PREMIER FINANCIAL BANCORP INC
Form 10-K
March 13, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

or

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

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

Title of each class	Name of exchange on which registered
Common Stock without par value	NASDAQ:GMS

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ.

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

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 (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o.

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

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

Large accelerated filer o.	Accelerated filer þ.	Non-accelerated filer o.	Smaller reporting company o

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

As of June 30, 2013 the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $81,518,596 based on the closing sale price as reported on the National Association of Securities Dealers Automated Quotation System National Market System.

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

Title of each class	Outstanding at March 1, 2014
Common Stock without par value	8,046,846

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Shareholders to be held on June 18, 2014.	Part III

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PART I

Item 1. Description of Business

THE COMPANY

Premier Financial Bancorp, Inc. (the "Company" or "Premier") is a multi-bank holding company that, as of March 1, 2014 operates eight banking offices in Kentucky, five banking offices in Ohio, fourteen banking offices in West Virginia, four banking offices in Washington, DC, two banking offices in Maryland and two banking offices in Virginia. At December 31, 2013, Premier had total consolidated assets of $1,100.2 million, total consolidated deposits of $924.0 million and total consolidated shareholders' equity of $146.9 million. The banking subsidiaries (the "Banks" or "Affiliate Banks") consist of Citizens Deposit Bank & Trust, Vanceburg, Kentucky and Premier Bank, Inc., Huntington, West Virginia.

Premier was incorporated as a Kentucky corporation in 1991 and has functioned as a bank holding company since its formation. During 2002, Premier moved its principal executive offices from Georgetown, Kentucky to its present location at 2883 5th Avenue, Huntington, West Virginia, 25702. The purpose of the move was to be more centrally located among Premier's Affiliate Banks and its directorship. Premier's telephone number is (304) 525-1600.

Premier is a legal entity separate and distinct from its Affiliate Banks. Accordingly, the right of Premier, and thus the right of Premier's creditors and shareholders, to participate in any distribution of the assets or earnings of any of the Affiliate Banks is necessarily subject to the prior claims of creditors of such subsidiaries, except to the extent that claims of Premier, in its capacity as a creditor, may be recognized. The principal source of Premier's revenue is dividends from its Affiliate Banks. See "REGULATORY MATTERS -- Dividend Restrictions" for discussion of the restrictions on the Affiliate Banks' ability to pay dividends to Premier.

In late 2007 Premier resumed a strategy of franchise expansion by acquiring and owning community banks. This decision followed a five–year period whereby Premier suspended its acquisition strategy in order to focus on improving operations, strengthening capital and management oversight and improving the profitability of the banks previously acquired. On October 24, 2007, the Company entered into a material definitive agreement with Citizens First Bank, Inc. (“Citizens First”), a bank with $60 million of total assets located in Ravenswood, West Virginia. Under terms of the definitive agreement, Premier agreed to purchase Citizens First for up to $11,700,000 in stock and cash. Each share of Citizens First common stock was entitled to merger consideration of cash and stock that generally totaled $29.25, subject to certain limitations. Premier issued 480,000 shares of its common stock plus Premier paid $5.3 million in cash to the shareholders of Citizens First.

On November 27, 2007, the Company entered into a material definitive agreement with Traders Bankshares, Inc. (Traders), a single bank holding company with $108 million of total assets located in Spencer, West Virginia. Under terms of the definitive agreement, Premier agreed to purchase Traders for approximately $18,140,000 in stock and cash. Each share of Traders common stock was entitled to merger consideration of $50.00 cash and 3.75 shares of Premier common stock. Premier issued approximately 675,000 shares of its common stock plus Premier paid $9.0 million in cash to the shareholders of Traders.

On April 30, 2008, Premier closed the acquisitions of Citizens First and Traders. On October 25, 2008, Premier merged these two new subsidiary banks together to form Traders Bank, Inc. headquartered in Ravenswood, West Virginia. The merger was designed to consolidate management and operations of two subsidiaries in overlapping or contiguous markets. Similarly, effective January 3, 2005, Premier merged two of its subsidiary banks, Citizens Deposit Bank & Trust in Vanceburg, Kentucky and Bank of Germantown, in Germantown, Kentucky. Bank of Germantown was merged into Citizens Deposit Bank, with its facilities continuing to operate as branches of Citizens Deposit Bank.

On December 31, 2008, the Company entered into a material definitive agreement with Abigail Adams National Bancorp, Inc. ("Abigail Adams"), a two bank holding company (Adams National Bank and Consolidated Bank & Trust Company) with $436 million of total assets at December 31, 2008 with locations in and around Washington, DC and Richmond, Virginia. Under terms of the definitive agreement, Premier agreed to purchase Abigail Adams for approximately $10.8 million in stock. The acquisition closed on October 1, 2009. Each share of Abigail Adams common stock was entitled to merger consideration of 0.4461 shares of Premier common stock. Premier issued approximately 1,545,000 shares of its common stock to the shareholders of Abigail Adams.

At the time Premier entered into the definitive agreement with Abigail Adams, its subsidiary, Adams National Bank ("Adams National") had recently entered into a written agreement with its primary regulatory authority, the Office of the Comptroller of the Currency ("OCC"). See "Regulatory Matters" below. Premier's prior experience in successfully working through regulatory agreements with some of its own subsidiary banks was an attractive component for Abigail Adams to merge with the Company. Likewise, while Adams National did not necessarily fit the community bank model of Premier's other subsidiary banks (see the "General" subsection of the Company's "Business" section below), Premier perceived advantages in purchasing and rehabilitating a poorly performing bank while simultaneously changing the bank's business culture to more closely mirror that of its rural community "sister" banks. As part of this strategy, Premier participated in the U.S. Treasury's Troubled Asset Relief Program ("TARP") to help fund the rehabilitation of Adams National and provide the additional capital needed to maintain the Company's healthy capital ratios after consummating the merger with Abigail Adams.

TARP was established under the authority granted by the Emergency Economic Stabilization Act of 2008 (the “EESA”), which appropriated $700 billion for the purpose of restoring liquidity and stability in the U.S. financial system. EESA was amended by The American Recovery and Reinvestment Act of 2009 (the “ARRA”) signed into law on February 17, 2009. Under the TARP Capital Purchase Program, the U.S. Treasury made $250 billion of capital available to U.S. financial institutions in the form of senior preferred stock investments and a warrant entitling the U.S. Treasury to buy the participating institution’s common stock with a market value equal to 15% of the senior preferred stock at the time of participation.

On October 2, 2009, Premier issued and sold to the U.S. Treasury (i) 22,252 of Premier’s Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value and having a liquidation preference of $1,000 per share (the “Series A Preferred Shares”), and (ii) a ten-year warrant (the “Warrant”) to purchase 628,588 Premier common shares, each without par value (the “Common Shares”), at an exercise price of $5.31 per share (subject to certain anti-dilution and other adjustments), for an aggregate purchase price of $22,252,000 in cash. This issuance and sale was a private placement exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof.

To finalize Premier’s participation in the TARP Capital Purchase Program, Premier and the U.S. Treasury entered into a Letter Agreement, dated October 2, 2009 (the “Letter Agreement”), including a Securities Purchase Agreement – Standard Terms which is attached thereto (the “Securities Purchase Agreement” and together with the Letter Agreement, the “UST Agreement”). Additional information regarding the TARP Capital Purchase Program and the restrictions imposed on Premier during the TARP period can be found under the “TARP Capital Purchase Program” heading in the “Regulatory Matters” section included later in this item.

On July 9, 2012, the U.S. Treasury announced its intent to sell its investment in Premier’s Series A Preferred Stock along with similar investments the U.S. Treasury had made in 11 other financial institutions, principally to qualified institutional buyers. Using a modified Dutch auction methodology that establishes a market price by allowing investors to submit bids at specified increments during the period of July 23, 2012 through July 26, 2012, the U.S. Treasury auctioned all of Premier’s 22,252 Series A Preferred Stock. Premier sought and obtained regulatory permission to participate in the auction. Premier successfully bid to repurchase 10,252 shares of the 22,252 outstanding shares. At the auction’s closing price of $901.03 per share, Premier was able to preserve approximately $1.0 million of capital versus redeeming the Series A Preferred Stock at the liquidation preference of $1,000 per share. The remaining 12,000 shares are held by private investors. Additional information regarding the Series A Preferred Shares and the Warrant can be found in Note 23 of the Notes to the Consolidated Financial Statements.

On July 29, 2010, Consolidated Bank and Trust Company (“CB&T”), a wholly owned subsidiary of Premier and a Virginia state chartered bank; the Federal Reserve Bank of Richmond (“FRB”) and the State Corporation Commission Bureau of Financial Institutions (“Virginia Bureau”) entered into a written agreement (“Written Agreement”) requiring CB&T to perform certain actions primarily designed to improve the credit quality of the bank. Abigail Adams, as parent of CB&T, and Premier, as parent of Abigail Adams, were also named as parties to the Written Agreement to ensure that the CB&T complied with the Written Agreement.

The Written Agreement required CB&T to submit written plans to strengthen board oversight of CB&T, improve CB&T's asset quality, review and revise CB&T's methodology for determining the allowance for loan losses, maintain sufficient capital at CB&T, improve CB&T's earnings, and enhance CB&T's liquidity position and funds management practices. The agreement restricted CB&T's ability to declare and pay dividends without prior written approval of the regulatory agencies or incur, increase, or guarantee any debt without prior written approval of the regulatory agencies.

On September 1, 2010, Premier filed applications with state and federal banking regulatory authorities to merge five of its subsidiary banks together, including Adams National and CB&T, to form Premier Bank, Inc. ("Premier Bank"). On February 28, 2011, Premier received final regulatory approval to move forward with its plans to merge Boone County Bank, headquartered in Madison, West Virginia; First Central Bank, headquartered in Philippi, West Virginia; Traders Bank, Inc., headquartered in Ravenswood, West Virginia; Adams National Bank, headquartered in Washington, DC and Consolidated Bank & Trust, headquartered in Richmond, Virginia. The merger was completed on April 9, 2011. The resulting bank is headquartered in Huntington, West Virginia.

One of the goals achieved by merging the bank charters together was to alleviate the restrictions placed on the Company's operations by the Written Agreements entered into by Adams National with the OCC and CB&T with the FRB. With the surrender of the Adams National charter upon consummation of the merger to form Premier Bank, Inc., the Written Agreement with the OCC was terminated. Similarly, with the merger of CB&T into Premier Bank, Inc., the provisions of the Written Agreement with the FRB that applied to CB&T were concluded.

With the merger of Adams National and CB&T into Boone County Bank in the formation of Premier Bank, Abigail Adams as a corporate entity was no longer needed. As such, it was merged into Premier on May 16, 2011. Likewise, Premier's other non-banking subsidiary, Mt. Vernon Financial Holdings, Inc. ("Mt. Vernon"), had completed its purpose by liquidating substantially all of a pool of loans remaining from the sale of the Bank of Mt. Vernon in 2001. In September 2011, any remaining loans owned by Mt. Vernon were contributed as capital to Premier's subsidiary bank, Citizens Deposit Bank & Trust, and then on September 27, 2011, Mt. Vernon was also merged into Premier.

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In addition to ensuring CB&T complied with provisions of the Written Agreement, Premier was also required to obtain prior written approval of the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors of the Federal Reserve System for declaring or paying any dividends, and also required prior written approval of the FRB before incurring, increasing or guaranteeing any debt or purchasing or redeeming any shares of its stock.

On August 3, 2010, Premier submitted a request to the FRB for written approval from the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors to pay a $0.11 per share cash dividend to Premier’s common shareholders on September 30, 2010. On August 19, 2010, Premier was notified in writing that the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors did not approve Premier’s request to pay the cash dividend on its common stock as Premier had requested.

On September 20, 2010, Premier submitted a request to the FRB for written approval from the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors to declare and pay its quarterly dividend on the 22,252 Series A Preferred Shares owned by the U.S. Treasury that was due on November 15, 2010. On October 4, 2010, Premier received a notice in writing that the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors did not approve Premier’s request to pay the cash dividend on its Series A, Fixed Rate Cumulative Perpetual Preferred Stock as Premier had requested. Subsequent to receipt of the notice from the FRB, Premier held telephone conversations with the FRB to appeal the Board of Governors’ decision. On October 13, 2010, Premier received telephonic notice that its appeal had been denied.

On January 11, 2011, Premier submitted a written request to the FRB for written approval from the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors to pay its quarterly dividend on the 22,252 Series A Preferred Shares due on February 15, 2011 to the U.S. Treasury under the TARP Capital Purchase Program, and the prior quarterly dividend obligation due on November 15, 2010. On February 10, 2011, Premier received telephonic notice that the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors did not approve Premier’s request to pay the cash dividends on its Series A, Fixed Rate Cumulative Perpetual Preferred Stock as Premier had requested.

On April 19, 2011, Premier submitted a request to the FRB for written approval from the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors to declare and pay its quarterly dividend on the 22,252 Series A Preferred Shares to the U.S. Treasury due on May 15, 2011 and the two dividends in arrears due on November 15, 2010 and February 15, 2011, respectively. On May 13, 2011, Premier received notice of approval from the FRB that the Director of the Division of Banking Supervision and Regulation of the Board of Governors of Premier’s request to pay all current and deferred cash dividends on its Series A, Fixed Rate Cumulative Perpetual Preferred Stock as Premier had requested.

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The dividends were paid as scheduled on May 16, 2011. All subsequent quarterly dividends on Premier's Series A Preferred Shares have been paid as scheduled. See Note 23 for additional details on Premier's Series A, Fixed Rate Cumulative Perpetual Preferred Stock.

On July 24, 2012 the FRB announced that it had terminated the July 29, 2010 Written Agreement with Premier.

On April 29, 2010, Citizens Deposit Bank and Trust, Inc. ("Citizens"), a wholly owned subsidiary of Premier, entered into a branch purchase agreement with Integra Bank National Association ("Integra Bank") whereby Citizens agreed to purchase four branches of Integra Bank. On the same date, Citizens also entered into a loan purchase agreement with Integra Bank whereby Citizens agreed to purchase $15.0 million of commercial loans in addition to those loans needed to satisfy the branch purchase.

Under terms of the branch purchase agreement, Citizens agreed to pay Integra Bank an aggregate net deposit premium fixed at a rate of 3.38% for the deposits, loans and facilities of the Integra Bank branches located at Maysville and Mt. Olivet, Kentucky, and Ripley and Aberdeen, Ohio. Citizens agreed to assume approximately $73.4 million of deposit liabilities related to the four branches and acquire $18.3 million of branch related loans, as well as $38.1 million of additional commercial real estate and $10.6 million of other commercial loans selected by Citizens originated from other Integra offices.

Under terms of the loan purchase agreement, Citizens agreed to pay cash for $15.0 million of commercial loans selected by Citizens at a 2% discount of the aggregate unpaid principal balances of the loans. In June, the separate loan purchase transaction closed with Citizens purchasing approximately $8.1 million of the original $15.0 million of commercial loans.

On September 10, 2010 Citizens completed its purchase of the four banking offices from Integra Bank. The purchase of the branches was a strategic move to increase Citizens' presence in its current market area without a significant increase in its operating costs. Citizens paid a $2.4 million deposit premium for the deposit liabilities it assumed and also acquired $17.8 million of branch related loans as well as $34.0 million of additional commercial real estate loans and $10.0 million of other commercial loans selected by Citizens originated from other Integra offices. The four banking offices were also included in the branch purchase. The purchase resulted in approximately $1.1 million of goodwill and $2.0 million in core deposit intangible.

On May 13, 2010, Premier executed a six-year data processing agreement with Fidelity Information Services, Inc. and its affiliates ("FIS") located in Jacksonville, Florida. The agreement covers Premier's core data processing, item processing, internet banking services, network services, customer authentication services and electronic funds transfer services. Planning for the conversion began late in 2010 and continued through the first half of 2011. Beginning in May 2011 and concluding in September 2011, Premier and FIS converted each of

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the subsidiary (or former subsidiary) bank's systems to the FIS "Horizon" platform. It was during this process that the data systems of the five subsidiary banks that merged to form Premier Bank, converted and combined into one system. The data processing agreement shall remain in effect until September 30, 2017 and provides for automatic three-year extensions after that date.

On February 16, 2012, Premier filed applications with state and federal banking regulatory authorities to merge three of its subsidiary banks. The application requested permission to merge Ohio River Bank, headquartered in Ironton, Ohio and Farmers Deposit Bank, headquartered in Eminence, Kentucky with and into Premier's wholly owned subsidiary Citizens Deposit Bank & Trust, headquartered in Vanceburg, Kentucky. In the second quarter of 2012, Premier received the required approvals from all federal and state banking regulatory authorities to go ahead with its plans and as of the close of business on Friday, August 17, 2012, the three banks have been merged together. The combined bank is headquartered in Vanceburg, Kentucky.

Recent Corporate Developments

Definitive Agreement to purchase The Bank of Gassaway – On November 19, 2013, Premier and Gassaway Bancshares, Inc. ("Bancshares"), a $165 million single bank holding company headquartered in Gassaway, West Virginia jointly announced that they had entered into a definitive agreement whereby Premier Bank, Premier's wholly owned subsidiary, will acquire the Bank of Gassaway, the wholly owned subsidiary of Bancshares, in a cash purchase valued at approximately $20.3 million. Under terms of the definitive agreement, Premier Bank will pay $20.3 million in cash for the Bank of Gassaway and will merge Bank of Gassaway's five branch locations into Premier's operating system in the second quarter of 2014. The transaction, which is subject to satisfaction of various contractual conditions and requires approval by bank regulatory agencies and the shareholders of Bancshares, is anticipated to close in the second quarter of 2014. The resulting merger will expand Premier Bank's footprint into central West Virginia along the I-79 corridor.

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BUSINESS

General

Through the Banks the Company focuses on providing quality community banking services to individuals and small-to-medium sized businesses. By seeking to provide such banking services in non-urban areas, the Company believes that it can minimize the competitive effect of larger financial institutions that typically are focused on large metropolitan areas. Where the Company owns branches in urban areas, such as the Washington, DC Metro Area, the Company believes the nimble nature of its operations and local decision making process allows it to compete effectively with larger financial institution. Each Bank retains its local management structure which offers customers direct access to the Bank's president or regional president and other officers in an environment conducive to friendly, informed and courteous service. This approach also enables each Bank to offer local and timely decision-making, and flexible and reasonable operating procedures and credit policies limited only by a framework of centralized risk controls provided by the Company to promote prudent banking practices. See additional discussion under "Regulatory Matters" below.

Each Bank maintains its community orientation by, among other things, having selected members of its community as members of its board of directors, who assist in the introduction of prospective customers to the Bank and in the development or modification of products and services to meet customer needs. As a result of the development of personal banking relationships with its customers and the convenience and service offered by the Banks, the Banks' lending and investing activities are funded primarily by core deposits.

When appropriate and economically advantageous, the Company centralizes certain of the Banks' back office, support and investment functions in order to achieve consistency and cost efficiency in the delivery of products and services. The Company centrally provides services such as accounting, loan review, operations and network support, human resources, compliance and internal auditing to the Banks to enhance their ability to compete effectively. The Company also provides overall direction in the areas of credit policy and administration, strategic planning, marketing, investment portfolio management and other financial and administrative services. Each Bank participates in product development by advising management of new products and services needed by its customers and desirable changes to existing products and services.

Prior to data systems conversions in mid-2005, the Company maintained a data processing subsidiary, which provided centralized data processing services for the Affiliate Banks. Beginning in late 2004 and continuing through the middle of 2005, the Company converted its data processing system to an external third-party provider. Through the conversion process, Company senior management along with each Bank's management reviewed and standardized their offering of products and services, although pricing decisions remain at the local level. Furthermore, as a result of conversion, the Company through the Banks was able offer more modern products, such as internet banking and check imaging, and was able to take advantage of emerging technologies such as image exchange to remit and clear items with its exchange agents. With the conversion to FIS in 2011, all of these benefits remain plus the Company has integrated its automated teller machine network, improved its management reporting systems, adopted an integrated image-based document storage system, and offers mobile banking via smart phones and other hand held computing devices.

Each of the Banks provides a wide range of retail and commercial banking services, including commercial, real estate, agricultural and consumer lending; depository and funds transfer services; collections; safe deposit boxes; cash management services; and other services tailored for both individuals and businesses.

The Banks' residential mortgage lending activities consist primarily of loans for purchasing personal residences or loans for commercial or consumer purposes secured by residential mortgages. The Banks also originate residential mortgage loans that are sold in the secondary mortgage market. The Banks’ mortgage originators are salaried employees who do not receive a commission or other incentive compensation for the number or type of mortgages they originate. Consumer lending activities consist of traditional forms of financing for automobile and personal loans including unsecured lines of credit. Commercial lending activities include loans to small to medium-sized businesses located primarily in the communities in which the Banks have branch locations and surrounding areas. Commercial loans are secured by business assets including real estate, equipment, inventory, and accounts receivable. Some commercial loans are unsecured. Through the acquisition of Abigail Adams, the Company inherited a concentration in commercial real estate development loans. Many of these loans were for the revitalization of apartment buildings in and around the Washington, DC metro area, some of which would result in the apartment complex converting into individually owned condominiums. Since the acquisition of Abigail Adams, Premier has worked to reduce these concentrations by providing funding only during the construction phase. The Washington, DC metro area also offers opportunities for larger commercial and commercial real estate loans. These opportunities are subject to Premier’s strict credit underwriting policies and procedures.

The Banks' range of deposit services includes checking accounts, NOW accounts, savings accounts, money market accounts, club accounts, individual retirement accounts, certificates of deposit and overdraft protection. Customers can access their accounts via traditional bank branch locations as well as Automated Teller Machines (ATM’s) and the internet either via personal computers or mobile computing devices such as smart phones. The Banks also offer bill payment and telephone banking services. Deposits of the Banks are insured by the Deposit Insurance Fund administered by the FDIC to the maximum amounts offered by the FDIC.

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Competition

The Banks encounter strong competition both in making loans and attracting deposits. The widespread enactment of state laws that permit multi-bank holding companies as well as the availability of nationwide interstate banking and internet banking have created a highly competitive environment for financial services providers. In one or more aspects of its business, each Bank competes with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking companies and other financial intermediaries operating in its market and elsewhere, many of which have substantially greater financial and managerial resources. While the Banks are smaller financial institutions by comparison, each of the Banks' competitors include large bank holding companies having substantially greater resources and offering certain services that the Affiliate Banks may not currently provide. Each Bank seeks to minimize the competitive effect of larger financial institutions through a community banking approach that emphasizes direct customer access to the Bank's regional presidents and other officers in an environment conducive to friendly, informed and courteous service. Furthermore, via the Company’s credit administration department, the Banks can also minimize the competitive effects of larger institutions by tailoring their lending criteria to the individual circumstances of the small-to-medium sized business owner.

Management believes that each Bank is positioned to compete successfully in its respective primary market area, although no assurances as to ongoing competitiveness can be given. Competition among financial institutions is based upon interest rates offered on deposit accounts, service charges on deposit accounts for various services related to customer convenience, interest rates charged on loans and other credit, the quality and scope of the services rendered, the convenience of the banking facilities and, in the case of loans to commercial borrowers, relative lending limits. Management believes that the commitment of its Banks to personal service, innovation and involvement in their respective communities and primary market areas, as well as their commitment to quality community banking service, are factors that contribute to their competitiveness.

Regulatory Matters

The following discussion sets forth certain elements of the regulatory framework applicable to bank holding companies and their subsidiaries and provides certain specific information relevant to Premier. This regulatory framework is intended primarily for the protection of depositors and the federal deposit insurance funds and not for the protection of the holders of securities, including Premier common shares. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to those provisions. A change in the statutes, regulations or regulatory policies applicable to Premier or its subsidiaries may have a material effect on the business of Premier.

General - As a bank holding company, Premier is subject to regulation under the Bank Holding Company Act ("BHC Act"), and to inspection, examination and supervision by the Board of Governors of the Federal Reserve System ("Federal Reserve"). Under the BHC Act, bank holding companies generally may not acquire ownership or control of more than 5% of the voting shares or substantially all the assets of any company, including a bank, without the Federal Reserve's prior approval. Similarly, bank holding companies generally may not acquire ownership or control of a savings association without the prior approval of the Federal Reserve. Further, branching by the Affiliate Banks is subject to the jurisdiction, and requires the approval of each Affiliate Bank's primary federal banking regulator and, if the Affiliate Bank is a state-chartered bank, the appropriate state banking regulator.

Under the BHC Act, the Federal Reserve has the authority to require a bank holding company to terminate any activity or relinquish control of the nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that such activity or control constitutes a risk to the financial soundness and stability of any bank subsidiary of the bank holding company. Premier and the Affiliate Banks are subject to the Federal Reserve Act, which limits borrowings by Premier (and any nonbank subsidiaries) from the Affiliate Banks and also limits various other transactions between Premier (and any nonbank subsidiaries) and the Affiliate Banks.

Citizens Deposit Bank & Trust is chartered in Kentucky and supervised, regulated and examined by the Kentucky Department of Financial Institutions. Premier Bank, Inc. is chartered in West Virginia and supervised, regulated and examined by the West Virginia Division of Financial Institutions. In addition, the Affiliate Banks are supervised and regulated by the Federal Deposit Insurance Corporation ("FDIC"). Each banking regulator has the authority to issue cease-and-desist orders if it determines that the activities of a bank regularly represent an unsafe and unsound banking practice or a violation of law.

Both federal and state law extensively regulates various aspects of the banking business, such as loan loss reserve and capital requirements, truth-in-lending and truth-in-savings disclosure, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Premier and the Affiliate Banks are also affected by the fiscal and monetary policies of the federal government and the Federal Reserve and by various other governmental laws, regulations and requirements. Further, the earnings of Premier and Affiliate Banks are affected by general economic conditions and prevailing interest rates. Legislation and administrative actions affecting the banking industry are frequently considered by the United States Congress, state legislatures and various regulatory agencies. It is not possible to predict with certainty whether such legislation or administrative actions will be enacted or the extent to which the banking industry, in general, or Premier and the Affiliate Banks, in particular, would be affected.

Liability for Bank Subsidiaries - The Federal Reserve has a policy to the effect that a bank holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to maintain resources adequate to support each such subsidiary bank.

This support may be required at times when Premier may not have the resources to provide it. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank would be assumed by the bankruptcy trustee and entitled to priority of payment.

Any depository institution insured by the FDIC may be held liable for any loss incurred, or reasonably expected to be incurred, by the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution, or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default. "Default" is defined generally as the appointment of a conservator or receiver and "in danger of default" is defined generally as the existence of certain conditions indicating that a "default" is likely to occur in the absence of regulatory assistance. In the event that such a default occurred with respect to a bank, any loans to the bank from its parent holding company will be subordinate in right of payment of the bank's depositors and certain of its other obligations.

Capital Requirements - Premier is subject to capital ratios, requirements and guidelines imposed by the Federal Reserve, which are substantially similar to the ratios, requirements and guidelines imposed by the FDIC on the Banks. These capital requirements establish higher capital standards for banks and bank holding companies that assume greater credit risks. For this purpose, a bank's or holding company's assets and certain specified off-balance sheet commitments are assigned to four risk categories, each weighted differently based on the level of credit risk that is ascribed to such assets or commitments. A bank's or holding company's capital is divided into two tiers: "Tier I" capital and "Tier II" capital. "Tier I" capital includes common shareholders' equity, non-cumulative perpetual preferred stock, and related surplus (excluding auction rate issues), minority interests in equity accounts of consolidated subsidiaries plus cumulative perpetual preferred stock and Trust Preferred Securities both of which are subject to certain limitations. Goodwill, certain identifiable intangible assets and certain other assets are subtracted from these sources of capital to calculate Tier I capital. "Tier II" capital includes, among other items, perpetual preferred stock not meeting the Tier I definition, mandatory convertible securities, subordinated debt and allowances for loan and lease losses, subject to certain limitations, less certain required deductions.

Bank holding companies currently are required to maintain Tier I and total capital (the sum of Tier I and Tier II capital) equal to at least 4% and 8% of total risk-weighted assets, respectively. At December 31, 2013, Premier met both requirements, with Tier I and total capital equal to 16.9% and 18.2% of its total risk-weighted assets, respectively.

In addition to the risk-based capital guidelines, the Federal Reserve requires bank holding companies to maintain a minimum "leverage ratio" (Tier I capital to adjusted total assets) of 3%, if the holding company has the highest regulatory ratings for risk-based capital purposes. All other bank holding companies are required to maintain a leverage ratio of 3% plus at least 100 to 200 basis points. At December 31, 2013, Premier's leverage ratio was 11.0%.

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The foregoing capital requirements are minimum requirements. The Federal Reserve may set capital requirements higher than the minimums described above for holding companies whose circumstances warrant it. For example, holding companies experiencing or anticipating significant growth may be expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

Additionally, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), among other things, identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective federal regulatory agencies to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements.

An "undercapitalized" bank must develop a capital restoration plan and its parent holding company must guarantee the bank's compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of 5% of the Bank's assets at the time it became "undercapitalized" or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent's general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

Regulatory Agreements - On October 1, 2008, the Company’s subsequently acquired subsidiary Adams National, entered into a written agreement with its primary regulator, the OCC. The written agreement outlined a number of steps to be taken by Adams National to remedy unsafe and unsound banking practices relating to the level of credit risk and the administration of the loan portfolio, and violations of credit-related laws and regulations at the bank that occurred prior to its acquisition by the Company on October 1, 2009. On April 9, 2011, Adams National was merged into Boone County Bank as part of the formation of Premier Bank, Inc. With the surrender of the Adams National charter upon consummation of the merger to form Premier Bank, Inc., the Written Agreement with the OCC was terminated and no longer had any effect on the Affiliate Banks.

On July 29, 2010, Consolidated Bank and Trust Company (“CB&T”), at the time a wholly owned subsidiary of Premier and a Virginia state chartered bank, the Federal Reserve Bank of Richmond (“FRB”) and the State Corporation Commission Bureau of Financial Institutions (“Virginia Bureau”) entered into a written agreement (“Written Agreement”) requiring CB&T to perform certain actions primarily designed to improve the credit quality of the Bank. Abigail Adams, as parent of CB&T, and Premier, as parent of Abigail Adams, were also named as parties to the Written Agreement to ensure that CB&T complied with the Written Agreement.

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The Written Agreement required CB&T to submit written plans to strengthen board oversight of CB&T, improve the CB&T's asset quality, review and revise CB&T's methodology for determining the allowance for loan losses, maintain sufficient capital at CB&T, improve CB&T's earnings, and enhance CB&T's liquidity position and funds management practices. CB&T was also required to submit quarterly written progress reports. The agreement restricted CB&T's ability to declare and pay dividends without prior written approval of the regulatory agencies or incur, increase, or guarantee any debt without prior written approval of the regulatory agencies.

On April 9, 2011, CB&T was merged into Boone County Bank as part of the formation of Premier Bank, Inc. With the merger of CB&T into Premier Bank, Inc., the provisions of the Written Agreement with the FRB that applied to CB&T were concluded.

In addition to ensuring CB&T complied with provisions of the Written Agreement, Premier was also specifically subject to the provision requiring prior written approval of the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors of the Federal Reserve System for declaring or paying any dividends, and the provision requiring prior written approval of the FRB before incurring, increasing or guaranteeing any debt or purchasing or redeeming any shares of its stock. On July 24, 2012 the FRB announced that it had terminated the July 29, 2010 Written Agreement with Premier.

TARP Capital Purchase Program - As discussed above in conjunction with the acquisition of Abigail Adams, Premier elected to participate in the TARP Capital Purchase Program and received $22.25 million of new equity capital from the U.S. Treasury on October 2, 2009. As part of its participation in the TARP Capital Purchase Program, Premier agreed to various requirements and restrictions imposed on all participants in the TARP Capital Purchase Program. Those restrictions subjected the Company to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (the "EESA"). In this connection, as a condition to the closing of the transaction, the Company's Senior Executive Officers (as defined in the Securities Purchase Agreement) (the "Senior Executive Officers"), (i) voluntarily waived any claim against the U.S. Treasury or the Company for any changes to such officer's compensation or benefits that are required to comply with the regulation issued by the U.S. Treasury under the TARP Capital Purchase Program and acknowledged that the regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements as they relate to the period the U.S. Treasury owned the Preferred Stock of the Company; and (ii) entered into a letter with the Company amending the Benefit Plans with respect to such Senior Executive Officers as may be necessary, during the period that the Treasury owned the Preferred Stock of the Company, as necessary to comply with Section 111(b) of the EESA as long as any obligation arising from the financial assistance provided to the recipient under the TARP Capital Purchase Program remained outstanding, excluding any period during which the U.S. Treasury holds only warrants to purchase common stock of a TARP participant (the "Covered Period"). These limitations terminated upon completion of the U.S. Treasury's auction of the Series A Preferred Stock on August 10, 2012. Detailed information regarding the Series A Preferred Shares and the Warrant can be found in Note 23 of the Notes to the Consolidated Financial Statements.

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Dividend Restrictions - Premier is dependent on dividends from its Affiliate Banks for its revenues. Various federal and state regulatory provisions limit the amount of dividends the Affiliate Banks can pay to Premier without regulatory approval. At December 31, 2013, approximately $3.8 million of the total shareholders' equity of the Affiliate Banks was available for payment of dividends to Premier without approval by the applicable regulatory authority.

In addition, federal bank regulatory authorities have authority to prohibit Premier's Affiliate Banks from engaging in an unsafe or unsound practice in conducting their business. The payment of dividends, depending upon the financial condition of the bank in question, could be deemed to constitute such an unsafe or unsound practice. The ability of the Affiliate Banks to pay dividends in the future is presently, and could be further, influenced by bank regulatory policies and capital guidelines as well as each Affiliate Bank's earnings and financial condition. Additional information regarding dividend limitations can be found in Note 20 of the accompanying audited consolidated financial statements.

The dividend rights of holders of Premier’s common shares are also qualified and subject to the dividend rights of holders of Premier’s Series A Preferred Shares. As long as the Series A Preferred Shares remain outstanding, unless all accrued and unpaid dividends for all past dividend periods on the Series A Preferred Shares are fully paid, Premier will not be permitted to declare or pay dividends on any Common Shares, any junior preferred shares or, generally, any preferred shares ranking pari passu with the Series A Preferred Shares (other than in the case of pari passu preferred shares, dividends on a pro rata basis with the Series A Preferred Shares), nor will Premier be permitted to repurchase or redeem any Common Shares or preferred shares other than the Series A Preferred Shares.

