PREMIER FINANCIAL BANCORP INC
Form 10-Q
August 08, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from ___________ to ___________

Commission file number 000-20908

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

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

Registrant's telephone number (304) 525-1600

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

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

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

Accelerated filer þ.

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

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

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

Common stock, no par value, – 8,102,745 shares outstanding at July 31, 2014

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PREMIER FINANCIAL BANCORP, INC.
JUNE 30, 2014

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

The accompanying financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the registrant's annual report on Form 10-K. Accordingly, the reader of the Form 10-Q may wish to refer to the registrant's Form 10-K for the year ended December 31, 2013 for further information in this regard.

Index to consolidated financial statements:

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2014 AND DECEMBER 31, 2013
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	(UNAUDITED) 2014	2013
ASSETS		
Cash and due from banks	$ 39,081	$ 27,378
Interest bearing bank balances	54,296	36,606
Federal funds sold	3,548	12,777
Cash and cash equivalents	96,925	76,761
Securities available for sale	269,770	218,066
Loans held for sale	487	77
Loans	832,841	740,770
Allowance for loan losses	(9,877)	(11,027)
Net loans	822,964	729,743
Federal Home Loan Bank stock, at cost	3,895	4,183
Premises and equipment, net	21,123	17,798
Real estate and other property acquired through foreclosure	12,842	13,524
Interest receivable	3,386	3,132
Goodwill	33,796	29,875
Other intangible assets	3,483	2,121
Deferred taxes	2,540	4,439
Other assets	644	460
Total assets	$ 1,271,855	$ 1,100,179
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 255,430	$ 210,193
Time deposits, $100,000 and over	174,693	146,905
Other interest bearing	659,438	566,925
Total deposits	1,089,561	924,023
Securities sold under agreements to repurchase	11,003	11,319
Other borrowed funds	12,937	13,800
Interest payable	461	383
Other liabilities	4,403	3,714
Total liabilities	1,118,365	953,239
Stockholders' equity		
Preferred stock, no par value; $12,000 liquidation preference, 5% cumulative, 1,000,000 shares authorized; 12,000 shares issued and outstanding	11,985	11,955
Common stock, no par value; 20,000,000 shares authorized; 8,101,545 shares issued and outstanding at June 30, 2014, and 8,038,345 shares issued and outstanding at December 31, 2013	74,208	73,589
Retained earnings	65,639	62,021
Accumulated other comprehensive income (loss)	1,658	(625)
Total stockholders' equity	153,490	146,940

Total liabilities and stockholders' equity	$ 1,271,855	$1,100,179

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income				
Loans, including fees	$11,262	$10,706	$22,925	$20,466
Securities available for sale				
Taxable	1,400	1,528	2,715	3,110
Tax-exempt	63	41	98	84
Federal funds sold and other	64	42	96	72
Total interest income	12,789	12,317	25,834	23,732
Interest expense				
Deposits	960	1,054	1,847	2,145
Repurchase agreements and other	9	6	16	18
Other borrowings	144	164	288	336
Total interest expense	1,113	1,224	2,151	2,499
Net interest income	11,676	11,093	23,683	21,233
Provision for loan losses	(79)	(70)	(389)	500
Net interest income after provision for loan losses	11,755	11,163	24,072	20,733
Non-interest income				
Service charges on deposit accounts	899	847	1,638	1,636
Electronic banking income	655	517	1,150	987
Secondary market mortgage income	50	47	69	141
Gain on disposition of securities	-	-	-	148
Other	179	170	307	314
	1,783	1,581	3,164	3,226
Non-interest expenses				
Salaries and employee benefits	4,873	3,845	8,857	7,437
Occupancy and equipment expenses	1,307	1,103	2,460	2,182
Outside data processing	1,029	855	1,898	1,675
Professional fees	209	289	745	445
Taxes, other than payroll, property and income	152	151	304	363
Write-downs, expenses, sales of other real estate owned, net	(488)	272	(394)	596
Amortization of intangibles	224	152	368	304
FDIC insurance	260	200	461	412
Loan collection expenses	127	129	194	266
Other expenses	1,021	813	1,850	1,516
	8,714	7,809	16,743	15,196
Income before income taxes	4,824	4,935	10,493	8,763
Provision for income taxes	1,724	1,826	3,723	3,150
Net income	$3,100	$3,109	$6,770	$5,613

Preferred stock dividends and accretion	(165)	(165)	(330)	(330)
Net income available to common stockholders	$2,935	$2,944	$6,440	$5,283
Net income per share:				
Basic	$0.36	$0.37	$0.80	$0.66
Diluted	0.34	0.35	0.75	0.63

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$3,100	$3,109	$6,770	$5,613
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale arising during the period	741	(4,830)	3,459	(5,409)
Reclassification of realized gain on the disposition of securities	-	-	-	(148)
Net change in unrealized gain (loss) on securities available for sale	741	(4,830)	3,459	(5,557)
Less tax impact	(252)	1,642	(1,176)	1,889
Other comprehensive income (loss)	489	(3,188)	2,283	(3,668)
Comprehensive income (loss)	$3,589	$(79)	$9,053	$1,945

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(UNAUDITED, DOLLARS IN THOUSANDS)

	2014	2013
Cash flows from operating activities		
Net income	$6,770	$5,613
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	735	677
Provision for loan losses	(389)	500
Amortization (accretion), net	484	131
OREO writedowns (gains on sales), net	(800)	(74)
Stock compensation expense	170	87
Loans originated for sale	(3,192)	(6,703)
Secondary market loans sold	2,851	6,797
Secondary market income	(69)	(141)
Gain on disposition of securities	-	(148)
Changes in :		
Interest receivable	417	296
Other assets	1,066	205
Interest payable	(56)	(59)
Other liabilities	174	148
Net cash from operating activities	8,161	7,329
Cash flows from investing activities		
Purchases of securities available for sale	(34,453)	(27,230)
Proceeds from maturities and calls of securities available for sale	24,298	46,900
Redemption of FHLB stock	408	-
Net change in loans	1,605	(9,401)
Acquisition of subsidiary, net of cash received	40,973	-
Purchases of premises and equipment, net	(290)	(345)
Improvements to OREO property	(242)	(1,029)
Proceeds from sales of other real estate acquired through foreclosure	2,803	1,795
Net cash from investing activities	35,102	10,690
Cash flows from financing activities		
Net change in deposits	(18,903)	2,386
Net change in agreements to repurchase securities	(316)	(17,587)
Repayment of other borrowed funds	(1,207)	(1,049)
Proceeds from stock option exercises	449	372
Common stock dividends paid	(2,822)	(1,756)
Preferred stock dividends paid	(300)	(300)
Net cash from financing activities	(23,099)	(17,934)
Net change in cash and cash equivalents	20,164	85
Cash and cash equivalents at beginning of period	76,761	70,245

Cash and cash equivalents at end of period	$96,925	$70,330

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(UNAUDITED, DOLLARS IN THOUSANDS)

	2014	2013
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	$2,207	$2,559
Cash paid during period for income taxes	2,299	3,376
Loans transferred to real estate acquired through foreclosure	1,079	882

See Accompanying Notes to Consolidated Financial Statements

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

NOTE 1 - BASIS OF PRESENTATION

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

				June 30, 2014	
		Year	Total	Net Income	
Subsidiary	Location	Acquired	Assets	Qtr	YTD
Citizens Deposit Bank & Trust	Vanceburg, Kentucky	1991	$ 368,479	$ 955	$ 2,260
Premier Bank, Inc.	Huntington, West Virginia	1998	896,228	2,193	5,087
Parent and Intercompany Eliminations			7,148	(48)	(577)
Consolidated Total			$ 1,271,855	$ 3,100	$ 6,770

All significant intercompany transactions and balances have been eliminated.

Recently Issued Accounting Pronouncements

In January 2014, FASB issued Accounting Standards Update 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force). The ASU clarifies when an insubstance repossession or foreclosure occurs and a creditor is considered to have received physical possession of real estate property collateralizing a consumer mortgage loan. Specifically, the new ASU requires a creditor to reclassify a collateralized consumer mortgage loan to real estate property upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. Additional disclosures are required detailing the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgages collateralized by real estate property that are in the process of foreclosure. The new guidance is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements, but will result in additional disclosures.

In May 2014, FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2016. Early adoption is not permitted. Management is currently evaluating the impact of the adoption of this guidance on the Company's financial statements.

