5.2 million, or 2.5%, increase in savings accounts and money market accounts. These increases were partially offset by a $5.7 million, or 1.6%, decrease in certificates of deposit and individual retirement accounts (IRA's). Contrary to the growth in total deposits, repurchase agreements with corporate and public entity customers decreased in the first quarter of 2013, declining by $15.6 million to $10.5 million as of March 31, 2013. Customer repurchase agreement balances are highly sensitive to interest rates and the decrease in balance outstanding at March 31, 2013 was largely due to a lowering of the rate paid by Premier on this kind of short-term liability. Other borrowed funds decreased by $527,000 during the first quarter of 2013 due to regularly scheduled principal payments plus accelerated principal payments.

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PREMIER FINANCIAL BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2013

The following table sets forth information with respect to the Company's nonperforming assets at March 31, 2013 and December 31, 2012.

	(In Thousands) 2013		2012	
Non-accrual loans	$26,715		$25,806	
Accruing loans which are contractually past due 90 days or more	6,529		3,890	
Accruing restructured loans	12,574		14,106	
Total non-performing loans	45,818		43,802	
Other real estate acquired through foreclosure (OREO)	13,098		13,366	
Total non-performing assets	$58,916		$57,168	
Non-performing loans as a percentage of total loans	6.54	%	6.22	%
Non-performing assets as a percentage of total assets	5.30	%	5.10	%

Total non-performing loans have increased since year-end, largely due to a $2.6 million increase in accruing loans past due 90 days or more. Also affecting the increase in non-performing loans was a $909,000 increase in non-accrual loans. These increases were partially offset by a $1.5 million decrease in restructured loans performing in accordance with their modified terms. The decrease in restructured loans and increase in non-accrual loans is largely due to a restructured loan put on non-accrual status during the quarter. The significant level of non-accrual loans and OREO is largely due to the non-performing assets that came with the acquisition of Abigail Adams and its two subsidiary banks (the "Acquired Banks").

At December 31, 2012, the Acquired Banks accounted for $28.4 million, or 49.7%, of Premier's non-performing assets while at March 31, 2013 the Acquired Banks accounted for $33.6 million, or 57.0% 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 March 31, 2013 and December 31, 2012 and the discounted net carrying value of those non-performing assets.

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

	March 31, 2013		December 31, 2012	
	Face Value	Discounted Net Carrying Value	Face Value	Discounted Net Carrying Value
Non-performing Assets				
Non-accrual loans	$19,380	$9,728	$12,338	$9,874
Loans 90+ days past due	6,258	6,202	1,458	1,423
Restructured loans	8,013	7,707	7,871	7,565
Other real estate owned	10,518	9,925	10,152	9,573
Total non-performing assets	$44,169	$33,562	$31,819	$28,435

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

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

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

During the first quarter of 2013, Premier recorded $570,000 of provision for loan losses, compared to $950,000 of provision for loan losses recorded during the same quarter of 2012. The decrease in the level of expense in the first quarter of 2013 is related to the amount of loan recoveries recording during the quarter. In the first quarter of 2013, Premier received $535,000 of payments on loans previously charged off (loan recoveries) which added to the balance of the allowance for loan losses. The recoveries partially offset the estimated increase in the overall credit risk in the loan portfolio resulting largely from specific reserve allocations on impaired loans. The allowance for loan losses allocated to loans individually evaluated for impairment increased from $3.3 million at December 31, 2012 to $4.2 million at March 31, 2013.

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During the first quarter of 2012, Premier recorded $950,000 of provisions for loan losses, largely due to estimated increases in the overall credit risk in the loan portfolio. The continuing level of non-performing loans, plus additional loans identified as impaired under Premier's policies for estimating credit risk are evidence of the increased credit risk in the loan portfolio. 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 first 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 continuing higher level of credit risk includes a high level of past due and non-accrual loans, loan charge-offs and increases in other real estate owned as a result of foreclosures. The provision for loan losses was 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 has occurred, 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 further 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.

Gross charge-offs totaled $251,000 during the first three months of 2013. Any collections on these loans would be presented in future financial statements as recoveries of the amounts charged against the allowance. Recoveries recorded during the first three months of 2013 totaled $535,000, resulting in net recoveries for the first quarter of 2013 of $284,000. This compares to $434,000 of net charge-offs recorded in the first quarter of 2012. The allowance for loan losses at March 31, 2013 was 1.76% of total loans compared to 1.63% at December 31, 2012. The increase in the ratio is largely due to the increase in the amount of the allowance allocated to loans individually evaluated for impairment combined with a slight decrease in total loans outstanding at March 31, 2013. For additional details on the activity in the allowance for loan losses, impaired loans, past due and non-accrual loans and restructured loans, see Note 3 to the consolidated financial statements.

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C. Critical Accounting Policies

The Company follows financial accounting and reporting policies that are in accordance with generally accepted accounting principles in the United States of America. These policies are presented in Note 1 to the consolidated audited financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2012. 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, 2012. There have been no significant changes in the application of these accounting policies since December 31, 2012.

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:

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 $275.4 million of securities at fair value as of March 31, 2013.

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.

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E. Capital

At March 31, 2013, total shareholders' equity of $145.3 million was 13.1% of total assets. This compares to total shareholders' equity of $144.3 million or 12.9% of total assets on December 31, 2012.

Tier I capital totaled $111.4 million at March 31, 2013, which represents a Tier I leverage ratio of 10.3%. This ratio is up slightly from the 10.0% at December 31, 2012 as the growth in Tier I capital was divided by a lower base of total assets at March 31, 2013.

Book value per common share was $16.76 at March 31, 2013, and $16.63 at December 31, 2012. The increase in book value per share was the result of the $0.28 per share earned during the quarter, including an approximate $0.02 per share reduction for the $150,000 of preferred stock dividends accrued and related accretion. This increase was partially offset by the $0.11 per share cash dividend to common shareholders declared and paid during the first quarter of 2013. Also decreasing book value per share was the $480,000 of other comprehensive loss for the first three months of 2013 related to the after tax decrease in the market value of investment securities available for sale, which decreased book value by approximately $0.06 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 2012 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 2012 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, 2012 for disclosures with respect to Premier's risk factors at December 31, 2012. There have been no material changes since year-end 2012 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.	Mine Safety Disclosures	Not Applicable
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

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SIGNATURES

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

PREMIER FINANCIAL BANCORP, INC.

Date: May 10, 2013 /s/ Robert W. Walker

Robert W. Walker
President & Chief Executive Officer

Date: May 10, 2013 /s/ Brien M. Chase

Brien M. Chase
Senior Vice President & Chief Financial Officer