Interstate Banking - Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act"), subject to certain concentration limits, (i) bank holding companies, such as Premier, are permitted to acquire banks and bank holding companies located in any state of the United States, subject to certain restrictions, and (ii) banks are permitted to acquire branch offices outside their home state by merging with out-of-state banks, purchasing branches in other states or establishing de novo branch offices in other states; provided that, in the case of any such purchase or opening of individual branches, the host state has adopted legislation "opting in" to the relevant provisions of the Riegle-Neal Act; and provided further, that, in the case of a merger with a bank located in another state, the host state has not adopted legislation "opting out" of the relevant provisions of the Riegle-Neal Act.

Gramm-Leach-Bliley Act - On November 12, 1999, the Gramm-Leach-Bliley Act (the "Act") was signed into law, eliminating many of the remaining barriers to full convergence of the banking, securities, and insurance industries. The major provisions of the Act took effect March 12, 2000.

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The Act enables a broad-scale consolidation among banks, securities firms, and insurance companies by creating a new type of financial services company called a "financial holding company," a bank holding company with dramatically expanded powers. Financial holding companies can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting), and merchant banking. In addition, the Act permits the Federal Reserve and the Treasury Department to authorize additional activities for financial holding companies, but only if they jointly determine that such activities are "financial in nature" or "complementary to financial activities." Premier does not presently qualify to elect financial holding company status.

The Federal Reserve serves as the primary "umbrella" regulator of financial holding companies, with jurisdiction over the parent company and more limited oversight over its subsidiaries. The primary regulator of each subsidiary of a financial holding company depends on the activities conducted by the subsidiary. A financial holding company need not obtain Federal Reserve approval prior to engaging, either de novo or through acquisitions, in financial activities previously determined to be permissible by the Federal Reserve. Instead, a financial holding company need only provide notice to the Federal Reserve within 30 days after commencing the new activity or consummating the acquisition.

Dodd-Frank Act - On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was signed into law, which implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things,:

- created a new agency to centralize responsibility for consumer financial protection, the Consumer Financial Protection Bureau, which will be responsible for implementing, examining and enforcing compliance with federal consumer financial laws;

- apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies;

- require bank holding companies and banks to be both well capitalized and well managed in order to acquire banks located outside their home state;

- change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the Deposit Insurance Fund and increase the floor of the size for the Deposit Insurance Fund;

- impose comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses within the institution itself;

- require large, publicly-traded bank holding companies to create a risk committee responsible for the oversight of enterprise risk management;

- implemented corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions;

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- made permanent the $250,000 limit for federal deposit insurance, increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000 and provided unlimited federal deposit insurance for non-interest-bearing demand transaction accounts at all insured depository institutions until December 31, 2012;

- repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

- amended the Electronic Fund Transfer Act ("EFTA") to, among other things, give the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer; and

- increased the authority of the Federal Reserve Board to examine financial holding companies and their non-bank subsidiaries.

Many aspects of the Dodd-Frank Act are subject to future rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Premier, its customers or the financial services industry as a whole. In some cases, regulatory or other governmental agencies already have taken action to comply with the Dodd-Frank Act's mandates.

Number of Employees

The Company and its subsidiaries collectively had approximately 328 full-time equivalent employees as of December 31, 2013. Its executive offices are located at 2883 5th Avenue, Huntington, West Virginia 25702, telephone number (304) 525-1600 (facsimile number (304) 525-9701).

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Item 1A. Risk Factors

Like all financial companies, the Company's business and results of operations are subject to a number of risks, many of which are outside of the Company's control. In addition to the other information in this report, readers should carefully consider that the following important factors, among others, could materially impact the Company's business and future results of operations.

Changes in Interest Rates Could Negatively Impact the Company's Results of Operations

The earnings of Premier are primarily dependent on net interest income, which is the difference between interest earned on loans and investments, and interest paid on interest-bearing liabilities such as deposits and borrowings. Interest rates are highly sensitive to many factors, including government monetary and fiscal policies; domestic and international economic and political conditions; and, in particular, changes in the discount rate by the Board of Governors of the Federal Reserve System. Conditions such as inflation, recession, unemployment, money supply, government borrowing and other factors beyond management's control may also affect interest rates. If Premier's interest-earning assets mature, reprice or prepay more quickly than interest-bearing liabilities in a given period, a decrease in market interest rates could adversely affect net interest income. Likewise, if interest-bearing liabilities mature or reprice, or, in the case of deposits, are withdrawn by the accountholder more quickly than interest-earning assets in a given period, an increase in market interest rates could adversely affect net interest income. Given Premier's current mix of assets and liabilities, a rising interest rate environment would have a positive impact on Premier's results of operations, because the Company has more interest bearing assets than interest bearing liabilities and the interest bearing assets will likely reprice at higher rates more quickly than interest-bearing liabilities.

Fixed rate loans increase Premier's exposure to interest rate risk in a rising rate environment because interest-bearing liabilities would be subject to repricing before assets become subject to repricing. Adjustable rate loans decrease the risks to a lender associated with changes in interest rates but involve other risks. As interest rates rise, the periodic payment by the borrower rises to the extent permitted by the terms of the loan, and the increased periodic payment increases the potential for default. At the same time, for secured loans, the marketability of the underlying collateral may be adversely affected by higher interest rates. In a declining interest rate environment, there is likely to be an increase in prepayment activity on loans as the borrowers refinance their loans at lower interest rates. Under these circumstances, Premier's results of operations could be negatively impacted. Adjustable rate loans that have an interest rate floor feature will exhibit the same characteristics as a fixed rate loan during the period market interest rates are below the floor. During this time and until the time market interest rates rise above the floor, Premier's exposure to interest rate risk in a rising rate environment is increased because interest-bearing liabilities would be subject to repricing without a change in the interest rate on adjustable rate loans.

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Changes in interest rates also can affect the value of loans, investments and other interest-rate sensitive assets and Premier's ability to realize gains on the sale or resolution of assets. This type of income can vary significantly from quarter to quarter and year to year based on a number of different factors, including the interest rate environment. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in non-performing assets and increased loan loss reserve requirements that could have a material adverse effect on Premier's results of operations.

Regional Economic Changes in the Company's Markets Could Adversely Impact Results From Operations

Like all banks, Premier is subject to the effects of any economic downturn, and in particular a significant decline in home values or reduced commercial development in Premier's markets could have a negative effect on results of operations. Premier's success depends primarily on the general economic conditions in the counties in which Premier conducts business, and in the West Virginia, southern Ohio, northern Kentucky, northern and south central Virginia and the metro Washington, DC and Richmond, Virginia areas in general. Unlike larger banks that are more geographically diversified, Premier provides banking and financial services to customers primarily in the West Virginia counties of Barbour, Boone, Harrison, Lewis, Lincoln, Logan, Kanawha, Upshur, Roane, Jackson and Wood, the southern Ohio counties of Adams, Brown, Gallia, Lawrence and Scioto, the northern Kentucky counties of Bracken, Fleming, Greenup, Henry, Lewis, Mason, Robertson and Shelby, the metro Washington DC area including the surrounding portions of Virginia and Maryland and the Richmond and Hampton metro areas of Virginia. The local economic conditions in these market areas have a significant impact on Premier's ability to originate loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. A decline in the general economic conditions caused by inflation, recession, government intervention or regulation, unemployment or other factors beyond Premier's control would affect these local economic conditions and could adversely affect Premier's financial condition and results of operations. Additionally, a significant decline in home values would likely lead to increased delinquencies and defaults in both the consumer home equity loan and residential real estate loan portfolios and result in increased losses in these portfolios.

There has been a sustained decline in the housing market and real estate markets and in the general economy, both nationally and locally, due to the recession that began in December 2007. Housing markets have deteriorated as evidenced by reduced levels of sales, increasing inventories of houses and condominiums on the market, declining house prices and an increase in the length of time houses remain on the market. It is possible that these conditions will not improve or will worsen or that such conditions will result in a decrease in Premier's interest income, an increase in Premier's non-performing loans, and/or an increase in Premier's provision for loan losses.

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Premier targets its business lending and marketing strategy for loans to serve primarily the banking and financial services needs of small to medium size businesses. These small to medium size businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. If general economic conditions negatively impact these businesses, Premier's results of operations and financial condition may be adversely affected.

Extensive Regulation and Supervision

Premier, primarily through the Affiliate Banks, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect Premier's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Premier is also subject to a number of federal laws, which, among other things, require it to lend to various sectors of the economy and population, establish and maintain comprehensive programs relating to anti-money laundering and customer identification, and customer education programs to avoid excessive overdrafting. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect Premier in substantial and unpredictable ways. Such changes could subject Premier to additional costs, limit the types of financial services and products it may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, along with corrective action plans required by regulatory agencies, any of which could have a material adverse effect on Premier's business, financial condition and results of operations. Premier and certain of its Affiliate Banks have in the past been subject to such corrective action plans, and therefore there may be some residual reputation damage within the regulatory agencies. While Premier has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See the "Regulatory Matters" section in Item 1, "Business".

Dividend payments by subsidiaries to Premier and by Premier to its shareholders can be restricted.

The Company's principal source of funds for dividend payments and its debt service obligations 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 in Note 20 to the consolidated financial statements. During 2014 the Banks could, without prior approval, declare dividends of approximately $3.8 million plus any 2014 net profits retained to the date of the dividend declaration.

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Premier is a separate and distinct legal entity from Premier's subsidiaries. Premier receives nearly all of its revenue from dividends from is subsidiary banks, which are limited by federal banking laws and regulations. These dividends also serve as the primary source of funds to pay dividends on Premier's common and preferred shares. The inability of Premier's subsidiary banks to pay sufficient dividends to Premier could have a material, adverse effect on its business. Further discussion of Premier's ability to pay dividends can be found under the captions "Regulatory Matters – TARP Capital Purchase Program", and "Regulatory Matters – Dividend Restrictions" in Item 1 of this Form 10-K and Note 20 of the Notes to the Consolidated Financial Statements.

The Extended Disruption of Vital Infrastructure Could Negatively Impact the Company's Results of Operations and Financial Condition

Premier's operations depend upon, among other things, its technological and physical infrastructure, including its equipment and facilities. While disaster recovery procedures are in place, an extended disruption of its vital infrastructure by fire, power loss, natural disaster, telecommunications failure, computer hacking and viruses, terrorist activity or the domestic and foreign response to such activity, or other events outside of Premier's control, could have a material adverse impact either on the financial services industry as a whole, or on Premier's business, results of operations, and financial condition.

Defaults by Another Larger Financial Institution Could Adversely Affect Financial Markets Generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk". Premier's business could be adversely affected directly by the default of another institution or if the financial services industry experiences significant market-wide liquidity and credit problems.

Market Volatility May Adversely Affect Market Price of Common Stock or Investment Security Values

The capital and credit markets have been experienced volatility and disruption in the past and for periods lasting more than a year. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers seemingly without regard to those issuers' underlying financial strength. Market volatility could contribute to the decline in the market value of certain security investments and other assets of Premier. If market disruption and volatility should occur, continue or worsen, Premier may experience an adverse effect, which may be material, on results of operations, capital or financial position.

New or Revised Tax, Accounting and Other Laws, Regulations, Rules and Standards Could Significantly Impact Strategic Initiatives, Results of Operations and Financial Condition

The financial services industry is highly regulated and laws and regulations may sometimes impose significant limitations on operations. These limitations, and sources of potential liability for the violation of such laws and regulations, are described under the heading "Business — Regulatory Matters" above. These regulations, along with the existing tax and accounting laws, regulations, rules and standards, control the methods by which financial institutions conduct business; implement strategic initiatives, as well as past, present, and contemplated tax planning; and govern financial disclosures. These laws, regulations, rules, and standards are constantly evolving and may change significantly over time. The nature, extent, and timing of the adoption of significant new laws, changes in existing laws, or repeal of existing laws may have a material impact on Premier's results of operations and financial condition, the effects of which are impossible to predict at this time.

Because Of Our Issuance of Preferred Shares, We Are Subject To Several Restrictions Including Restrictions On Our Ability To Declare Or Pay Common Dividends.

Pursuant to the terms of the Securities Purchase Agreement, our ability to declare or pay dividends on any of our shares is limited. Specifically, we are unable to declare dividend payments on Common Shares, junior preferred shares or pari passu preferred shares if we are in arrears on the payment of dividends on the Series A Preferred Shares. Premier is current on all of the dividends on its Series A Preferred Shares. Premier was required to defer the November 15, 2010 and February 15, 2011 quarterly dividends on its Series A Preferred Shares due restrictions placed on the Company by the Federal Reserve Board of Governors in conjunction with the July 29, 2010 Written Agreement between Consolidated Bank & Trust and the FRB. However the FRB gave Premier permission to pay those deferred dividends in conjunction with the May 15, 2011 quarterly dividend payment. Until any deferred dividends are paid on the Series A Preferred Shares, dividends to holders of Premier's common shares will also be prohibited. In the event that cumulative dividends on the Series A Preferred Shares 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.

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Additional Capital May Not Be Available When Needed or Required by Regulatory Authorities.

Premier and the Affiliate Banks are required by federal and state regulatory authorities to maintain adequate levels of capital to support its operations. In addition, Premier may elect to raise additional capital to support its business or to finance acquisitions, if any, or it may otherwise elect or be required to raise additional capital. Premier's ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside Premier's control and its financial performance. Accordingly, Premier may not be able to raise additional capital if needed or on acceptable terms. If Premier cannot raise additional capital when needed, it may have a material adverse effect on its financial condition, results of operations and prospects.

Strong Competition Within the Company's Market Area May Limit Profitability

Premier faces significant competition both in attracting deposits and in the origination of loans. Mortgage bankers, commercial banks, credit unions and other savings institutions, which have offices in the market areas of the Affiliate Banks, have historically provided most of the competition for the Affiliate Banks for deposits; however, each Affiliate Bank also competes with financial institutions that operate through internet banking operations throughout the continental United States. In addition, and particularly in times of high interest rates, each Affiliate Bank faces additional and significant competition for funds from money market and mutual funds, securities firms, commercial banks, credit unions and other savings institutions located in the same communities and those that operate through Internet banking operations throughout the continental United States. Many competitors have substantially greater financial and other resources than Premier and its Affiliate Banks. Moreover, credit unions do not pay federal or state income taxes and are subject to fewer regulatory constraints than community banks and as a result, they may enjoy a competitive advantage over Premier. The Affiliate Banks compete for loans principally on the basis of the interest rates and loan fees they charge, the types of loans they originate and the quality of services they provide to borrowers. This advantage places significant competitive pressure on the prices of loans and deposits.

Allowance for Loan Losses May Be Insufficient

Premier, through the Affiliate Banks, maintains an allowance for loan losses based on, among other things, national and regional economic conditions, historical loss experience, evaluations of potential losses on identified problem loans and delinquency trends. Premier believes that its allowance for loan losses is maintained at a level adequate to absorb any probable incurred losses in its loan portfolio given the current information known to management. These determinations are based upon estimates that are inherently subjective, and their accuracy depends on the outcome of future events. Therefore, Premier cannot predict loan losses with certainty and ultimate losses may differ from current estimates. Depending on changes in economic, operating and other conditions, including changes in interest rates, which are generally beyond its control, Premier's actual losses could exceed its current allowance estimates. Premier's allowance may not be sufficient to cover all charge-offs in future periods. If charge-offs exceed Premier's allowance, its earnings would decrease. In addition, regulatory agencies review Premier's allowance for loan losses and may require additions to the allowance based upon their judgment about information available to them at the time of their examination. A required increase in Premier's allowance for loan losses could reduce its earnings.

Loss of Large Checking and Money Market Deposit Customers Could Increase Cost of Funds and Have a Negative Effect on Results of Operations

Premier has a number of large deposit customers that maintain balances in checking, money market and repurchase agreement accounts at the Affiliate Banks. The ability to attract these types of deposits has a positive effect on Premier's net interest margin as they provide a relatively low cost of funds to Premier compared to certificates of deposits or borrowing advances. If these depositors were to withdraw these funds and the Affiliate Banks were not able to replace them with similar types of deposits, the cost of funds would increase and Premier's results of operation would be negatively impacted.

Integration of Future Acquisitions May Be More Difficult Than Anticipated

The success of Premier's proposed acquisition of the Bank of Gassaway or any future acquisitions will depend on a number of factors, including (but not limited to) Premier's ability to:

- timely and successfully integrate the operations of Premier and each of the acquisitions;
- maintain the existing relationships with the depositors of each acquisition to minimize the withdrawal of deposits subsequent to the merger(s);
- maintain and enhance the existing relationships with the borrowers of each acquisition to limit potential losses from loans made by the them;
- control the incremental non-interest expense of the integrated operations to maintain overall operating efficiencies;
- retain and attract qualified personnel at each acquisition; and
- compete effectively in the communities served by each acquisition and in nearby communities.

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Integration of Recent Internal Subsidiary Mergers May Be More Difficult Than Anticipated

The success of Premier's April 2011 internal merger of First Central Bank, Traders Bank, Adams National Bank and Consolidated Bank & Trust into Boone County Bank to form Premier Bank and the August 2012 internal merger of Ohio River Bank and Farmers Deposit Bank into Citizens Deposit Bank and Trust will depend on a number of factors, including (but not limited to) Premier's ability to:

- timely and successfully integrate the operations of the merging subsidiaries into a cohesive single bank operation;
- maintain the existing relationships with the depositors of each of the merging subsidiaries to minimize the withdrawal of deposits subsequent to the merger(s);
- maintain and enhance the existing relationships with the borrowers of each of the merging subsidiares to limit potential losses from loans made by the them;
- control the incremental non-interest expense of the integrated operations to maintain overall operating efficiencies;
- retain and attract qualified personnel at each resulting institution; and
- compete effectively in the communities served by each of the merging subsidiaries and in nearby communities.

Concentration of Commercial Real Estate and Commercial Business Loans in the Washington, D.C. Market Area May Increase Credit Risk in the Loan Portfolio

These types of loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful business operations and the income stream of the commercial borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Premier's success in the metro Washington, D.C. market area depends primarily on the local general economic conditions in the area. The local economic conditions in the Washington, D.C. metropolitan area have a significant impact on its loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. Real estate values have suffered from declines in the Washington, D.C. market area, which may affect the bank's financial condition. If Premier continues to receive updated appraisals revealing significant additional weakness in the value of the collateral securing loans in the Washington, D.C. market area, it will likely result in further losses. Also, many of the local borrowers have more than one commercial real estate or commercial business loan outstanding with Premier. Consequently, an adverse development with respect to one loan or one credit relationship can expose Premier to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. A significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond Premier's control would impact these local economic conditions and could negatively affect the financial results of its banking operations.

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Premier's expenses will increase as a result of increases in FDIC insurance premiums.

The Federal Deposit Insurance Corporation imposes an assessment against institutions for deposit insurance. This assessment is based on the risk category of the institution and ranges from 2.5 to 45 basis points of the institution's assessment base. The assessment base for banks similar to those owned by Premier is defined as the most recent quarterly average total assets of the bank less the quarterly average tangible equity of the bank. Federal law requires that the designated reserve ratio for the deposit insurance fund be established at a minimum of 1.35% of estimated insured deposits. If this reserve ratio drops below 1.35% or if the FDIC expects that it will do so within six months, the FDIC must establish and implement a plan to restore the designated reserve ratio to 1.35% of estimated insured deposits by no later than September 30, 2020.

Recent bank failures coupled with deteriorated economic conditions have significantly reduced the deposit insurance fund's reserve ratio. On May 22, 2009, the FDIC issued a final rule imposing a special assessment of 5 basis points on total assets less tier 1 capital on June 30, 2009, which was collected on September 30, 2009. For Premier this assessment was booked as a second quarter 2009 expense. The rule also provides the FDIC with authority to impose up to two additional assessments of up to 5 basis points each on total assets less tier 1 capital.

In addition, EESA temporarily increased the limit on FDIC insurance coverage for deposits to $250,000 through December 31, 2009. This increase has now been permanently extended by the Dodd-Frank Act. The FDIC also took action to provide coverage for newly-issued senior unsecured debt and non-interest bearing transaction accounts and for unsecured debt and non-interest bearing transaction and certain NOW accounts in excess of the $250,000 limit, for which institutions will be assessed additional premiums. In 2009, the temporary increase in FDIC insurance coverage was extended through December 31, 2012. These actions increased Premier's combined non-interest expense in 2009 and may increase non-interest expense in future years as long as the increased premiums and coverages are in place.

Claims and Litigation Pertaining to Fiduciary Responsibility

From time to time, shareholders or customers may make claims and take legal action pertaining to Premier's and the Affiliate Banks' performance of their fiduciary responsibilities. Defending such claims can impose a material expense on Premier. If such claims and legal actions are not resolved in a manner favorable to the Affiliate Banks they may result in financial liability and/or adversely affect the market perception of the Affiliate Banks and their products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on Premier's business, which, in turn, could have a material adverse effect on its financial condition and results of operations

Unauthorized Disclosure of Sensitive or Confidential Customer Information Could Severely Harm Our Business.

In the normal course of business, the Affiliate Banks collect, process and retain sensitive and confidential customer information to both open deposit accounts and determine whether to approve a customer's request for a loan. Premier also relies upon a variety of computing platforms and networks over the internet for the purposes of data processing, communication and information exchange, including a variety of services provided by third-party vendors. Despite the security measures in place, Premier's facilities and systems, and those of Premier's third-party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. If information security is breached, information can be lost or misappropriated resulting in financial loss or costs to Premier or damages to others. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information, whether by Premier or by its vendors, could severely damage Premier's reputation, expose it to the risks of litigation and liability or disrupt the business operations of Premier which in turn, could have a material adverse effect on its financial condition and results of operations.

Inability to Hire and Retain Qualified Employees

Premier's performance is largely dependent on the talents and efforts of highly skilled individuals and their ability to attract and retain customer relationships in a community bank environment. There is intense competition in the financial services industry for qualified employees. In addition, Premier faces increasing competition with businesses outside the financial services industry for the most highly skilled individuals. Premier's business could be adversely affected if it were unable to retain and motivate its existing key employees and management team. Furthermore, Premier's success may be impacted if it were unable to recruit replacement management and key employees in a reasonable amount of time.

Future Issuances of Common Shares or Other Securities May Dilute the Value of Outstanding Common Shares, Which May Also Adversely Affect their Market Price

In many situations, Premier's Board of Directors has the authority, without any vote of its shareholders, to issue shares of authorized but unissued securities, including common shares authorized and unissued under Premier's stock option plans and shares of Premier preferred stock. In the future, Premier may issue additional securities, through public or private offerings, in order to raise additional capital, complete acquisitions, or compensate key employees. Any such issuance would dilute the percentage of ownership interest of existing shareholders and may dilute the per share value of the common stock.

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The Series A Preferred Shares Impact Net Income Available to Common Shareholders, and the Warrant May Be Dilutive to Premier's Common Shareholders.

The additional capital Premier raised through its participation in the TARP Capital Purchase Program has increased Premier's equity and the number of dilutive outstanding common shares. In addition, the dividends declared and the accretion of discount on the Series A Preferred Shares reduces the net income available to Premier's common shareholders and earnings per common share. The Series A Preferred Shares will also receive preferential treatment in the event of Premier's liquidation, dissolution or winding up. Additionally, the ownership interest of Premier's existing common shareholders will be diluted to the extent the Warrant Premier issued to the U.S. Treasury is exercised. Although the U.S. Treasury has agreed not to vote any of the common shares it receives upon exercise of the Warrant, a transferee of any portion of the Warrant or of any common shares acquired upon exercise of the Warrant is not bound by this agreement.

If Premier is Unable to Redeem the Series A Preferred Shares After Five Years, the Cost of This Capital Will Increase Substantially.

If Premier is unable to redeem the entire amount of Series A Preferred Shares prior to November 15, 2014, the cost of this capital will increase substantially on that date, from 5.0% per annum to 9.0% per annum. Depending on Premier's financial condition at the time, this increase in the annual dividend rate on the Series A Preferred Shares could have a material negative effect on Premier's liquidity.

If a Subsidiary Bank's Current Capital Ratios Decline Below the Regulatory Threshold for an "Adequately Capitalized" Institution, the Bank Will Be Considered "Undercapitalized" Which May Have a Material and Adverse Effect on Premier.

The Federal Deposit Insurance Act (FDIA) requires each federal banking agency to take prompt corrective action with respect to banks that do not meet the minimum capital requirements. Once a bank becomes undercapitalized, it is subject to various requirements and restrictions, including a prohibition of the payment of capital distributions and management fees, restrictions on growth of the bank's assets, and a requirement for prior regulatory approval of certain expansion proposals. In addition, an undercapitalized bank must file a capital restoration plan with its principal federal regulator.

If an undercapitalized bank fails in any material aspect to implement a plan approved by its regulator, the agency may impose additional restrictions on the bank. These include, among others, requiring the recapitalization or sale of the bank, restrictions with affiliates, and limiting the interest rates the bank may pay on deposits. Further, even after the bank has attained adequately capitalized status, the appropriate federal agency may, if it determines, after notice and hearing, that the bank is in an unsafe or unsound condition or has not corrected a deficiency from its most recent examination, treat the bank as if it were undercapitalized and subject the bank to the regulatory restrictions of such lower classification.

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In addition to measures taken under the prompt corrective action provisions with respect to undercapitalized institutions, insured banks and their holding companies may be subject to potential enforcement actions by their regulators for unsafe and unsound practices in conducting their business or the violations of law or regulation, including the filing of false or misleading regulatory reports. Enforcement actions under this authority may include the issuance of cease and desist orders, the imposition of civil money penalties, the issuance of directives to increase capital, formal and informal agreements, or the removal and prohibition orders against “institution-affiliates parties”. Further, the Federal Reserve may bring an enforcement action against the bank holding company either to address the undercapitalization in the holding company or to require the holding company to implement measures to remediate undercapitalization in a subsidiary.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The Company leases its principal executive offices located in Huntington, West Virginia. Except as noted, each of the Banks owns the real property and improvements on which their banking activities are conducted.

Premier Bank, in addition to its main office at 2883 5th Avenue in Huntington, West Virginia has branches at the following locations:

Branch	Address	Location and Zip Code	Leased/ Owned
Madison	300 State Street	Madison, WV 25130	Owned
Van	Route 85	Van, WV 25206	Owned
West Hamlin	40 Lincoln Plaza	Branchland, WV 25506	Owned
Logan	307 Hudgins Street	Logan, WV 25601	Owned
Philippi	2 South Main Street	Philippi, WV 26416	Owned
Buckhannon	14 North Locust Street	Buckhannon, WV 26201	Owned
Rock Cave	State Routes 4 & 20	Rock Cave, WV 26234	Owned
Bridgeport	25 Oakmont Lane	Bridgeport, WV 26330	Owned
Ravenswood	601 Washington Street	Ravenswood, WV 26164	Owned
Ripley South	606 South Church Street	Ripley, WV 25271	Owned
Ripley East	103 Miller Drive	Ripley, WV 25271	Owned
Spencer Main	303 Main Street	Spencer, WV 25276	Owned
Spencer Drive Thru	406 Main Street	Spencer, WV 25276	Owned
Mineral Wells	1397 Elizabeth Pike	Mineral Wells, WV 26150	Owned
Connecticut Avenue	1130 Connecticut Avenue	Washington, DC 20036	Leased
Mass Ave	50 Massachusetts Ave, S.E.	Washington, DC 20002	Leased
17th Street	1604 17th Street, N.W.	Washington, DC 20009	Leased
K Street	1501 K Street, N.W.	Washington, DC 20006	Leased
Silver Spring	8121 Georgia Avenue	Silver Spring, MD 20910	Leased
Chevy Chase	5530 Wisconsin Avenue	Chevy Chase, MD 20815	Leased
Richmond	320 North First Street	Richmond, VA 23219	Owned
Hampton	101 N. Armistead Avenue	Hampton, VA 23669	Owned

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Item 2. Properties – (continued)

Citizens Deposit Bank & Trust, in addition to its main office at 10 Second Street in Vanceburg, Kentucky, has branches at the following locations:

Branch	Address	Location and Zip Code	Leased/ Owned
AA Branch	67 Commercial Drive, Suite 3	Vanceburg, KY 41179	Leased
Brooksville	111 Powell Street	Brooksville, KY 41004	Owned
Garrison	9234 East KY 8	Garrison, KY 41141	Owned
Ripley	104 Main Street	Ripley, OH 45167	Owned
Aberdeen	130 Stivers Road	Aberdeen, OH 45101	Owned
Maysville	1201 US 68	Maysville, KY 41056	Owned
Mt. Olivet	103-107 South Main Street	Mt. Olivet, KY 41064	Owned
Tollesboro	2954 West KY 10	Tollesboro, KY 41189	Owned
Ironton	221 Railroad Street	Ironton, OH 20001	Owned
Proctorville	7604 County Road 107 Unit A	Proctorville, OH 45669	Leased
South Webster	110 N. Jackson Street	South Webster, OH 45682	Owned
Eminence	5230 South Main Street	Eminence, KY	Owned

Item 3. Legal Proceedings

The Banks are parties to legal actions that are ordinary routine litigation incidental to a commercial banking business. In management's opinion, the outcome of these matters, individually or in the aggregate, will not have a material adverse impact on the results of operations or financial position of the Company.

Item 4. Mine Safety Disclosures

Not Applicable

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PART II

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

The Company's common stock is listed on the NASDAQ Global Market System under the symbol PFBI. At December 31, 2013, the Company had approximately 2,167 shareholders of record of its common shares.

The following table sets forth on a quarterly basis cash dividends paid and the range of high and low sales prices on a per share basis during the quarters indicated.

	Cash Dividends Paid	Sales Price	
		High	Low
2012			
First Quarter	$0.00	$7.89	$4.42
Second Quarter	0.00	8.49	6.75
Third Quarter	0.11	9.75	6.76
Fourth Quarter	0.11	11.54	8.77
	0.22		
2013			
First Quarter	$0.11	$12.50	$10.37
Second Quarter	0.11	13.10	10.99
Third Quarter	0.11	13.00	11.40
Fourth Quarter	0.11	14.73	11.60
	0.44		
2014			
First Quarter (through March 1, 2014)	$0.11	$14.75	$13.70

The payment of dividends by the Company depends upon the ability of the Banks to declare and pay dividends to the Company because the principal source of the Company's revenue will be dividends paid by the Banks. At December 31, 2013 approximately $3.8 million was available for payment as dividends from the Banks to the Company without the need for regulatory approval. In considering the payment of dividends, the Board of Directors will take into account the Company's financial condition, the cumulative provisions of the Series A Preferred Shares, results of operations, tax considerations, costs of expansion, industry standards, economic conditions and need for funds, as well as governmental policies and regulations applicable to the Company and the Banks. See "REGULATORY MATTERS - Capital Requirements" for discussion on capital guidelines.

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Stock Performance Graph

The following Stock Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that Premier specifically incorporates it by reference into such filing.

The following graph shows a comparison of cumulative total stockholder return on the Common Stock since December 31, 2008 with the cumulative total returns of both a broad equity market index and a published industry index. The broad equity market index chosen was the Russell 3000 and the published industry index chosen was the SNL ($500M-$1B) Bank Asset-Size Index. The graph reflects historical performance only, which is not indicative of possible future performance of the Common Stock.

Premier Financial Bancorp, Inc

	Period Ending					
Index	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Premier Financial Bancorp, Inc.	100.00	102.52	100.56	69.13	173.80	235.41
Russell 3000	100.00	128.34	150.07	151.61	176.49	235.71
SNL $500M-$1B Bank Index	100.00	71.68	81.25	74.10	91.37	132.87

*Source: SNL Financial LC, Charlottesville, VA

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Equity Compensation Plan Information

The following table gives information about the Company’s common stock that may be issued upon the exercise of options, warrants and rights under its equity compensation plans the 2002 Stock Option Plan and the 2012 Long-term Incentive Plan, as of December 31, 2013.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (Excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders			
2002 Stock Option Plan	303,181	$ 9.58	0
2012 Long-term Incentive Plan	51,100	11.39	448,900
Equity compensation plans not approved by shareholders			
None			
Total	354,281	$ 9.84	448,900

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Item 6. Selected Financial Data

The following table presents consolidated selected financial data for the Company. It does not purport to be complete and is qualified in its entirety by more detailed financial information and the audited consolidated financial statements contained elsewhere in this annual report.

(Dollars in thousands, except per share amounts)	At or for the Year Ended December 31									
	2013		2012		2011		2010		2009	
Earnings										
Net interest income	$43,695		$43,999		$44,208		$43,744		$31,083	
Provision for loan losses	(375	)	4,260		3,630		3,297		1,052	
Non-interest income	7,732		9,529		6,911		6,761		9,136	
Non-interest expense	31,169		33,272		36,521		34,219		27,115	
Income taxes	7,404		5,673		3,800		3,817		2,934	
Net income	13,229		10,323		7,168		9,172		9,118	
Preferred stock dividends, net of redemption discount	659		168		1,221		1,249		133	
Net income available to common shareholders	$12,570		$10,155		$5,947		$7,923		$8,985	
Financial Position										
Total assets	$1,100,179		$1,120,787		$1,124,087		$1,183,251		$1,101,750	
Loans	740,770		704,625		690,923		725,964		699,133	
Allowance for loan losses	11,027		11,488		9,795		9,865		7,569	
Goodwill and other intangibles	31,996		32,596		33,268		34,060		31,519	
Securities	218,066		283,975		278,479		256,520		240,970	
Deposits	924,023		930,583		925,078		985,291		913,784	
Other borrowings	25,119		42,151		51,418		62,711		55,564	
Preferred equity	11,955		11,896		21,949		21,841		21,705	
Common equity	134,985		132,400		122,058		109,556		106,851	
Per Common Share Data										
Net income – basic	1.57		1.28		0.75		1.00		1.32	
Net income - diluted	1.49		1.24		0.74		0.98		1.32	
Book value	16.79		16.63		15.38		13.80		13.46	
Tangible book value	12.81		12.53		11.19		9.51		9.49	
Cash dividends	0.44		0.22		0.00		0.22		0.44	
Financial Ratios										
Return on average assets	1.13	%	0.90	%	0.51	%	0.71	%	1.09	%
Return on average common equity	9.29	%	7.89	%	5.08	%	7.12	%	9.47	%
Dividend payout	28.03	%	17.19	%	0.00	%	22.00	%	33.33	%
	13.36	%	12.87	%	12.81	%	11.10	%	11.67	%

Stockholders’ equity to total assets at period-end										
Average stockholders’ equity to average total assets	13.21	%	12.94	%	11.98	%	11.84	%	12.19	%

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PREMIER FINANCIAL BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

Premier Financial Bancorp, Inc. ("Premier" or the "Company") is a multi-bank holding company headquartered in Huntington, West Virginia. It operates two community bank subsidiaries, Premier Bank, Inc. ("Premier Bank"), a $730 million bank headquartered in Huntington, West Virginia, and Citizens Deposit Bank and Trust ("Citizens"), a $363 million bank headquartered in Vanceburg, Kentucky, each with a local orientation. The banks operate in twenty-seven communities within the states of West Virginia, Virginia, Ohio, Maryland and Kentucky plus the cities of Washington, DC and Richmond, Virginia. Through these locations the banks provide their customers with a full range of banking services. On September 10, 2010 Citizens completed its purchase of four banking offices ("Branch Purchase") from Integra Bank N.A. ("Integra Bank"). The banking offices are located in Maysville and Mount Olivet, Kentucky and Ripley and Aberdeen, Ohio. On April 9, 2011, Premier merged five of its subsidiary banks together. Adams National, CB&T, First Central Bank and Traders Bank, Inc. were merged into Boone County Bank. The resulting bank moved its headquarters to Huntington, West Virginia and changed its name to Premier Bank, Inc. On August 17, 2012, Premier merged its three other subsidiary banks together. Ohio River Bank and Farmers Deposit Bank were merged into Citizens. As of December 31, 2013, Premier had approximately $1.1 billion in total assets, $741 million in total loans, $924 million in total deposits and $11 million in customer repurchase agreements.