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

NOTE 2 –SECURITIES

Amortized cost and fair value of investment securities, by category, at June 30, 2014 are summarized as follows:

2014	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. sponsored agency MBS - residential	$58,787	$715	$(12)	$59,490
U. S. sponsored agency CMO's - residential	161,632	2,661	(1,244)	163,049
Total mortgage-backed securities of government sponsored agencies	220,419	3,376	(1,256)	222,539
U. S. government sponsored agency securities	36,045	125	(25)	36,145
Obligations of states and political subdivisions	10,794	292	-	11,086
Total available for sale	$267,258	$3,793	$(1,281)	$269,770

Amortized cost and fair value of investment securities, by category, at December 31, 2013 are summarized as follows:

2013	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. sponsored agency MBS - residential	$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

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

NOTE 2–SECURITIES - continued

The amortized cost and fair value of securities at June 30, 2014 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	$6,728	$6,729
Due after one year through five years	29,053	29,417
Due after five years through ten years	9,854	9,866
Due after ten years	1,204	1,219
Mortgage-backed securities of government sponsored agencies	220,419	222,539
Total available for sale	$267,258	$269,770

A $148,000 gain was recognized from calls of securities during the first six months of 2013 while no gains were recorded in the first six months of 2014. There were no sales of securities during the first six months of 2014 nor the first six months of 2013.

Securities with unrealized losses at June 30, 2014 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	$ 4,107	$ (17)	$ 3,990	$ (8)	$ 8,097	$ (25)
U.S government sponsored agency MBS's – residential	4,354	(6)	4,155	(6)	8,509	(12)
U.S government sponsored agency CMO's – residential	14,457	(167)	27,641	(1,077)	42,098	(1,244)
Total temporarily impaired	$ 22,918	$ (190)	$ 35,786	$ (1,091)	$ 58,704	$ (1,281)

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

NOTE 2–SECURITIES - continued

Securities with unrealized losses at December 31, 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)

The investment portfolio is predominately high quality interest-bearing debt securities with defined maturity dates backed by the U.S. Government or Government sponsored entities. The unrealized losses at June 30, 2014 and December 31, 2013 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 3 - LOANS

Major classifications of loans at June 30, 2014 and December 31, 2013 are summarized as follows:

	2014	2013
Residential real estate	$279,116	$216,081
Multifamily real estate	32,424	38,456
Commercial real estate:		
Owner occupied	103,070	90,539
Non owner occupied	218,113	208,756
Commercial and industrial	79,978	85,301
Consumer	35,090	25,113
All other	85,050	76,524
	$832,841	$740,770

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

NOTE 3–LOANS - continued

Activity in the allowance for loan losses by portfolio segment for the six months ended June 30, 2014 was as follows:

Loan Class	Balance Dec 31, 2013	Provision for loan losses	Loans charged-off	Recoveries	Balance June 30, 2014
Residential real estate	$2,694	$(391)	$171	$8	$2,140
Multifamily real estate	417	(106)	-	-	311
Commercial real estate:					
Owner occupied	1,407	39	82	-	1,364
Non owner occupied	2,037	556	323	-	2,270
Commercial and industrial	2,184	(616)	84	5	1,489
Consumer	297	(33)	59	27	232
All other	1,991	162	204	122	2,071
Total	$11,027	$(389)	$923	$162	$9,877

Activity in the allowance for loan losses by portfolio segment for the six months ending June 30, 2013 was as follows:

Loan Class	Balance Dec 31, 2012	Provision for loan losses	Loans charged-off	Recoveries	Balance June 30, 2013
Residential real estate	$2,163	$358	$156	$6	$2,371
Multifamily real estate	331	98	-	-	429
Commercial real estate:					
Owner occupied	1,117	(255)	67	299	1,094
Non owner occupied	1,888	80	-	-	1,968
Commercial and industrial	3,046	987	12	52	4,073
Consumer	244	27	63	25	233
All other	2,699	(795)	94	220	2,030
Total	$11,488	$500	$392	$602	$12,198

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

NOTE 3–LOANS - continued

Activity in the allowance for loan losses by portfolio segment for the three months ended June 30, 2014 was as follows:

Loan Class	Balance March 31, 2014	Provision for loan losses	Loans charged-off	Recoveries	Balance June 30, 2014
Residential real estate	$2,250	$36	$152	$6	$2,140
Multifamily real estate	297	14	-	-	311
Commercial real estate:					
Owner occupied	1,477	(32)	81	-	1,364
Non owner occupied	2,385	(92)	23	-	2,270
Commercial and industrial	1,527	(20)	21	3	1,489
Consumer	220	37	33	8	232
All other	2,188	(22)	167	72	2,071
Total	$10,344	$(79)	$477	$89	$9,877

Activity in the allowance for loan losses by portfolio segment for the three months ending June 30, 2013 was as follows:

Loan Class	Balance March 31, 2013	Provision for loan losses	Loans charged-off	Recoveries	Balance June 30, 2013
Residential real estate	$2,066	$386	$85	$4	$2,371
Multifamily real estate	347	82	-	-	429
Commercial real estate:					
Owner occupied	1,191	(97)	-	-	1,094
Non owner occupied	1,967	1	-	-	1,968
Commercial and industrial	4,096	(23)	2	2	4,073
Consumer	174	66	16	9	233
All other	2,501	(485)	38	52	2,030
Total	$12,342	$(70)	$141	$67	$12,198

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

NOTE 3–LOANS - continued

Purchased Impaired 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 June 30, 2014 and December 31, 2013.

	2014	2013
Residential real estate	$174	$183
Multifamily real estate	534	1,229
Commercial real estate		
Owner occupied	246	250
Non owner occupied	5,752	6,782
Commercial and industrial	486	496
All other	4,665	4,623
Total carrying amount	$11,857	$13,563
Carrying amount, net of allowance	$11,225	$12,931

For those purchased loans disclosed above, the Company did not increase the allowance for loan losses for the six months ended June 30, 2014, nor did it increase the allowance for loan losses for purchased impaired loans during the six months ended June 30, 2013.

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.

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

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

NOTE 3–LOANS - continued

The accretable yield, or income expected to be collected, on the purchased loans above is as follows at June 30, 2014 and June 30, 2013.

	2014	2013
Balance at January 1	$217	$635
New loans purchased	-	-
Accretion of income	(6)	(18)
Reclassifications from non-accretable difference	-	-
Disposals	-	-
Balance at June 30	$211	$617

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

NOTE 3–LOANS - continued

Past Due and Non-performing Loans

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2014 and December 31 2013. 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.

June 30, 2014	Principal Owed on Non-accrual Loans	Recorded Investment in Non-accrual Loans	Loans Past Due Over 90 Days, still accruing
Residential real estate	$ 2,435	$ 2,150	$ 1,774
Multifamily real estate	1,941	1,197	1,366
Commercial real estate			
Owner occupied	2,257	2,003	1,261
Non owner occupied	2,028	1,892	308
Commercial and industrial	2,907	1,561	101
Consumer	235	215	33
All other	12,144	4,710	210
Total	$ 23,947	$ 13,728	$ 5,053

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

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 3–LOANS - continued

The following table presents the aging of the recorded investment in past due loans as of June 30, 2014 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	$279,116	$6,874	$2,781	$9,655	$269,461
Multifamily real estate	32,424	907	2,029	2,936	29,488
Commercial real estate:					
Owner occupied	103,070	790	2,484	3,274	99,796
Non owner occupied	218,113	9,097	1,993	11,090	207,023
Commercial and industrial	79,978	2,553	1,404	3,957	76,021
Consumer	35,090	691	114	805	34,285
All other	85,050	761	4,875	5,636	79,414
Total	$832,841	$21,673	$15,680	$37,353	$795,488

The table above includes approximately $3,574,000 of loans 30-89 days past due and $1,335,000 of loans greater than 90 days past due that were acquired via the purchase of the Bank of Gassaway on April 4, 2014. See Note 9 below for additional details on purchase of the Bank of Gassaway.

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

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NOTE 3–LOANS - continued

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2014:

	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	$32	$ 2,108	$ -	$2,140	$2,081	$ 276,861	$ 174	$279,116
Multifamily real estate	28	283	-	311	1,806	30,084	534	32,424
Commercial real estate:								
Owner occupied	129	1,235	-	1,364	1,830	100,994	246	103,070
Non-owner occupied	-	2,270	-	2,270	207	212,154	5,752	218,113
Commercial and industrial	338	1,019	132	1,489	868	78,624	486	79,978
Consumer	-	232	-	232	-	35,090	-	35,090
All other	-	1,571	500	2,071	2,595	77,790	4,665	85,050
Total	$527	$ 8,718	$ 632	$9,877	$9,387	$ 811,597	$ 11,857	$832,841

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
	1,088	964	132	2,184	4,270	80,535	496	85,301

Commercial and industrial								
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

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NOTE 3–LOANS - continued

As of June 30, 2014, the table above includes approximately $92,650,000 of loans acquired from the purchase of the Bank of Gassaway reported as collectively evaluated for impairment with no loans deemed by management to be reported as individually evaluated for impairment or acquired with deteriorated credit quality.