The accompanying consolidated financial statements have been prepared by the management of Premier in conformity with accounting principles generally accepted in the United States of America. The audit committee of the Board of Directors engaged Crowe Horwath LLP ("Crowe") as independent auditors to audit the consolidated financial statements, and their report is included elsewhere herein. Financial information appearing throughout this annual report is consistent with that reported in the consolidated financial statements. The following discussion is designed to assist readers of the consolidated financial statements in understanding significant changes in Premier's financial condition and results of operations.

Management's objective of a fair presentation of financial information is achieved through a system of internal accounting controls. The financial control system of Premier is designed to provide reasonable assurance that assets are safeguarded from loss and that transactions are properly authorized and recorded in the financial records. As an integral part of that financial control system, the holding company employs a staff of internal auditors and contracts with professional accounting firms to perform internal audits of the financial records of each of the subsidiaries on a periodic basis. The internal audit manager reports the findings and recommendations highlighted by the internal audits to Premier's audit committee as well as the audit committees of the subsidiaries. In addition, the audit committee of the Board of Directors engages Crowe as independent auditors to render an opinion on management's assessment of the internal controls of the company. The activities of both the internal and external audit functions are reviewed by the audit committee of the Board of Directors.

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Also, on a regular periodic basis, the subsidiary banks are examined by Federal and State banking authorities for safety and soundness as well as compliance with applicable banking laws and regulations. Their reports are issued to the Board of Directors of the bank under examination.

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 or lack thereof, Premier's ability to control costs, and new accounting pronouncements, all of which are difficult to predict and many of which are beyond the control of Premier. The words "may," "could," "should," "would," "will," "believe," "anticipate," "estimate," "expect," "intend," "plan," "project," "predict," "continue" and similar expression to identify forward-looking statements.

CRITICAL ACCOUNTING POLICIES

General

The financial condition and results of operations presented in the Consolidated Financial Statements, accompanying Notes to the Consolidated Financial Statements and management's discussion and analysis are, to a large degree, dependent upon our accounting policies. The selection and application of these accounting policies involve judgments, estimates, and uncertainties that are susceptible to change.

Presented below is a discussion of those accounting policies that management believes are the most important to the presentation and understanding of our financial condition and results of operations. These critical accounting policies require management's most difficult, subjective and complex judgments about matters that are inherently uncertain. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of materially different financial condition or results of operations is a reasonable likelihood. See also Note 1 of the accompanying consolidated financial statements presented elsewhere in this annual report.

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Allowance for Loan Losses

The Company monitors and maintains an allowance for loan losses to absorb an estimate of probable incurred losses inherent in the loan portfolio. Note 5 to the Consolidated Financial Statements contains a significant level of analysis of the allowance for loan losses. The Company maintains policies and procedures that address the systems of control over the following areas of maintenance of the allowance: the systematic methodology used to determine the appropriate level of the allowance to provide assurance that the allowance for loan losses is maintained in accordance with accounting principles generally accepted in the United States of America; the accounting policies for loan charge-offs and recoveries; the assessment and measurement of impairment in the loan portfolio; and the loan grading system.

The Company evaluates various loans individually for impairment using accounting guidance issued by Financial Accounting Standards Board ("FASB"). Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due 90 days or more, restructured loans and other loans selected by management including loans graded as substandard or doubtful by the internal credit review process. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment.

For loans without individual measures of impairment, the Company makes estimates of losses for groups of loans as required by accounting guidance. Loans are grouped by similar characteristics, including the type of loan, the assigned loan grade and the general collateral type. A loss rate reflecting the expected loss inherent in a group of loans is derived based upon estimates of default rates for a given loan grade, the predominant collateral type for the group and the terms of the loan. The resulting estimate of losses for groups of loans is adjusted for relevant environmental factors and other conditions of the portfolio of loans, including: borrower and industry concentrations; levels and trends in delinquencies, charge-offs and recoveries; changes in underwriting standards and risk selection; level of experience, ability and depth of lending management; and national and local economic conditions.

The amount of estimated impairment for individually evaluated loans and groups of loans is added together for a total estimate of probable incurred loan losses. This estimate of losses is compared to the allowance for loan losses of the Company as of the evaluation date and, if the estimate of losses exceeds the allowance, an additional provision to the allowance would be made. If the estimate of losses is less than the allowance, the degree to which the allowance exceeds the estimate is evaluated to determine whether the allowance falls outside a range of estimates. If the estimate of losses were below the range of reasonable estimates, the allowance would be reduced by way of a credit to the provision for loan losses. The Company recognizes the inherent imprecision in estimates of losses due to various uncertainties and variability related to the factors used, and therefore a reasonable range around the estimate of losses is derived and used to ascertain whether the allowance is too high. If different assumptions or conditions were to prevail and it is determined that the allowance is not adequate to absorb the new estimate of probable incurred losses, an additional provision for loan losses would be made, which amount may be material to the Consolidated Financial Statements.

Business Acquisitions and Impairment of Goodwill

or acquisitions, Premier is required to record the assets acquired, including identified intangible assets, and the liabilities assumed at their fair value. These often involve estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates or other relevant factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective.

The loans acquired via the purchase of Abigail Adams National Bancorp on October 1, 2009 and the four branches purchased by Citizens on September 10, 2010were recorded on the books of Premier at their estimated fair value. The estimate of fair value 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 required management's most difficult, subjective and complex judgments and are inherently uncertain. Since the estimated fair value of these loans were 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 by Premier at the date of acquisition. However, in the event that different assumptions or conditions were to prevail due to uncertainties in the economy, the borrower's ability to repay or other factors, and depending upon the severity of such changes, the possibility of materially different financial condition or results of operations is a reasonable likelihood.

Under accounting guidance issued by the FASB related to accounting for goodwill and other intangible assets, goodwill is evaluated at least annually to determine if the amount recorded on the Company's balance sheet is impaired. If goodwill is determined to be impaired, the recorded amount would be reduced to estimated fair value by a charge to expense in the period in which impairment is determined. Impairment is evaluated in the aggregate for all of the Company's banking operations. Operating characteristics of the aggregate banking operations are derived and compared to a database of peer group banks that have been sold. Pricing valuation factors that are considered in estimating the fair value of the Company's aggregate banking operations include price-to-total assets, price-to-total book value, price-to-deposits and price-to-earnings. Unusual events that have impacted the operating characteristics of the Company's aggregate banking operations are considered to assess the likelihood of recurrence and adjustments to historical performance may be made. Changes in assumptions regarding the likelihood of unusual historical events recurring or the use of different pricing valuation factors could have a material impact on management's impairment analysis.

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SUMMARY FINANCIAL RESULTS

Premier had net income available to common shareholders of $12.570 million in 2013 compared to $10.155 million of net income available to common shareholders in 2012 and $5.947 million of net income available to common shareholders reported for 2011. Net income available to common shareholders increased in 2013 largely due to a decrease in the provision for loan losses and a decrease in operating expenses when compared to 2012 results. Net income available to common shareholders increased in 2012 largely due to decreased operating expenses, an increase in income from asset sales such as securities and loans and a discount recognized on the purchase and retirement of 10,252 shares of Premier's Series A Preferred Stock. Basic earnings per share were $1.57 in 2013 compared to $1.28 in 2012 and $0.75 in 2011. The increase in earnings per share in 2013 is largely due to the increases in net income discussed above while the increase in earnings per share in 2012 is also largely due to the increase in net income discussed above.

The Analysis of Return on Assets and Equity table below comparatively illustrates the components of ROA and ROE over the previous five years. Return on average assets ("ROA") measures how effectively Premier utilizes its assets to produce net income. It also facilitates the analysis of earnings performance of different sized organizations. In 2009, Premier increased the size of its balance sheet with the acquisition of Abigail Adams National Bancorp, Inc. ("Abigail Adams"). The result was an increase in total assets from $724.4 million at the end of 2008, to $1,183.3 million at the end of 2010, largely due to the acquisition. In 2011, total assets declined slightly to $1,124.1 million at December 31, 2011 and at December 31, 2012, total assets remained relatively unchanged at $1,120.8 million. In 2013, total assets decreased by another 1.8% to $1,100.2 million at December 31, 2013. An increase in asset size will generally result in higher dollars of income earned and expenses incurred. A detailed review of the components of ROA will help analyze Premier's performance without regard to changes in its size.

Premier's net income available to common shareholders in 2013 resulted in ROA of 1.13%, an increase from the 0.90% ROA in 2012 and the 0.51% ROA in 2011. As shown in the following table, fully tax equivalent net interest income (as a percent of average earning assets) reached its highest level during the last five years in 2013 at 4.26% slightly above the 4.25% net interest income earned in 2012 and 2010. In 2009, this percentage was 4.12%. In 2010, fully taxable equivalent net interest income increased to 4.25% as the average interest rate paid on interest bearing liabilities fell more quickly in 2010 than the yield earned on average earning assets as a result of a lower overall interest rate environment due to Federal Reserve policies designed to stimulate national economic growth. In 2011, net interest income decreased to 4.18% of average earning assets as the yield on earning assets decreased by more than the rate paid on interest bearing liabilities. In 2012, net interest income returned to 4.25% of average earnings assets largely due to a continuing decrease in rates paid on deposits while the overall yield on loans held steady at 6.33%. In 2013, the continued low interest rate environment had a diminishing effect on both the yield on earning assets and the cost of interest bearing liabilities but resulted in a slightly higher net interest margin at 4.26%.

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While net interest income (as a percent of average earning assets) maintained its highest level during the last five years in 2013 at 4.26%, net credit income (as a percentage of average earning assets) demonstrated a significant improvement over the prior year. Net credit income reduces the net interest income earned by the provision for loan losses recorded during the year. Due to a negative provision for loan losses in 2013, net credit income was higher than the net interest margin by 0.04%, increasing net credit income to 4.30%, the highest level over the five year period presented in the table.

In 2009, net credit income (as a percent of average earning assets) was 3.98%, as the 4.12% net interest income as a percent of average earning assets was reduced by the provision for loan losses. And while Premier's non-interest income in 2009 (as a percent of average earnings assets) was at its highest level over the past five years, Premier's return on average assets in 2009 was lowered by the highest level of non-interest expense (as a percent of average earning assets) over those same five years, largely due to acquisition related expenses, a special FDIC insurance assessment, and write-downs on the value of other real estate owned ("OREO"). Adding to Premier's return on average assets in 2009 was a gain recognized on the acquisition of Abigail Adams and lower income tax expense. As illustrated in the table, the overall result was a 2009 return on average earning assets of 1.18% and a return on average total assets (ROA) of 1.09%. In 2010, the increase in net interest income (as a percent of average earning assets) was more than offset by an increase in the provision for loan losses (as a percent of average earning assets) lowering net credit income to 3.94% of average earning assets. Further lowering Premier's return on average assets in 2010 was lower non-interest income (as a percent of average earning assets) due to lower deposit customer fee income in relation to the total deposits outstanding and no gain on the acquisition of a subsidiary as was recorded in 2009. On the positive side, non-interest expenses (as a percent of average earning assets) decreased in 2010 to 3.30% compared to 3.57% in 2009, largely due to reduced acquisition related expenses and lower OREO costs due to gains realized on the disposition of some OREO properties in 2010. Lastly, dividends and accretion accrued on Premier's Series A Preferred Stock also serve to reduce net income available to common shareholders and thus reduce Premier's ROA. In 2010, preferred stock dividends and accretion totaled 0.12% as a percent of average earning assets. As illustrated in the table, the overall result was to decrease Premier's 2010 return on average earning assets to 0.77% and decrease its return on average total assets (ROA) to 0.71%.

In 2011, net interest income (as a percent of average earning assets) decreased from 2010 and was further reduced by a slight increase in the provision for loan losses (as a percent of average earning assets) lowering net credit income to 3.84% of average earning assets, the lowest percentage in the five-year period presented. Non-interest income (as a percent of average earning assets) held steady in 2011 compared to 2010, but non-interest expenses (as a percent of average earning assets) increased to 3.43%, largely due to the increase in data processing expenses and conversion expenses. Income tax expense (as a percentage of average earning assets) was the lowest level in 2011, but only slightly less than the percentages reported for 2010 and 2009. Also similar to 2010, preferred stock dividends and accretion in 2011 totaled

0.11% as a percent of average earning assets. Dividends and accretion accrued on Premier's Series A Preferred Stock reduce net income available to common shareholders and thus reduce Premier's ROA. As illustrated in the table, the overall result was to decrease Premier's 2011 return on average earning assets to 0.56% and decrease its ROA to 0.51%.

In 2012, net interest income (as a percent of average earning assets) returned to 4.25% but an increase in the provision for loan losses (as a percent of average earning assets) reduced net credit income to 3.84% of average earning assets, repeating 2011 as the lowest percentage in the five-year period presented. Non-interest income (as a percent of average earning assets) dropped slightly in 2012 compared to 2011, but non-interest expenses (as a percent of average earning assets) decreased to 3.19%, the lowest level over the five year period. The decrease in non-interest expenses (as a percent of average earning assets) is largely due to lower staff costs, data processing costs, and the elimination of conversion charges incurred in 2011, partially offset by an increase in expenses related to other real estate owned ("OREO"). Income tax expense (as a percentage of average earning assets) returned to a more normal level in 2012, due to tax benefits realized in 2009, 2010 and 2011 related to deferred tax assets. Also similar to 2010 and 2011, preferred stock dividends and accretion in 2012 totaled 0.10% as a percent of average earning assets. Dividends and accretion accrued on Premier's Series A Preferred Stock reduce net income available to common shareholders and thus reduce Premier's ROA. Substantially offsetting the reduction in net income available to common shareholders from preferred stock dividends was the a discount realized on the redemption of 10,252 shares of Series Preferred Stock purchased during an auction conducted by the U.S. Treasury in July 2012. Adding to Premier's net income available to common shareholders in 2012 was 0.29% (as a percentage of average earning assets) of income realized on the early call of two securities during the year plus a gain on the sale of a note on non-accrual status. As illustrated in the table, the overall result was to increase Premier's 2012 return on average earning assets to 0.97% and increase its return on average total assets (ROA) to 0.90%.

In 2013, net interest income (as a percent of average earnings assets) remained at its highest level, reaching 4.26%. However, in 2013, Premier's negative provision for loan losses added to net credit income. The negative provision for loan losses increased net credit income as percent of average earning assets to 4.30%, the highest level in the five year period presented. Non-interest income (as a percent of average earning assets) again dropped slightly from the 0.63% reported in 2012 to 0.61% in 2013, the lowest level of the five years presented. More than offsetting this decrease in revenue, non-interest expense (as a percent of average earning assets) decreased from 3.19% in 2012 to 3.02% in 2013, also the lowest level of the five years presented in the table. The decrease in non-interest expenses in 2013 was largely the result of decreases in professional fees, OREO expenses and write-downs, and collection expenses when compared to 2012. Adding to Premier's net income available to common shareholders in 2013 was 0.14% (as a percentage of average earning assets) of income realized on the call and sale of corporate issued securities held in the Company's investment portfolio during the year. Income tax expense (as a percentage of average earning assets) increased in 2013 as Premier's increased earnings performance subjected it to a higher marginal federal income tax rate and a higher amount of state based income taxes. Finally, due to the partial redemption of Premier's Series A

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Preferred Stock in 2012, the preferred stock dividends and accretion on the remaining 12,000 shares in 2013 totaled only 0.06% as a percent of average earning assets, compared to 0.10% in 2012 and 0.11% in 2011. Dividends and accretion accrued on Premier's Series A Preferred Stock reduce net income available to common shareholders and thus reduce Premier's ROA. As illustrated in the table, the overall result was to increase Premier's 2013 return on average earning assets to 1.22% and increase its return on average total assets (ROA) to 1.13%, the highest level for both ratios over the five year period presented in the table.

Return on average common equity ("ROE"), another measure of earnings performance, indicates the amount of net income earned in relation to the total equity invested by holders of common stock. Premier's 2012 ROE was 7.89% compared to 5.08% in 2011 and 7.12% realized in 2010. ROE increased in 2012 due to the significantly higher ROA in 2012 but was tempered by the lower multiple of average assets to average common equity in 2012. ROE decreased in 2011 due to the significantly lower ROA in 2011 and a slightly lower multiple of average assets to average common equity in 2011.

ANALYSIS of RETURN ON ASSETS and EQUITY

	2013		2012		2011		2010		2009	
As a percent of average earning assets										
Fully taxable-equivalent net interest income	4.26	%	4.25	%	4.18	%	4.25	%	4.12	%
Provision for loan losses	0.04		(0.41	)	(0.34	)	(0.32	)	(0.14	)
Net credit income	4.30		3.84		3.84		3.94		3.98	
Gains on acquisition of subsidiary and sales of assets	0.14		0.29		0.00		0.00		0.47	
Non-interest income	0.61		0.63		0.65		0.65		0.74	
Non-interest expense	(3.02	)	(3.19	)	(3.43	)	(3.30	)	(3.57	)
Tax equivalent adjustment	(0.02	)	(0.02	)	(0.03	)	(0.03	)	(0.03	)
Applicable income taxes	(0.72	)	(0.54	)	(0.36	)	(0.37	)	(0.39	)
Discount on redemption of preferred stock	0.00		0.09		0.00		0.00		0.00	
Preferred stock dividends	(0.06	)	(0.10	)	(0.11	)	(0.12	)	(0.02	)
Return on average earning assets	1.22	%	0.97	%	0.56	%	0.77	%	1.18	%
Multiplied by average earning assets to average total assets	92.43		91.91		91.89		92.16		92.20	
Return on average assets	1.13	%	0.90	%	0.51	%	0.71	%	1.09	%
Multiplied by average assets to average common stockholders' equity	8.24	X	8.81	X	9.91	X	10.10	X	8.68	X
Return on average common equity	9.29	%	7.89	%	5.08	%	7.12	%	9.47	%

As a result of the decrease in noninterest expense in 2013, Premier's net overhead ratio (non-interest expense less non-interest income as a percent of average earning assets) decreased to 2.41% in 2013, the lowest level reported in the last five years. This ratio compares favorably to the 2.56% net overhead ratio in 2012, the 2.78% ratio reported in 2011, the 2.65% ratio reported in 2010 and the 2.83% ratio reported in 2009. The decrease in the 2013 net overhead ratio was largely the result of lower operating expenses, primarily occupancy and equipment expenses, professional fees, OREO expenses and write-downs, and collection expenses in 2013 when compared to 2012. The decrease in the 2012 net overhead ratio from that reported in 2011 was also largely the result of lower operating expenses, primarily staff costs, data processing costs and the costs incurred in 2011 related to converting to a different data processing provider. These expense reductions were partially offset by an increase in OREO expenses in 2012. The net overhead ratio in 2011 was elevated largely due to an increase in operating expenses resulting from higher data processing costs and the conversion expenses incurred in 2011. The lower net overhead ratio in 2010 compared to 2009 was largely the result of a lower ratio of non-interest expense to average earning assets due to operational savings, lower acquisition expenses and gains on the sale of some OREO in 2010 compared to 2009. Negatively affecting the 2010 net overhead ratio was a lower ratio of non-interest income to average earning assets, largely due to the lower 0.40% non-interest income ratio of the acquired Abigail Adams' banks compared to the historical results of Premier's other subsidiary banks. This lower trend continued into 2011 as well as a lower level of secondary market mortgage commissions.

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A breakdown of Premier's financial results by quarter for the years ended December 31, 2013 and 2012 is summarized below.

QUARTERLY FINANCIAL INFORMATION
(Dollars in thousands, except per share amounts)

	First	Second	Third	Fourth	Full Year
2013					
Interest income	$11,415	$12,317	$13,192	$11,546	$48,470
Interest expense	1,275	1,224	1,165	1,111	4,775
Net interest income	10,140	11,093	12,027	10,435	43,695
Provision for loan losses	570	(70)	50	(925)	(375)
Gain on investment securities	148	-	72	1,193	1,413
Net overhead	5,890	6,228	5,893	6,839	24,850
Income before income taxes	3,828	4,935	6,156	5,714	20,633
Net income	2,504	3,109	3,926	3,690	13,229
Dividends and accretion on preferred stock	165	165	165	164	659
Net income available to common stockholders	2,339	2,944	3,761	3,526	12,570
Basic net income per share	0.29	0.37	0.47	0.44	1.57
Diluted net income per share	0.28	0.35	0.44	0.41	1.49
Dividends paid per share	0.11	0.11	0.11	0.11	0.44
2012					
Interest income	$14,219	$11,956	$12,580	$11,683	$50,435
Interest expense	1,798	1,648	1,563	1,427	6,436
Net interest income	12,418	10,308	11,017	10,256	43,999
Provision for loan losses	950	750	1,260	1,300	4,260
Gain on investment securities	-	-	273	272	545
Gain on sale of loan	-	-	-	2,463	2,463
Net overhead	7,077	6,434	6,241	6,999	26,751
Income before income taxes	4,391	3,124	3,789	4,692	15,996
Net income	2,830	2,092	2,411	2,990	10,323
Discount on preferred stock redemption	-	- -	905	-	905
Dividends and accretion on preferred stock	305	306	298	164	1,073
Net income available to common stockholders	2,525	1,786	3,018	2,826	10,155
Basic net income per share	0.32	0.23	0.38	0.36	1.28
Diluted net income per share	0.31	0.22	0.37	0.34	1.24
Dividends paid per share	0.00	0.00	0.11	0.11	0.22

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BALANCE SHEET ANALYSIS

Summary

A financial institution's primary sources of revenue are generated by its 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. Information on rate-related sources and uses of funds for each of the three years in the period ended December 31, 2013, is provided in the table below.

In 2013, average earning assets decreased by 1.1% or $11.5 million from 2012, following a 2.2% or $23.2 million decrease in 2012 from 2011. Average interest-bearing liabilities, the primary source of funds supporting the earning assets, decreased by 2.8%, or $22.1 million, in 2013 from 2012, which follows a similar 2.8%, or $22.3 million, decrease in 2012 from 2011. Supporting a slight increase in the net interest income (as a percentage of average earning assets) in 2013 was a 1.3%, or $2.7 million, increase in average non-interest bearing deposits. The increase follows a 5.9%, or $12.3 million, decrease in average non-interest bearing deposits in 2012 from the average in 2011. In 2013, the decrease in average earning assets was primarily the result of a $41.4 million decrease in average investment securities, a $2.3 million decrease in average federal funds sold and an $849,000 decrease in average interest-bearing bank balances. These decreases in earning assets were partially offset by a $33.1 million increase in average loans outstanding. The decrease in average interest-bearing liabilities in 2013 was largely due to a $12.0 million decrease in average interest-bearing deposits, a $6.2 million decrease in average short-term borrowings (primarily customer repurchase agreements), and a $3.9 million decrease in average long-term borrowings. In 2012, the decrease in average earning assets was primarily the result of a $21.6 million decrease in average total loans, a $10.4 million decrease in average interest-bearing bank balances and a $3.9 million decrease in average federal funds sold. These decreases in earning assets were partially offset by a $12.8 million increase in average investment securities. The decrease in average interest-bearing liabilities in 2012 was largely due to an $8.0 million decrease in average interest-bearing deposits, a $3.7 million decrease in average short-term borrowings (primarily customer repurchase agreements), an $10.5 million decrease in average long-term borrowings.

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AVERAGE CONSOLIDATED BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS
(Dollars in thousands)

	2013			2012			2011		
	Average Balance	Interest	Yield/ Rate (2)	Average Balance	Interest	Yield/ Rate (2)	Average Balance	Interest	Yield/ Rate (2)
Assets:									
Interest earning assets									
U.S. Treasury and federal agency securities	$ 9,463	$ 167	1.76 %	$ 27,088	$ 423	1.56 %	$ 37,916	$ 868	2.29 %
States and municipal obligations (1)	5,222	235	4.50	7,304	315	4.31	10,023	470	4.69
Mortgage backed securities	237,079	5,481	2.31	255,586	6,053	2.37	228,980	6,298	2.75
Other securities	8,233	324	3.94	11,380	487	4.28	11,683	532	4.55
Total investment securities	259,997	6,207	2.39	301,358	7,278	2.42	288,602	8,168	2.83
Federal funds sold	8,918	9	0.10	11,265	7	0.06	15,203	7	0.05
Interest-bearing deposits with banks	45,746	148	0.32	46,595	140	0.30	57,022	157	0.28
Loans, net of unearned income (3)(4)									
Commercial	511,764	30,006	5.86	469,927	29,604	6.30	481,493	29,717	6.17
Real estate mortgage	155,735	9,101	5.84	162,194	10,061	6.20	169,186	10,858	6.42
Installment	48,517	3,217	6.63	50,836	3,594	7.07	53,887	3,943	7.32
Total loans	716,016	42,324	5.91	682,957	43,259	6.33	704,566	44,518	6.32
Total interest earning assets	1,030,677	48,688	4.72	1,042,175	50,684	4.86	1,065,393	52,850	4.96
Allowance for loan losses	(12,211)			(10,234)			(11,218)		
Cash and due from banks	26,839			28,140			28,022		
Premises and equipment	16,117			16,226			16,390		
Other assets	53,697			57,640			60,781		
Total assets	$ 1,115,119			$ 1,133,947			$ 1,159,368		

Liabilities and Equity:									
Interest bearing liabilities									
NOW and money market	$ 262,320	470	0.18 %	$ 247,820	591	0.24 %	$ 229,437	657	0.29 %
Savings deposits	124,005	125	0.10	120,197	167	0.14	114,834	266	0.23
Certificates of deposit and other time deposits	348,070	3,493	1.00	378,368	4,795	1.27	410,154	6,204	1.51
Total interest bearing deposits	734,395	4,088	0.56	746,385	5,553	0.74	754,425	7,127	0.94
Short-term borrowings	14,832	37	0.25	21,030	88	0.42	24,783	158	0.64
Other borrowings	14,935	650	4.35	17,010	754	4.43	19,125	852	4.45
FHLB advances	-	-	-	1,869	41	2.19	10,287	190	1.85
Total interest-bearing liabilities	764,162	4,775	0.62 %	786,294	6,436	0.82 %	808,620	8,327	1.03 %
Non-interest bearing deposits	199,574			196,968			209,188		
Other liabilities	4,092			3,990			2,652		
Preferred equity	11,924			17,947			21,868		
Common equity	135,367			128,748			117,040		
Total liabilities and equity	$ 1,115,119			$ 1,133,947			$ 1,159,368		
Net interest earnings (1)		$ 43,913			$ 44,248			$ 44,523	
Net interest spread (1)			4.10 %			4.04 %			3.93 %
Net interest margin (1)			4.26 %			4.25 %			4.18 %

(1) Taxable – equivalent yields are calculated assuming a 34% federal income tax rate
(2) Yields are calculated on historical cost except for yields on marketable equity securities that are calculated used fair value
(3) Includes loan fees, immaterial in amount, in both interest income and the calculation of yield on loans
(4) Includes loans on non-accrual status

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Loan Portfolio

Premier's loan portfolio is its largest and highest yielding component of average earning assets, totaling 69.5% of average earning assets during 2013. Average loans increased in 2013 by $33.1 million, or 4.8%, over 2012 following a $21.6 million, or 3.1%, decrease in 2012 from 2011. The increase in 2013 is largely due to a pick-up in loan demand, primarily in the DC Metro and Virginia market areas, which more than offset loan principal payments, payoffs from borrowers accelerating their payments to reduce their outstanding debt, and also payoffs due to the workout of problem loans. Average loans outstanding increased by $25.7 million, or 17.2%, in Premier's DC Metro market and increased by $7.9 million, or 23.5%, in Premier's Virginia market. Otherwise, average loans outstanding increased by $977,000, or 0.4%, in Premier's West Virginia market, decreased by $5.8 million, or 9.3%, in Premier's Ohio market and increased by $4.3 million, or 2.7%, in Premier's Kentucky market. The $21.6 million decrease in average loans during 2012 is largely due to weak loan demand during the latter half of 2011 and the first half of 2012 combined with loan payoffs resulting not only from borrowers accelerating their payments to reduce their outstanding debt, but also payoffs due to the workout of problem loans. The decrease in average loans occurred in all of Premier's markets, but particularly in the DC Metro and Virginia markets largely due to reductions in problem loans and in Premier's Kentucky market largely due to payments and payoffs on the loans acquired from the Branch Purchase in September 2010. Average loans outstanding decreased by $2.7 million, or 1.0%, in Premier's West Virginia market and decreased by $1.8 million, or 2.7%, in Premier's Ohio market. Otherwise, average loans outstanding decreased by $5.5 million, or 3.5%, in Premier's DC Metro market, decreased by $4.9 million, or 12.7%, in Premier's Virginia market and decreased by $6.8 million, or 4.0%, in Premier's Kentucky market.

Total loans at December 31, 2013 increased by $36.1 million, or 5.1%, from the total at December 31, 2012. This increase follows a $13.7 million, or 2.0%, increase from the total at December 31, 2011. The increase in 2013 is largely due to increases in outstanding loans in Premier's DC Metro market, up $31.5 million, or 19.0%, its Virginia market, up $4.4 million, or 11.1%, and its Kentucky market, up $4.3 million, or 2.6% since year-end 2012. Premier's Ohio market also recorded a $2.0 million, or 3.5%, increase in loans outstanding since year-end 2012. These increases more than offset a $6.0 million, or 2.2%, decrease in outstanding loans in Premier's West Virginia market. The increase in 2012 is largely due to increased loan demand in the second half of 2012. During the latter half of 2012, total loans increased by $34.4 million. The loan demand in 2012 was largely due to increases in outstanding loans in Premier's DC Metro market, up $16.2 million, or 10.8%, and its Virginia market, up $5.3 million, or 15.3% since year-end 2011. These increases offset a $4.8 million, or 2.8%, decrease in Premier's Kentucky market and a $3.0 million, or 5.1%, decrease in Premier's Ohio market. Total loans in Premier's West Virginia market remained at $277.4 million at December 31, 2012 unchanged from the outstanding loans at December 31, 2011.

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Loans secured by real estate totaled 83.9% of Premier's loan portfolio at December 31, 2013, up from the 82.6% of total loans at December 31, 2012. The increase is largely due to an increase in commercial real estate loans as a percentage of the total loan portfolio. The increase more than offset decreases in construction and land development loans and residential real estate mortgage loans as a percentage of the total loan portfolio. In 2012, loans secured by real estate decreased from the 83.1% of Premier's loan portfolio at December 31, 2011 to approximately 82.6% of Premier's total portfolio at December 31, 2012, largely due to decreases in real estate mortgage loans and commercial real estate loans as a percentage of the total loan portfolio. The decrease more than offset an increase in construction and land development loans as a percentage of the total loan portfolio.

Premier's residential real estate mortgage loans generally do not exceed 80% of the value of the real property securing the loan at the time of origination. The residential real estate mortgage loan portfolio primarily consists of adjustable rate residential mortgage loans. The origination of these mortgage loans can be more difficult in a low interest rate environment where there is a significant demand for fixed rate mortgages. Premier also originates mortgage loans to be sold in the secondary market and recognizes non-interest income upon the sale of those mortgages in the form of commissions and servicing release fees. Premier has not engaged in the solicitation of so-called "sub-prime" or "interest only" mortgages. Premier uses an experienced staff underwriter to ensure the completeness of the borrowers' loan application and documentation and to ensure that the loans meet the standards required by prospective loan purchasers. Additional information regarding the volume of mortgage loans originated and sold is contained in Premier's consolidated statements of cash flows presented elsewhere in this annual report.

Commercial loans, including commercial real estate secured loans, are generally made to small-to-medium size businesses located within a defined market area and typically are secured by business assets and guarantees of the principal owners. Additional risks of loss are associated with commercial lending, such as the potential for adverse changes in economic conditions or the borrowers' ability to successfully execute their business plans. Consumer loans generally are made to individuals living in Premier's defined market area who are known to the local bank's staff. Consumer loans are generally made for terms of up to seven years on a secured or unsecured basis; however longer terms may be approved in certain circumstances and for revolving credit lines. While consumer loans generally provide the Company with increased interest income, consumer loans may involve a greater risk of default.

In addition to the loans presented in the loan summary table, Premier also offers certain off-balance sheet products such as letters of credit, revolving credit agreements, and other loan commitments. These products are offered under the same credit standards as the loan portfolio and are included in the risk-based capital ratios used by the Federal Reserve to evaluate capital adequacy. Additional information on off-balance sheet commitments is contained in Note 18 to the consolidated financial statements.

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The following table presents a five year comparison of loans by type. With the exception of those categories included in the comparison, there are no loan concentrations which exceed 10% of total loans. Additionally, Premier's loan portfolio contains no loans to foreign borrowers nor does it have a material volume of highly leveraged transaction lending.

LOAN SUMMARY
(Dollars in thousands)

	As of December 31,									
	2013		2012		2011		2010		2009	
Summary of Loans by Type										
Commercial, secured by real estate	$358,114	48.3 %	$314,198	44.6 %	$317,559	46.0 %	$319,048	43.9 %	$304,607	43.6 %
Commercial, other	85,301	11.5	84,430	12.0	76,960	11.1	82,591	11.4	76,140	10.9
Real estate construction and land development	47,123	6.4	52,706	7.5	34,730	5.0	48,213	6.6	51,637	7.4
Real estate mortgage	216,081	29.2	214,743	30.5	221,756	32.1	233,513	32.2	227,508	32.5
Agricultural	2,052	0.3	2,566	0.4	2,729	0.4	2,564	0.4	2,710	0.4
Consumer	25,113	3.4	28,128	4.0	30,090	4.4	32,926	4.5	33,356	4.8
Other	6,986	0.9	7,854	1.0	7,099	1.0	7,109	1.0	3,175	0.4
Total loans	$740,770	100.0%	$704,625	100.0%	$690,923	100.0%	$725,964	100.0%	$699,133	100.0%
Non-performing Assets										
Non-accrual loans	$16,641		$25,806		$42,354		$47,131		$46,299	
Accruing loans which are contractually past due 90 days or more	8,478		3,890		4,527		414		489	
Accruing troubled debt restructurings	3,655		14,106		5,951		2,639		11,974	
Total non-performing and restructured loans	28,774		43,802		52,832		50,184		58,762	
	13,524		13,366		14,642		11,249		9,251	

Other real estate acquired through foreclosures										
Total non-performing and restructured loans and other real estate	$42,298		$57,168		$67,474		$61,433		$68,013	
Non-performing and restructured loans as a % of total loans	3.88	%	6.22	%	7.65	%	6.91	%	8.40	%
Non-performing and restructured loans and other real estate as a % of total assets	3.84	%	5.10	%	6.00	%	5.19	%	6.17	%
Allocation of Allowance for Loan Losses										
Commercial, other	$2,420	12.7 %	$3,918	13.4 %	$2,669	12.5 %	$2,650	12.8 %	$1,129	11.7 %
Real estate, construction	1,226	6.4	1,826	7.5	1,111	5.0	1,142	6.6	364	7.4
Real estate, other	7,084	77.5	5,499	75.1	5,717	78.1	5,703	76.1	5,571	76.1
Consumer installment	297	3.4	245	4.0	298	4.4	370	4.5	505	4.8
Total	$11,027	100.0%	$11,488	100.0%	$9,795	100.0%	$9,865	100.0%	$7,569	100.0%

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Total non-performing assets, which consist of past-due loans on which interest is not being accrued ("non-accrual loans"), foreclosed properties in the process of liquidation ("OREO"), loans with restructured terms offering a concession to enable a delinquent borrower to repay ('troubled debt restructurings") and accruing loans past due 90 days or more, were $42.3 million, or 3.84% of total assets at year-end 2013. These amounts compare to $57.2 million of total non-performing assets, or 5.10% of total assets at year-end 2012 and $67.5 million of total non-performing assets, or 6.00% of total assets at year-end 2011. The decrease in 2013 from year-end 2012 was largely due to a $9.2 million decrease in non-accrual loans and a $10.5 million decrease in restructured loans, both largely due to pay downs of principal and loan payoffs. These decreases more than offset a $4.6 million increase in accruing loans past due 90 days or more and a $158,000 increase in OREO. The increase in accruing loans past due 90 days or more at December 31, 2013 is largely the result of well secured loans in the process of collection or renewal. The slight increase in the OREO balance at December 31, 2013 was the result of additional loans foreclosed upon and transferred to OREO plus construction costs incurred by Premier to complete an OREO property which more than offset $3.8 million of OREO sales in 2013. The decrease in 2012 from year-end 2011 was largely due to a $16.5 million decrease in non-accrual loans, a $637,000 decrease in loans past due 90 days or more, and a $1.3 million decrease in OREO. These decreases more than offset an $8.2 million increase in restructured loans primarily resulting from previously restructured loans on non-accrual that returned to accrual status in 2012.

With the acquisition of Abigail Adams and its two subsidiary banks in 2009, Premier experienced a significant increase in nonperforming assets. As shown in the table above, Premier's non-performing assets totaled $68.1 million at December 31, 2009. The two acquired banks accounted for $48.0 million, or 70.5% of those non-performing assets. At December 31, 2010, the same two banks from Abigail Adams accounted for $48.7 million, or 79.3% of Premier's non-performing assets, as an increase in non-accrual loans at the two banks was substantially offset by a decrease in OREO. At December 31, 2011, the operations covered by the markets of the acquired Abigail Adams' banks accounted for $47.6 million, or 70.5% of Premier's non-performing assets. In 2012 and 2013, Premier made significant progress in reducing the overall level of the non-performing assets from the operations covered by the markets of the acquired Abigail Adams' banks. At December 31, 2012, non-performing assets originating from the acquired Abigail Adams' banks decreased by $19.1 million to $28.4 million, or 49.7% of Premier's total non-performing assets. At December 31, 2013, non-performing assets originated from the acquired Abigail Adams' banks decreased by $1.2 million to $27.2 million, or 64.4% of Premier's total 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 as great as the volume of non-performing assets suggests taken at face value.

New accounting guidance adopted by Premier at the beginning of 2009 does not permit an acquirer to carry over the purchased entity's allowance for loan losses. Instead, under the new accounting guidance, all acquired loans are to be recorded at their net estimated fair 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

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advantageous market for the loans in an orderly transaction between market participants. These estimates included significant discounts on the non-accrual loans. These estimates required management's most difficult, subjective and complex judgments and are inherently uncertain. However, since the estimated fair value of these loans was believed to have been accounted for in the reasonably estimable credit risk in the loans, no allowance for loan losses for these loans was recorded at the date of acquisition. At September 30, 2009, just prior to Premier's acquisition, Abigail Adams reported a collective allowance for loan losses of approximately $12.8 million. In contrast, Premier recorded the estimated fair value of the combined loan portfolios at an estimated $25.5 million discount to the contractual amounts receivable on the loans at acquisition. These discounts, allocated per loan, will be used to offset any charge-offs of the uncollectible portion of the contractual amount due on non-performing assets, or accreted into interest income using a level yield method on performing loans. Should Premier collect the full contractual amount due, any fair value discount is recognized as interest income at the time of payoff.

The following table illustrates the 2013 and 2012 year-end face value and the discounted net carrying value of the non-performing assets located in the two markets (Washington, DC and Richmond, Virginia) added to Premier's operations from the acquisition of Abigail Adams. These markets were the operational territories of the former Adams National Bank in Washington, DC and the former Consolidated Bank and Trust in Richmond, Virginia, both of which were merged into Premier's wholly owned subsidiary, Boone County Bank, to form Premier Bank on April 9, 2011. Additional information on loans purchased with evidence of deteriorated credit quality is contained in Note 5 to the consolidated financial statements.

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

	December 31, 2013		December 31, 2012	
	Face Value	Discounted Net Carrying Value	Face Value	Discounted Net Carrying Value
Non-performing Assets				
Non-accrual loans	$18,159	$9,097	$12,338	$9,874
Loans 90+ days past due	7,165	7,085	1,458	1,423
Restructured loans	494	494	7,871	7,565
Other real estate owned	11,095	10,545	10,152	9,573
Total non-performing assets	$36,913	$27,221	$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.

Excluding the non-performing assets at December 31, 2013 from the Abigail Adams acquisition, the $15.1 million of non-performing assets at December 31, 2013 is a decrease of $13.7 million from the same measure of non-performing asset at December 31, 2012. The decrease in 2013 is largely due to an $8.4 million decrease in non-accrual loans, a $1.1 million decrease in accruing loans past due 90 days or more, an $815,000 decrease in OREO, and a $3.4 million

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decrease in restructured loans. Most of Premier's restructured loans are loans that have been modified to allow the borrower to pay interest only for a limited amount of time. Although loans may be classified as non-performing, some continue to pay interest irregularly or at less than originally contracted terms. During 2013, approximately $0.4 million of interest income was recognized on non-accrual and restructured loans, while approximately $1.4 million would have been recognized in accordance with their original terms.

Management believes the estimated potential losses related to delinquent loans to be adequately provided for in the allowance for loan losses. These non-performing assets were included in the analyses that supported the recording of provisions for loan loss during 2011 and 2012. It is the full payoff of impaired loans with specific allocations of the allowance for loan losses that resulted in the $375,000 negative provision for loan losses in 2013. As management's efforts to collect on all of the Company's non-performing assets continue, matured loans are only renewed using Premier's strengthened credit policies. Otherwise, loans may be carried as accruing loans that are greater than 90 days past due or placed on non-accrual status and foreclosure proceedings begun to obtain and liquidate any collateral securing the past due or matured loans. As previously demonstrated by Premier's history, management is committed to continuing to reduce its level of non-performing assets and maintaining strong underwriting standards to help maintain a lower level of non-performing assets in the future. While the circumstances related to the collection of every non-performing loan are different, with the benefit of the additional capital provided by Premier's participation in the TARP Capital Purchase Program and the requirement to record the non-performing assets at their estimated fair value at acquisition date, management believes it will be successful in resolving a majority of the non-performing assets acquired from Abigail Adams.

The Loan Summary table presents five years of comparative non-performing asset information. Other than these loans and the impaired loans discussed in Note 5 to the consolidated financial statements, Premier does not have a significant volume of loans where management has serious doubts about the borrowers' ability to comply with the present repayment terms of the loan.

It is Premier's policy to place loans that are past due over 90 days on non-accrual status, unless the loans are adequately secured and in the process of collection. Premier had $4.7 million of construction and land development loans on non-accrual status at December 31, 2013 for which additional funds may be needed by the borrower to complete the project. For real estate loans, upon repossession, the balance of the loan is transferred to "Other Real Estate Owned" (OREO) and carried at the lower of the outstanding loan balance or the fair value of the property based on current appraisals and other current market trends, less estimated disposal costs. If a writedown of the OREO property is necessary at the time of foreclosure, the amount is charged against the allowance for loan losses. A periodic review of the recorded property value is performed in conjunction with normal loan reviews, and if market conditions indicate that the recorded value exceeds the fair market value less estimated disposal costs, additional writedowns of the property value are charged directly to operations.

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During 2013, Premier recorded $782,000 of write-downs of OREO properties that were partially offset by $66,000 of gains on the disposition of OREO properties, resulting in a net expense in 2013 of $716,000. This expense compares to $1.4 million of write-downs of OREO properties that were partially offset by $453,000 of gains on the disposition of OREO properties, resulting in a net expense in 2012 of $957,000. During 2011, Premier realized a $394,000 net reduction in operating expense as $624,000 of OREO write-downs were more than offset by $1.0 million of gains on the disposition of OREO. The gains realized in 2013 are largely due to sales of OREO properties acquired via the Abigail Adams acquisition. Real estate values in and around Washington, DC have improved in 2013 compared to 2009 when Abigail Adams was acquired. These gains more than offset losses on the sale of other OREO properties during 2013. The write-downs on OREO that were recorded in 2013 were largely due to repossessed construction projects where either the costs incurred to complete the projects have exceeded original estimates and the property was adjusted to net realizable value or sales of properties have not materialized and Premier has lowered its expectations of net realizable value. The gains realized in 2012 are largely due to sales of OREO properties acquired via the Abigail Adams acquisition. Similar to 2013, real estate values in and around Washington, DC improved compared to 2009 when Abigail Adams was acquired. The write downs on OREO that were recorded in 2012 were largely due to two repossessed construction projects where the costs incurred to complete the projects have exceeded original estimates and the properties were adjusted to net realizable value. The net gains realized in 2011 are also largely due to sales of OREO properties acquired via the Abigail Adams acquisition. Real estate values in and around Washington, DC improved in 2010 and 2011 compared to 2009. Furthermore, Premier spent funds on repairing or completing certain OREO properties prior to their sale, improving the properties' salability and market value.

The allowance for loan losses is maintained to absorb probable incurred losses associated with lending activities. Actual losses are charged against the allowance ("charge-offs") while collections on loans previously charged off ("recoveries") are added back to the allowance. Since actual losses within a given loan portfolio are difficult to predict, management uses a significant amount of estimation and judgment to determine the adequacy of the allowance for loan losses. Factors considered in determining the adequacy of the allowance include an individual assessment of risk on certain loans and total creditor relationships, historical charge-off experience, the type of loan, levels of non-performing and past due loans, and an evaluation of current economic conditions. Loans are evaluated for credit risk and assigned a risk grade. Premier's risk grading criteria are based upon Federal Reserve guidelines and definitions. In evaluating the adequacy of the allowance for loan losses, loans that are assigned passing grades are grouped together and multiplied by historical charge-off percentages to determine an estimated amount of potential losses and a corresponding amount of allowance. Loans that are assigned marginally passing grades are grouped together and allocated slightly higher percentages to determine the estimated amount of potential losses due to the identification of increased risk(s). Loans that are assigned a grade of "substandard" or "doubtful" are more likely to be classified as impaired. The resulting estimate of losses for groups of loans is adjusted for relevant environmental factors and other conditions of the portfolio of loans, including: borrower and industry concentrations; levels and trends in delinquencies, charge-offs and recoveries; changes in underwriting standards and risk selection; level of experience, ability and depth of lending management; and national and local economic conditions.

A loan is categorized and reported as impaired when it is probable that the borrower will be unable to pay all of the principal and interest amounts according to the contractual terms of the loan agreement. In determining whether a loan is impaired, management considers such factors as past payment history, recent economic events, current and projected financial conditions and other relevant information that is available at the time. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual basis for other loans. If a loan is deemed to be impaired, an evaluation of the amount of estimated loss is performed, assessing the present value of estimated future cash flows using the loan's existing rate or assessing the fair and realizable value of the loan collateral if repayment is expected solely from the collateral. The estimation of loss is assigned to the impaired loan and is used in determining the adequacy of the allowance for loan losses. For impaired loans, this estimation of loss is reevaluated quarterly and, if necessary, adjusted based upon the then current known facts and circumstances related to the loan and the borrower. Additional information on Premier's impaired loans is contained in Note 5 to the consolidated financial statements.

The sum of the calculations and estimations of the risk of loss in the loan portfolio is compared to the recorded balance of the allowance for loan losses. If the total allowance is deemed to be inadequate, a charge to earnings is recorded to increase the allowance. Conversely, should an evaluation of the allowance result in a lower estimate of the risk of loss in the loan portfolio and the allowance is deemed to be more than adequate, a reversal of previous charges to earnings ("a negative provision") may be warranted in the current period. Events that may lead to negative provisions include greater than anticipated recoveries, a reduction in the historical loss ratios, securing more collateral on an impaired loan during the collection process, or receiving a substantial principal payment or payment in full on an impaired loan. In 2013, Premier recorded a $375,000 negative provision for loan losses compared to $4,260,000 of provision expense in 2012 and $3,630,000 of provision expense in 2011.

At December 31, 2013, the allowance for loan losses was $11.0 million, or 1.49% of total year-end loans, compared to an allowance for loan losses of $11.5 million, or 1.63% of total loans at December 31, 2012. Although total loans outstanding increased by $36.1 million in 2013, the ratio of the allowance to total loans outstanding decreased due to a reduction in specific allocations of the allowance related to impaired loans. During 2013, Premier received substantial principal payments and payoffs on loans classified as impaired which resulted in the reduction of the estimated required allowance via negative provisions for loan losses. These negative provisions for loan losses exceeded the estimated provision expense needed to provide for the loan growth in 2013, resulting in a net $375,000 negative provision for loan losses for the 2013 calendar year. The negative provision for loan losses and the $86,000 of net charge-offs recorded during 2013 reduced the overall allowance by $461,000 to $11.0 million at

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December 31, 2013. The decrease in the estimated required allowance for loan losses combined with the growth in total loans outstanding in 2013 resulted in a lower ratio at December 31, 2013 at 1.49% of total year-end loans.

At December 31, 2012, the allowance for loan losses was $11.5 million, or 1.63% of total year-end loans, compared to an allowance for loan losses of $9.8 million, or 1.42% of total loans at December 31, 2011. Although total loans outstanding increased by $13.7 million in 2012, the increase in the ratio to 1.63% was largely due to the $4.3 million of provision for loan losses in 2012 exceeding the $2.6 million of net charge-offs, adding $1.7 million to the allowance for loan losses at year-end. The percentage increase in the allowance for loan losses exceed the percentage increase in loans outstanding resulting in the higher ratio at December 31, 2012. The increase in the level of provision expense in 2012 was largely due to increases in specific reserves on loans already identified as impaired and also due to specific reserves on loans newly identified as impaired during 2012.

At December 31, 2011, the allowance for loan losses was $9.8 million, or 1.42% of total year-end loans, compared to an allowance for loan losses of $9.9 million, or 1.36% of total loans at December 31, 2010. The increase in the ratio of the allowance to total loans in 2011 was largely the result of a $35.0 million decrease in total loans at December 31, 2011. The $3.6 million of provision for loan losses in 2011 was slightly offset by $3.7 million of net charge-offs recorded in 2011, reducing the allowance by approximately $70,000. The increase in the level of provision expense during 2011 was largely to provide for a calculated increase in exposure to credit risk related to one borrowing relationship in Premier's Kentucky market identified during the second quarter. The loan was eventually charged-off in the fourth quarter of 2011. While Premier is continuing to pursue available collection remedies, management determined that the borrowing relationship should be charged-off in accordance with the Company's loan policies and procedures. A summary of the allowance for loan losses allocated by loan type is presented in the Loan Summary Table above.

The following table provides a more detailed history of the allowance for loan losses, illustrating charge-offs and recoveries by loan type, and the annual provision for loan losses over the past five years. Since 2009, the deterioration in the national economy and its impact on the local economy in its markets has resulted in increases in past due loans and non-performing assets for Premier. As the deterioration in the national economy and its impact on Premier's local economies continued through 2012, some of the increases in past due loans and non-performing assets in prior years became charged-off loans. In 2013, Premier recovered some of its prior year charge-offs which helped to substantially offset the reduced level of charge-offs recorded during the year. Additional provisions for loan losses were recorded in 2009 as the estimated credit risk in the remaining loan portfolio was evaluated. The level of additional provisions increased in 2010 to provide for estimated loan impairment, primarily as additional loans from the acquisition of Abigail Adams were downgraded and analyzed for impairment. The increase in the level of provision expense during 2011 was largely to provide for a calculated increase in exposure to credit risk related to one borrowing relationship in Premier's Kentucky market identified during the second quarter. In 2012, the increase in the level of provision expense was largely due to increases in specific reserves on loans already identified as impaired and also due to specific reserves on loans newly identified as impaired during 2012. During 2013, Premier received substantial principal payments and payoffs on loans classified as impaired which resulted in the reduction of the estimated required allowance via negative provisions for loan losses. These negative provisions for loan losses exceeded the estimated provision expense needed to provide for the loan growth in 2013, resulting in a net $375,000 negative provision for loan losses. Additional details on the activity in the allowance for loan losses as well as past due and non-performing loans, including loans individually evaluated for impairment, is contained in Note 5 to the consolidated financial statements.

Premier aggressively pursues past due loans in an effort to bring those loans back to current status. If these efforts fail and a past due loan becomes a non-performing loan, Premier's policies for determining the adequacy of the allowance for loan losses are used to determine the estimated potential loss on the loan. 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. Premier continually evaluates the adequacy of its allowance for loan losses, and changes in the provision are based on the estimated probable incurred losses in the loan portfolio.

Net charge-offs in 2013 totaled $86,000, as $909,000 of loans charged-off were substantially offset by $823,000 of recoveries of loans previously charged-off. Net charge-offs in 2012 totaled $2.6 million, as $3.2 million of loans charged-off were partially offset by $586,000 of recoveries of loans previously charged-off. Net charge-offs in 2011 totaled $3.7 million, as $4.0 million of loans charged-off were partially offset by $326,000 of recoveries of loans previously charged-off.

In 2013, total charge-offs decreased by $2.2 million to $909,000, or just 0.13% of average total loans. Charge-offs in all four categories of loans decreased in 2013 reflecting management's efforts to successfully resolve delinquent loans. Furthermore, management reached agreements with two loan relationships that had been charged-off in previous years whereby the borrowers agreed to a repayment schedule that included a substantial down payment in 2013 and monthly payments thereafter. These payments resulted in the increase in recoveries recorded in 2013. In 2012, total charge-offs decreased by $873,000 to $3.2 million, or 0.46% of average total loans. While charge-offs of commercial loans increased by $1.3 million in 2012, real estate construction and land development loan charge-offs decreased by $2.4 million, largely due to the charge-off of a real estate construction and land development loan related to one borrowing relationship in Premier's Kentucky market in 2011. Otherwise, charge-offs of both real estate secured loans and consumer installment loans increased slightly in 2012 compared to 2011. In 2011, total charge-offs increased by $2.5 million to $4.0 million, or 0.57% of average total loans, largely due to the charge-off the real estate construction and land development loan related to one borrowing relationship in Premier's Kentucky market.

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Otherwise, Premier realized reduced levels of charge-offs in commercial and consumer loans in 2011. These decreases were partially offset by an increase in the level of charge-off of loans secured by real estate.

SUMMARY OF LOAN LOSS EXPERIENCE
(Dollars in thousands)

	For the Year Ended December 31				
	2013	2012	2011	2010	2009
Allowance for loan losses, beginning of period	$11,488	$9,795	$9,865	$7,569	$8,544
Amounts charged off:					
Commercial, financial and agricultural loans	231	1,485	227	466	777
Real estate construction loans	52	380	2,747	59	37
Real estate loans – other	438	1,061	900	635	1,171
Consumer installment loans	188	227	152	313	452
Total charge-offs	909	3,153	4,026	1,473	2,437
Recoveries on amounts previously charged-off:					
Commercial, financial and agricultural loans	198	126	121	131	82
Real estate construction loans	233	-	1	40	-
Real estate loans – other	319	359	116	131	208
Consumer installment loans	73	101	88	170	120
Total recoveries	823	586	326	472	410
Net charge-offs	86	2,567	3,700	1,001	2,027
Provision for loan losses	(375)	4,260	3,630	3,297	1,052
Allowance for loan losses, end of period	$11,027	$11,488	$9,795	$9,865	$7,569
Average total loans	$716,016	$682,957	$704,566	$702,194	$526,473
Total loans at year-end	740,770	704,625	690,923	725,964	699,133
As a percent of average loans					
Net charge-offs	0.01 %	0.38 %	0.53 %	0.14 %	0.39 %
Provision for loan losses	(0.05)%	0.62 %	0.52 %	0.47 %	0.20 %
Allowance for loan losses	1.54 %	1.68 %	1.39 %	1.40 %	1.44 %
As a percent of total loans at year-end					
Allowance for loan losses	1.49 %	1.63 %	1.42 %	1.36 %	1.08 %
As a multiple of net charge-offs					
Allowance for loan losses	128.22 X	4.48 X	2.65 X	9.86 X	3.73 X

Income before tax and provision for loan losses	235.56	X	7.89	X	3.95	X	16.27	X	6.46	X

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Although management believes it has identified the significant remaining credit risk in the loan portfolio, additional charge-offs may be recorded in the coming months due to the level of non-performing loans and the resolution of collection efforts on those loans. 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. Premier continues to monitor and evaluate 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 markets in West Virginia, Ohio and Kentucky. With the concentrations of commercial real estate loans acquired in the Washington, DC and Richmond, Virginia markets, fluctuations in commercial real estate values will also be monitored. In each of the last four years, Premier sold some OREO properties at a gain while other OREO properties have required subsequent write-downs to net realizable values. These factors are considered in determining the adequacy of the allowance for loan losses.

The following table presents the maturity distribution and interest sensitivity of selected loan categories at December 31, 2013. Maturities are based upon contractual terms.

LOAN MATURITIES and INTEREST SENSITIVITY
December 31, 2013
(Dollars in thousands)

	Projected Maturities*			
	One Year or Less	One Through Five Years	Over Five Years	Total
Commercial, secured by real estate	$100,638	$241,339	$16,137	$358,114
Commercial, other	39,082	43,477	2,742	85,301
Real estate construction	28,912	10,605	7,606	47,123
Agricultural	510	1,502	40	2,052
Total	$169,142	$296,923	$26,525	$492,500
Fixed rate loans	$44,377	$190,383	$24,894	$259,654
Floating rate loans	124,765	106,540	1,631	232,936
Total	$169,142	$296,923	$26,525	$492,500
Fixed rate loans projected to mature after one year				$215,277
Floating rate loans projected to mature after one year				108,171
Total				$323,448

(*) Based on scheduled or approximate repayments

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Investment Portfolio and
Other Earning Assets

Investment securities averaged $260.0 million in 2013, down $41.4 million, or 13.7%, from the $301.4 million averaged in 2012. This decrease follows a $12.8 million, or 4.4%, increase in 2012 from the $288.6 million averaged in 2011. The decrease in 2013 is largely attributable to an increase in loan demand. During 2013, surplus funds from maturing investments or principal pay downs on mortgaged-backed investments were used to fund the increase in loans or to satisfy decreases in deposit and repurchase agreement balances. As shown in the cash flow statement, only $27.2 million of new securities were purchased in 2013 while $82.5 million in proceeds were realized from calls, maturities, sales and principal pay downs on mortgage backed securities. These funds were primarily used to fund the $36.1 million, or 5.1%, increase in total loans in 2013. The increase during 2012 is largely attributable to weak loan demand. During 2012, as loan payments and payoffs exceeded the demand for new loans, some of the proceeds from the loan payments were invested in investment securities. This was especially true during the first half of 2012. Also contributing to the increase in average investments in 2012 was the use of lower-yielding, interest bearing bank balances and federal funds sold to purchase investment securities. Investment securities are highly liquid and generally have a greater yield than interest bearing bank balances or federal funds sold. However their longer investment term generally results in greater interest rate risk over other short-term investments.

This was believed to be especially true in 2011 through 2013, as management continued to invest based on a belief that market interest rates were at their lowest level and that buying longer-term investments would have the effect of locking-in these lowest interest rates over the life of the investments. Due to the low interest rate environment during 2010 and continuing throughout 2013, issuers of investment securities were routinely invoking call features within their securities and reissuing new bonds at lower coupon rates. During 2010, $276.7 million of Premier's investment securities were either called or matured compared to $149.2 million during 2009. To offset some of the effects of interest rate risk in the investment portfolio, Premier purchased collateralized mortgage obligations ("CMO's") issued by the Government National Mortgage Association ("GNMA"), also known as "Ginnie Mae". These CMO's are similar to U.S. Treasury bonds in that they are backed by the full faith and credit of the United States Government, but unlike U.S. Treasury bonds, return a portion of the principal each month coinciding with the monthly principal payments made by mortgage borrowers collateralizing the securities. It is the monthly return of principal that will allow Premier to take advantage of any rise in market interest rates by investing the principal payments in future higher-yielding securities long before the final maturity date of the CMO. An added feature of these GNMA CMO's is that the securities are not subject to early call provisions. Only the mortgagees' prepayment of their underlying mortgages can accelerate the principal reduction on the investment security. Thus, the purchase yield is not as susceptible to downward interest rate risks as investment securities with call features. This benefit is illustrated by the lower amount of Premier's securities that were either called or matured in 2013, 2012 and 2011.

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During 2013, $73.8 million of investments were called or matured (including principal payments on CMO's and mortgage backed securities). During 2012, $69.3 million of investments were called or matured (including principal payments on CMO's and mortgage backed securities) and during 2011, $109.1 million of investments were called or matured compared to $276.7 million during 2010. Mortgage backed securities and CMO's continue to be Premier's dominant investment in its portfolio, comprising over 93% of the fair value of the investment portfolio at December 31, 2013.

At December 31, 2013 the amount of investments totaled $218.1 million, down $65.9 million, or 23.2%, from the $284.0 million of investments at December 31, 2012. The decrease in investments is largely due to the use of proceeds from calls and maturities (including principal payments on CMO's and mortgage backed securities) to fund loans and satisfy deposit and repurchase agreement withdrawals in 2013. Also affecting the decline in the investment portfolio in 2013 was a decrease in the net unrealized gains of $10.0 million at December 31, 2012 to $948,000 of net unrealized losses at December 31, 2013 due to an increase in market interest rates during the year. During the fourth quarter 2013, Premier sold the remainder of its corporate securities portfolio in an effort to maximize its return on those investments. During 2013, Premier realized $1.4 million in gains on the early call and sale of investment securities. At December 31, 2012 the amount of investments totaled $284.0 million, up $5.5 million or 2.0% from the $278.5 million of investments at December 31, 2011. The increase in investments in 2012 is largely due to the utilization of Premier's more liquid yet lower yielding interest bearing bank balances and federal funds sold, both of which decreased since December 31, 2011.

The following table presents a summary of the carrying values of investment securities.

FAIR VALUE OF SECURITIES AVAILABLE FOR SALE
(Dollars in thousands)

	As of December 31		
	2013	2012	2011
U.S. government sponsored entity securities	$6,981	$22,244	$18,141
States and political subdivisions	6,540	7,860	9,650
Mortgage-backed securities issued by government sponsored entities	204,545	249,947	245,993
Corporate securities	-	3,924	4,695
Total securities	$218,066	$283,975	$278,479

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As sources of funds (deposits, federal funds purchased, and repurchase agreements with corporate customers) fluctuate, excess funds are initially invested in federal funds sold and other short-term investments. Based upon analyses of asset/liability repricing, interest rate forecasts, and liquidity requirements, funds are periodically reinvested in high-quality debt securities, which typically mature over a longer period of time. At the time of purchase, management determines whether the securities will be classified as trading, available-for-sale, or held-to-maturity. At December 31, 2013 all of Premier's investments were classified as available-for-sale and carried at fair value. Additional information on the investment portfolio can be found in Note 4 to the consolidated financial statements.

As shown in the following Securities Maturity and Yield Analysis table, the average maturity period of the securities available-for-sale at December 31, 2013 was 3 years and 8 months. The table uses a weighted estimated average life method to report the average maturity of mortgage-backed securities, which includes the estimated effect of monthly payments and prepayments. The average maturity of the investment portfolio is managed at a level to maintain a proper matching with interest rate risk guidelines. Premier does not have any securities classified as trading or held-to-maturity and it has no plans to establish such classifications at the present time.

SECURITIES MATURITY AND YIELD ANALYSIS
December 31, 2013
(Dollars in thousands)

	Market Value	Average Maturity (yrs/mos)	Taxable Equivalent Yield*	
U.S. government sponsored entity securities				
After one but within five years	$3,091		1.09	%
After five but within ten years	3,890		2.01	
Total U.S. government sponsored entity securities	$6,981	4/6	1.62	
States and political subdivisions				
Within one year	1,027		4.42	
After one but within five years	5,513		4.57	
Total states and political subdivisions securities	$6,540	2/8	4.54	
Mortgage-backed securities**				
Within one year	192		4.25	
After one but within five years	191,476		2.66	
After five but within ten years	12,877		1.99	
Total mortgage-backed securities	$204,545	3/8	2.61	
Total securities available-for-sale	$218,066	3/8	2.64	

(*) Fully tax-equivalent using the rate of 34%
(**) Maturities for mortgage-backed securities are based on expected average life

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Premier's average investment in federal funds sold and interest bearing bank balances decreased by 5.5% in 2013 compared to 2012. This decrease follows a 19.9% decrease in 2012. Averaging $54.7 million in 2013, federal funds sold and interest bearing bank balances decreased $3.2 million from $57.9 million in 2012. The decrease in 2013 reflects the utilization of some of these funds to satisfy loan growth, deposit withdrawals and/or reductions in repurchase agreements. The decrease in 2012 reflects the utilization of some of these funds to repay Premier's $10.1 million of FHLB debt upon maturity in 2012, to purchase additional investment securities and satisfy deposit withdrawals. As shown in the Consolidated Average Balance Sheets and Net Interest Income Analysis above, on average, the yield on federal funds sold was only 0.05% in 2011, rose slightly to 0.06% in 2012, and rose slightly again to 0.10% in 2013, in accordance with the Federal Reserve's Board of Governors' policy to maintain the federal funds rate between 0.00% and 0.25%. To obtain higher yields on its most highly liquid funds, in 2009 Premier began shifting some of its federal funds sold to certificates of deposits with other banks and other interest-bearing bank balances, primarily with the Federal Reserve Bank, which yielded, on average, 0.28% in 2011 and 0.30% in 2012. This practice continued in 2013 as the yield on interest bearing bank balances averaged 0.32% in 2013, far exceeding the yield on average federal funds sold.

The average balance of federal funds sold decreased by $2.3 million in 2013 to $8.9 million, while average interest bearing bank balances decreased by $849,000 in 2013 to $45.7 million. The majority of these interest bearing bank balances are held at Federal Reserve Banks. Yields on federal funds sold rise and fall in direct correlation with interest rate changes made by the Federal Reserve Board in establishing national economic policy. Investment security yields are based on a number of pricing factors, including but not limited to coupon rate, time to maturity and issuer credit quality. Fluctuations in the amount of federal funds sold and other short-term investments reflect management's goal to maximize asset yields while maintaining proper asset/liability structure, as discussed in greater detail above and in other sections of this report.

Funding Sources

In response to the Federal Reserve policy to reduce market interest rates by lowering the targeted federal funds rate, in 2008 Premier began cutting its rates paid on its interest bearing deposits. This change followed a three-year period during which Premier was raising the rates paid on its interest bearing deposits in response to the increase in market interest rates. As a result, the average rate paid on interest-bearing liabilities decreased to 0.62% in 2013, down from the 0.82% paid in 2012, and the 1.03% paid in 2011. The 20 basis point decrease in 2013 was primarily the result of a 27 basis point decrease in the average rate paid on certificates of deposit and other time deposits, which made up 45.5% of the total average interest bearing liabilities in 2013. Other rate decreases on deposits in 2013 include a 4 basis point decrease on savings deposits and a 6 basis point decrease on NOW and money market accounts. Similarly, in 2013, Premier decreased the rate paid on its short-term borrowings, primarily repurchase agreements with deposit customers, by 17 basis points.

The 21 basis point decrease in the average rate paid on interest bearing liabilities in 2012 was primarily the result of a 24 basis point decrease in the average rate paid on certificates of deposits and other time deposits, which made up 48.1% of the total average interest bearing liabilities in 2012. Other rate decreases on deposits in 2012 include a 9 basis point decrease on savings deposits and a 5 basis point decrease on NOW and money market accounts. Similarly, in 2012, Premier decreased the rate paid on its short-term borrowings, primarily repurchase agreements with deposit customers, by 21 basis points.