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 June 30, 2014. The table includes $5,869,000 of loans acquired with deteriorated credit quality that the Company cannot reasonably estimate cash flows such that they are accounted for on the cost recovery method and are still individually evaluated for impairment.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	$1,550	$1,384	$-
Multifamily real estate	2,725	1,980	-
Commercial real estate			
Owner occupied	1,651	1,468	-
Non owner occupied	275	207	-
Commercial and industrial	792	44	-
All other	2,631	2,595	-
	9,624	7,678	-
With an allowance recorded:			
Residential real estate	$882	$871	$32
Multifamily real estate	365	360	28
Commercial real estate			
Owner occupied	475	475	129
Commercial and industrial	1,616	1,207	470
All other	12,063	4,665	500
	15,401	7,578	1,159
Total	$25,025	$15,256	$1,159

(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3–LOANS - continued

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2013. The table includes $7,483,000 of loans acquired with deteriorated credit quality that the Company cannot reasonably estimate cash flows such that they are accounted for on the cost recovery method and are still individually evaluated for impairment.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	$1,513	$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 3–LOANS - continued

The following table presents the average balance of loans individually evaluated for impairment and interest income recognized on these loans for the six months ended June 30, 2014 and June 30, 2013. The table includes loans acquired with deteriorated credit quality that are still individually evaluated for impairment.

	Six months ended June 30, 2014			Six months ended June 30, 2013		
Loan Class	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
Residential real estate	$2,536	$ 61	$ 61	$4,486	$ 98	$ 97
Multifamily real estate	2,586	727	727	4,006	796	796
Commercial real estate:						
Owner occupied	2,155	29	21	2,655	88	71
Non-owner occupied	800	627	627	2,801	17	17
Commercial and industrial	2,395	542	542	10,082	40	40
All other	7,603	81	81	9,393	161	161
Total	$18,075	$ 2,067	$ 2,059	33,423	1,200	1,182

The following table presents the average balance of loans individually evaluated for impairment and interest income recognized on these loans for the three months ended June 30, 2014 and June 30, 2013. The table includes loans acquired with deteriorated credit quality that are still individually evaluated for impairment.

	Three months ended June 30, 2014			Three months ended June 30, 2013		
Loan Class	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
Residential real estate	$2,318	$ 27	$ 27	$4,323	$ 48	$ 47
Multifamily real estate	2,353	19	19	3,743	766	766
Commercial real estate:						
Owner occupied	1,983	14	10	2,592	49	42
Non-owner occupied	214	-	-	2,349	16	16
Commercial and industrial	1,265	9	9	9,468	36	36
All other	7,453	38	38	9,706	79	79
Total	$15,586	$ 107	$ 103	$32,181	$ 994	$ 986

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NOTE 3–LOANS - continued

Troubled Debt Restructurings

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

The following table presents TDR’s as of June 30, 2014 and December 31, 2013:

June 30, 2014	TDR’s on Non-accrual	Other TDR’s	Total TDR’s
Residential real estate	$ 20	$ 199	$ 219
Commercial real estate			
Non owner occupied	-	495	495
Commercial and industrial	-	796	796
Consumer	-	4	4
All other	-	1,838	1,838
Total	$ 20	$ 3,332	$ 3,352

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

At June 30, 2014 and December 31, 2013 there were no specific reserves allocated to loans that had restructured terms.

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NOTE 3–LOANS - continued

The following table presents TDR's that occurred during the six months ended June 30, 2014 and June 30, 2013:

	Six months ended June 30, 2014			Six months ended June 30, 2013		
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
All other	-	-	-	1	$ 16	$ 16
Total	-	$ -	$ -	1	$ 16	$ 16

The troubled debt restructurings described above did not increase the allowance for loan losses during the period ended June 30, 2014 and did not increase the allowance for loan losses during the period ended June 30, 2013.

During the three and six months ended June 30, 2014 and the three and six months ended June 30, 2013, there were no TDR's for which there as a payment default within twelve months following the modification.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

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NOTE 3–LOANS - continued

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes non-homogeneous loans, such as commercial, commercial real estate, multifamily residential and commercial purpose loans secured residential real estate, on a monthly basis. For consumer loans, including consumer loans secured by residential real estate, the analysis involves monitoring the performing status of the loan. At the time such loans become past due by 30 days or more, the Company evaluates the loan to determine if a change in risk category is warranted. The Company uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

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NOTE 3–LOANS - continued

As of June 30, 2014 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	$263,898	$7,661	$7,537	$20	$279,116
Multifamily real estate	29,177	907	2,340	-	32,424
Commercial real estate:					
Owner occupied	91,650	7,371	4,049	-	103,070
Non-owner occupied	207,435	8,300	2,378	-	218,113
Commercial and industrial	76,162	2,138	1,646	32	79,978
Consumer	34,645	278	167	-	35,090
All other	71,367	5,789	7,894	-	85,050
Total	$744,334	$32,444	$26,011	$52	$832,841

The table above includes approximately $83,930,000 of loans risk rated as "pass", $3,129,000 of loans risk rated as "special mention", $2,771,000 of loans risk rated as "substandard" and no loans risk rated as doubtful that were acquired via the purchase of the Bank of Gassaway on April 4, 2014. See Note 9 below for additional details on purchase of the Bank of Gassaway.

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

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NOTE 4- STOCKHOLDERS' EQUITY AND REGULATORY MATTERS

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

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

These quantitative measures established by regulation to ensure capital adequacy require the Company and Banks to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 2014 the Company and the Banks meet all quantitative capital adequacy requirements to which they are subject.

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

	June 30, 2014	December 31, 2013	Regulatory Minimum Requirements	To Be Considered Well Capitalized
Tier I Capital (to Risk-Weighted Assets)	15.0%	16.9%	4.0%	6.0%
Total Capital (to Risk-Weighted Assets)	16.2%	18.2%	8.0%	10.0%
Tier I Capital (to Average Assets)	9.5%	11.0%	4.0%	5.0%

As of June 30, 2014, the most recent notification from each of the Banks' primary Federal regulators categorized the subsidiary Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain minimum Total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the preceding table. There are no conditions or events since that notification that management believes have changed the Banks' categories.

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NOTE 5 – PREFERRED STOCK

On October 2, 2009, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program, the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "Purchase Agreement") with the United States Department of the Treasury ("U.S. Treasury"). Pursuant to the Purchase Agreement, the Company issued and sold to the U.S. Treasury 22,252 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, with a liquidation preference of one thousand dollars per share (the "Series A Preferred Stock") and a ten-year warrant (the "Warrant") to purchase 628,588 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.

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

The Series A Preferred Stock is non-voting, but has class voting rights on (i) any authorization or issuance of shares ranking senior to the Series A Preferred Stock; (ii) any amendment to the rights of the Series A Preferred Stock; or (iii) any merger, consolidation, share exchange, reclassification or similar transaction which would adversely affect the rights of the Series A Preferred Stock. In the event that the cumulative dividends described above are not paid in full for an aggregate of six dividend periods or more, whether or not consecutive, the authorized number of directors of Premier would automatically be increased by two and the holders of the Series A Preferred Stock would have the right to elect two directors. The right to elect directors would end when dividends have been paid in full for four consecutive dividend periods. As previously disclosed, Premier has already deferred two dividend payments on the Series A Preferred Stock as a result of the Federal Reserve Board's refusal to initially approve the November 15, 2010 and February 15, 2011 dividends under the Written Agreement dated July 29, 2010, among CB&T, a wholly owned subsidiary of Premier; the FRB, and the Virginia Bureau. These deferred dividends were paid along with the regularly scheduled May 15, 2011 Series A Preferred Stock quarterly dividend.