Due to alternative sources of investment and an ever increasing sophistication of customers in funds management techniques to maximize return on their money, competition for funds is increasingly more intense every year. Other financial institutions that compete in local markets with Premier that have a need to increase liquidity offer special above market rate deposit products to attract additional funds. Premier's banks periodically offer special rate products to retain their deposit base or attract additional deposits.

Premier's deposits, on average, decreased by $9.4 million, or 1.0%, in 2013 following a $20.3 million, or 2.1%, decrease in 2012 from 2011 average deposits. The decrease in 2013 average deposits was largely due to a $30.3 million, or 8.0%, decrease in average CD's and other time deposits as customers with higher than market rate certificates of deposit did not choose to renew their CD's at the Banks' current interest rates. Many of these higher than market rate CD's came from the Branch Purchase by Citizens in 2010. Other customers deposited their maturing certificate of deposit funds in interest bearing transaction accounts, keeping their funds readily available rather than investing in a new certificate of deposit over a longer time frame. Consequently, partially offsetting the decrease in average CD's and other time deposits in 2013 was a $14.5 million, or 5.9%, increase in average NOW and money market deposits, a $3.8 million, or 3.2%, increase in average savings deposits and a $2.6 million, or 1.3%, increase in non-interest bearing deposits, all of which typically pay lower rates of interest than certificates of deposit but have an immediate balance availability to the customer.

The decrease in 2012 average deposits is partially due to the full year impact of the withdrawal of $37.6 million of funds by the District of Columbia government reported in the second quarter of 2011. Local government deposits are typically volatile deposits, as local governments routinely seek higher returns on their deposit accounts. Average non-interest bearing deposits decreased by $12.2 million, or 5.8%, in 2012. Another factor in Premier's decrease in average total deposits in 2012 was the continuing decrease in rates paid on certificates of deposit. Customers shopping for higher yielding certificates of deposit withdrew their funds upon maturity, while other customers deposited their maturing certificate of deposit funds in interest bearing transaction accounts keeping their funds readily available rather than investing in a new certificate of deposit over a longer time frame. In 2012, average certificates of deposit and other time deposits decreased by 7.8%, or $31.8 million, to $378.4 million. Partially offsetting this decrease, average money market and other interest bearing transaction oriented deposits increased by 8.0%, or $18.4 million, in 2012 while average savings deposits increased by 4.7%, or $5.4 million. The combined decrease in average interest bearing deposit balances in 2012 was 1.1%, or $8.1 million.

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Non-interest bearing deposits are more susceptible to withdrawal and therefore may provide challenges to maintaining adequate liquidity. (See the additional discussion on liquidity below.) Most customers are still keeping their maturity choices short in order to take advantage of possible higher interest rates in the future. While offering some "special" certificate of deposit rates to remain competitive, Premier continues to focus on building its base of customer relationships by offering more convenient electronic banking products to its non-interest bearing deposit customers.

The following table provides information on the maturities of time deposits of $100,000 or more at December 31, 2013.

MATURITY OF TIME DEPOSITS $100,000 OR MORE
December 31, 2013
(Dollars in thousands)

Maturing 3 months or less	$	25,210
Maturing over 3 months		25,562
Maturing over 6 months		41,582
Maturing over 12 months		54,551
Total	$	146,905

Other funding sources for Premier include short and long-term borrowings. Premier's short-term borrowings primarily consist of securities sold under agreements to repurchase with commercial, public entity and tax exempt organization customers. These are short-term non-FDIC insured deposit-like products that are secured by the pledging of investment securities in Premier's investment portfolio or by purchasing insurance through the Federal Home Loan Bank (FHLB). Also included in short-term borrowings are federal funds purchased from other banks and overnight borrowings from the FHLB or the Federal Reserve Bank (FRB) discount window. These short-term borrowings fluctuate depending on near term funding needs and as part of Premier's management of its asset/liability mix. In 2013 average short-term borrowings decreased by $6.2 million, or 29.5%, largely due to a decrease in customer repurchase agreements, primarily due to rate reductions in Premier's DC Metro market. In 2012 average short-term borrowings decreased by $3.8 million or 15.1% as the migration of public fund repurchase agreements to interest-bearing transaction deposit accounts in Premier's Ohio market more than offset the increase in repurchase agreements in its DC Metro market.

Long-term borrowings consist of FHLB borrowings by Premier's Affiliate Banks and other borrowings by the parent holding company.The Company's FHLB advances, which matured in 2012, were fixed rate borrowings and thus yield increases or decreases usually result from payments and maturities. In the first half of 2010, $4.0 million of Premier's highest rate FHLB advances, averaging 6.45%, matured, lowering the average rate paid on its long-term FHLB advances. In 2011 the average rate paid on FHLB advances was 1.85%. In 2012, all remaining FHLB advances were repaid at maturity. The effect was an increase in the average rate paid to 2.19%. FHLB borrowings, on average, decreased by $8.4 million, or 81.8%, in 2012 as Premier repaid all outstanding FHLB borrowings upon maturity in 2012. Premier incurred no new long-term FHLB borrowings in 2013. FHLB borrowings, on average, decreased by $1.9 million, or 15.5%, in 2011 largely the result of the full year impact of $4.0 million of FHLB borrowings that matured in May 2010 and were repaid out of excess liquid assets. Premier uses fixed rate FHLB advances from time-to-time to fund certain residential and commercial loans as well to maximize investment opportunities as part of its interest rate risk management. At December 31, 2013, all FHLB advances have been repaid.

The average rate paid on other borrowings decreased only minimally in 2013 and 2012. In 2011, the average rate paid on other borrowings was 4.45% largely due to a new borrowing from the Bankers' Bank of Kentucky ("Bankers' Bank") on September 8, 2010. On September 8, 2010, the Company executed and delivered to Bankers' Bank a Term Note and Business Loan Agreement in the principal amount of $11.3 million, bearing interest floating daily at the "JP Morgan Chase" prime rate with a minimum rate of 4.50% and requiring 120 monthly principal payments of $94,167 plus interest. The proceeds were used to refinance $5.3 million of existing debt with the Bankers' Bank and to inject $6.0 million of capital into Premier's subsidiary bank, Citizens Deposit Bank, to facilitate the bank's purchase of four branches in 2010. The note is secured by a pledge of Premier's 100% interest in Citizens under a Stock Pledge and Security Agreement modified on August 16, 2012. As a result of this borrowing, the average rate paid on other borrowings declined by only 2 bps in 2012 to an average rate of 4.43%.

In 2013, Premier renewed its borrowing from First Guaranty Bank, which had a maturity date on April 30, 2013. The original $11.6 million note, dated April 30, 2008, bore interest floating daily at the "Wall Street Journal" prime rate (the "Index") minus 1.00% and required 59 monthly principal payments of $50,000 and one final payment of $8.6 million due at maturity on April 30, 2013. If the Index fell between 5.00% and 6.00%, the interest on the note was 5.00%, and if the Index fell below 5.00%, then the interest on the note would float with the Index. On December 31, 2009, Premier converted the borrowing to a fixed rate of interest of 3.96% per annum through its remaining maturity date on April 30, 2013. The renewal extended the maturity date to fully amortize by April 30, 2010 and was renewed with an interest rate that once again floats with Index plus 0.75% with a minimum interest rate of 4.00%. The note continues to be secured by a pledge of 25% of Premier's interest in Premier Bank (a wholly owned subsidiary) under Commercial Pledge Agreement modified on May 3, 2011. In an effort to reduce the interest costs on its other borrowed funds, Premier has been making additional principal payments on both of these borrowed funds on a regular basis. As Premier reduced the principal on the higher rate Banker's Bank borrowing at a faster rate than the borrowing from First Guaranty Bank, the average rate paid on other borrowings decreased in 2013 by 8 basis points to 4.35%.

Premier also maintains lines of credit with both First Guaranty Bank ($3.0 million) and Bankers' Bank ($5.0 million) for unforeseen funding needs that may occur. The lines of credit are secured and covered by each lender's Commercial Pledge Agreements, respectively. Premier did not draw on these lines of credit in 2012 or 2013. For more information on other borrowings, see Note 11 to the consolidated financial statements.

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On May 13, 2010, Premier entered into a six-year data processing agreement with Fidelity Information Systems ("FIS"). The agreement covers Premier's core data processing, item processing, internet banking services, network services, customer authentication services and electronic funds transfer services and began in November 2011 upon the expiration of Premier's contracts with its previous providers. Premier and FIS scheduled individual bank conversions beginning in May 2011 and continued throughout the third quarter of 2011. Based upon the average billings for services rendered during the last three months of 2013, the estimated payments to FIS for these services under existing contracts will be approximately $2.4 million per year beginning in 2014. Actual results may vary depending upon the number and type of accounts actually processed and future customer activity including additional customers via acquisitions.

The Washington Division main office and branch locations of Premier Bank in and around the Washington DC metro area are all leased under various non-cancelable operating leases. These non-cancelable operating leases are subject to renewal options under various terms. Some leases provide for periodic rate adjustments based on cost-of-living index changes. The leases have terms ranging from 2014 through 2018 Future minimum payments under the operating leases are included in the table below.

PAYMENTS DUE ON CONTRACTUAL OBLIGATIONS
December 31, 2013
(Dollars in thousands)

	Total	Less than one year	1-3 years	3-5 years	More than five years
Other borrowed funds	$13,800	$2,162	$4,324	$4,324	$2,990
Operating lease obligations	3,477	904	1,557	1,016	-
Data and item processing contracts*	8,820	2,352	4,704	1,764	-
Total	$26,097	$5,418	$10,585	$7,104	$2,990

* Data and item processing contractual obligations are estimated using the average billing for the last three months of 2013.

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Asset/Liability Management and Market Risk

Asset/liability management is a means of maximizing net interest income while minimizing interest rate risk by planning and controlling the mix and maturities of interest related assets and liabilities. Premier, as well as the Affiliate Banks, has established an Asset/Liability Management Committee (ALCO) for the purpose of monitoring and managing interest rate risk and to evaluate investment portfolio strategies. Interest rate risk is the earnings variation that could occur due to changes in market interest rates. The Board of Directors has established policies to monitor and limit exposure to interest rate risk. Premier monitors its interest rate risk through the use of an earnings simulation model developed by an independent third party to analyze net interest income sensitivity.

The earnings simulation model uses assumptions, maturity patterns, and reinvestment rates provided by Premier and forecasts the effect of instantaneous movements in interest rates from 100 (1.00%) and 400 (4.00%) basis points, but never below zero. The most recent earnings simulation model using the most likely interest rate forecast projects that net interest income would increase by approximately 1.6% over the projected stable rate net interest income if interest rates rise by 100 basis points over the next year. Conversely, the simulation projects an approximate 1.5% decrease in net interest income if interest rates fall by 100 basis points over the next year. Within the same time frame, but assuming a 200 basis point movement in interest rates, the simulation projects that net interest income would increase by 3.8% over the projected stable rate net interest income in a rising rate scenario and would decrease by 2.6% in a falling rate scenario. Under both the 100 and 200 basis point simulations, the percentage changes in net interest income are within Premier's ALCO guidelines.

The model simulation calculations of present value have certain acceptable shortcomings. The discount rates and prepayment assumptions utilized are based on estimated market interest rate levels for similar loans and securities nationwide as well as actual results for Premier. The unique characteristics of Premier's loans and securities may not necessarily parallel those assumed in the model simulations, and therefore, actual results could likely result in different discount rates, prepayment experiences and present values. The discount rates used for deposits and borrowings are based upon available alternative types and sources of funds which may not necessarily be indicative of the present value of Premier's deposits and borrowings. Premier's deposits have customer relationship advantages that are difficult to simulate. A higher or lower interest rate environment will most likely result in different investment and borrowing strategies by Premier which would be designed to further mitigate any negative effects on the value of, and the net interest earnings generated on Premier's net assets.

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The following table presents summary information about the simulation model's interest rate risk measures and results.

	Year-end 2013		Year-end 2012		ALCO Guidelines	
Projected 1-year net interest income						
-100 bp change vs. base rate	-1.5	%	-0.8	%	5	%
+100 bp change vs. base rate	1.6	%	0.4	%	5	%
Projected 1-year net interest income						
-200 bp change vs. base rate	-2.6	%	-1.9	%	10	%
+200 bp change vs. base rate	3.8	%	2.7	%	10	%

Liquidity

Liquidity is the ability to satisfy demands for deposit withdrawals, lending commitments, and other corporate needs. Premier's liquidity is based on the stable nature of consumer core deposits held by the banking subsidiaries. Likewise, additional liquidity is available from holdings of investment securities and short-term investments which can be readily converted into cash. Furthermore, Premier's banks continue to have the ability to attract short-term sources of funds such as federal funds and repurchase agreements.

Premier generated $16.5 million of cash from operations in 2013, which compares to $17.2 million in 2012 and $14.4 million in 2011. Total cash from operations along with proceeds from the sale and maturity of securities and the repayment of loans were used to purchase securities, satisfy deposit withdrawals, fund new loans and reduce outstanding debt during all three years. In 2011, $18.4 million of additional cash was generated from investing activities, largely from the net repayment of loans during the year, proceeds from the sale of OREO and cash received from the redemption of FRB stock exceeding additional investments purchased. In 2012, Premier used $14.4 million of cash in its investing activities primarily to fund new loans and purchase securities, activities that were partially offset by cash proceeds from the sale of OREO and cash received from the maturity and sale of securities. In 2012, $17.1 million of additional cash was generated from investing activities, as proceeds from the maturities, calls and sales of investment securities plus the proceeds from the sale of OREO exceeded funds used for new investment purchases, the funding of new loans, purchases of premises and equipment and improvements to OREO properties.

In 2013, Premier used the $16.5 million of cash from operations and the $17.1 million of additional cash generated from investing activities to satisfy $6.5 million of deposit withdrawals, $14.8 million in decreases in repurchase agreements, pay $2.2 million in principal on other borrowings, pay $3.5 million of common stock dividends, and pay $600,000 of preferred stock dividends. Also in 2013, Premier received $571,000 from the exercise of employee stock options and retained $6.5 million of net cash generated from all activities. In 2012, Premier used a portion of its cash and cash equivalents held at the end of 2011 to repay its

$10.0 million of FHLB advances at maturity. A portion of the funds used to repay the FHLB advances at maturity came from an increase in deposit balances and an increase in customer repurchase agreements during the year. Also in 2012, Premier used funds to make $2.1 million of principal payments on other borrowings, pay $1.7 million of common stock dividends, and pay $984,000 of preferred stock dividends. Finally, during 2012, Premier repurchased 10,252 shares of its Series A Preferred Stock during a dutch auction conducted by the U.S. Treasury in July 2012. The shares were repurchased for $9.2 million, a discount to the face value, preserving over $1.0 of cash and $905,000 of capital at the Company. In 2011, Premier used the $14.4 million of cash from operations, the $18.4 million of additional cash generated from investing activities and a portion of the cash and cash equivalents held at the end of 2010 to satisfy $59.8 million of deposit withdrawals, $6.4 million in decreases in repurchase agreements, pay $4.6 million in principal on FHLB and other borrowings and fund $1.4 million of preferred stock dividends. Details on the sources and uses of cash can be found in the Consolidated Statements of Cash Flows in the consolidated financial statements.

At December 31, 2013, the parent company had $8.8 million in cash held with its subsidiary banks. This balance, along with cash dividends expected to be received from its subsidiaries, is sufficient to cover the operating costs of the parent, service its existing debt and pay dividends to common and preferred shareholders. During 2013, the parent company generated $8.5 million of cash from operations and received $571,000 from the exercise of employee stock options. The proceeds were used to pay $2.2 million in principal payments on long-term borrowings, fund $600,000 of dividends paid on the Series A Preferred Stock, fund $3.5 million of dividends paid to common shareholders, and make additional fixed asset purchases. During 2012, the parent company generated $12.3 million of cash from operations and received $192,000 from the exercise of employee stock options. The proceeds were used to pay $2.1 million in principal payments on long-term borrowings, fund $984,000 of dividends paid on the Series A Preferred Stock, fund $1.7 million of dividends paid to common shareholders, and make additional fixed asset purchases. The parent company also used $9.2 million to repurchase 10,252 shares of its Series A Preferred Stock during a dutch auction conducted by the U.S. Treasury in July 2012. The shares were repurchased at a discount to the face value, preserving over $1.0 of cash and $905,000 of capital at the parent company. During 2011, the parent company generated $5.1 million of cash from operations and received $0.4 million from the cash balances of subsidiaries merged into the parent during the year. The proceeds were used to pay $2.0 million in principal payments on long-term borrowings, fund $1.4 million of dividends paid on the Series A Preferred Stock, and make additional fixed asset purchases, primarily in information technology equipment related to the conversion to FIS. Additional information on parent company cash flows and financial statements is contained in Note 22 to the consolidated financial statements.

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Capital Resources

Premier's consolidated average equity-to-asset ratio increased to 13.21% during 2013, and increase from the 12.94% during 2012 and the 11.98% average equity-to-asset ratio in 2011. The ratios for all three years are considered adequate for a company of Premier's size. The increase in 2013 was the result of an increase in average equity, primarily from the generation of $9.1 million of retained net income, combined with a decrease in average assets during 2013. The increase in average common equity exceeded the decrease in average preferred equity resulting from the full year effect from the partial redemption of Premier's Series A Preferred Stock that occurred during the third quarter of 2012. Similarly, the increase in the average equity-to-asset ratio in 2012 over 2011 was the result of an increase in average equity, primarily from the generation of $7.6 million of retained net income, combined with a decrease in average assets during 2012. The increase in average common equity exceeded the decrease in average preferred equity resulting from the partial redemption of Premier's Series A Preferred Stock that occurred during the third quarter of 2012.

The Federal Reserve's risk-based capital guidelines and leverage ratio measure the capital adequacy of banking institutions. The risk-based capital guidelines weight balance sheet assets and off-balance sheet commitments by prescribed factors relative to credit risk, thus eliminating disincentives for holding low risk assets and requiring more capital for holding higher risk assets. At year-end 2013, Premier's capital to risk adjusted asset ratio was 18.2%, compared to 17.4% at December 31, 2012 and 17.2% at December 31, 2011. All three of these ratios are well above the minimum level of 8.0% prescribed for bank holding companies of Premier's size. The leverage ratio is a measure of total tangible equity to total tangible assets, net of any related deferred taxes as permitted. Premier's leverage ratio at December 31, 2013 was 11.0%, compared to 10.0% at December 31, 2012 and December 31, 2011. All three of these ratios are above the 4.0% to 5.0% ratios recommended by the Federal Reserve. The leverage ratio increased at December 31, 2013 largely due to a $10.1 million, or 9.2%, increase in qualifying capital for regulatory purposes versus a 0.5% decrease in qualifying average assets. Similarly, the increase in qualifying capital for regulatory purposes boosted Premier's capital to risk adjusted asset ratio at December 31, 2013 overcoming a 4.2% increase in Premier's risk adjusted assets since December 31, 2012. The leverage ratio remained unchanged at December 31, 2012 from December 31, 2011, due to the very small change in total assets and total stockholders' equity since year-end 2011. While preferred stockholders' equity decreased in 2012 due to the redemption of 10,252 shares of Premier's Series A Preferred Stock, this equity was replaced by Premier's earnings performance in 2012, net of any dividends paid to common and preferred stockholders. Similarly, Premier's capital to risk adjusted assets ratio changed little in 2012, increasing to 17.4% at December 31, 2012 from 17.2% at December 31, 2011, as total stockholders' equity changed very little from year-end 2011. The increase in the ratio was largely due to a decrease in Premier's risk adjusted assets at December 31, 2012. Premier's capital ratios are the direct result of management's desire to maintain a strong capital position. This strong capital position tends to have a dampening effect on the key performance ratio Return on Average Equity (ROE) due to the higher level of capital maintained. Additional information on Premier's capital ratios and the capital ratios of its banks may be found in Note 21 to the consolidated financial statements.

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Additional information on the capital position of Premier is included in the following table.

SELECTED CAPITAL INFORMATION
(Dollars in thousands)

	As of December 31		
	2013	2012	Change
Stockholders' Equity	$146,940	$144,296	$2,644
Disallowed amounts of goodwill and other intangibles	(27,693)	(27,995)	302
Unrealized (gain) loss on securities available for sale	625	(6,576)	7,201
Tier I capital	$119,872	$109,725	$10,147
Tier II capital adjustments			
Allowable amount of the allowance for loan losses	8,884	8,537	
Total capital	$128,756	$118,262	
Total risk-weighted assets	$708,565	$679,986	
Ratios			
Tier I capital to risk-weighted assets	16.92%	16.14%	
Total capital to risk-weighted assets	18.17%	17.39%	
Leverage	11.02%	10.04%	

The primary source of funds for dividends paid by Premier is the dividends received from its subsidiary banks. Banking regulations limit the amount of dividends that may be paid without prior approval of the regulatory agencies. Under these regulations, the amount of dividends that may be paid without prior approval 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 regulatory capital requirements and additional restrictions more fully described in Note 21 to the consolidated financial statements. During 2014, the Affiliate Banks could, without prior approval, declare and pay to Premier dividends of approximately $3.8 million plus any 2014 net profits retained through the date of declaration.

The dividend rights of holders of Premier's common shares are also qualified and subject to the dividend rights of holders of Premier's Series A Preferred Shares. As long as the Series A Preferred Shares remain outstanding, unless all accrued and unpaid dividends for all past dividend periods on the Series A Preferred Shares are fully paid, Premier will not be permitted to declare or pay dividends on any Common Shares.

The July 29, 2010 written agreement between Consolidated Bank & Trust and the FRB placed limits on Premier's ability to pay dividends. In addition to ensuring that CB&T complied with provisions of the July 29, 2010 written agreement, Premier was also specifically subject to a provision requiring prior written approval of the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors of the Federal Reserve System for declaring or paying any dividends, and a provision requiring prior written approval of the FRB before incurring, increasing or guaranteeing any debt or purchasing or redeeming any shares of its stock.

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On August 3, 2010, Premier submitted a request to the FRB for written approval from the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors to pay a $0.11 per share cash dividend to Premier's common shareholders on September 30, 2010. On August 19, 2010, Premier was notified in writing that the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors did not approve Premier's request to pay the cash dividend on its common stock as Premier had requested.

On September 20, 2010, Premier submitted a request to the FRB for written approval from the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors to declare and pay its quarterly dividend obligation to the U.S. Treasury due on November 15, 2010. On October 4, 2010, Premier received a notice in writing that the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors did not approve Premier's request to pay the cash dividend on its Series A, Fixed Rate Cumulative Perpetual Preferred Stock as Premier had requested. Subsequent to receipt of the notice from the FRB, Premier held telephone conversations with the FRB to appeal the Board of Governors' decision. On October 13, 2010, Premier received telephonic notice that its appeal had been denied.

On January 11, 2011, Premier submitted a written request to the FRB for written approval from the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors to pay its quarterly dividend obligation due on February 15, 2011 to the U.S. Treasury under the TARP Capital Purchase Program, and the prior quarterly dividend obligation due on November 15, 2010. On February 10, 2011, Premier received telephonic notice that the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors did not approve Premier's request to pay the cash dividends on its Series A, Fixed Rate Cumulative Perpetual Preferred Stock as Premier had requested.

On April 19, 2011, Premier submitted a request to the FRB for written approval from the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors to declare and pay its quarterly dividend obligation to the U.S. Treasury due on May 15, 2011 and the two dividends in arrears due on November 15, 2010 and February 15, 2011, respectively. On May 13, 2011, Premier received notice from the FRB that the Director of the Division of Banking Supervision and Regulation of the Board of Governors approved Premier's request to pay all current and deferred cash dividends on its Series A, Fixed Rate Cumulative Perpetual Preferred Stock as Premier had requested. The dividends were paid as scheduled on May 16, 2011. All subsequent quarterly dividends on Premier's Series A Preferred Shares have been paid as scheduled.

On July 24, 2012 the FRB announced that it had terminated the July 29, 2010 Written Agreement with Premier.

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INCOME STATEMENT ANALYSIS
Net Interest Income

Net interest income, the amount by which interest generated from earning assets exceeds the expense associated with funding those assets, is Premier's most significant component of earnings. Net interest income on a fully tax-equivalent basis was $43.9 million in 2013, down 0.8% from the $44.2 million earned in 2012, which follows a 0.6% decrease in 2012 from 2011. When net interest income is presented on a fully tax-equivalent basis, interest income from tax-exempt earning assets is increased by the amount equivalent to the federal income taxes which would have been paid if this income were taxable at the statutory federal tax rate of 34% for companies of Premier's size. The decrease in net interest income in 2013 is largely the result of the combined decrease in interest income on loans and investments exceeding the combined decrease in interest expense on deposits and borrowings.

As shown in the Rate Volume Analysis table below, in 2013, interest income on loans decreased primarily as a result of a decrease in the average yield earned on loans compared to the yield earned during 2012. This decrease was partially offset by an increase in interest income on loans due to a higher average volume of loans outstanding in 2013. The net result was a $935,000 decrease in interest income on loans when compared to 2012. Interest income on investments also decreased in 2013, primarily as a result of a decrease in the average volume of investments outstanding in 2013. Also contributing to the decrease in interest income earned on investment in 2013 was the decrease in the average yield earned on the portfolio of securities. The combined result was a $1.1 million decrease in interest income on investments when compared to 2012. Also, as shown in the table below, interest expense on deposits decreased in total by $1.5 million in 2013, largely due to interest expense savings on certificates of deposit. Interest expense decreased by $362,000 as a result of a lower average volume of certificates of deposit in 2013. Interest expense also decreased by $937,000 due to a lower overall rate paid on those deposits in 2013. Interest expense on NOW and money market accounts as well as savings accounts decreased by $165,000 in total as interest savings from lower rates paid on those transaction based deposits more than offset an increase in interest expense resulting from a higher volume of both NOW and money market deposits as well as savings account deposits. Premier also realized $53,000 of interest expense savings on its short-term borrowings, largely due to lower rates paid on these borrowings but also due to a lower average balance during 2013. Premier realized $104,000 of interest expense savings on other borrowed funds, largely due to principal reductions during the year, and $42,000 of interest expense savings of FHLB borrowings due to repaying the borrowings in full upon maturity in 2012. The combined effect was to decrease fully tax-equivalent net interest income by $333,000 in 2013.

Similar to 2013, net interest income in 2012 decreased as the decrease in interest earned on loans and investments exceeded the interest expense saved on deposits and borrowings. As shown in the Rate Volume Analysis table below, in 2012, interest income on loans decreased primarily as a result of a decrease in the average volume of loans outstanding in 2012. This decrease was offset slightly by an increase in interest income on loans due to a higher overall

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yield on the loan portfolio. The net result was a $1.3 million decrease in interest income on loans when compared to 2011. In contrast, interest income on investments decreased primarily as a result of a decrease in the average yield earned on the portfolio of securities. This decrease was partially offset by an increase in interest income on investments due to a higher average volume of investments outstanding in 2012. The net result was an $890,000 decrease in interest income on investments when compared to 2011. Also, as shown in the table below, interest expense on deposits decreased in total by $1.6 million, largely due to interest expense savings on certificates of deposit. Interest expense decreased by $456,000 as a result of a lower average volume of certificates of deposit in 2012. Interest expense also decreased by $956,000 due to a lower overall rate paid on those deposits in 2012. Interest expense on NOW and money market accounts as well as savings accounts decreased by $163,000 in total as interest savings from lower rates paid on those transaction based deposits more than offset an increase in interest expense resulting from a higher volume of both NOW and money market deposits as well as savings account deposits. Premier also realized $68,000 of interest expense savings on its short-term borrowings, largely due to lower rates paid on these borrowings but also due to a lower average balance during 2012. Premier realized $98,000 of interest expense savings on other borrowed funds, largely due to principal reductions during the year, and $149,000 of interest expense savings on FHLB borrowings due to repaying the borrowings upon maturity in the first half of 2012. The combined effect was to decrease net interest income by $276,000 in 2012.

RATE VOLUME ANALYSIS OF CHANGES IN NET INTEREST INCOME
(Dollars in thousands on a tax equivalent basis)

	2013 vs 2012			2012 vs 2011		
	Increase (decrease) due to change in			Increase (decrease) due to change in		
	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest income*:						
Loans	$2,035	$(2,970)	$(935)	$(1,368)	$109	$(1,259)
Investment securities	(988)	(83)	(1,071)	349	(1,239)	(890)
Federal funds sold	(2)	4	2	(2)	2	-
Deposits with banks	(3)	11	8	(30)	13	(17)
Total interest income	$1,042	$(3,038)	$(1,996)	$(1,051)	$(1,115)	$(2,166)
Interest expense:						
Deposits						
NOW and money market	$33	$(154)	$(121)	$50	$(116)	$(66)
Savings	5	(49)	(44)	12	(109)	(97)
Certificates of deposit	(362)	(937)	(1,299)	(456)	(956)	(1,412)
Short-term borrowings	(22)	(31)	(53)	(21)	(47)	(68)
Other borrowings	(91)	(13)	(104)	(94)	(4)	(98)
FHLB borrowings	(21)	(21)	(42)	(179)	30	(149)
Total interest expense	$(458)	$(1,205)	$(1,663)	$(688)	$(1,202)	$(1,890)
Net interest income*	$1,500	$(1,833)	$(333)	$(363)	$87	$(276)

(*) Fully taxable equivalent using the rate of 34%
Note – Changes to rate/volume are allocated to both rate and volume on a proportional dollar basis

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While net interest income dollars decreased in 2013, Premier's net interest margin increased as the rates paid on interest bearing liabilities decreased more than the decrease in the yield on earning assets. In 2013, the average yield on Premier's loan portfolio decreased 42 basis points to 5.91% from the 6.33% earned in 2012. Likewise, the average yield earned on the investment portfolio in 2013 decreased by 3 basis points to 2.39%. The net result on all earning assets was to decrease the average yield by 14 basis points to 4.72% in 2013, down from the 4.86% earned in 2012. Similarly, in 2013 Premier decreased the average rate paid on its deposits by 18 basis points as market deposit rates continued to fall throughout the year. The average rate paid on certificates of deposit decreased the most, at 27 basis points, while the average rate paid on savings accounts decreased by 4 basis points and the average rate paid on interest bearing transaction accounts decreased by 6 basis points. Just as deposit rates fell during 2012, the rates Premier paid on its short-term borrowings also fell. Premier was able to lower the rates paid on its short-term borrowings, primarily customer based repurchase agreements, by 17 basis points to 0.25%. The average rate paid on Premier's other borrowings decreased slightly, by 8 basis points, as the Company made greater principal payments on its higher cost borrowing from Bankers' Bank than the principal payments made on its lower cost borrowing from First Guaranty Bank. The net result on all interest-bearing liabilities was to decrease the average rate paid by 20 basis points to 0.62% in 2013, down from the 0.82% paid in 2012. As a result, Premier's net interest spread increased by 6 basis points. However, due to the larger volume of Premier's interest earning assets when compared to its volume of interest bearing liabilities, the net interest margin increased by only 1 basis point to 4.26% in 2013, up from the 4.25% earned in 2012 and the 4.18% earned in 2011.

While net interest income dollars decreased in 2012 when compared to 2011, Premier's net interest margin increased as the rates paid on interest bearing liabilities decreased more than the decrease in the yield on earning assets. In 2012, the average yield on Premier's loan portfolio increased slightly to 6.33% from the 6.32% earned in 2011. However, the average yield earned on the investment portfolio in 2012 decreased by 41 basis points to 2.42%. The net result on all earning assets was to decrease the yield by 10 basis points to 4.86% in 2012, down from the 4.96% earned in 2011. Similarly, in 2012 Premier decreased the average rate paid on its deposits by 20 basis points as market deposit rates continued to fall throughout the year. The average rate paid on certificates of deposit decreased the most, at 24 basis points, while the average rate paid on savings accounts decreased by 9 basis points and the average rate on interest bearing transaction accounts decreased by 5 basis points. Just as deposit rates fell during 2012, the rates Premier paid on its short-term borrowings also fell. Premier was able to lower the rates paid on its short-term borrowings, primarily customer based repurchase agreements, by 22 basis points to 0.42%. The rate paid on FHLB borrowings at the banks increased by 34 basis points as lower rate borrowings matured in 2011 leaving slightly higher rate borrowings to mature in 2012. The rate paid on Premier's other borrowings remained relatively unchanged as there was no change in rate on Premier's floating rate borrowing from the Bankers' Bank and its borrowing from First Guaranty Bank bears a fixed rate. The net result on all interest-bearing liabilities was to decrease the rate paid by 21 basis points to 0.82% in 2012, down from the 1.03% paid in 2011. As a result, Premier's net interest spread increased by 11 basis points. However, due to the larger volume of Premier's interest earning assets when

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compared to its volume of interest bearing liabilities, the net interest margin increased by only 7 basis points to 4.25% in 2012, up from 4.18% earned in 2011. Further discussion of interest income is included in the section of this report entitled "Balance Sheet Analysis."

Non-interest Income and Expense

Non-interest income has been and will continue to be an important factor for improving profitability. Recognizing this importance, management continues to evaluate areas where non-interest income can be enhanced. Nevertheless, key sources of Premier's non-interest income have diminished, in part, due to increased government regulation making the selling of fixed rate mortgages in the secondary market more difficult, limiting the number of overdraft charges that can be assessed on a customer's account on a given day and limiting the percentage of fees that can be earned on debit card transactions. As shown in the table of Non-interest Income and Expense below, total fees and other income decreased by $202,000, or 3.1%, in 2013. In 2013, service charges on deposit accounts decreased by $186,000, or 5.3%, due to lower revenue from monthly account charges on consumer and business deposit accounts as well as lower overall revenue from consumer and business overdraft charges. Management believes that the downturn in the economy caused customers to more closely manage their deposit funds to find ways to save money and thus reduced their number of overdrafts. Secondary market mortgage income (commissions and fees earned from originating and selling mortgage loans to third parties in the secondary market) decreased by $55,000, or 17.7%, in 2013 compared to 2012. The secondary market mortgage income in 2013, 2012 and 2011 reflects an industry in extreme change. Many mortgage loan purchasers ceased buying new mortgages in 2009 or went out of business completely. The federal government, via government sponsored agencies, began buying the surplus in available secondary market mortgages but significantly increased the required documentation from the home buyers, thus complicating the process in comparison to years past. The perceived difficultly from the home buyer's perspective has had a negative impact on Premier's secondary market business. In the second half of 2012, Premier experienced a 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 during the first quarter of 2013 compared to 2012. However, due to a fourth quarter 2012 surge in income from the sale of mortgages in the secondary market, total revenue in 2013 decreased in comparison to 2012. Electronic banking income, which consists of debit and credit card transaction fees, ATM fees and internet banking fees, remained unchanged in 2013 when compared to 2012. While Premier continues to experience an increase in the number of customers who conduct their banking and purchasing electronically, primarily via the use of debit and ATM cards, revenue from these activities stabilized in 2013 as an increase in revenue from debit card transactions was substantially offset by a decrease in ATM usage fees. Other non-interest income increased by $38,000, or 5.9%, in 2013, as decreases in wire transfer fees and check cashing fees, credit life commissions, and letter of credit fees earned were more than offset by an increase in loan extension and other miscellaneous fees unrelated to the origination of loans.

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In 2012, total fees and other income decreased by $372,000, or 5.4%, in 2012. The decrease in 2012 was largely due to decreases in service charges on deposit account and other non-interest income partially offset by an increase in electronic banking income. In 2012, service charges on deposit accounts decreased by $282,000, or 7.4%, due to lower revenue from monthly account charges on consumer checking accounts as well as lower overall revenue from consumer overdraft charges. In 2012, service charge revenue from monthly account charges on business accounts and business overdraft charges both increased. Secondary market mortgage income (commissions and fees earned from originating and selling mortgage loans to third parties in the secondary market) decreased by $3,000, or 1.0%, in 2012 compared to 2011. The secondary market mortgage income in 2012, 2011 and 2010 reflects an industry in extreme change. Many mortgage loan purchasers ceased buying new mortgages in 2009 or went out of business completely. The federal government, via government sponsored agencies, began buying the surplus in available secondary market mortgages but significantly increased the required documentation from the home buyers, thus complicating the process in comparison to years past. The perceived difficultly from the home buyer's perspective has had a negative impact on Premier's secondary market business during 2010, 2011 and 2012. Offsetting these decreases in non-interest income, electronic banking income, which consists of debit and credit card transaction fees, ATM fees and internet banking fees, increased $174,000, or 9.4% to $2,017,000 in 2012. The increase is largely due to an increasing number of customers who conduct their banking and purchasing electronically, primarily via the use of debit and ATM cards. Other non-interest income decreased by $261,000, or 28.7%, in 2012, largely due to decreases in banking service fees, such as wire transfer fees and check cashing fees, credit life commissions, letter of credit fees earned and other miscellaneous loan fees unrelated to loan originations all of which increased in 2011.

In 2013, Premier realized $1,413,000 in gains on the sales and calls of investment securities compared to $545,000 in gains on the call of investment securities realized in 2012. In the fourth quarter of 2013, Premier sold its remaining investment in high-yielding, long-term corporate securities and realized a gain of approximately $1.2 million. These corporate securities had significant negative market value adjustments at the time Premier acquired them via the purchase of Abigail Adams in 2009. Management sold the investments in an effort to maximize the company's return on the investments as the market value had substantially increased since 2009. Earlier in 2013, Premier realized gains on other corporate investment securities that were called at par. Similar to the securities sold in the fourth quarter, these corporate investment securities also had significant negative market value adjustments at the time Premier acquired them via the purchase of Abigail Adams in 2009. As a result of the fourth quarter 2013 sale, Premier no longer owns any corporate issued investments in its portfolio.

In 2012, Premier realized $545,000 in gains on the calls of investment securities compared to $18,000 in gains on the calls of investment securities realized in 2011. Similar to 2013, in 2012, two high-yielding, long-term corporate securities that had significant negative market value adjustments at the time Premier acquired them via the purchase of Abigail Adams were called at par value during 2012, resulting in the $545,000 investment security gains.

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Premier did not execute any sales of investment securities in 2012 or 2011. Also in 2012, Premier realized a $2,463,000 gain on the sale of a non-accrual loan to a third-party. The gain resulted primarily from purchase discounts applied to the loan at the time it was acquired via the purchase of Abigail Adams. Transactions such as these are unusual and infrequent. As such, management excludes this kind of revenue from its discussion of net overhead elsewhere in this report.

The following table is a summary of non-interest income and expense for each of the years in the three-year period ending December 31, 2013.

NON-INTEREST INCOME AND EXPENSE
(Dollars in thousands)

				Increase (Decrease) Over Prior Year			
				2013		2012	
	2013	2012	2011	Amount	Percent	Amount	Percent
Non-interest income:							
Service charges on deposit accounts	$ 3,357	$ 3,543	$ 3,825	$ (186)	(5.25)	$ (282)	(7.37)
Electronic banking income	2,018	2,017	1,843	1	0.05	174	9.44
Secondary market mortgage income	256	311	314	(55)	(17.68)	(3)	(0.96)
Other	688	650	911	38	5.85	(261)	(28.65)
Total fees and other income	$ 6,319	$ 6,521	$ 6,893	(202)	(3.10)	(372)	(5.40)
Gain on sale of note	0	2,463	0	(2,463)		2,463	
Investment securities gains	1,413	545	18	868		527	
Total non-interest income	$ 7,732	$ 9,529	$ 6,911	$ (1,797)	(18.86)	$ 2,618	37.88
Non-interest expense:							
Salaries and wages	$ 12,212	$ 12,394	$ 13,385	$ (182)	(1.47)	$ (991)	(7.40)
Employee benefits	2,834	2,728	2,852	106	3.89	(124)	(4.35)
Total staff costs	15,046	15,122	16,237	(76)	(0.50)	(1,115)	(6.87)
Occupancy and equipment	4,338	4,553	4,900	(215)	(4.72)	(347)	(7.08)
Outside data processing	3,372	3,379	4,458	(7)	(0.21)	(1,079)	(24.20)
Professional fees	900	1,181	966	(281)	(23.79)	215	22.26
Taxes, other than payroll, property and income	686	667	663	19	2.85	4	0.60

Amortization of intangibles	600	672	792	(72)	(10.71)	(120)	(15.15)
OREO gains, losses and expenses, net	1,853	2,514	405	(661)	(26.29)	2,109	520.74
Loan collection expenses	413	1,182	1,172	(769)	(65.06)	10	0.85
FDIC insurance	835	809	1,223	26	3.21	(414)	(33.85)
Conversion expense	25	25	1,720	-		(1,695)	
Other expenses	3,101	3,168	3,985	(67)	(2.11)	(817)	(20.50)
Total non-interest expenses	$ 31,169	$ 33,272	$ 36,521	$ (2,103)	(6.32)	$ (3,249)	(8.90)

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Just as management continues to evaluate areas where non-interest income can be enhanced, it strives to find ways to improve the efficiency of its operations and utilize the economies of scale of the consolidated entity to reduce its operating costs. Sometimes the expenses associated with acquisitions, as well as the inefficiency of the operations of acquired organizations, cloud these goals. Premier's 2013 net overhead ratio, or non-interest expense less non-interest income excluding securities transactions and other similar non-operating transactions to average earning assets, was 2.41%, a decrease from the 2.56% realized in 2012 and the 2.78% realized in 2011. The actual dollars of net overhead decreased by $1.9 million, or 7.1%, in 2013, while average earning assets decreased by only 1.1% resulting in the decrease in the net overhead ratio. The decrease in net overhead expense in 2013 was largely due to reductions in costs associated with non-performing assets, such as collection costs and OREO expenses, as well as lower professional fees and occupancy and equipment costs. In 2012, the actual dollars of net overhead decreased largely due to $1.7 million of conversion expenses incurred in 2011 that were not repeated in 2012, along with reductions in data processing expense and staff costs. These expense reductions were partially offset by an increase in OREO expenses in 2012. For the year 2013, net overhead was $24.9 million compared to $26.8 million in 2012 and $29.6 million in 2011.

Total non-interest expense in 2013 decreased by $2,103,000, or 6.3%, from 2012 largely due to reductions in loan collection expenses, OREO expenses, professional fees and occupancy and equipment costs. In 2012, non-interest expense decreased by $3,249,000, or 8.9%, from 2011 largely due to reductions in staff costs, outside data processing expenses and conversion costs in 2011 that were not repeated in 2012.

Staff costs decreased by $76,000, or 0.5%, in 2013 versus 2012 as normal salary and wage increases were more than offset by the impact of staff reductions. Employee benefit costs increased by $106,000, or 3.9%, in 2013 as an increase in medical insurance benefit costs were partially offset by lower employer payroll taxes and retirement benefit costs. Management anticipates that medical insurance benefit costs will continue to increase until the national medical insurance industry stabilizes after the implementation of new government regulations. In 2012, staff costs decreased by $1,115,000, or 6.9%, versus 2011. Salaries and wages decreased by $991,000, or 7.4%, in 2012 as reductions in staff related to the internal merger of five banks forming Premier Bank took full effect in 2012, as well as the partial impact of additional staff reductions from the internal merger of Farmers Deposit and Ohio River banks into Citizens Deposit Bank in August 2012. Approximately $414,000 of the decrease in salary and wages expense in 2012 was due to a higher level of loan origination costs that were deferred to the balance sheet to be amortized over the life of the loan as a reduction of interest income in future periods. When loan origination costs are deferred to the balance sheet, a reduction in salary and wage expense is recorded. The increased level of deferred loan origination costs were the result of higher loan demand in 2012, particularly in the second half of the year. The costs of employee benefits decreased by $124,000, or 4.4%, in 2012 as the decrease in staff count reduced the number of participants in employee benefit plans and reduced the level of employer payroll taxes paid by Premier.

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Occupancy and equipment expenses in total decreased by $215,000, or 4.7%, in 2013 compared to 2012. Facility costs were $102,000 lower in 2013, largely due to lower leasehold improvement depreciation and lower real estate taxes. Equipment expense decreased by $145,000 in 2013 compared to 2012, largely due to lower equipment depreciation expense and lower expenditures on software subscriptions. In 2012, occupancy and equipment expenses in total decreased by $347,000, or 7.1%, compared to 2011. Facility costs were $107,000 lower in 2012, largely due to lower rent expense in 2012 from the closure of one branch in the DC Metro area and the combining of two floors of the DC administrative office into one, as well as reduced utility costs and lower property maintenance costs. Equipment expense decreased $240,000 in 2012 compared to 2011, largely due to lower equipment depreciation expense, lower equipment maintenance costs and lower expenditures on software subscriptions.

Outside data processing expense remained relatively unchanged in 2013, decreasing by only $7,000 or 0.2% in 2013 versus 2012, as higher data processing charges, internet banking charges and expenses for communications and data lines were offset by lower item processing charges, statement rendering costs, telephone banking charges and ATM processing expenses. In 2012, outside data processing expense decreased by $1,079,000, or 24.2%, versus 2011, largely due to lower item processing, data processing, and internet banking charges as well as lower data line charges, all related to the new third party processing contract with FIS. The savings realized were partially offset by an increase in statement rendering charges and telephone banking charges.

Professional fees decreased by $281,000, or 23.8%, in 2013 versus 2012, largely due to higher legal fees in 2012 related to lawsuits that were settled in 2012, a decrease in audit and accounting fees and a decrease in fees from consultant services. In 2012, professional fees increased by $215,000, or 22.3%, versus 2011, largely due to higher legal fees related to lawsuits that were settled in 2012 and an increase in fees from consultant services.

Taxes not on income increased by $19,000, or 2.8%, in 2013 versus 2012, largely due to higher municipal based taxes. In 2012, taxes not on income were relatively unchanged versus 2011, increasing by $4,000, or 0.6%, as higher state based franchise taxes were offset by lower municipal based taxes.

Amortization of intangibles decreased by $72,000, or 10.7%, in 2013 versus 2012, as Premier utilizes an accelerated method of amortizing its core deposit intangible assets which results in greater amortization expense in the years soon after an acquisition. In 2012, amortization of intangibles decreased by $120,000, or 15.2%, versus 2011 largely due to the accelerated method of amortizing core deposit intangible assets.

OREO gains, losses and expenses resulted in net expenses of $1,853,000 in 2013 versus $2,514,000 of net expenses in 2012, a $661,000, or 26.3% decrease in non-interest expense. OREO expense represents the costs to operate, maintain and liquidate Other Real Estate acquired through foreclosure in satisfaction of unpaid loans. In 2013, Premier realized $66,000 of gains on the sale of OREO, a decrease of $387,000 from the $453,000 of gains realized in 2012.

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

More than offsetting the gains realized in 2013, however, were $782,000 of write downs on OREO properties to estimated realizable values and $1,137,000 of net expenses to maintain those properties. These values compare to $1,410,000 of write downs on OREO properties and $1,556,000 of net expenses to maintain those properties in 2012 which resulted in a total of $1,047,000 of expense savings in 2013. In 2012, OREO gains, losses and expenses resulted in net expenses of $2,514,000 versus $405,000 of net expenses in 2011, a $2,109,000 increase in non-interest expense. In 2012, Premier realized $453,000 of gains on the sale of OREO, a decrease of $566,000 from the $1,019,000 of gains realized in 2011. This $566,000 difference in gains is part of the $2,109,000 increase in non-interest expense in 2012. More than offsetting the gains realized in 2012, however, were $1,410,000 of write downs on OREO properties to estimated realizable values and $1,556,000 of net expenses to maintain those properties. These values compare to $624,000 of write downs on OREO properties in 2011 and $799,000 of net expenses incurred to maintain the properties in 2011.

Loan collection expenses decreased by $769,000, or 65.1%, in 2013 versus 2012. Loan collection expenses include attorney fees and other costs associated directly to the collection of a loan, foreclosure on collateral, the immediate liquidation or auction of such collateral and other expenditures directly related to the collection of a loan. These costs were significantly higher in 2012 and 2011 as Premier aggressively pursued resolution efforts to reduce the number of non-performing loans it had obtained via the acquisition of Abigail Adams in 2009. Loan collection expenses were relatively unchanged in 2012 versus 2011, increasing by $10,000, or 0.9%. In 2011, Premier incurred a significant level of auction related and other expenses related to the liquidation or repossession of collateral in an effort to reduce the level of non-performing loans.

FDIC insurance expense increased by $26,000, or 3.2%, in 2013 versus 2012. The increase in FDIC insurance expense corresponds to an increase in the net assets of the Affiliate Banks that are the basis for the FDIC insurance premiums. In 2012, FDIC insurance expense decreased by $414,000, or 33.9%, versus 2011. The decrease in FDIC insurance expense was largely the result of a change in the calculation method of the premium for smaller community banks such as those owned by Premier, which took effect in 2011. Additional savings were also realized as a result of the internal merger of five banks forming Premier Bank in 2011 as well as the internal merger of Farmers Deposit and Ohio River banks into Citizens Deposit Bank in August 2012.

In 2011, Premier incurred $1,720,000 of direct costs to convert its data processing systems to FIS. Most of these costs were charged by the previous data processing providers to generate conversion testing data and release the final conversion data. In 2012 and 2013, Premier incurred minor charges related to the conversion of data related to minor software programs and processes.

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

Other expenses totaled $3,101,000 in 2013, a $67,000, or 2.1%, decrease from the $3,168,000 of other non-interest expenses recorded in 2012. Decreases in other expenses in 2013 include lower courier and armored car expenditures, postage and freight, stationary and supplies expense, losses and shortages, education and training, travel expenses, correspondent bank charges, subsidiary director fees and insurance premiums. The reduction in expenditures on these items was substantially offset by increases in advertising, both direct and indirect, and expenses associated with shareholder relations. In 2012, other expenses totaled $3,168,000, an $817,000, or 20.5%, decrease from the $3,985,000 of other non-interest expenses recorded in 2011. Decreases in 2012 relate in part to higher education and training costs and higher lodging, travel and meal costs incurred in 2011, largely due to the conversion to FIS, as employees traveled to various training centers to learn how to use the new data processing system. Otherwise, decreases in other expenses in 2012 include lower stationery and supplies expense, regulatory assessment charges, correspondent bank charges and subsidiary director fees, most of which are the result of the internal mergers consummated in 2011 and 2012.

An analysis of the allowance for loan losses and related provision for loan losses is included in the Loan Portfolio section of the Balance Sheet Analysis of this report

Applicable Income Taxes

Premier recognized $7.4 million of income tax expense in 2013. This amount compares to $5.7 million of income tax expense in 2012 and $3.8 million of income tax expense recorded in 2011. Premier's effective tax rate was 35.9% in 2013, up from the 35.5% reported in 2012 and the 34.7% reported in 2011. In 2013, Premier's effective tax rate increased largely due to its improving financial performance resulting in higher levels of federal taxable income. The level of Premier's federal taxable income in 2013 resulted in a partial phase-in of the 35% maximum federal corporate income tax rate, up from the basic 34% federal corporate income tax rate. In 2011 and again in 2012, Premier's effective tax rate was increased somewhat by higher state income taxes related to Premier's operations in Washington, DC. Also, in 2012 and 2013 Premier's level of tax exempt income declined as a percentage of income before taxes. Additional information regarding income taxes is contained in Note 12 to the consolidated financial statements.

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Effects of Changing Prices

The results of operations and financial condition presented in this report are based on historical cost, unadjusted for the effects of inflation. Inflation affects Premier in two ways. One effect is that inflation can result in increased operating costs which must be absorbed or recovered through increased prices for services. The second effect is on the purchasing power of the corporation. Virtually all of a bank's assets and liabilities are monetary in nature. Regardless of changes in prices, most assets and liabilities of the banking subsidiaries will be converted into a fixed number of dollars. Non-earning assets, such as premises and equipment, do not comprise a major portion of Premier's assets; therefore, most assets are subject to repricing on a more frequent basis than in other industries.

Premier's ability to offset the effects of inflation and potential reductions in future purchasing power depends primarily on its ability to maintain capital levels by adjusting prices for its services and to improve net interest income by maintaining an effective asset/liability mix. Management's efforts to meet these goals are described in other sections of this report.

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

SUMMARY RESULTS OF OPERATIONS
FOURTH QUARTER 2013

Net income available to common shareholders for the three months ended December 31, 2013 totaled $3,526,000, a $700,000 or 24.8% increase from the $2,826,000 of net income available to common shareholders reported for the fourth quarter of 2012. On a per share basis, Premier's net income available to common shareholders for the fourth quarter of 2013 was 41 cents per share compared to 34 cents per share for the same quarter last year. The increase in net income and earnings per share in 2013 was primarily the result of a negative provision for loans losses, an increase in net interest income and a decrease in non-interest expenses. These improvements in net income in 2013 more than offset gains on the disposition of assets in fourth quarter of 2012.

Net interest income totaled $10,435,000 for the fourth quarter of 2013, an increase of $179,000, or 1.7%, over the net interest income earned in the same quarter of 2012, as a $253,000 decrease in interest income on investments was more than offset by a $279,000 decrease in interest expense on deposits and a $111,000 increase in interest income on loans. Total interest income earned in the fourth quarter of 2013 decreased by $137,000, or 1.2%, when compared to the fourth quarter of 2012, largely due to a $253,000, or 15.3%, decrease in interest income from investments partially offset by a $111,000, or 1.1%, increase in interest income on loans. More than offsetting the decrease in total interest income was a $316,000, or 22.1%, decrease in total interest expense in the fourth quarter of 2013 when compared to the fourth quarter of 2012, largely due to the $279,000, or 22.7%, decrease in interest expense on deposits. Otherwise, a $28,000, or 15.5%, decrease in interest expense on other borrowings as the parent company was complemented by a $9,000 decrease in interest expense on repurchase agreements and other short-term borrowings. During the fourth quarter of 2013, Premier recorded a $925,000 negative provision for loan losses largely due to the full payoff and partial pay downs received on impaired loans that had specific allocations of the allowance for loan losses. The negative provision for loan losses in the fourth quarter of 2013 compares to the $1,300,000 of provision for loan losses recorded during the fourth quarter of 2012, resulting in a $2,225,000 improvement to income before taxes. The increase in provision expense in the fourth quarter of 2012 was largely to provide for an increase in specific reserve allocations on loans identified as impaired under Premier's internal analyses of evaluating credit risk.

Non-interest income totaled $1,555,000 in the fourth quarter of 2013, a decrease of $154,000, or 9.0%, from the $1,709,000 of non-interest income reported for the fourth quarter of 2012. The decrease was largely due to an $83,000, or 9.0%, decrease in service charges on deposit accounts, a $64,000, 58.7%, decrease in the secondary market mortgage income and a $19,000, or 10.9%, decrease in other noninterest income. These decreases in non-interest income by a $12,000, or 2.4%, increase in electronic banking income. Not included in non-interest income, but certainly improving the net income for the fourth quarter of 2012, Premier also realized a $273,000 gain on the early call of an investment security and recognized a $2,463,000 gain on the sale of a loan on non-accrual status. This compares to a $1,193,000 of security gains on the sale of investment securities realized during the fourth quarter of 2013.

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

Non-interest expense totaled $8,369,000 in the fourth quarter of 2013, a $339,000, or 3.9%, decrease from the $8,708,000 reported for the fourth quarter of 2012. The $339,000 decrease in non-interest expenses was largely due to a $538,000 decrease in OREO expenses, a $173,000, or 63.6%, decrease in professional fees, and a $107,000 decrease in collection expenses. These expense decreases were partially offset by a $287,000, or 8.0%, increase in staff costs, a $77,000, or 9.8%, increase in data processing expenses, a $39,000, or 28.9%, increase in taxes not on income, and a $142,000, or 25.2%, increase in other non-interest expenses.

Additional quarterly financial data is provided in Note 23 to the consolidated financial statements.

ADOPTION OF NEW ACCOUNTING STANDARDS

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 20 below and did not have a material impact upon the Company's financial statements.

In July 2012, the Financial Accounting Standards Board ("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.
FORM 10-K
December 31, 2013

Item 8. Financial Statements and Supplementary Data

The Company's Financial Statements and related Independent Auditors' Report are presented in the following pages. The financial statements filed in this Item 8 are as follows:

Financial Statements:

PREMIER FINANCIAL BANCORP, INC.
FORM 10-K
December 31, 2013

MANAGEMENTS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

A. Management's Report on Internal Control Over Financial Reporting

Mangement of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

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

The Company's independent registered public accounting firm, Crowe Horwath LLP, has audited the consolidated financial statements included in this Annual Report on Form 10-K and has issued an attestation report on the Company's internal control over financial reporting. Their report is included on pages 94 and 95 of this report.

/s/ Robert W. Walker Robert W. Walker, President and Chief Executive Officer	/s/ Brien M. Chase Brien M. Chase, Senior Vice President and Chief Financial Officer
Date: March 13, 2014	Date: March 13, 2014

PREMIER FINANCIAL BANCORP, INC.
FORM 10-K
December 31, 2013

B. Changes in Internal Control over Financial Reporting

There were no changes in internal controls over financial reporting during the fourth 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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PREMIER FINANCIAL BANCORP, INC.

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013, 2012, and 2011

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REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Premier Financial Bancorp, Inc.
Huntington, West Virginia

We have audited the accompanying consolidated balance sheets of Premier Financial Bancorp, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. We also have audited the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in the 1992 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM - continued

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Premier Financial Bancorp, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Premier Financial Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in the 1992 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Crowe Horwath LLP
Crowe Horwath LLP

Brentwood, Tennessee
March 13, 2014

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2013 and 2012
(Dollars in Thousands, Except Per Share Data)

	2013	2012
ASSETS		
Cash and due from banks	$27,378	$32,473
Interest bearing bank balances	36,606	33,536
Federal funds sold	12,777	4,236
Cash and cash equivalents	76,761	70,245
Securities available for sale	218,066	283,975
Loans held for sale	77	200
Loans	740,770	704,625
Allowance for loan losses	(11,027)	(11,488)
Net loans	729,743	693,137
Federal Home Loan Bank stock, at cost	4,183	4,181
Premises and equipment, net	17,798	15,952
Other real estate owned	13,524	13,366
Interest receivable	3,132	3,403
Goodwill	29,875	29,875
Other intangible assets	2,121	2,721
Deferred taxes	4,439	2,624
Other assets	460	1,108
Total assets	$1,100,179	$1,120,787
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$210,193	$198,084
Time deposits, $100,000 and over	146,905	146,198
Other interest bearing	566,925	586,301
Total deposits	924,023	930,583
Securities sold under agreements to repurchase	11,319	26,102
Other borrowed funds	13,800	16,049
Interest payable	383	489
Other liabilities	3,714	3,268
Total liabilities	953,239	976,491
Commitments and contingent liabilities	-	-
Stockholders' equity		
Preferred stock, no par value, liquidation preference $12,000, 5% cumulative; 1,000,000 shares authorized; 12,000 shares issued and outstanding	11,955	11,896
Common stock, no par value; 20,000,000 shares authorized; 8,038,345 shares issued and outstanding in 2013, and 7,962,693 shares issued and outstanding in 2012	73,589	72,849
Retained earnings	62,021	52,975
Accumulated other comprehensive income (loss)	(625)	6,576

Total stockholders' equity	146,940	144,296
Total liabilities and stockholders' equity	$1,100,179	$1,120,787

See accompanying notes

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31
(In Thousands, Except Per Share Data)

	2013	2012	2011
Interest income			
Loans, including fees	$42,186	$43,117	$44,363
Securities available for sale			
Taxable	5,972	6,963	7,771
Tax-exempt	155	208	237
Federal funds sold and other	157	147	164
Total interest income	48,470	50,435	52,535
Interest expense			
Deposits	4,088	5,553	7,127
Repurchase agreements and other	37	88	158
FHLB advances and other borrowings	650	795	1,042
Total interest expense	4,775	6,436	8,327
Net interest income	43,695	43,999	44,208
Provision for loan losses	(375)	4,260	3,630
Net interest income after provision for loan losses	44,070	39,739	40,578
Non-interest income			
Service charges on deposit accounts	3,357	3,543	3,825
Electronic banking income	2,018	2,017	1,843
Secondary market mortgage income	256	311	314
Gain on disposition of securities	1,413	545	18
Gain on sale of loan	-	2,463	-
Other	688	650	911
	7,732	9,529	6,911
Non-interest expenses			
Salaries and employee benefits	15,046	15,122	16,237
Occupancy and equipment expenses	4,338	4,553	4,900
Outside data processing	3,372	3,379	4,458
Professional fees	900	1,181	966
Taxes, other than payroll, property and income	686	667	663
Write-downs, expenses, losses on sales of other real estate owned, net of gains	1,853	2,514	405
Loan collection expenses	413	1,182	1,172
FDIC insurance	835	809	1,223
Amortization of intangibles	600	672	792
Conversion expenses	25	25	1,720
Other expenses	3,101	3,168	3,985
	31,169	33,272	36,521
Income before income taxes	20,633	15,996	10,968
Provision for income taxes	7,404	5,673	3,800

Net income	$13,229	$10,323	$7,168
Discount on redemption of preferred stock	-	905	-
Preferred stock dividends and accretion	(659)	(1,073)	(1,221)
Net income available to common stockholders	$12,570	$10,155	$5,947
Earnings per share:			
Basic	$1.57	$1.28	$0.75
Diluted	1.49	1.24	0.74

See accompanying notes

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31
(In Thousands, Except Per Share Data)

	2013	2012	2011
Net income	$13,229	$10,323	$7,168
Other comprehensive income (loss):			
Unrealized gains (losses) on securities arising during the period	(9,497)	2,914	9,788
Reclassification of realized amount	(1,413)	(545)	(18)
Net change in unrealized gain (loss) on securities	(10,910)	2,369	9,770
Less tax impact	(3,709)	806	3,322
Other comprehensive income (loss):	(7,201)	1,563	6,448
Comprehensive income	$6,028	$11,886	$13,616

See accompanying notes

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31
(In Thousands, Except Per Share Data)

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2011	$21,841	$71,465	$39,526	$ (1,435)	$131,397
Net income	-	-	7,168	-	7,168
Other comprehensive income	-	-	-	6,448	6,448
Dividends declared on preferred stock	-	-	(1,112)	-	(1,112)
Preferred stock accretion	108	-	(108)	-	-
Stock based compensation expense	-	106	-	-	106
Balances, December 31, 2011	21,949	71,571	45,474	5,013	144,007
Net income	-	-	10,323	-	10,323
Other comprehensive income	-	-	-	1,563	1,563
Cash dividends paid ($0.22 per share)	-	-	(1,749)	-	(1,749)
Redemption of preferred stock	(10,142)	905	-	-	(9,237)
Dividends declared on preferred stock	-	-	(984)	-	(984)
Preferred stock accretion	89	-	(89)	-	-
Stock options exercised	-	192	-	-	192
Stock based compensation expense	-	181	-	-	181
Balances, December 31, 2012	11,896	72,849	52,975	6,576	144,296
Net income	-	-	13,229	-	13,229
Other comprehensive income (loss)	-	-	-	(7,201)	(7,201)
Cash dividends paid ($0.44 per share)	-	-	(3,524)	-	(3,524)
Dividends declared on preferred stock	-	-	(600)	-	(600)
Preferred stock accretion	59	-	(59)	-	-
Stock options exercised	-	571	-	-	571
Stock based compensation expense	-	169	-	-	169
Balances, December 31, 2013	$11,955	$73,589	$62,021	$ (625)	$146,940

See accompanying notes

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31
(In Thousands, Except Per Share Data)

	2013	2012	2011
Cash flows from operating activities			
Net income	$13,229	$10,323	$7,168
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and impairment of real estate, net	1,342	1,445	1,468
Provision for loan losses	(375)	4,260	3,630
Amortization (accretion), net	(463)	(1,098)	(1,351)
Writedowns (gains) on other real estate owned, net	716	957	(394)
Stock compensation expense	169	181	106
Loans originated for sale	(11,053)	(14,472)	(15,759)
Secondary market loans sold	11,432	14,653	17,491
Secondary market mortgage income	(256)	(311)	(314)
Gain on sale of loan	-	(2,463)	-
Gain on the disposition of securities available for sale	(1,413)	(545)	(18)
Changes in :			
Interest receivable	271	94	245
Deferred income taxes	1,895	568	4,099
Other assets	649	3,439	(1,954)
Interest payable	(106)	(223)	(187)
Other liabilities	446	396	197
Net cash from operating activities	16,483	17,204	14,427
Cash flows from investing activities			
Purchases of securities available for sale	(27,230)	(73,771)	(122,730)
Proceeds from maturities and calls of securities available for sale	73,801	69,329	109,165
Proceeds from the sale of securities available for sale	8,650	-	-
Purchase of FHLB stock, net of redemptions	(2)	1,035	(373)
Redemption of FRB stock	-	-	2,253
Net change in loans	(35,838)	(16,103)	26,066
Purchases of premises and equipment, net	(3,188)	(1,042)	(1,086)
Improvements to OREO property	(2,897)	-	-
Proceeds from sales of other real estate owned	3,846	6,105	5,135
Net cash from investing activities	17,142	(14,447)	18,430

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31
(In Thousands, Except Per Share Data)

	2013	2012	2011
Cash flows from financing activities			
Net change in deposits	(6,524)	5,604	(59,783)
Net change in agreements to repurchase securities	(14,783)	2,897	(6,432)
Repayment of Federal Home Loan Bank advances	-	(10,042)	(2,564)
Repayment of other borrowed funds	(2,249)	(2,081)	(2,048)
Redemption of preferred stock	-	(9,237)	-
Proceeds from stock option exercises	571	192	-
Preferred stock dividends paid	(600)	(984)	(1,390)
Common stock dividends paid	(3,524)	(1,749)	-
Net cash from financing activities	(27,109)	(15,400)	(72,217)
Net change in cash and cash equivalents	6,516	(12,643)	(39,360)
Cash and cash equivalents at beginning of year	70,245	82,888	122,248
Cash and cash equivalents at end of year	$76,761	$70,245	$82,888

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31
(In Thousands, Except Per Share Data)

	2013	2012	2011
Supplemental disclosures of cash flow information:			
Cash paid during year for -			
Interest	$ 4,881	$ 6,659	$ 8,514
Income taxes paid, net	5,410	2,549	2,459
Non-cash transactions			
Loans transferred to real estate acquired through foreclosure	$ 1,823	$ 5,786	$ 8,134

See accompanying notes

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PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Subsidiary	Location	Year Acquired	Unaudited December 31, 2013 Total Assets	Net Income
Citizens Deposit Bank & Trust	Vanceburg, Kentucky	1991	$ 363,248	$ 5,081
Premier Bank, Inc.	Huntington, West Virginia	1998	729,695	9,930
Parent and Intercompany Eliminations			7,236	(1,782)
Consolidated total			$ 1,100,179	$ 13,229

All material intercompany transactions and balances have been eliminated.

Nature of Operations: The subsidiary banks (Banks) operate under state bank charters. The Banks provide traditional banking services to customers primarily located in the counties and adjoining counties in Kentucky, Ohio, West Virginia, Maryland, Washington DC and Virginia in which the Banks operate. The state chartered banks are subject to regulation by their respective state banking regulators and the Federal Deposit Insurance Corporation ("FDIC"). The Company is also subject to regulation by the Federal Reserve Board.

Cash Flows: For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-earning balances with banks with an original maturity less than ninety days and federal funds sold. Net cash flows are reported for loans, deposits, repurchase agreements, and short-term borrowing transactions.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, the identification and evaluation of impaired loans, the fair value of assets and liabilities acquired, impairment of goodwill, deferred tax assets and fair values of financial instruments are particularly subject to change.

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PREMIER FINANCIAL BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities: The Company classifies its securities portfolio as either securities available for sale or securities held to maturity. Securities held to maturity are carried at amortized cost. The Company had no securities classified as held to maturity at December 31, 2013 or 2012.

Securities available for sale might be sold before maturity and are carried at fair value. Adjustments from amortized cost to fair value are recorded in other comprehensive income, net of related income tax. Other securities such as Federal Home Loan Bank stock and Federal Reserve Bank stock are carried at cost.

Interest income includes amortization of purchase premium or discount computed using the level yield method. Gains or losses on dispositions are recorded on the trade date and are based on the net proceeds and adjusted carrying amount of the securities sold using the specific identification method. Securities are written down to fair value when a decline in fair value is not temporary.