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NOTE 5 – PREFERRED STOCK - continued

The U.S. Treasury has agreed not to exercise voting power with respect to any common stock issued to it upon exercise of the Warrant. The common stock will be issued from authorized but unissued common stock and thus will dilute the interests of existing Premier common shareholders. Under terms of the Warrant, the exercise price and the number of shares that can be purchased are adjusted based upon certain events including common stock dividends paid to shareholders that exceed the $0.11 per share regular quarterly dividend paid by Premier at the time the Warrant was issued. Due to dividends paid in 2014 that were either special cash dividends or dividends that exceeded the $0.11 regular quarterly cash dividend per share defined in the terms of the Warrant, the Warrant has been adjusted as of June 30, 2014 to permit the purchase of 634,322 shares of the Company's common stock at an exercise price of $5.26 per share. As of June 30, 2014, the Warrant has not yet been exercised. Since the Series A Preferred Stock was disposed of by the U.S. Treasury, Premier has the right to repurchase the Warrant at its appraised value. If Premier chooses not to repurchase the Warrant, the U.S. Treasury may liquidate the Warrant at its current market price.

NOTE 6 – STOCK COMPENSATION EXPENSE

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

On March 19, 2014, 46,300 incentive stock options were granted out of the 2012 Long Term Incentive Plan at an exercise price of $14.43, the closing market price of Premier's common stock on the grant date. These options vest in three equal annual installments ending on March 19, 2017. On March 20, 2013, 52,900 incentive stock options were granted out of the 2012 Long Term Incentive Plan at an exercise price of $11.39, the closing market price of Premier's common stock on the grant date. These options vest in three equal annual installments ending on March 20, 2016.

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:

	2014	2013
Risk-free interest rate	2.78 %	1.96 %
Expected option life (yrs)	10.00	10.00
Expected stock price volatility	31.19 %	35.24 %
Dividend yield	3.33 %	3.86 %
Weighted average fair value of options granted	$3.74	$2.85

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NOTE 6 – STOCK COMPENSATION EXPENSE - continued

The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield in effect at the time of the grant. The expected option life was estimated since there has been little option exercise history. The expected stock price volatility is based on historical volatilities of the Company's common stock. The dividend yield was estimated using historical dividends and dividend yields since at the time of the option grant the Company is restricted from paying dividends by its primary regulator.

On April 16, 2014, 6,000 shares of Premier's common stock were granted to Robert W. Walker as stock-based bonus compensation under the 2012 Long-term Incentive Plan. The fair value of the stock at the time of the grant was $14.20 per share based upon the closing price of Premier's stock of the date of grant and $85,000 of stock-based compensation was recorded as a result.

Stock-based compensation expense of $170,000 was recorded for the first six months of 2014 compared to $87,000 for the first six months of 2013. For the three months ended June 30, $128,000 was recorded for 2014 while $41,000 was recorded for 2013. Stock-based compensation expense is recognized ratably over the requisite vesting period for all awards. Unrecognized stock-based compensation expense related to stock options totaled $186,000 at June 30, 2014. This unrecognized expense is expected to be recognized over the next 32 months based on the vesting periods of the options.

A summary of the Company's stock option activity and related information is presented below for the six months ended June 30:

	- - - - - - 2014 - - - - - -		- - - - - - 2013 - - - - - -	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	354,281	$9.84	392,366	$9.24
Grants	46,300	14.43	52,900	11.39
Exercises	(63,297)	8.45	(48,617)	7.65
Forfeitures or expired	(8,133)	9.27	(12,201)	8.03
Outstanding at June 30,	329,151	$10.77	384,448	$9.70
Exercisable at June 30,	223,898		242,898	
Weighted average remaining life of options outstanding	6.2		6.5	
Weighted average fair value of options granted during the year	$3.74		$2.85	

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

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

NOTE 6 – STOCK COMPENSATION EXPENSE - continued

Additional information regarding stock options outstanding and exercisable at June 30,2014, 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	144,648	$ 7.47	$ 1,245	116,955	6.6	$ 7.47	$ 1,006
$10.01 to $12.50	61,603	11.45	285	30,343	4.4	11.51	139
$12.51 to $15.00	99,400	13.91	216	53,100	3.2	13.46	139
$15.01 to $17.50	23,500	16.00	2	23,500	1.6	16.00	2
Outstanding - Jun 30, 2014	329,151	10.77	$ 1,748	223,898	5.0	10.34	$ 1,286

NOTE 7 – EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the earnings per common share and earnings per common share assuming dilution computations for the three and six months ended June 30, 2014 and 2013 is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Basic earnings per share				
Income available to common stockholders	$2,935	$2,944	$6,440	$5,283
Weighted average common shares outstanding	8,079,629	7,980,923	8,061,522	7,971,859
Earnings per share	$0.36	$0.37	$0.80	$0.66
Diluted earnings per share				
Income available to common stockholders	$2,935	$2,944	$6,440	$5,283
Weighted average common shares outstanding	8,079,629	7,980,923	8,061,522	7,971,859
Add dilutive effects of potential additional common stock	502,839	451,072	504,519	439,194
Weighted average common and dilutive potential common shares outstanding	8,582,468	8,431,995	8,566,041	8,411,053
Earnings per share assuming dilution	$0.34	$0.35	$0.75	$0.63

Stock options for 23,500 and 84,100 shares of common stock were not considered in computing diluted earnings per share for the six months ended June 30, 2014 and 2013 because they were antidilutive. Stock options for 23,500 and 84,100 shares of common stock were not considered in computing diluted earnings per share for the three months ended June 30, 2014 and 2013 because they were antidilutive.

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NOTE 8 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

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

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

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

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

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

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

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

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PREMIER FINANCIAL BANCORP, INC.
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NOTE 8 – FAIR VALUE - continued

The carrying amounts and estimated fair values of financial instruments at June 30, 2014 were as follows:

		Fair Value Measurements at June 30, 2014 Using			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and due from banks	$93,377	$93,377	$-	$-	$93,377
Federal funds sold	3,548	3,548	-	-	3,548
Securities available for sale	269,770	-	269,630	140	269,770
Loans held for sale	487	-	-	487	487
Loans, net	822,964	-	-	825,813	825,813
Federal Home Loan Bank stock	3,895	n/a	n/a	n/a	n/a
Interest receivable	3,386	-	807	2,579	3,386
Financial liabilities					
Deposits	$(1,089,561)	$(716,889)	$(373,389)	$-	$(1,090,278)
Securities sold under agreements to repurchase	(11,003)	-	(11,003)	-	(11,003)
Other borrowed funds	(12,937)	-	(12,984)	-	(12,984)
Interest payable	(461)	(6)	(455)	-	(461)

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)

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

Assets and Liabilities Measured on a Recurring Basis

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

		Fair Value Measurements at June 30, 2014 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale				
Mortgage-backed securities				
U. S. agency MBS - residential	$59,490	$-	$59,490	$ -
U. S. agency CMO's - residential	163,049	-	163,049	-
Total mortgage-backed securities of government sponsored agencies	222,539	-	222,539	-
U. S. government sponsored agency securities	36,145	-	36,145	-
Obligations of states and political subdivisions	11,086	-	10,946	140
Total available for sale	$269,770	$-	$269,630	$ 140

		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)
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
Mortgage-backed securities				

There were no transfers between Level 1 and Level 2 during 2014 or 2013.

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

NOTE 8 – FAIR VALUE - continued

Assets and Liabilities Measured on a 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 real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and unique to each property and result in a Level 3 classification of the inputs for determining fair value. Management periodically evaluates the appraised values and will discount a property’s appraised value to account for a number of factors including but not limited to the cost of liquidating the collateral, the age of the appraisal, observable deterioration since the appraisal, or other factors unique to the property. To the extent an adjusted appraised value is lower than the carrying value of an impaired loan, a specific allocation of the allowance for loan losses is assigned to the loan.

Other real estate owned (OREO): The fair value of OREO is based on appraisals less cost to sell at the date of foreclosure. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Management periodically evaluates the appraised values and will discount a property’s appraised value to account for a number of factors including but not limited to the cost of liquidating the collateral, the age of the appraisal, observable deterioration since the appraisal, or other factors unique to the property. To the extent an adjusted appraised value is lower than the carrying value of an OREO property, a direct charge to earnings is recorded as an OREO writedown.

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NOTE 8 – FAIR VALUE - continued

Assets and liabilities measured at fair value on a non-recurring basis at June 30, 2014 are summarized below:

		Fair Value Measurements at June 30, 2014 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Residential Real Estate	$839	$-	$-	$ 839
Multifamily Residential	332	-	-	332
Commercial Real Estate				
Owner Occupied	346	-	-	346
Commercial and Industrial	737	-	-	737
All Other	4,165	-	-	4,165
Total impaired loans	6,419	$-	$-	$ 6,419
Other real estate owned:				
Commercial Real Estate				
Non-owner Occupied	$290	-	-	$ 290
All Other	8,448	-	-	8,448
Total OREO	$8,738	$-	$-	$ 8,738

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $6,419,000 at June 30, 2014 made up of an outstanding balance of $7,578,000, net of a valuation allowance of $1,159,000. At December 31, 2013, impaired loans had a carrying amount of $9,808,000, made up of an outstanding balance of $12,300,000, net of a valuation allowance of $2,492,000. The change resulted in a negative provision for loan losses of $886,000 for the six months ended June 30, 2014, compared to a $483,000 provision for loan losses for the six months ended June 30, 2013; and a negative $143,000 provision for loan losses for the three months ended June 30, 2014, compared to a negative $429,000 provision for loan losses for the three months ended June 30, 2013. The detail of impaired loans by loan class is contained in Note 3 above.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $8,738,000 which is made up of the outstanding balance of $11,395,000 net of a valuation allowance of $2,657,000 at June 30, 2014. There were $280,000 of additional write downs during the six months ended June 30, 2014, compared to no additional write downs during the six months ended June 30, 2013. For the three months ended June 30, 2014 there were $280,000 of additional write downs compared to no additional write downs during the three months ended June 30, 2013. At December 31, 2013, other real estate owned had a net carrying amount of $8,786,000, made up of the outstanding balance of $11,163,000, net of a valuation allowance of $2,377,000.

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PREMIER FINANCIAL BANCORP, INC.
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NOTE 8 – FAIR VALUE - continued

The significant unobservable inputs related to assets and liabilities measured at fair value on a non-recurring basis at June 30, 2014 are summarized below:

	June 30, 2014	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Impaired loans:				
Residential Real Estate	$ 839	sales comparison	adjustment for differences between the comparable sales	3.3%-3.3%(3.3%)
Multifamily Residential	332	sales comparison	adjustment for differences between the comparable sales	36.8%-36.8%(36.8%)
Commercial Real Estate				
Owner Occupied	346	sales comparison	adjustment for limited salability of specialized property	65.5%-72.4%(66.9%)
Commercial and Industrial	737	sales comparison	adjustment for limited salability of specialized property	16.4%-41.2%(27.7%)
All Other	4,165	sales comparison	adjustment for percentage of completion of construction	57.2%-57.2%(57.2%)
Total impaired loans	6,419			
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	8,448	sales comparison	adjustment for estimated realizable value	24.6%-49.1%(44.2%)
Total OREO	$ 8,738			

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PREMIER FINANCIAL BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED, DOLLARS IN TABLES IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 8 – FAIR VALUE - continued

Assets and liabilities measured at fair value on a non-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)
Assets:				
Impaired loans:				
Residential Real Estate	$1,518	$-	$-	$ 1,518
Commercial Real Estate				
Owner Occupied	345	-	-	345
Non-owner Occupied	428	-	-	428
Commercial and Industrial	3,384	-	-	3,384
All Other	4,133	-	-	4,133
Total impaired loans	9,808	$-	$-	$ 9,808
Other real estate owned:				
Commercial Real Estate				
Non-owner Occupied	290	-	-	290
All Other	8,496	-	-	8,496
Total OREO	$8,786	$-	$-	$ 8,786

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PREMIER FINANCIAL BANCORP, INC.
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NOTE 8 – FAIR VALUE - continued

The significant unobservable inputs related to assets and liabilities measured at fair value on a non-recurring basis at 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	345	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	9,808			
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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PREMIER FINANCIAL BANCORP, INC.
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NOTE 9 – ACQUISITION OF BANK OF GASSAWAY

Effective with the close of business on April 4, 2014, Premier completed its purchase of the Bank of Gassaway ("Gassaway"), a $201.52 million bank headquartered in Gassaway, West Virginia. Under terms of an amended and restated agreement of merger dated January 3, 2014, Premier Bank, Inc., a wholly owned subsidiary of Premier, paid $20.25 million in cash for the Bank of Gassaway and merged Gassaway's five branch locations into its operating systems. The purchase price resulted in approximately $3.92 million in goodwill and $1.73 million in core deposit intangible, none of which is deductible for tax purposes. The core deposit intangible will be amortized using an accelerated method. The following table presents estimated amortization of the Gassaway core deposit intangible for each of the next five years.

2014	$243
2015	279
2016	226
2017	193
2018	186
2019 and thereafter	603
Total core deposit intangible acquired	$1,730

United States generally accepted accounting principles ("U.S. GAAP") provides up to twelve months following the date of acquisition in which management can finalize the fair values of acquired assets and assumed liabilities. Material events that occur during the measurement period will be analyzed to determine if the new information reflected facts and circumstances that existed on the acquisition date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns more information is unobtainable. The measurement period is limited to one year from the acquisition date. Once management has finalized the fair values of acquired assets and assumed liabilities within this twelve month period, management considers such values to be the "Day One Fair Values.".

Net assets acquired via the acquisition are shown in the table below.

	Gassaway
Cash and due from banks	$ 61,223
Securities available for sale	38,741
Loans, net	95,094
Goodwill and other intangible assets	5,651
Other assets	5,089
Total assets acquired	205,798
Deposits	(184,555)
Other liabilities	(993)
Total liabilities assumed	(185,548)
Net assets acquired	$ 20,250

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NOTE 9 – ACQUISITION OF BANK OF GASSAWAY - continued

The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. Non-impaired loans with a fair value of $95,094,000 had gross contractual amounts receivable of $97,588,000 on the date of acquisition.

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PREMIER FINANCIAL BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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

FORWARD-LOOKING STATEMENTS

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

A. Results of Operations

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

Effective with the close of business on April 4, 2014, Premier completed its purchase of the Bank of Gassaway ("Gassaway"), a $201.52 million bank headquartered in Gassaway, West Virginia. Under terms of an amended and restated agreement of merger dated January 3, 2014, Premier Bank, Inc., a wholly owned subsidiary of Premier, paid $20.25 million in cash for the Bank of Gassaway and merged Gassaway's five branch locations into its operating systems. The balances and results of operations of Gassaway are included in Premier's balances and operating results only since the date of acquisition.

Net income for the six months ended June 30, 2014 was $6,770,000, or $0.75 per diluted share, compared to net income of $5,613,000, or $0.63 per diluted share, for the six months ended June 30, 2013. The increase in income in 2014 is largely due to an increase in interest income on loans, a decrease in interest expense, and a decrease in the provision for loan losses, all of which more than offset a decrease in non-interest income and an increase in non-interest expenses. The increase in interest income on loans in the first six months of 2014 is largely due to approximately $1.8 million of income recognized from purchase discounts and interest income collected on non-accrual loans liquidated during the first quarter of 2014. The annualized returns on average common shareholders' equity and average assets were approximately 9.15% and 1.12% for the six months ended June 30, 2014 compared to 7.81% and 1.00% for the same period of 2013.

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Net income for the three months ended June 30, 2014 was $3,100,000, or $0.34 per diluted share, compared to net income of $3,109,000, or $0.35 per diluted share for the three months ended June 30, 2013. The slight decrease in income for the three months ended June 30, 2014 is largely due to an increase in non-interest expenses, which more than offset an increase in interest income on loans, a decrease in interest expense and an increase in non-interest income. The annualized returns on common shareholders' equity and average assets were approximately 8.29% and 0.96% for the three months ended June 30, 2014 compared to 8.72% and 1.11% for the same period in 2013.

Net interest income for the six months ended June 30, 2014 totaled $23.68 million, up $2.45 million, or 11.5%, from the $21.23 million of net interest income earned in the first six months of 2013, as an increase in interest income was complemented by a decrease in interest expense. Interest income in 2014 increased by $2.10 million, or 8.9%, largely due to a $2.46 million increase in interest income on loans. In the first six months of 2014, interest income on loans included approximately $1.85 million of income recognized from purchase discounts and interest income collected on non-accrual loans liquidated during the first quarter of 2014, while in 2013, interest income on loans included $770,000 of similar income on non-accrual loans liquidated during the second quarter of 2013. The timing of these liquidations is difficult to predict, which creates fluctuations in reported loan interest income. Excluding the income from liquidation of these non-accrual loans, interest income on loans increased by $1.38 million, or 6.8%, largely due to the additional interest income on loans acquired from the Gassaway purchase. Interest income on investments decreased by $381,000, or 11.9% due to a lower average volume of investments and a slightly lower average yield on those investments. Interest earned on federal funds sold and interest bearing bank balances increased by $24,000, largely due to a higher average volume of assets held in this category resulting from the funds added from the Gassaway purchase.