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

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

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PREMIER FINANCIAL BANCORP, INC.
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Net loans are stated at the amount of recorded investment reduced by an allowance for loan losses. The recorded investment in a loan is the unpaid principal reduced by any purchase discounts and unearned income. The recorded investment excludes accrued interest receivable due to immateriality. Interest income on loans is recognized on the unpaid principal balance on the accrual basis except for those loans in a non-accrual of income status. The accrual of interest on impaired loans is discontinued when management believes, after consideration of economic and business conditions as well as collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level yield method without anticipating prepayments.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Company's policy, typically after 90 days of non-payment.

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

Concentration of Credit Risk: Most of the Company's loans located in the Washington, DC metro area are commercial real estate loans. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy and commercial real estate collateral values in the Washington, DC metro area.

Certain Purchased Loans: Loans acquired via branch purchase or acquisition after December 31, 2008 are recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. Some of these purchased loans have shown evidence of credit deterioration since origination. After acquisition, losses are recognized by an increase in the allowance for loan losses.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Such purchased loans are accounted for individually or may be aggregated into pools of loans based on common risk characteristics such as loan type. The Company estimates the amount and timing of expected cash flows for each purchased loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's or pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded as an increase in the allowance for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses increased by a provision for loan losses charged to expense. The allowance is an amount that management believes will be adequate to absorb probable incurred losses on existing loans based on evaluations of the collectability of the loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loans are charged against the allowance for loan losses when management believes that the collection of principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and accordingly, they are not separately identified for impairment disclosures. All other loans are evaluated for impairment on an individual basis. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Loans with restructured terms offering a concession to enable a struggling borrower to repay (Troubled Debt Restructurings) are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 36 months. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified as having differing risk characteristics:

Loans secured by 1-4 family real estate: Loans secured by 1-4 family residential real estate represent the lowest risk of loans for the Company. They include fixed and floating rate loans as well as loans for commercial purposes or consumer purposes. The Company generally does not hold subprime residential mortgages. Borrowers with loans in this category, whether for commercial or consumer purposes, tend to make their payments timely as they do not want to risk foreclosure and loss of their primary residence.

Loans secured by multifamily residential real estate: Loans secured by multifamily residential real estate consist primarily of loans secured by apartment buildings and can be either fixed or floating rate loans. Multi-family residential real estate loans generally present a higher level of risk than loans secured by 1-4 family residential real estate because the borrower’s repayment ability typically comes from rents from tenants. Local economic and employment fluctuations impact rent rolls and potentially the borrower’s repayment ability.

Loans secured by owner occupied non-farm non-residential real estate: Loans secured by owner occupied non-farm non-residential real estate consist of loans secured by commercial real estate owned and operated by the borrower. These loans generally consist of loans to borrowers who either own the commercial real estate where their business is located and have pledged the property as collateral or have borrowed funds from the Company to purchase the commercial real estate where their business is operated and located. The key factor is that the business operated within the pledged collateral generates the cash flow for repayment. These loans generally present a higher level of risk than loans secured by multifamily residential real estate because the cash flow for repayment generally comes from the success of the business. If economic conditions deteriorate, the business venture may not be successful or as successful in order for the borrower to make their loan payments and fund personal living expenses at the same time. Collateral values will also fluctuate with local economic conditions.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans secured by non-farm non-residential real estate: Loans secured by non-farm non-residential real estate consist of loans secured by commercial real estate that is not owner occupied. These loans generally consist of loans collateralized by property whereby rents received from commercial tenants of the borrower are the source of repayment. These loans generally present a higher level of risk than loans secured by owner occupied commercial real estate because repayment risk is expanded to be dependent on the success of multiple businesses which are paying rent to the borrower. If multiple businesses fail due to deteriorating economic conditions or poor business management skills, the borrower may not have enough rents to cover their monthly payment. Repayment risk is also increased depending on the level of surplus available commercial lease space in the local market area.

Commercial and industrial loans not secured by real estate: These loans to businesses do not have real estate as the underlying collateral. Instead of real estate, collateral could be business assets such as equipment or accounts receivable or the personal guarantee of one or more guarantors. These loans generally present a higher level of risk than loans secured commercial real estate because in the event of default by the borrower, the business assets must be liquidated and/or guarantors pursued for deficit funds. Business assets are worth more while they are in use to produce income for the business and worth significantly less if the business is no longer in operation. For this reason, the Company discounts the value on these types of collateral prior to meeting the Company's loan-to-value policy limits.

Consumer loans: Consumer loans are generally loans to borrowers for non-business purposes. They can be either secured or unsecured. Consumer loans are generally small in the individual amount of principal outstanding and are repaid from the borrower's private funds earned from employment. Consumer lending risk is very susceptible to local economic trends. If there is a consumer loan default, any collateral that may be repossessed is generally not well maintained and has a diminished value. For this reason, consumer loans tend to have higher overall interest rates to cover the higher cost repossession and charge-offs. However, due to their smaller average balance per borrower, consumer loans are collectively evaluated for impairment in determining the appropriate allowance for loan losses.

All other loan types: All other loan types are aggregated together for credit risk evaluation due to the varying nature but small number of the remaining types of loans in the Company's loan portfolio. Loans in this segment include but are not limited to commercial and residential construction loans, loans secured by farmland, agricultural loans and loans to tax-exempt entities.

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally by the straight-line method with useful lives ranging from 7 to 40 years for premises and from 3 to 15 years for equipment.

Other Real Estate Owned: Real estate acquired through foreclosure is carried at the lower of the recorded investment in the property or its fair value less estimated costs to sell. Upon repossession, the value of the underlying loan is adjusted to the fair value of the real estate less estimated costs to sell by a charge to the allowance for loan losses, if necessary, establishing a new cost basis. If the fair value of the property declines subsequent to foreclosure, a valuation allowance is charged to operating expenses. Parcels of real estate maybe leased to third parties to offset holding period costs. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other expenses.

Federal Home Loan Bank (“FHLB”) stock: The Banks are members of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Federal Reserve Bank (“FRB”) Stock: Prior to its merger into Premier Bank, Inc., Consolidated Bank and Trust was a member of the Federal Reserve Bank of Richmond and owned FRB Stock. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Goodwill and Other Intangible Assets: Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any non-controlling interests in the acquired company, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill is not amortized but is assessed at least annually for impairment and any such impairment will be recognized in the period identified. Impairment is evaluated using the aggregate of all banking operations. Based upon the most recently completed goodwill impairment test, management concluded the recorded value of goodwill was not impaired as of October 31, 2013 based upon the estimated fair value of the Company’s single reporting unit.

Other intangible assets consist of core deposit intangible assets arising from whole bank and branch acquisitions. They are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives of approximately 8 years.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Stock Based Compensation: Compensation cost is recognized for stock options granted to employees based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized on a straight-line basis over the required service period, generally defined as the vesting period.

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

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

The Company recognizes interest related to income tax matters as other interest expense and penalties related to income tax matters as other noninterest expense.

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

(continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale which is also recognized as a separate component of equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

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

Operating Segments: All of the Company’s operations are considered by management to be aggregated into one reportable operating segment. While the chief decision-makers monitor the revenue streams of the various products and services, the identifiable segments are not material. Operations are managed and financial performance is evaluated on a Company-wide basis.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards:

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 20 below and did not have a material impact upon the Company's financial statements.

In July 2012, the Financial Accounting Standards Board ("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.
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NOTE 2 – REGULATORY MATTERS

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

In addition to ensuring CB&T complied with provisions of the Written Agreement, Premier was also required to obtain prior written approval of the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors of the Federal Reserve System for declaring or paying any dividends, and also required prior written approval of the FRB before incurring, increasing or guaranteeing any debt or purchasing or redeeming any shares of its stock.
On July 24, 2012 the FRB announced that it had terminated the July 29, 2010 Written Agreement.

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NOTE 3 - RESTRICTIONS ON CASH AND DUE FROM BANKS

Included in cash and due from banks are certain interest bearing and non-interest bearing deposits that are held at the Federal Reserve or maintained in vault cash in accordance with average balance requirements specified by the Federal Reserve Board of Governors. The balance requirement at December 31, 2013 and 2012 was approximately $23,937 and $22,755.

NOTE 4 –SECURITIES

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

2013	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. sponsored agency MBS - residential	$27,681	$463	$(321)	$27,823
U. S. sponsored agency CMO's - residential	178,000	1,167	(2,445)	176,722
Total mortgage-backed securities of government sponsored agencies	205,681	1,630	(2,766)	204,545
U. S. government sponsored agency securities	7,058	30	(107)	6,981
Obligations of states and political subdivisions	6,275	265	-	6,540
Total available for sale	$219,014	$1,925	$(2,873)	$218,066

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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NOTE 4 –SECURITIES (Continued)

The amortized cost and fair value of securities at December 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	$1,017	$1,027
Due after one year through five years	8,319	8,604
Due after five years through ten years	3,997	3,890
Mortgage-backed securities of government sponsored agencies	205,681	204,545
Total available for sale	$219,014	$218,066

In 2013, a gain of $1,413 was recognized upon the sale (including calls) of securities. A $545 gain was recognized from calls of securities in 2012 while an $18 gain was recognized from calls in 2011. There were no sales of securities in 2012 or 2011.

Securities with an approximate carrying value of $168,150 and $173,015 at December 31, 2013 and 2012 were pledged to secure public deposits, trust funds, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

Securities with unrealized losses at year-end 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	$ 3,890	$ (107)	$ -	$ -	$ 3,890	$ (107)
U.S government sponsored agency MBS's – residential	13,797	(321)	-	-	13,797	(321)
U.S government sponsored agency CMO's – residential	102,341	(2,445)	-	-	102,341	(2,445)
Total temporarily impaired	$ 120,028	$ (2,873)	$ -	$ -	$ 120,028	$ (2,873)

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NOTE 4 –SECURITIES (Continued)

Securities with unrealized losses at year-end 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's – 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 bonds with defined maturity dates backed by the U.S. Government or Government sponsored entities. The unrealized losses at December 31, 2013 and December 31, 2012 are price changes resulting from changes in the interest rate environment and are considered to be 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 5 - LOANS

Major classifications of loans at year-end are summarized as follows:

	2013	2012
Residential real estate	$216,081	$214,743
Multifamily real estate	38,456	28,673
Commercial real estate:		
Owner occupied	90,539	91,902
Non owner occupied	208,756	178,849
Commercial and industrial	85,301	84,430
Consumer	25,113	28,128
All other	76,524	77,900
	$740,770	$704,625

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NOTE 5 – LOANS (Continued)

Certain directors and executive officers of the Banks and companies in which they have beneficial ownership, were loan customers of the Banks during 2013 and 2012. Such related party loans are governed by federal banking regulations which require such loans to be made in the ordinary course of business.

An analysis of the 2013 activity with respect to all director and executive officer loans is as follows:

Balance, December 31, 2012	$16,639
Additions, including loans now meeting disclosure requirements	1,530
Amounts collected and loans no longer meeting disclosure requirements	(6,973)
Balance, December 31, 2013	$11,196

Activity in the Allowance for Loan Losses

Activity in the allowance for loan losses by portfolio segment for the year ending December 31, 2013 was as follows:

Loan Class	Balance Dec 31, 2012	Provision for loan losses	Loans charged-off	Recoveries	Balance Dec 31, 2013
Residential real estate	$2,163	$803	$(292)	$20	$2,694
Multifamily real estate	331	86	-	-	417
Commercial real estate:					
Owner occupied	1,117	123	(132)	299	1,407
Non owner occupied	1,888	163	(14)	-	2,037
Commercial and industrial	3,046	(918)	(32)	88	2,184
Consumer	244	168	(188)	73	297
All other	2,699	(800)	(251)	343	1,991
Total	$11,488	$(375)	$(909)	$823	$11,027

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NOTE 5 – LOANS (Continued)

Activity in the allowance for loan losses by portfolio segment for the year ending December 31, 2012 was as follows:

Loan Class	Balance Dec 31, 2011	Provision for loan losses	Loans charged-off	Recoveries	Balance Dec 31, 2012
Residential real estate	$2,134	$709	$(728)	$48	$2,163
Multifamily real estate	284	47	-	-	331
Commercial real estate:					
Owner occupied	918	(68)	(15)	282	1,117
Non owner occupied	2,381	(198)	(318)	23	1,888
Commercial and industrial	1,880	2,419	(1,259)	6	3,046
Consumer	298	72	(227)	101	244
All other	1,900	1,279	(606)	126	2,699
Total	$9,795	$4,260	$(3,153)	$586	$11,488

Activity in the allowance for loan losses by portfolio segment for the year ending December 31, 2011 was as follows:

Loan Class	Balance Dec 31, 2010	Provision for loan losses	Loans charged-off	Recoveries	Balance Dec 31, 2011
Residential real estate	$2,666	$(241)	$(347)	$56	$2,134
Multifamily real estate	252	11	-	21	284
Commercial real estate:					
Owner occupied	1,141	(52)	(171)	-	918
Non owner occupied	1,644	1,081	(382)	38	2,381
Commercial and industrial	2,421	(555)	(23)	37	1,880
Consumer	366	(4)	(152)	88	298
All other	1,375	3,390	(2,951)	86	1,900
Total	$9,865	$3,630	$(4,026)	$326	$9,795

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NOTE 5 – 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 December 31, 2013 and December 31, 2012.

	2013	2012
Residential Real Estate	$183	$202
Multifamily Real Estate	1,229	3,173
Commercial Real Estate		
Owner Occupied	250	271
Non owner Occupied	6,782	5,896
Commercial and industrial	496	511
All other	4,623	4,496
Total carrying amount	$13,563	$14,549
Carrying amount, net of allowance	$12,931	$14,049

For those purchased loans disclosed above, the Company increased the allowance for loan losses by $132 for the year ended December 31, 2013 and increased the allowance for loan losses by $500 for the year ended December 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 those 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 on those loans accounted for using the cost recovery method. 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 2013 and 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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NOTE 5 – LOANS (Continued)

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

	2013	2012
Balance at January 1	$635	$-
New loans purchased	-	-
Accretion of income	(26)	(6)
Income recognized upon full repayment	(415)	-
Reclassifications from non-accretable difference	23	641
Disposals	-	-
Balance at December 31	$217	$635

During 2013, the Company refinanced a purchased loan detailed above upon its scheduled maturity. At the borrower's request and in accordance with Premier's credit underwriting standards, the borrower increased the principal balance outstanding on the note. The amount of accretable yield was unaffected by the refinancing.

During 2012, the Company purchased $9,969 of contractually required payments on a loan classified as "all other" for which it was probable at acquisition that all contractually required payments would not be collected. The fair value on the loan was estimated to be $2,772 at the time of acquisition. The Company cannot reasonably estimate the cash flows expected to be collected on the loan as the loan is in the process of collection and the proceeds for repayment are expected to come from collateral sales, the timing of which cannot be reasonably estimated. As such, no portion of a purchase discount adjustment has been determined to meet the definition of an accretable yield adjustment.

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NOTE 5 – 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 December 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.

December 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	$ 2,021	$ 1,725	$ 1,737
Multifamily real estate	3,282	1,889	1,369
Commercial real estate			
Owner occupied	1,364	1,147	1,387
Non owner occupied	2,683	1,973	3,739
Commercial and industrial	6,838	4,961	84
Consumer	167	148	16
All other	12,212	4,798	146
Total	$ 28,567	$ 16,641	$ 8,478

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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NOTE 5 – LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 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	$216,081	$4,770	$2,431	$7,201	$208,880
Multifamily real estate	38,456	367	2,688	3,055	35,401
Commercial real estate:					
Owner occupied	90,539	516	2,073	2,589	87,950
Non owner occupied	208,756	278	5,478	5,756	203,000
Commercial and industrial	85,301	1,433	1,438	2,871	82,430
Consumer	25,113	421	82	503	24,610
All other	76,524	2,510	4,881	7,391	69,133
Total	$740,770	$10,295	$19,071	$29,366	$711,404

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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NOTE 5 – 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 December 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	$138	$ 2,556	$ -	$2,694	$2,787	$ 213,111	$ 183	$216,081
Multifamily real estate	-	417	-	417	1,822	35,405	1,229	38,456
Commercial real estate:								
Owner occupied	170	1,237	-	1,407	2,386	87,903	250	90,539
Non-owner occupied	362	1,675	-	2,037	1,024	200,950	6,782	208,756
Commercial and industrial	1,088	964	132	2,184	4,270	80,535	496	85,301
Consumer	-	297	-	297	-	25,113	-	25,113
All other	102	1,389	500	1,991	3,279	68,622	4,623	76,524
Total	$1,860	$ 8,535	$ 632	$11,027	$15,568	$ 711,639	$ 13,563	$740,770

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
	362	1,526	-	1,888	2,627	170,326	5,896	178,849

Non-owner occupied								
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 5 – 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 December 31, 2013. The table includes $7,483 of loans acquired with deteriorated credit quality that are still individually evaluated for impairment.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	$1,513	$1,314	$-
Multifamily real estate	4,449	3,051	-
Commercial real estate			
Owner occupied	2,601	1,986	-
Non owner occupied	1,861	1,184	-
Commercial and industrial	809	49	-
All other	3,185	3,167	-
	14,418	10,751	-
With an allowance recorded:			
Residential real estate	$1,668	$1,656	$138
Commercial real estate			
Owner occupied	515	515	170
Non owner occupied	810	790	362
Commercial and industrial	5,543	4,604	1,220
All other	12,132	4,735	602
	20,668	12,300	2,492
Total	$35,086	$23,051	$2,492

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NOTE 5 – 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 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 5 – LOANS (Continued)

The following table presents by loan class, the average balance of loans individually evaluated for impairment and interest income recognized on these loans for the three years ended December 31, 2013. The table includes loans acquired with deteriorated credit quality that are still individually evaluated for impairment.

	Year ended Dec 31, 2013			Year ended Dec 31, 2012			Year ended Dec 31, 2011		
Loan Class	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash B Intere Recogn
Residential real estate	$ 4,069	$ 180	$ 171	$ 8,887	$ 518	$ 516	$ 2,227	$ 84	$
Multifamily real estate	3,810	847	845	6,143	1,408	1,406	8,428	150	
Commercial real estate:									
Owner occupied	2,602	168	141	7,195	1,025	1,028	12,653	1,083	1
Non-owner occupied	2,509	9	9	9,785	73	79	11,417	113	
Commercial and industrial	8,425	47	47	10,052	427	417	7,196	217	
Consumer	-	-	-	29	2	2	43	5	
All other	8,796	273	273	7,599	1,019	968	11,755	184	
Total	$30,211	$ 1,524	$ 1,486	$49,690	$ 4,472	$ 4,416	$53,719	$ 1,836	$ 1

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NOTE 5 – 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 following table presents TDR's as of December 31, 2013 and December 31, 2012:

December 31, 2013	TDR's on Non-accrual	Other TDR's	Total TDR's
Residential real estate	$ 23	$ 296	$ 319
Commercial real estate			
Non owner occupied	-	506	506
Commercial and industrial	-	831	831
Consumer	-	5	5
All other	-	2,017	2,017
Total	$ 23	$ 3,655	$ 3,678

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 December 31, 2013 there were no specific reserves allocated to loans that had restructured terms. At December 31, 2012, $220 in specific reserves was allocated to loans that had restructured terms.

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NOTE 5 – LOANS (Continued)

The following table presents TDR's that occurred during the years ended December 31, 2013 and December 31, 2012.

	Year ended December 31, 2013			Year ended December 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 real estate						
Non-owner occupied	-	$ -	$ -	1	$ 519	$ 519
Commercial and industrial	-	-	-	1	1,809	1,809
All other	1	16	16	1	190	190
Total	1	$ 16	$ 16	3	$ 2,518	$ 2,518

The troubled debt restructurings described above did not increase the allowance for loan losses during the year ended December 31, 2013 and increased the allowance for loan losses by $168 during the year ended December 31, 2012.

During the years ended December 31, 2013, 2012 and 2011, there were no TDR's for which there was 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 5 – 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 5 – LOANS (Continued)

As of December 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	$202,789	$6,204	$7,065	$23	$216,081
Multifamily real estate	34,487	918	3,051	-	38,456
Commercial real estate:					
Owner occupied	79,694	7,431	3,348	66	90,539
Non-owner occupied	196,338	8,569	3,849	-	208,756
Commercial and industrial	78,205	2,269	4,753	74	85,301
Consumer	24,772	204	137	-	25,113
All other	62,180	5,947	8,285	112	76,524
Total	$678,465	$31,542	$30,488	$275	$740,770

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 6 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	2013	2012
Land and improvements	$3,614	$3,614
Buildings and leasehold improvements	13,695	13,454
Furniture and equipment	7,646	8,974
Assets purchased not yet placed in service	2,292	-
	27,247	26,042
Less: accumulated depreciation	(9,449)	(10,090)
	$17,798	$15,952

Operating Leases: The Company leases certain branch and other properties as well as some equipment under operating leases. Some leases provide for periodic rate adjustments based on cost-of-living index changes. Rent expense, net of rental income, was $990, 985, and $1,162 for 2013, 2012, and 2011. Rent commitments, before considering renewal options that generally are present, were as follows:

2014	$904
2015	793
2016	764
2017	738
2018 and thereafter	278
	$3,477

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NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

The change in the balance for goodwill during the year is as follows:

	2013	2012	2011
Beginning of year	$29,875	$29,875	$29,875
Acquired goodwill and other adjustments	-	-	-
Impairment	-	-	-
End of year	$29,875	$29,875	$29,875

Acquired intangible assets at December 31, 2013 and 2012 were as follows.

	2013		2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit intangible	$5,355	$ (3,234)	$5,355	$ (2,634)

Aggregate intangible amortization expense was $600 for 2013, $672 for 2012, and $792 for 2011.

Estimated amortization expense for each of the next five years:

2014	575
2015	575
2016	457
2017	353
2018 and thereafter	161
	$2,121

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NOTE 8 – DEPOSITS

At December 31, 2013 the scheduled maturities of time deposits are as follows:

2014	$221,964
2015	62,099
2016	24,513
2017	14,047
2018 and thereafter	8,736
	$331,359

Certain directors and executive officers of the Banks and companies in which they have beneficial ownership were deposit customers of the Banks during 2013 and 2012. The balance of such deposits at December 31, 2013 and 2012 were approximately $9,604 and $10,689.

NOTE 9 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase generally mature within one to ninety days from the transaction date. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2013	2012
Year-end balance	$11,319	$26,102
Average balance during the year	$13,486	$20,944
Average interest rate during the year	0.25 %	0.42 %
Maximum month-end balance during the year	$22,988	$26,102
Weighted average interest rate at year-end	0.25 %	0.23 %

NOTE 10 – FEDERAL HOME LOAN BANK ADVANCES

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

During 2012, the Banks paid-off all FHLB advances as they matured and there were no borrowings outstanding at December 31, 2013 or at December 31, 2012.

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NOTE 11 – NOTES PAYABLE AND OTHER BORROWED FUNDS

On April 30, 2008, the Company executed and delivered to First Guaranty Bank of Hammond, Louisiana a Promissory Note and Business Loan Agreement dated April 30, 2008 for the principal amount of $11,550, bearing interest floating daily at the "Wall Street Journal" prime rate (the "Index") minus 1.00% and requiring 59 monthly principal payments of $50 and one final payment of $8.6 million due at maturity on April 30, 2013. On April 25, 2013, the Company executed and delivered to First Guaranty Bank, a Change in Terms Agreement whereby the maturity date was extended to April 30, 2020, the required monthly principal payment was increased to $86 and the interest charged was modified to float daily at the Index plus 0.75%, initially 4.00%, with an interest rate floor of 4.00% per annum and an interest rate ceiling of 10.00% per annum. At the time of the Change in Terms Agreement, the principal balance on the note was approximately $7,222. The note continues to be secured by a pledge of 25% of Premier's interest in Premier Bank (a wholly owned subsidiary) under Commercial Pledge Agreement modified on May 3, 2011. The initial proceeds of this note were used to fund the $9,000 of cash needed to purchase Traders Bankshares, Inc. and to refinance the remaining $2,550 balance of Premier's outstanding note with First Guaranty Bank dated January 31, 2006. At the time of origination, Premier's chairman owned approximately 27.6% of the voting stock of First Guaranty Bank and was the chairman of its board of directors. Premier's board of directors reviewed the loan terms and authorized the Company to enter into the loan transaction. The outstanding principal balance on the borrowing at December 31, 2013 and 2012 was $6,400 and $7,449.

In conjunction with the Change in Terms Agreement with First Guaranty Bank, the Company executed and delivered another Change in Terms Agreement modifying its Promissory Note and Business Loan Agreement dated June 30, 2011 that established a Line of Credit with the bank bearing interest floating daily at the "Wall Street Journal" prime rate (currently 3.25%), with a floor of 4.50%. Under the terms of the Promissory Note, the Company may request and receive advances from First Guaranty Bank from time to time. Accrued interest on any amounts outstanding is payable monthly, and any amounts outstanding are payable on demand or at maturity. The Promissory Note is also secured by the pledge of 25% of Premier's interest in Premier Bank (a wholly owned subsidiary) under a Commercial Pledge Agreement modified on June 30, 2012. The Change in Terms Agreement increased the principal amount available to $3,000 and extended the right to request and receive monies on the Line of Credit from June 30, 2013 to June 30, 2016. The interest rate on the Line of Credit will remain floating daily at the "Wall Street Journal" prime rate (currently 3.25%), with a floor of 4.50% through the modified June 30, 2016 maturity date. At December 31, 2013 and 2012, the Company had no outstanding debt on this line of credit from First Guaranty Bank.

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NOTE 11 – NOTES PAYABLE AND OTHER BORROWED FUNDS (Continued)

On September 8, 2010, the Company executed and delivered to The Bankers' Bank of Kentucky, Inc. of Frankfort, Kentucky ("Bankers' Bank") a Term Note and Business Loan Agreement dated September 8, 2010 in the principal amount of $11,300, bearing interest floating daily at the "JP Morgan Chase" prime rate with a minimum rate of 4.50% (initially 4.50%) and requiring 120 monthly principal payments of $94 plus interest. The note is secured by a pledge of Premier's 100% interest in Citizens Deposit Bank and Trust, Inc. (a wholly owned subsidiary) under a Stock Pledge and Security Agreement dated September 8, 2010. The proceeds of this note were used to pay off the remaining $2,904 balance on Premier's $6,500 Term Note with the Bankers' Bank, pay off the $2,400 balance on Premier's $4,300 Line of Credit with the Bankers' Bank and provide a $6,000 capital injection into Citizens Deposit Bank and Trust ("Citizens"), Premier's wholly owned subsidiary, to facilitate Citizens' purchase of four branches from Integra Bank National Association. The outstanding principal balance on the borrowing at December 31, 2013 and 2012 was $7,400 and $8,600.

On September 7, 2013, the Company executed and delivered to Bankers' Bank a Line of Credit Renewal Agreement dated September 7, 2013 extending the right to request and receive monies from Bankers' Bank on Premier's existing line of credit until September 7, 2014. The line of credit renewal maintained the principal amount of $5,000, bearing interest floating daily at the "JP Morgan Chase" prime rate (currently 3.25%), with a floor of 4.50%. Under the terms of the original Promissory Note, Premier may request and receive advances from Bankers' Bank from time to time, but the aggregate outstanding principal balance under the Promissory Note at any time shall not exceed $5,000. Accrued interest on amounts outstanding is payable quarterly, and any amounts outstanding are payable on demand or on September 7, 2014. The Promissory Note is secured by a pledge of Premier's 100% interest in Citizens under a Stock Pledge and Security Agreement dated September 7, 2012. At December 31, 2013 and 2012, Premier had no outstanding balance on this line of credit with Bankers' Bank

Scheduled principal payments due on the bank borrowings subsequent to December 31, 2013 are as follows:

2014	$2,162
2015	2,162
2016	2,162
2017	2,162
2018	2,162
Thereafter	2,990
	$13,800

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NOTE 12 – INCOME TAXES

The components of the provision (benefit) for income taxes are as follows:

	2013	2012	2011
Current	$5,509	$5,105	$376
Deferred	1,895	568	4,099
Change in valuation allowance	-	-	(675)
Provision for income taxes	$7,404	$5,673	$3,800

The Company's deferred tax assets and liabilities at December 31 are shown below.

	2013	2012
Deferred tax assets		
Allowance for loan losses	$4,016	$4,181
Purchase accounting adjustments	2,611	3,745
Net operating loss carryforward	1,048	1,569
Write-downs of other real estate owned	893	748
Taxable income on non-accrual loans	2,053	1,955
Security writedown	-	250
Capital loss carryforward	196	-
Accrued expenses	172	131
Unrealized loss on investment securities	322	-
Other	19	11
Total deferred tax assets	11,330	12,590
Deferred tax liabilities		
Amortization of intangibles	$(4,615)	$(4,405)
Depreciation	(1,101)	(1,027)
Federal Home Loan Bank dividends	(377)	(377)
Deferred loan fees	(567)	(548)
Unrealized gain on investment securities	-	(3,388)
Other	(71)	(61)
Total deferred tax liabilities	(6,731)	(9,806)
Valuation allowance on deferred tax assets	(160)	(160)
Net deferred taxes	$4,439	$2,624

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NOTE 12 – INCOME TAXES (Continued)

At December 31, 2013 the Company had federal net operating loss carryforwards of $1,845 and various state net operating loss carryforwards of $5,569 which begin to expire in 2022. The deductibility of these net operating losses is limited under IRC Sec. 382.

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability of the Company to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Due to statutory law changes and a change in expectations of future taxable income, the Company reversed a valuation allowance against a portion of its District of Columbia net operating loss carryforward in 2011.

At both December 31, 2013 and 2012, the Company maintains a valuation allowance of $160 against the portion of its District of Columbia net operating loss carryforward that is not expected to be utilized before expiration due to separate company limitations. All other deferred tax assets are more likely than not to be utilized; therefore no additional valuation allowance is needed.

An analysis of the differences between the effective tax rates and the statutory U.S. federal income tax rate is as follows:

	2013		2012		2011	
U.S. federal income tax rate	$ 7,015	34.0 %	$ 5,439	34.0 %	$ 3,729	34.0 %
Changes from the statutory rate						
Impact of graduated federal tax rate	72	0.4	26	0.2	-	-
State income taxes, net	439	2.1	376	2.4	1,220	11.1
Tax-exempt interest income	(149)	(0.7)	(173)	(1.1)	(194)	(1.8)
Non-deductible interest expense related to carrying tax-exempt interest earning assets	9	0.0	12	0.1	8	0.1
Non-deductible stock compensation expense	57	0.3	62	0.4	36	0.3
Tax credits, net	(49)	(0.2)	(49)	(0.3)	(49)	(0.4)
Change in valuation allowance, net	-	-	-	-	(675)	(6.1)
Other	10	0.0	(20)	(0.2)	(275)	(2.5)
	$ 7,404	35.9 %	$ 5,673	35.5 %	$ 3,800	34.7 %

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NOTE 12 – INCOME TAXES (Continued)

Unrecognized Tax Benefits: The Company does not have any beginning or ending unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months. There were no interest and penalties recorded in the income statement or accrued for the years ended December 31, 2013, 2012 and 2011 related to unrecognized tax benefits.

The Company and its subsidiaries file a consolidated U.S. Corporation income tax return and a combined return in the state of West Virginia and the District of Columbia. The Company also files a corporate income tax return in the state of Kentucky and Maryland. The Company is no longer subject to examination by taxing authorities for years before 2010.

NOTE 13 – EMPLOYEE BENEFIT PLANS

The Company has qualified profit sharing plans that cover substantially all employees. Contributions to the plans consist of a Company match and additional amounts at the discretion of the Company's Board of Directors. Total contributions to the plans were $354, $379, and $385 in 2013, 2012, and 2011.

NOTE 14 – 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. In 2002, the Company registered 500,000 shares of its common stock to be reserved for stock based incentive programs over the next 10 years ("the 2002 Plan"). In 2012, the Company registered another 500,000 shares of its common stock to be reserve for stock based incentive programs over the subsequent 10 years ("the 2012 Long-term Incentive Plan").

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 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 Plan at an exercise price of $7.47, the closing market price of Premier on the grant date. These options vest in three equal annual installments ending on March 21, 2015. On March 16, 2011, 102,000 incentive stock options were granted out of the 2002 Plan at an exercise price of $6.95, the closing market price of Premier on the grant date. These options vest in three equal annual installments ending on March 16, 2014.

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NOTE 14 – STOCK COMPENSATION EXPENSE (Continued)

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	

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 by annualizing the current quarterly dividend on the Company’s common stock at the time of the option grant or by using historical dividends and dividend yields during the time the Company was restricted from paying dividends by its primary regulator.

Compensation expense of $169, $181, and $106 was recorded for the years ended December 31, 2013, 2012, and 2011, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all awards. Unrecognized stock-based compensation expense related to stock options totaled $108 at December 31, 2013. This unrecognized expense is expected to be recognized over the next 26 months based on the vesting periods of the options.

During the year ending December 31, 2013, 78,584 options were exercised while 25,550 options were exercised during the year ending December 31, 2012. There were no options exercised during the year ending December 31, 2011.

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NOTE 14 – STOCK COMPENSATION EXPENSE (Continued)

A summary of the Company's stock option activity is as follows:

	----------2013----------		----------2012----------		----------2011----------	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	392,366	$9.24	350,949	$9.69	255,649	$10.77
Grants	52,900	11.39	105,700	7.47	102,000	6.95
Exercises	(78,584)	7.77	(25,550)	7.52	-	-
Forfeitures or expired	(12,401)	7.90	(38,733)	9.61	(6,700)	9.10
Outstanding at year-end	354,281	$9.84	392,366	$9.24	350,949	$9.69
Exercisable at year-end	212,731	$10.55	220,646	$10.68	206,727	$11.36
Weighted average remaining life	6.1		6.6		6.4	

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

Additional information regarding stock options outstanding and exercisable at December 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	197,248	$ 7.40	$ 1,331	106,798	6.5	$ 7.48	$ 712
$10.01 to $12.50	72,933	11.46	196	21,833	1.1	11.62	55
$12.51 to $15.00	60,600	13.46	44	60,600	3.7	13.46	44
$15.01 to $17.50	23,500	16.00	-	23,500	2.1	16.00	-
Outstanding at Dec 31, 2013	354,281	9.84	$ 1,571	212,731	4.7	10.55	$ 811

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NOTE 15 – RELATED PARTY TRANSACTIONS

During 2013, 2012 and 2011, the Company paid approximately $339, $385, and $562 for printing, supplies, statement rendering, furniture, and equipment to a company affiliated by common ownership. The Company also paid another affiliate approximately $835, $797, and $863 in 2013, 2012 and 2011 to permit the Company's employees to participate in that entity's employee medical benefit plan.