Complementing the increase in interest income in the first six months of 2014 was $348,000 of interest expense savings. Interest expense decreased in total during the first six months of 2014 by $348,000, or 13.9%, when compared to the same six months of 2013. This decrease includes the addition of $88,000 of interest expense on the interest-bearing deposits and other borrowings assumed from the Gassaway purchase. Interest expense on deposits decreased by $298,000, or 13.9%, largely due to a continuing decrease in rates paid on deposits. This decrease in interest expense includes $83,000 of additional interest expense from the Gassaway purchase. Otherwise, interest expense in the first six months of 2014 would have decreased by $381,000, or 17.8%, when compared to the same six months of 2013. Interest expense on repurchase agreements and other short-term borrowings decreased by $2,000, largely due to a lower average balance outstanding. Interest expense on other borrowings decreased by $48,000, or 14.3%, in the first six months of 2014 compared to the first six months of 2013, largely due to a decrease in the average amount of borrowings outstanding which more than offset an additional $5,000 of interest expense from the borrowing assumed from the Gassaway purchase.

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The Federal Reserve System Board of Governors' policy to maintain the federal funds rate at nearly zero, coupled with the U.S. Treasury actively buying investment securities, has significantly reduced the yield on much of Premier's earning assets, including investments, federal funds sold and variable rate loans. Premier has tried to offset the lower interest income by lowering the rates paid on its deposits and repurchase agreements with customers. With the recognition of additional loan interest income upon the liquidation of non-accrual loans in 2014, Premier's overall net interest margin increased in the first six months of 2014. Premier's net interest margin during the first six months of 2014 was 4.32% compared to 4.16% for the same period in 2013. A portion of the interest income on loans is the result of recognizing into interest income the remaining fair value discounts on loans acquired via a business acquisition if that loan was paid-off during the period. These events cannot be predicted with certainty and may positively or negatively affect the comparison of interest income on loans in future periods. Also impacting the comparison of Premier's net interest margin in 2014 with its net interest margin in 2013 are the assets and liabilities acquired via the Gassaway purchase which generated additional net interest income in the second quarter of 2014 but not necessarily at the same net interest margin as Premier's historical yields.

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PREMIER FINANCIAL BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Additional information on Premier's net interest income for the first six months of 2014 and first six months of 2013 is contained in the following table.

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

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Balance	Interest	Yield/Rate	Balance	Interest	Yield/Rate
Assets						
Interest Earning Assets						
Federal funds sold and other	$ 71,207	$ 96	0.27 %	$ 53,220	$ 72	0.27 %
Securities available for sale						
Taxable	239,478	2,715	2.27	271,044	3,110	2.30
Tax-exempt	7,208	98	4.12	5,944	84	4.28
Total investment securities	246,686	2,813	2.32	276,988	3,194	2.34
Total loans	788,493	22,925	5.86	703,214	20,466	5.87
Total interest-earning assets	1,106,386	25,834	4.71 %	1,033,422	23,732	4.63 %
Allowance for loan losses	(10,505)			(12,159)		
Cash and due from banks	30,683			26,791		
Other assets	74,315			68,902		
Total assets	$ 1,200,879			$ 1,116,956		
Liabilities and Equity						
Interest-bearing liabilities						
Interest-bearing deposits	$ 785,019	1,847	0.47	$ 739,503	2,145	0.58
Short-term borrowings	12,784	16	0.25	14,919	18	0.24
FHLB advances	-	-	-	-	-	-
Other borrowings	13,340	288	4.35	15,509	336	4.37
Total interest-bearing liabilities	811,143	2,151	0.53 %	769,931	2,499	0.65 %
Non-interest bearing deposits	232,768			196,818		
Other liabilities	5,016			3,659		
Stockholders' equity	151,952			146,548		
Total liabilities and equity	$ 1,200,879			$ 1,116,956		

Net interest earnings	$ 23,683		$ 21,233	
Net interest spread	4.18	%	3.98	%
Net interest margin	4.32	%	4.16	%

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Additional information on Premier's net interest income for the second quarter of 2014 and second quarter of 2013 is contained in the following table.

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

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Balance	Interest	Yield/Rate	Balance	Interest	Yield/Rate
Assets						
Interest Earning Assets						
Federal funds sold and other	$ 86,456	$ 64	0.30 %	$ 57,782	$ 42	0.28 %
Securities available for sale						
Taxable	261,020	1,400	2.15	264,356	1,528	2.31
Tax-exempt	9,798	63	3.90	5,852	41	4.25
Total investment securities	270,818	1,463	2.21	270,208	1,569	2.36
Total loans	832,756	11,262	5.42	704,780	10,706	6.09
Total interest-earning assets	1,190,030	12,789	4.32 %	1,032,770	12,317	4.79 %
Allowance for loan losses	(10,158)			(12,478)		
Cash and due from banks	35,155			26,963		
Other assets	78,138			68,625		
Total assets	$ 1,293,165			$ 1,115,880		
Liabilities and Equity						
Interest-bearing liabilities						
Interest-bearing deposits	$ 849,505	960	0.45	$ 741,436	1,054	0.57
Short-term borrowings	13,200	9	0.27	10,241	6	0.23
FHLB advances	-	-	-	-	-	-
Other borrowings	13,198	144	4.38	15,262	164	4.31
Total interest-bearing liabilities	875,903	1,113	0.51 %	766,939	1,224	0.64 %
Non-interest bearing deposits	258,038			198,372		
Other liabilities	5,593			3,560		
Stockholders' equity	153,630			147,009		
Total liabilities and equity	$ 1,293,165			$ 1,115,880		

Net interest earnings	$ 11,676			$ 11,093		
Net interest spread		3.81	%		4.15	%
Net interest margin		3.94	%		4.31	%

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Net interest income for the quarter ended June 30, 2014 totaled $11.68 million, up $583,000, or 5.3%, from the $11.09 million of net interest income earned in the second quarter of 2013. Interest income in the second quarter of 2014 increased by $472,000, or 3.8%, as an increase in interest income on loans more than offset a decrease in interest income on investments. Interest income on loans increased by $556,000, or 5.2%. In the second quarter of 2014, interest income on loans included an increase of $1.37 million from the loans acquired from the Gassaway purchase. Partially offsetting this increase was $770,000 of deferred interest and purchase discounts recognized on non-accrual loans liquidated during the second quarter of 2013. When a loan that has been discounted as a result of being purchased in a business acquisition is paid-off, any remaining discount is recognized as interest income on loans. These events cannot be predicted with certainty and may positively or negatively affect interest income on loans in future periods, which creates fluctuations in reported loan interest income. Interest earned on investments decreased by $106,000, or 6.8%, in the second quarter of 2014 largely due to lower average yields on the investment portfolio. Interest earned on federal funds sold and interest bearing bank balances increased by $22,000, largely due to a higher average volume of assets held in this category as a result of the Gassaway purchase.

Also adding to the increase in net interest income, interest expense decreased in total during the second quarter of 2014 by $111,000, or 9.1%, when compared to the same quarter of 2013. Interest expense on deposits decreased by $94,000, or 8.9%, largely due to a continuing decrease in the average rates paid on interest-bearing deposits. This decrease in interest expense includes $83,000 of additional interest expense on deposits from the Gassaway purchase. Otherwise, interest expense on deposits in the second quarter of 2014 would have decreased by $177,000, or 16.8%, when compared to the second quarter of 2013. Interest expense on repurchase agreements and other short-term borrowings decreased by $3,000, largely due to an increase in repurchase agreement balances. Interest expense on other borrowings decreased by $20,000, or 12.2%, in the second quarter of 2014 compared to the second quarter of 2013, largely due to a decrease in the average amount of borrowings outstanding which more than offset the additional interest expense incurred on the borrowings assumed in the Gassaway purchase. The Board of Governors' policy to reduce the federal funds rate to nearly zero, coupled with the U.S. Treasury continuing to buy investment securities, has significantly reduced the yield on much of Premier's earning assets, including investments, federal funds sold and variable rate loans. New fixed rate loans are also pricing lower than loans originated in prior periods. Premier has tried to offset the lower interest earning yields by lowering the rates paid on its deposits and repurchase agreements with customers. During the second quarter of 2014, the decrease in the yields earned on loans, partially due to the increase in interest income on loans from the liquidation of non-accrual loans during the second quarter of 2013, outpaced the lower average rate paid on deposits which had the effect of lowering Premier's overall net interest margin. Premier's net interest margin during the second quarter of 2014 was 3.94% compared to 4.31% for the same period in 2013.