During 2013, 2012 and 2011, the Company paid approximately $52, $52, and $52 to lease its headquarters facility at 2883 Fifth Avenue, Huntington, West Virginia from River City Properties, LLC, an entity 12.5% owned by the Company's Chairman of the Board.

NOTE 16 – 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 2013, 2012 and 2011 is presented below:

	2013	2012	2011
Basic earnings per share			
Income available to common stockholders	$12,570	$10,155	$5,947
Weighted average common shares outstanding	7,997,047	7,940,892	7,937,143
Earnings per share	$1.57	$1.28	$0.75
Diluted earnings per share			
Income available to common stockholders	$12,570	$10,155	$5,947
Weighted average common shares outstanding	7,997,047	7,940,892	7,937,143
Add dilutive effects of potential additional common stock	448,202	240,611	97,936
Weighted average common and dilutive potential common shares outstanding	8,445,249	8,181,503	8,035,079
Earnings per share assuming dilution	$1.49	$1.24	$0.74

Stock options for 84,100, 183,699, and 312,449, shares of common stock were not considered in computing diluted earnings per share for 2013, 2012, and 2011 because they were antidilutive.

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NOTE 17 – 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 values:

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.

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.

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NOTE 17 – FAIR VALUE (Continued)

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

		Fair Value Measurements at December 31, 2013 Using			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and due from banks	$63,984	$63,984	$-	$-	$63,984
Federal funds sold	12,777	12,777	-	-	12,777
Securities available for sale	218,066	-	217,926	140	218,066
Loans held for sale	77	-	-	77	77
Loans, net	729,743	-	-	725,588	725,588
Federal Home Loan Bank stock	4,183	n/a	n/a	n/a	n/a
Interest receivable	3,132	-	593	2,539	3,132
Financial liabilities					
Deposits	$(924,023)	$(592,664)	$(332,475)	$-	$(925,139)
Securities sold under agreements to repurchase	(11,319)	-	(11,319)	-	(11,319)
Other borrowed funds	(13,800)	-	(13,811)	-	(13,811)
Interest payable	(383)	(5)	(378)	-	(383)

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

		Fair Value Measurements at December 31, 2012 Using			
	Carrying Amount	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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NOTE 17 – FAIR VALUE (Continued)

Assets and Liabilities Measured on a Recurring Basis

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).

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

		Fair Value Measurements at December 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)
Securities available for sale				
Mortgage-backed securities				
U. S. agency MBS - residential	$27,823	$-	$27,823	$ -
U. S. agency CMO's	176,722	-	176,722	-
Total mortgage-backed securities of government sponsored agencies	204,545	-	204,545	-
U. S. government sponsored agency securities	6,981	-	6,981	-
Obligations of states and political subdivisions	6,540	-	6,400	140
Total securities available for sale	$218,066	$-	$217,926	$ 140

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NOTE 17 – FAIR VALUE (Continued)

Assets and liabilities measured at fair value on a 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)
Securities 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 securities available for sale	$283,975	$-	$283,835	$ 140

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

	Securities Available-for-sale	
	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012
Balance of recurring Level 3 assets at beginning of period	$140	$140
Total gains or losses (realized/unrealized):		
Included in earnings – realized	-	-
Included in earnings – unrealized	-	-
Included in other comprehensive income	-	-
Purchases, sales, issuances and settlements, net	-	-
Transfers in and/or out of Level 3	-	-
Balance of recurring Level 3 assets at year-end	$140	$140

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NOTE 17 – FAIR VALUE (Continued)

Assets and Liabilities Measured on a Non-Recurring Basis

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 collateral appraisals. Real estate 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. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports. Management periodically evaluates the appraised collateral values and will discount the collateral'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, management's expertise and knowledge of the client and client's business, or other factors unique to the collateral. To the extent an adjusted collateral 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 17 – FAIR VALUE (Continued)

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

		Fair Value Measurements at December 31, 2013 Using		
	Dec 31, 2013	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	$1,518	$-	$-	$ 1,518
Commercial Real Estate				
Owner Occupied	346	-	-	346
Non-owner Occupied	428	-	-	428
Commercial and Industrial	3,384	-	-	3,384
All Other	4,133	-	-	4,133
Total impaired loans	9,809	$-	$-	$ 9,809
Other real estate owned:				
Commercial Real Estate				
Non-owner Occupied	290	-	-	290
All Other	8,496	-	-	8,496
Total OREO	$8,786	$-	$-	$ 8,786

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $12,301 at December 31, 2013 with a valuation allowance of $2,492 and a carrying amount of $20,285 at December 31, 2012 with a valuation allowance of $3,842, resulting in a negative provision for loan losses of $1,350 for the year ended December 31, 2013, compared to a $795 provision for loan losses for the year ended December 31, 2012.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $8,786, which is made up of the outstanding balance of $11,163, net of a valuation allowance of $2,377 at December 31, 2013, resulting in write downs of $782 during the year ended December 31, 2013. At December 31, 2012, other real estate owned had a net carrying amount of $7,968, made up of the outstanding balance of $9,945 net of a $1,977 valuation allowance, resulting in write downs of $1,410 during the year ended December 31, 2012.

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NOTE 17 – FAIR VALUE (Continued)

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

	December 31, 2013	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Impaired loans:				
Residential Real Estate	$ 1,518	sales comparison	adjustment for differences between the comparable sales	0.8%-63.5%(11.9%)
Commercial Real Estate				
Owner Occupied	346	sales comparison	adjustment for limited salability of specialized property	62.5%-70.0%(64.0%)
Non-owner Occupied	428	sales comparison	adjustment for limited salability of specialized property	50.6%-50.6%(50.6%)
Commercial and Industrial	3,384	sales comparison	adjustment for limited salability of specialized property	25.0%-65.5%(57.8%)
All Other	4,133	sales comparison	adjustment for percentage of completion of construction	57.6%-99.3%(57.7%)
Total impaired loans	9,809			
Other real estate owned:				
Commercial Real Estate				
Non-owner Occupied	290	sales comparison	adjustment for differences between the comparable sales	42.7%-42.7%(42.7%)
All Other	8,496	sales comparison	adjustment for estimated realizable value	9.5%-24.6%(12.5%)
Total OREO	$ 8,786			

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NOTE 17 – 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		
	Dec 31, 2012	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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NOTE 17 – 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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NOTE 18 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Banks are parties to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include standby letters of credit and commitments to extend credit in the form of unused lines of credit. The Banks use the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments. In addition, the Banks offer a service whereby deposit customers, for a fee, are permitted to overdraw their accounts up to a certain deminimus amount, also known as “courtesy overdraft protection”. The aggregate unused portion of “overdraft protection” was $11,723 and $11,719 at December 31, 2013 and 2012.

At December 31, 2013 and 2012, the Banks had the following financial instruments whose approximate contract amounts represent credit risk:

	2013	2012
Standby letters of credit	$6,084	$5,518
Commitments to extend credit		
Fixed	$12,040	$7,830
Variable	52,576	43,256

Standby letters of credit represent conditional commitments issued by the Banks to guarantee the performance of a third party. The credit risk involved in issuing these letters of credit is essentially the same as the risk involved in extending loans to customers. Collateral held varies but primarily includes real estate and certificates of deposit. Some letters of credit are unsecured.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Outstanding commitments are at current market rates. Fixed rate loan commitments have interest rates ranging from 2.25% to 21.00%. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Banks evaluate each customer’s creditworthiness on a case-by-case basis. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income producing properties.

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NOTE 19 - LEGAL PROCEEDINGS

Legal proceedings involving the Company and its subsidiaries periodically arise in the ordinary course of business, including claims by debtors and their related interests against the Company's subsidiaries following initial collection proceedings. These legal proceedings sometimes can involve claims for substantial damages. At December 31, 2013 management is unaware of any legal proceedings for which the expected outcome would have a material adverse effect upon the consolidated financial statements of the Company.

NOTE 20 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

Accumulated Other Comprehensive Income	Unrealized Gain/(Loss) on Securities Available for Sale
Balance, December 31, 2012	$ 6,576
Reclassification adjustments to net income:	
Realized gain on disposition of securities	(1,413)
Provision for income taxes	481
Unrealized losses arising during the period, net of tax	(6,269)
Balance, December 31, 2013	$ (625)

For the year ended December 31, 2013, the reclassified realized gain on disposition of securities is reported on the income statement under the caption "Gain on disposition of securities" and the reclassified provision for income taxes is reported on the income statement under the caption "Provision for income taxes".

NOTE 21 - STOCKHOLDERS' EQUITY

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 2014 the Banks could, without prior approval, declare dividends to Premier of approximately $3.8 million plus any 2014 net profits retained to the date of the dividend declaration.

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NOTE 21 - STOCKHOLDERS' EQUITY (Continued)

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 December 31, 2013 the Company and the Banks meet all quantitative capital adequacy requirements to which they are subject.

As of December 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 following table. There are no conditions or events since that notification that management believes have changed the Banks' categories.

The dividend rights of holders of Premier's common shares are also qualified and subject to the dividend rights of holders of Premier's Series A Preferred Shares. Due to restrictions placed on it by the Federal Reserve Board of Governors in conjunction with the July 29, 2010 Written Agreement between CB&T and the FRB, Premier deferred its November 15, 2010 and February 15, 2011 quarterly dividends on its Series A Preferred Shares. On May 13, 2011, Premier was given permission by the FRB and the Board of Governors to pay the deferred November 15, 2010 and February 15, 2011 quarterly dividends on its Series A Preferred Shares in conjunction with the regularly scheduled May 15, 2011 dividend payment. All subsequent quarterly dividends on Premier's Series A Preferred Shares have been paid as scheduled. On July 24, 2012 the FRB announced that it had terminated the July 29, 2010 Written Agreement.

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NOTE 21 - STOCKHOLDERS' EQUITY (Continued)

The Company's and the subsidiary Banks' capital amounts and ratios as of December 31, 2013 and December 31, 2012 are presented in the table below.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
2013	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets):						
Consolidated (1)	$ 128,756	18.2 %	$ 56,685	8 %	$ 70,857	10 %
Premier Bank, Inc.	95,508	19.2	39,738	8	49,672	10
Citizens Deposit Bank	37,158	17.7	16,819	8	21,023	10
Tier I Capital (to Risk-Weighted Assets):						
Consolidated (1)	$ 119,872	16.9 %	$ 28,343	4 %	$ 42,514	6 %
Premier Bank, Inc.	89,274	18.0	19,869	4	29,803	6
Citizens Deposit Bank	34,591	16.5	8,409	4	12,614	6
Tier I Capital (to Average Assets):						
Consolidated (1)	$ 119,872	11.0 %	$ 43,495	4 %	$ 54,369	5 %
Premier Bank, Inc.	89,274	12.4	28,892	4	36,115	5
Citizens Deposit Bank	34,591	9.5	14,538	4	18,172	5
2012						
Total Capital (to Risk-Weighted Assets):						
Consolidated (1)	$ 118,262	17.4 %	$ 54,399	8 %	$ 67,999	10 %
Premier Bank, Inc.	90,977	19.3	37,659	8	47,073	10
Citizens Deposit Bank	35,794	17.2	16,610	8	20,762	10
Tier I Capital (to Risk-Weighted Assets):						
Consolidated (1)	$ 109,725	16.1 %	$ 27,199	4 %	$ 40,799	6 %
Premier Bank, Inc.	85,060	18.1	18,829	4	28,244	6
Citizens Deposit Bank	33,194	16.0	8,305	4	12,457	6

Tier I Capital (to Average Assets):												
Consolidated (1)	$	109,725	10.0	%	$	43,697	4	%	$	54,621	5	%
Premier Bank, Inc.		85,060	11.8			28,940	4			36,175	5	
Citizens Deposit Bank		33,194	9.0			14,700	4			18,375	5	

(1) Consolidated company is not subject to Prompt Corrective Action Provisions

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NOTE 22 - PARENT COMPANY FINANCIAL STATEMENTS

Condensed Balance Sheets
December 31

	2013	2012
ASSETS		
Cash	$8,761	$6,130
Investment in subsidiaries	151,019	152,885
Premises and equipment	207	191
Other assets	1,519	1,957
Total assets	$161,506	$161,163
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	$766	$818
Other borrowed funds	13,800	16,049
Total liabilities	14,566	16,867
Stockholders' equity		
Preferred stock	11,955	11,896
Common stock	73,589	72,849
Retained earnings	62,021	52,975
Accumulated other comprehensive income (loss)	(625)	6,576
Total stockholders' equity	146,940	144,296
Total liabilities and stockholders' equity	$161,506	$161,163

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NOTE 22 - PARENT COMPANY FINANCIAL STATEMENTS (Continued)

Condensed Statement of Operations
Years Ended December 31

	2013	2012	2011
Income			
Dividends from subsidiaries	$9,675	$13,915	$6,165
Interest and dividend income	12	22	23
Other income	1,327	1,201	1,132
Total income	11,014	15,138	7,320
Expenses			
Interest expense	650	754	852
Salaries and employee benefits	2,387	2,318	1,952
Professional fees	51	337	113
Other expenses	1,020	1,053	1,079
Total expenses	4,108	4,462	3,996
Income before income taxes and equity in undistributed income of subsidiaries	6,906	10,676	3,324
Income tax (benefit)	(987)	(1,144)	(1,034)
Income before equity in undistributed income of subsidiaries	7,893	11,820	4,358
Equity in undistributed income (excess distributions) of subsidiaries	5,336	(1,497)	2,810
Net income	$13,229	$10,323	$7,168

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NOTE 22 - PARENT COMPANY FINANCIAL STATEMENTS (Continued)

Condensed Statement of Cash Flows
Years Ended December 31

	2013	2012	2011
Cash flows from operating activities			
Net income	$13,229	$10,323	$7,168
Adjustments to reconcile net income to net cash from operating activities			
Depreciation	64	57	70
Stock compensation expense	169	181	106
Gain from sales of assets	(11)	-	-
Dividends in excess of net income of subsidiaries	-	1,497	-
Equity in undistributed earnings of subsidiaries	(5,336)	-	(2,810)
Change in other assets	438	24	652
Change in other liabilities	(51)	220	(44)
Net cash from operating activities	8,502	12,302	5,142
Cash flows from investing activities			
Cash from merger of subsidiaries	-	-	391
Purchases of fixed assets, net of proceeds from asset sales	(69)	(108)	(81)
Net cash from investing activities	(69)	(108)	310
Cash flows from financing activities			
Cash dividends on preferred stock	(600)	(984)	(1,390)
Cash dividends paid to shareholders	(3,524)	(1,749)	-
Repurchase of preferred stock	-	(9,237)	-
Proceeds from stock option exercises	571	192	-
Payments on other borrowed funds	(2,249)	(2,081)	(2,047)
Net cash from financing activities	(5,802)	(13,859)	(3,437)
Net change in cash and cash equivalents	2,631	(1,665)	2,015
Cash and cash equivalents at beginning of year	6,130	7,795	5,780
Cash and cash equivalents at end of year	$8,761	$6,130	$7,795

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NOTE 23 - QUARTERLY FINANCIAL DATA (UNAUDITED)

	Interest Income	Net Interest Income	Net Income	Earnings Per Share Basic	Earnings Per Share Diluted
2013					
First Quarter	$11,415	$10,140	$2,504	$0.29	$0.28
Second Quarter	12,317	11,093	3,109	0.37	0.35
Third Quarter	13,192	12,027	3,926	0.47	0.44
Fourth Quarter	11,546	10,435	3,690	0.44	0.41
2012					
First Quarter	$14,216	$12,418	$2,830	$0.32	$0.31
Second Quarter	11,956	10,308	2,092	0.23	0.22
Third Quarter	12,580	11,017	2,411	0.38	0.37
Fourth Quarter	11,683	10,256	2,990	0.36	0.34

In 2013, interest income varied per quarter due to a random pattern of borrowers repaying commercial loans in full. Some of the loans paid off in full were either discounted at the time of their acquisition or were on the cost recovery method. These loans, when paid in full, resulted in an increase in interest income as the purchase discount or any historical non-accrual interest paid was recognized immediately in income, particularly illustrated by the increase in interest income in the second and third quarters of 2013. Also contributing to an increase in interest income was an increase in loans outstanding although the overall yield on the loan portfolio decreased during the year. The fluctuations in interest income resulted in similar fluctuations in net interest income and net income in 2013. During 2013, net interest income was impacted positively by interest expense savings from continually lower market interest rates related to time deposits and transaction-based deposits. Net income was also higher due to a negative provision for loan losses in the fourth quarter of 2013 resulting from the full payoff of an impaired loan during the quarter. Non-interest expenses were generally lower in 2013 due to lower collection costs and OREO costs incurred when compared to 2012.

Similar to 2013, interest income varied per quarter in 2012 due to a random pattern of borrowers repaying commercial loans in full. Due to weak loan demand, the proceeds from these loan payoffs were usually reinvested at significantly lower yields. However, some of the loans paid off in full were either discounted at the time of their acquisition or were on the cost recovery method. These loans, when paid in full, also resulted in an increase in interest income as the purchase discount or any historical non-accrual interest paid was recognized immediately in income. The fluctuations in interest income resulted in similar fluctuations in net interest income and net income in 2012. During 2012, net interest income was also impacted positively by interest expense savings from continually lower market interest rates related to time deposits and transaction-based deposits. Quarterly net income was generally higher in 2012 largely as a result of expenses incurred in 2011 to convert Premier's core operating systems and ATM network to a single provider as well as expense savings on data processing costs in 2012 under the new provider. The increased net income in the fourth quarter of 2012 resulted from the gain on the sale of note to a third party.

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NOTE 24 – 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 628,588 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.

On July 9, 2012, the U.S. Treasury announced its intent to sell its investment in Premier's Series A Preferred Stock along with similar investments the U.S. Treasury had made in 11 other financial institutions, principally to qualified institutional buyers. Using a modified Dutch auction methodology that establishes a market price by allowing investors to submit bids at specified increments during the period of July 23, 2012 through July 26, 2012, the U.S. Treasury auctioned all of Premier's 22,252 Series A Preferred Stock. Premier sought and obtained regulatory permission to participate in the auction. Premier successfully bid to repurchase 10,252 shares of the 22,252 outstanding shares. At the auction's closing price of $901.03 per share, Premier was able to preserve approximately $1.0 million of capital versus redeeming the Series A Preferred Stock at the liquidation preference of $1,000 per share. As of December 31, 2013, the remaining 12,000 shares are held by private investors.

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

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NOTE 24 - PREFERRED STOCK (Continued)

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 of Governors' 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. All subsequent quarterly dividends on Premier's Series A Preferred Shares have been paid as scheduled. On July 24, 2012 the FRB announced that it had terminated the July 29, 2010 Written Agreement.

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

Pursuant to the terms of the Purchase Agreement, the ability of the Company to declare or pay dividends or distributions on shares of its common stock will be subject to restrictions.

The Purchase Agreement also subjected the Company to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (the "EESA"). In this connection, as a condition to the closing of the transaction, the Company's Senior Executive Officers (as defined in the Purchase Agreement) (the "Senior Executive Officers"), (i) voluntarily waived any claim against the U.S. Treasury or the Company for any changes to such officer's compensation or benefits that are required to comply with the regulation issued by the U.S. Treasury under the TARP Capital Purchase Program and acknowledged that the regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements as they relate to the period the U.S. Treasury owns the Preferred Stock of the Company; and (ii) entered into a letter with the Company amending the Benefit Plans with respect to such Senior Executive Officers as may be necessary, during the period that the Treasury owns the Preferred Stock of the Company, as necessary to comply with Section 111(b) of the EESA. These limitations terminated upon completion of the U.S. Treasury's auction of the Series A Preferred Stock on August 10, 2012.

(continued)

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December 31, 2013, 2012 and 2011
(Dollars in Thousands, Except Per Share Data)

NOTE 25 – PENDING ACQUISITION

On November 19, 2013, Premier and Gassaway Bancshares, Inc. ("Bancshares"), a $165 million single bank holding company headquartered in Gassaway, West Virginia jointly announced that they had entered into a definitive agreement whereby Premier Bank, Premier's wholly owned subsidiary, will acquire the Bank of Gassaway, the wholly owned subsidiary of Bancshares, in a cash purchase valued at approximately $20.3 million. Under terms of the definitive agreement, Premier Bank will pay $20.3 million in cash for the Bank of Gassaway and will merge Bank of Gassaway's five branch locations into Premier's operating system in the second quarter of 2014. The transaction, which is subject to satisfaction of various contractual conditions and requires approval by bank regulatory agencies and the shareholders of Bancshares, is anticipated to close in the second quarter of 2014.

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Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in or disagreements with accountants on accounting or financial disclosure matters.

Item 9A. 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 annual 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 annual report has been made known to them in a timely fashion.

B. Management's Report on Internal Control Over Financial Reporting

Management's report on internal controls over financial reporting is included in Item 8 above.

C. Changes in Internal Controls over Financial Reporting

Changes in internal controls over financial reporting is included in Item 8 above.

Item 9B. Other Information

None

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PART III

Item 10, 11, 12, 13 and 14. Directors, Executive Officers and Corporate Governance; Executive Compensation; Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters; Certain Relationships and Related Transactions, and Director Independence; and Principal Accountant Fees and Services

The information required by these Items is omitted because the Company is filing a definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report which includes the required information. The required information contained in the Company's proxy statement is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements:

2. Financial Statement Schedules:

No financial statement schedules have been included as part of this report because they are either not required or the information is otherwise included.

3. List of Exhibits:

The following is a list of exhibits required by Item 601 of Regulation S-K and by paragraph (c) of this Item 14.

Exhibit Number	Description of Document
2.1	Definitive Merger Agreement between Premier Financial Bancorp, Inc. and Citizens First Bank, Inc. dated October 24, 2007, filed as Exhibit 10.1 to form 8-K filed on October 25, 2007 is incorporated herein by reference.
2.2	Definitive Merger Agreement between Premier Financial Bancorp, Inc. and Traders Bankshares, Inc. dated November 27, 2007, filed as Exhibit 10.1 to form 8-K filed on November 28, 2007 is incorporated herein by reference.
2.3	Definitive Merger Agreement between Premier Financial Bancorp, Inc. and Abigail Adams National Bancorp, Inc. dated December 30, 2008, filed as Exhibit 2.1 to form 8-K filed on January 2, 2009 is incorporated herein by reference.
2.4	Branch Purchase Agreement between Integra Bank National Association and Citizens Deposit Bank and Trust dated April 29, 2010, filed as Exhibit 2.1 to Form 8-K filed on April 30, 2010 is incorporated herein by reference.
2.5	Loan Purchase Agreement between Integra Bank National Association and Citizens Deposit Bank and Trust dated April 29, 2010, filed as Exhibit 2.2 to Form 8-K filed on April 30, 2010 is incorporated herein by reference.
2.6	Amended and Restated Definitive Merger Agreement among Premier Bank, Inc., Premier Financial Bancorp, Inc., Gassaway Bancshares, Inc. and Bank of Gassaway dated January 3, 2014.
3.1(a)	Form of Articles of Incorporation of registrant (included as Exhibit 3.1 to registrant's Registration Statement on Form S-1, Registration No. 333-1702, filed on February 28, 1996 with the Commission and incorporated herein by reference).

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Exhibit Number	Description of Document
3.1(b)	Form of Articles of Amendment to Articles of Incorporation effective March 15, 1996 re: amendment to Article IV (included as Exhibit 3.2 to registrant's Amendment No. 1 to Registration Statement on Form S-1, Registration No. 333-1702, filed on March 25, 1996 with the Commission and incorporated herein by reference.
3.1(c)	Articles of Amendment to Articles of Incorporation effective September 3, 2009 re: increase in authorized common shares (included as Exhibit 3.1 to Form 8-K filed on September 9, 2009) is incorporated herein by reference.
3.1(d)	Articles of Amendment to Articles of Incorporation effective September 29, 2009 evidencing adoption of amendments by the Board of Directors of registrant to Article IV of Articles of Incorporation to establish express terms of Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value, of registrant (included as Exhibit 3.1(i) to Form 8-K filed on October 2, 2009) is incorporated herein by reference.
3.1(e)	Articles of Incorporation of registrant (reflecting amendments through September 29, 2009) [For SEC reporting compliance purposes only – not filed with Kentucky Secretary of State], filed as Exhibit 3.1(e) to Form 10-K filed on March 30, 2010 is incorporated herein by reference.
3.2	Bylaws of registrant, as amended through September 23, 2009 (filed as Exhibit 3.1(ii)) to Form 8-K filed September 23, 2009 is incorporated herein by reference.
4.1	Letter Agreement, dated October 2, 2009, including Securities Purchase Agreement Standard Terms attached thereto as Exhibit A, between registrant and the United States Department of the Treasury (filed as Exhibit 10.1 to Form 8-K filed October 7, 2009) is incorporated herein by reference. [NOTE: Annex A to Securities Purchase Agreement is not included herewith; filed as Exhibit 3.1(i) to Current Report on Form 8-K filed by registrant on October 2, 2009 and incorporated herein by reference.]
4.2	Warrant to purchase 628,588 Shares of Common Stock (common shares) of registrant issued to the United States Department of the Treasury on October 2, 2009 (filed as Exhibit 4.1 to Form 8-K filed October 7, 2009) is incorporated herein by reference.
*** 10.1	Premier Financial Bancorp, Inc.'s 2002 Employee Stock Ownership Incentive Plan, filed as Annex A to definitive proxy statement dated May 17, 2002, filed on April 30, 2002 with the Commission, is incorporated herein by reference.
*** 10.2	Form of Stock Option Agreement pursuant to 2002 Employee Stock Ownership Incentive Plan, filed as Exhibit 10.1 to form 8-K filed January 24, 2005, is incorporated herein by reference.
10.3	Loan Agreement between Premier Financial Bancorp, Inc. and First Guaranty Bank, Hammond, Louisiana, filed as Exhibit 10.1 to form 8-K filed May 1, 2008, is incorporated herein by reference.

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Exhibit Number	Description of Document
10.4	Promissory Note to First Guaranty Bank, Hammond, Louisiana, filed as Exhibit 10.2 to form 8-K filed May 1, 2008, is incorporated herein by reference.
*** 10.5	Letter Agreement between registrant and Robert W. Walker, executed on September 22, 2009 and effective October 2, 2009 (filed as Exhibit 10.2(a) to Form 8-K filed October 7, 2009) is incorporated herein by reference.
*** 10.6	Letter Agreement between registrant and Brien M. Chase, executed on September 22, 2009 and effective October 2, 2009 (filed as Exhibit 10.2(b) to Form 8-K filed October 7, 2009) is incorporated herein by reference.
*** 10.7	Letter Agreement between registrant and Dennis J. Klingensmith, executed on September 25, 2009 and effective October 2, 2009 (filed as Exhibit 10.2(c) to Form 8-K filed October 7, 2009) is incorporated herein by reference.
*** 10.8	Letter Agreement between registrant and Michael R. Mineer, executed on September 25, 2009 and effective October 2, 2009 (filed as Exhibit 10.2(d) to Form 8-K filed October 7, 2009) is incorporated herein by reference.
*** 10.9	Letter Agreement between registrant and Scot Kelley, executed on April 27, 2010, (filed as Exhibit 10.18 to Form 10-K filed March 30, 2012) is incorporated herein by reference.
*** 10.10	Letter Agreement between registrant and Katrina Whitt, executed on April 27, 2010, (filed as Exhibit 10.18 to Form 10-K filed March 30, 2012) is incorporated herein by reference.
10.11	Change in Terms Agreement with First Guaranty Bank, Hammond, Louisiana, filed as Exhibit 10.1 to form 8-K filed January 4, 2010, is incorporated herein by reference.
10.12	Loan Agreement between Premier Financial Bancorp, Inc. and First Guaranty Bank, Hammond, Louisiana, filed as Exhibit 10.1 to form 8-K filed January 7, 2010, is incorporated herein by reference.
10.13	Promissory Note to First Guaranty Bank, Hammond, Louisiana, filed as Exhibit 10.2 to form 8-K filed January 7, 2010, is incorporated herein by reference.
10.14	Commercial Pledge Agreement between Premier Financial Bancorp, Inc. and First Guaranty Bank, Hammond, Louisiana filed as Exhibit 10.3 to form 8-K filed January 7, 2010, is incorporated herein by reference.
10.15	Written Agreement by and among Premier Financial Bancorp, Inc., Huntington, West Virginia, Abigail Adams National Bancorp, Inc., Washington, D.C., Consolidated Bank and Trust Company, Richmond, Virginia, the Federal Reserve Bank of Richmond, Richmond, Virginia, and State Corporation Commission Bureau of Financial Institutions, Richmond, Virginia dated July 29, 2010, filed as Exhibit 10.1 to Form 8-K filed on July 30, 2010, is incorporated herein by reference.
10.16	Loan Agreement between Premier Financial Bancorp, Inc. and The Kentucky Bankers' Bank, Inc. filed as Exhibit 10.1 to form 8-K filed on September 9, 2010, is incorporated herein by reference.

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Exhibit Number	Description of Document
10.17	Term Note to The Kentucky Bankers' Bank, Inc. filed as Exhibit 10.2 to form 8-K filed on September 9, 2010, is incorporated herein by reference.
10.18	Stock Pledge and Security Agreement between Premier Financial Bancorp, Inc. and The Kentucky Bankers' Bank, Inc. filed as Exhibit 10.3 to form 8-K filed on September 9, 2010, is incorporated herein by reference.
10.19	Change in Terms Agreement with First Guaranty Bank, Hammond, Louisiana dated May 3, 2011.
10.20	Loan Agreement between Premier Financial Bancorp, Inc. and First Guaranty Bank, Hammond, Louisiana, filed as Exhibit 10.1 to form 8-K filed July 1, 2011, is incorporated herein by reference.
10.21	Promissory Note to First Guaranty Bank, Hammond, Louisiana, filed as Exhibit 10.2 to form 8-K filed July 1, 2011, is incorporated herein by reference.
10.22	Commercial Pledge Agreement between Premier Financial Bancorp, Inc. and First Guaranty Bank, Hammond, Louisiana filed as Exhibit 10.3 to form 8-K filed July 1, 2011, is incorporated herein by reference.
*** 10.23	Premier Financial Bancorp, Inc.'s 2012 Long Term Incentive Plan, filed as Annex A to definitive proxy statement dated May 17, 2012, filed on April 27, 2012 with the Commission, is incorporated herein by reference.
10.24	Loan Agreement between Premier Financial Bancorp, Inc. and First Guaranty Bank, Hammond, Louisiana, filed as Exhibit 10.1 to form 8-K filed June 29, 2012, is incorporated herein by reference.
10.25	Promissory Note to First Guaranty Bank, Hammond, Louisiana, filed as Exhibit 10.2 to form 8-K filed June 29, 2012, is incorporated herein by reference.
10.26	Commercial Pledge Agreement between Premier Financial Bancorp, Inc. and First Guaranty Bank, Hammond, Louisiana filed as Exhibit 10.3 to form 8-K filed June 29, 2012, is incorporated herein by reference.
10.27	Loan Agreement between Premier Financial Bancorp, Inc. and The Kentucky Bankers' Bank, Inc. filed as Exhibit 10.1 to form 8-K filed on September 10, 2012, is incorporated herein by reference.
10.28	Promissory Note to The Kentucky Bankers' Bank, Inc. filed as Exhibit 10.2 to form 8-K filed on September 10, 2012, is incorporated herein by reference.
10.29	Stock Pledge and Security Agreement between Premier Financial Bancorp, Inc. and The Kentucky Bankers' Bank, Inc. filed as Exhibit 10.3 to form 8-K filed on September 10, 2012, is incorporated herein by reference.
*** 10.30	Form of Stock Option Agreement pursuant to 2012 Long Term Incentive Plan, filed as Exhibit 10.1 to form 8-K filed March 21, 2013, is incorporated herein by reference.

10.31	Change in Terms Agreement between Premier Financial Bancorp, Inc. and First Guaranty Bank, Hammond, Louisiana, dated April 24, 2013 related to the Term Note filed as Exhibit 10.1 to form 8-K filed April 30, 2013, is incorporated herein by reference.

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Exhibit Number	Description of Document
10.32	Change in Terms Agreement between Premier Financial Bancorp, Inc. and First Guaranty Bank, Hammond, Louisiana, dated April 24, 2013 related to the Line of Credit filed as Exhibit 10.2 to form 8-K filed April 30, 2013, is incorporated herein by reference.
10.33	Line of Credit Renewal Agreement between Premier Financial Bancorp, Inc. and The Bankers' Bank of Kentucky, Inc. dated September 7, 2013 filed as Exhibit 10.4 to form 8-K filed September 11, 2013, is incorporated herein by reference..
14.1	Premier Financial Bancorp, Inc. Code of Ethics for the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, filed as Exhibit 14.1 to form 10-K filed on April 14, 2004, is incorporated herein by reference.
14.2	Premier Financial Bancorp, Inc. Code of Business Conduct and Ethics, filed as Exhibit 14.2 to form 10-K filed on April 14, 2004, is incorporated herein by reference.
21	Subsidiaries of registrant
23	Consent of Independent Registered Public Accounting Firm
31.1	Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Robert W. Walker
31.2	Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Brien M. Chase
32	Robert W. Walker and Brien M. Chase Certification Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act 2002.

*** Denotes executive compensation plans and arrangements.

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SIGNATURES

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

PREMIER FINANCIAL BANCORP, INC.

By: /s/ Robert W. Walker, President
Robert W. Walker, President

Date: March 13, 2014

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

/s/ Robert W. Walker Robert W. Walker	Principal Executive and Director	March 13, 2014
/s/ Brien M. Chase Brien M. Chase	Principal Financial and Accounting Officer	March 13, 2014
/s/ Toney K. Adkins Toney K. Adkins	Director	March 11, 2014
/s/ Harry M. Hatfield Harry M. Hatfield	Director	March 11, 2014
/s/ Lloyd G. Jackson II Lloyd G. Jackson II	Director	March 11, 2014
/s/ Keith F. Molihan Keith F. Molihan	Director	March 11, 2014
/s/ Marshall T. Reynolds Marshall T. Reynolds	Chairman of the Board	March 11, 2014
/s/ Neal Scaggs Neal Scaggs	Director	March 11, 2014
/s/ Thomas W. Wright Thomas W. Wright	Director	March 11, 2014