Non-interest income decreased by $62,000, or 1.9%, to $3,164,000 for the first six months of 2014 compared to the same period of 2013. However, this decrease includes a $148,000 gain in 2013 from the disposition of an investment security that was called during the first six months of that year. Excluding that gain, electronic banking income (income from debit/credit cards, ATM fees and internet banking charges) increased by $163,000, or 16.5%, largely due to the inclusion of the Gassaway operations since the bank's acquisition date. Service charges on deposit accounts remained relatively unchanged as the increase in revenue from the Gassaway operations was largely offset by decreases in customer overdraft activity as customers reduced their propensity to incur overdraft charges as they managed their checking accounts more closely. Income from selling mortgages in the secondary market decreased by $72,000, or 51.0%, largely due to a decrease in customer demand for refinancing existing mortgage loans compared to one-year ago as a result of an increase in long-term mortgage rates, while other non-interest income decreased by $7,000, or 2.2%.

For the quarter ending June 30, 2014, non-interest income increased by $202,000 to $1,783,000 compared to $1,581,000 recognized during the same quarter of 2013. Service charges on deposit accounts increased by $52,000, or 6.1%, and electronic banking income increased by $138,000, or 26.7%, largely due to the inclusion of the operations of Gassaway since its acquisition early in the second quarter of 2014. Secondary market mortgage income increased by $3,000 in 2014, largely the result of a slight increase in activity compared to the same period in 2013. Other non-interest income increased by $9,000, largely due to the inclusion of the operations of Gassaway.

Non-interest expenses for the first six months of 2014 totaled $16.74 million, or 2.81% of average assets on an annualized basis, compared to $15.20 million, or 2.74% of average assets for the same period of 2013. The $1.55 million increase in non-interest expenses in 2014 when compared to the first six months of 2013 is largely due to the inclusion of the operations of Gassaway since its purchase early in the second quarter of 2014. Staff costs increased by $1.4 million, or 19.1%, due to a $707,000, or 11.7%, increase in salaries and wages (net of deferred loan costs) and a $713,000, or 51.7%, increase in benefit plan costs, namely employee medical insurance benefits. Occupancy and equipment expenses increased by $278,000, or 12.7%, largely due to the costs associated with operating the five branches from the Gassaway purchase plus additional expenditures on information technology maintenance and software. Outside data processing increased by $223,000, or 13.3%, largely due to the additional costs associated with the Gassaway operations. Professional fees increased by $300,000. The increase in professional fees includes a $69,000 increase in legal fees related to the acquisition of the Bank of Gassaway, $275,000 paid for legal related matters and an $89,000 increase in external audit costs, some of which is related to the Company's newly required internal control audit as an accelerated filer under Sarbanes-Oxley section 404. These increases were partially offset by lower consulting expenses in 2014. Amortization of intangibles increased by $64,000 due to the addition of a core deposit intangible asset from the Gassaway purchase. FDIC insurance increased by $49,000, largely due to the increase in the assessment base as a result of the Gassaway purchase. Other expenses increased by $334,000, largely due to increased supply costs, direct data system conversion costs incurred and other expenses related to the acquisition of Gassaway. Decreases in non-interest expense during the first six months of 2014 include a $990,000 decrease in expenses and writedowns on other real estate owned (OREO), a $59,000 decrease in taxes not based on income, and a $72,000 decrease in loan collection expenses. OREO expenses decreased largely due to $1.14 million of gains recognized on the sale of OREO properties during the second quarter of 2014, net of $342,000 of additional write downs on other OREO still owned, and a decrease in the amount of expenses related to the maintenance of OREO properties that were either sold in 2013 or under construction in 2013. Taxes not on income decreased largely due to a decrease in state based franchise taxes.

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Non-interest expenses for the second quarter of 2014 totaled $8.71 million, or 2.70% of average assets on an annualized basis, compared to $7.81 million, or 2.81% of average assets for the same period of 2013. The $905,000 increase in non-interest expenses in the second quarter of 2014 when compared to the second quarter of 2013 is largely due to the inclusion of the operations of Gassaway since its purchase early in the second quarter of 2014. Staff costs increased by $1.02 million, or 26.7%, due to a $608,000, or 19.1%, increase in salaries and wages (net of deferred loan costs) and a $421,000, or 62.7%, increase in benefit plan costs, namely employee medical insurance benefits. Occupancy and equipment expenses increased by $204,000, or 18.5%, largely due to the costs associated with operating the five branches from the Gassaway purchase. Outside data processing increased by $174,000, or 20.4%, largely due to the additional costs associated with the Gassaway operations. Amortization of intangibles increased by $72,000 due to the addition of a core deposit intangible asset from the Gassaway purchase. FDIC insurance increased by $60,000, largely due to the increase in the assessment base as a result of the Gassaway purchase. Other expenses increased by $208,000, largely due to increased supply costs, direct data system conversion costs incurred and other expenses related to the acquisition of Gassaway. Decreases in non-interest expense during the second quarter of 2014 include a $760,000 decrease in expenses and writedowns on OREO, and an $80,000 decrease professional fees. OREO expenses decreased largely due to $1.04 million of gains recognized on the sale of OREO properties during the second quarter of 2014, net of $342,000 of additional write downs on other OREO still owned, and a $23,000 decrease in the amount of expenses related to the maintenance of OREO properties. Professional fees decreased largely due to a decrease in legal fees and consulting expenditures.

Income tax expense was $3.72 million for the first six months of 2014 compared to $3.15 million for the first six months of 2013. The effective tax rate for the six months ended June 30, 2014 was 35.5% compared to 35.9% for the same period in 2013. For the quarter ended June 30, 2014, income tax expense was $1.724 million, a 35.7% effective tax rate, compared to $1.83 million (a 37.0% effective tax rate) for the same period in 2013. The increase in income tax expense during the first six months of 2014 can be primarily attributed to the increase in pre-tax income detailed above. The decrease in income tax expense during the second quarter of 2014 when compared to the same quarter of 2013 can be primarily attributed to the decrease in pre-tax income for the quarter as detailed above coupled with an increase in the effective income tax rate in 2013 largely due to increases in the amount of income subject to state income taxes and the Company's taxable income reaching the phase-in threshold of the 35% Federal corporate income tax rate.

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B. Financial Position

Total assets at June 30, 2014 increased by $171.7 million to $1.272 billion from the $1.100 billion at December 31, 2013. Earning assets increased by $151.9 million from the $1.012 billion at year-end 2013 to end the quarter at $1.164 billion. The increase in total assets and earning assets was largely due to the acquisition of Gassaway, which added approximately $185.5 million in total assets (net of the $20.3 million cash purchase price) and $160.3 million in earning assets, including $95.1 million in loans, $38.7 million in investment securities, $41.0 million in liquid assets (net of the $20.3 million cash purchase price) and $3.8 million in premises and equipment. Premier also recorded approximately $5.7 million in intangible assets including goodwill and core deposit intangible. See Note 9 to the financial statements for more information on the acquisition of Gassaway.

Cash and due from banks at June 30, 2014 was $39.1 million, an $11.7 million increase from the $27.4 million at December 31, 2013. Interest bearing bank balances increased by $17.7 million from the $36.6 million reported at December 31, 2013, while federal funds sold decreased by $9.2 million to 3.5 million at June 30, 2014. Gassaway added approximately $41.0 million in cash and cash equivalents, net of the $20.25 million purchase price. During the quarter, a portion of these liquid assets were invested in the securities portfolio. Changes in these highly liquid assets are generally in response to increases in deposits, the demand for deposit withdrawals or the funding of loans or investment purchases and are part of Premier's management of its liquidity and interest rate risks.

Securities available for sale totaled $269.8 million at June 30, 2014, a $51.7 million increase from the $218.1 million at December 31, 2013. The increase was largely due to the $38.7 million of investment securities acquired via the Gassaway purchase. In addition to these securities, the $34.5 million of investment security purchases in 2014 have exceeded the $24.3 million of proceeds from monthly principal payments on Premier's mortgage backed securities portfolio and securities maturing during the year. The securities added to the portfolio as a result of the Gassaway purchase were predominantly fixed maturity U.S. Government sponsored agency securities, recorded at fair value on the date of acquisition. These securities complemented Premier's existing mix of securities of predominantly mortgage-backed securities as illustrated in the tables in Note 2 to the financial statements. The investment portfolio is predominantly high quality residential mortgage backed securities backed by the U.S. Government or Government sponsored agencies. Any unrealized losses on securities within the portfolio at June 30, 2014 and December 31, 2013 are believed to be price changes resulting from increases in the long-term interest rate since the security was purchased and management anticipates receiving all principal and interest on these investments as they come due. Additional details on investment activities can be found in the Consolidated Statements of Cash Flows.

PREMIER FINANCIAL BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Total loans at June 30, 2014 were $832.8 million compared to $740.8 million at December 31, 2013, an increase of approximately $92.1 million, or 12.4%. The increase in loans was due to the $95.1 million of loans acquired via the Gassaway purchase. These loans were recorded at fair value, incorporating estimated credit risk and interest rate yield adjustments into the recorded value. As such, under current accounting guidance, no increase in the allowance for loan losses was recorded as a result of the Gassaway purchase. The loans acquired via the Gassaway purchase will be monitored for any deterioration in credit quality in the future under Premier's loan underwriting and credit monitoring standards and any provisions for loan losses will be charged to future operations. Excluding the loans added via the Gassaway purchase, total loans decreased by approximately $3.0 million, or 0.4%, during the first six months of 2014, largely due to loan payoffs, transfers of loans to OREO upon foreclosure and principal payments on loans, all of which more than offset loan demand. Loan payoffs during the first quarter of 2014 included $4.9 million of payoffs on non-accrual loans which resulted in recognizing approximately $1.6 million of interest income deferred while the loans were on non-accrual status and $232,000 of remaining purchase discounts associated with the loans. The timing of these liquidations is difficult to predict, which creates fluctuations in reported loan interest income.

Deposits totaled $1.090 billion as of June 30, 2014, a $165.5 million increase from the $924.0 million in deposits at December 31, 2013. The increase in deposits is primarily due to the $184.6 million of deposit balances assumed in the Gassaway purchase. Excluding the acquired deposits, total deposits have decreased by approximately $19.0 million since year-end 2013. The deposits assumed in the Gassaway purchase included the proceeds of purchase price of the bank placed on deposit with Gassaway by the seller at closing. Since closing, a significant portion of the purchase proceeds was withdrawn from the bank prior to June 30, 2014, as anticipated, accounting for a large portion of the decrease in total deposits. Repurchase agreements with corporate and public entity customers decreased in the first six months of 2014 by $316,000, or 2.8%. Other borrowed funds decreased by $863,000 during the first six months of 2014 as $1.2 million of principal payments was partially offset by $344,000 of long-term borrowings assumed in the Gassaway purchase.

The following table sets forth information with respect to the Company's nonperforming assets at June 30, 2014 and December 31, 2013.

	(In Thousands)	
	2014	2013
Non-accrual loans	$13,728	$16,641
Accruing loans which are contractually past due 90 days or more	5,053	8,478
Accruing restructured loans	3,332	3,655
Total non-performing loans	22,113	28,774
Other real estate acquired through foreclosure (OREO)	12,842	13,524
Total non-performing assets	$34,955	$42,298
Non-performing loans as a percentage of total loans	2.66 %	3.88 %
Non-performing assets as a percentage of total assets	2.75 %	3.84 %

Total non-performing loans have decreased since year-end, largely due to $4.9 million of payoffs on non-accrual loans during the first quarter of 2014. These non-accrual loan payoffs have been partially offset by additional loans placed on non-accrual status during the first six months of 2014. Also affecting the decrease in non-performing loans was a $3.4 million decrease in loans past due 90 days or more and a $323,000 decrease in restructured loans that have been performing as agreed. The cumulative effect has been a $6.7 million decrease in total non-performing loans since December 31, 2013. Total non-performing assets have decreased since year-end, largely due to the reduction in non-performing loans plus a $682,000 decrease in other real estate acquired through foreclosure (OREO). A significant portion of the non-performing assets are legacy assets that came with the acquisition of Abigail Adams National Bancorp and its two subsidiary banks in October 2009 ("Abigail Adams".) Management continues to work its various plans to liquidate these assets or bring them to a current performing status. It is important to note that the table above includes non-performing loans obtained via the purchase of Gassaway. Premier added no OREO as a result of the purchase of Gassaway and a minimal amount of loans on non-accrual status were added to the loan portfolio as of the acquisition date.

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

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

Gross charge-offs totaled $923,000 during the first six months of 2014, largely due to the partial charge-off of previously identified impaired loans that were foreclosed upon and placed into OREO. Any collections on charged-off loans, or partially charged-off loans, would be presented in future financial statements as recoveries of the amounts charged against the allowance. Recoveries recorded during the first six months of 2014 totaled $162,000, resulting in net charge-offs for the first six months of 2014 of $761,000. This amount compares to $210,000 of net recoveries recorded in the first six months of 2014. The allowance for loan losses at June 30, 2014 was 1.19% of total loans compared to 1.49% at December 31, 2013. The decrease in the ratio is largely due to the $95.1 million increase in total loans from the Gassaway purchase. These loans were recorded at fair value, incorporating estimated credit risk and interest rate yield adjustments into the recorded value. As such, under current accounting guidance, no increase in the allowance for loan losses was recorded as a result of the Gassaway purchase. Excluding the initial $95.1 million in loans from the Gassaway purchase, the allowance for loan losses would be 1.34% of the remaining loans in the portfolio. The remaining decrease in the ratio since year-end is largely due to the decrease in the amount of allowance allocated to loans individually evaluated for impairment due to payoffs received or recording a partial charge-off upon foreclosure and transfer of the remaining loan balance to OREO.

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During the first six months of 2014, Premier reversed a portion of its allowance for loan losses into income by recording a $389,000 negative provision for loan losses. This negative provision compares to $500,000 of provision expense recorded during the first six months of 2013. The negative provision for loan losses was largely the result of specific reserves allocated to impaired loans that ultimately paid in full during the first quarter of 2014. As a result, the specific reserves were no longer needed and reversed into income. During the second quarter a $79,000 negative provision was recorded as scheduled payments were received on impaired loans in addition to a reduction in the estimated credit risk in the remaining loan portfolio. The allowance for loan losses allocated to loans individually evaluated for impairment decreased from $1.9 million at December 31, 2013 to $527,000 at June 30, 2014, which included a $300,000 partial charge-off of a previously identified impaired loan that was foreclosed upon and placed into OREO during the first quarter of 2014. The $79,000 negative provision for loan losses recorded in the second quarter of 2014 compares to a $70,000 negative provision for loan losses recorded in the second quarter of 2013. The negative provision for loan losses in the second quarter of 2013 was the result of management's updated assessment of the level of credit risk in the loan portfolio in accordance with Premier's policies regarding the estimation of probable incurred losses in the loan portfolio and the adequacy of the allowance for loan losses, including updated historical charge-off ratios, the level of net recoveries in 2013, payments received on impaired loans previously identified with specific reserve allocations as well as increases in specific reserve allocations on existing loans.

During the first six months of 2013, Premier recorded $500,000 of provision for loan losses. In the first quarter of 2013, Premier received $535,000 of payments on loans previously charged off (loan recoveries) which added to the balance of the allowance for loan losses. The recoveries partially offset the estimated increase in the overall credit risk in the loan portfolio resulting largely from specific reserve allocations on impaired loans. The allowance for loan losses allocated to loans individually evaluated for impairment increased from $3.3 million at December 31, 2012 to $4.2 million at March 31, 2013.

The provisions for loan losses recorded in 2014 and 2013 were made in accordance with Premier's policies regarding management's estimation of probable incurred losses in the loan portfolio and the adequacy of the allowance for loan losses, which are in accordance with accounting principles generally accepted in the United States of America. 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 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. For additional details on the activity in the allowance for loan losses, impaired loans, past due and non-accrual loans and restructured loans, see Note 3 to the consolidated financial statements.

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C. Critical Accounting Policies

The Company follows financial accounting and reporting policies that are in accordance with generally accepted accounting principles in the United States of America. These policies are presented in Note 1 to the consolidated audited financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2013. Some of these accounting policies, as discussed below, are considered to be critical accounting policies. Critical accounting policies are those policies that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company has identified four accounting policies that are critical accounting policies, and an understanding of these policies is necessary to understand the financial statements. These policies relate to determining the adequacy of the allowance for loan losses, the identification and evaluation of impaired loans, the impairment of goodwill and the realization of deferred tax assets. A detailed description of these accounting policies is contained in the Company's annual report on Form 10-K for the year ended December 31, 2013. There have been no significant changes in the application of these accounting policies since December 31, 2013.

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

D. Liquidity

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

1. Core deposits consisting of both consumer and commercial deposits and certificates of deposit of $100,000 or more. Management believes that the majority of its $100,000 or more certificates of deposit are no more volatile than its other deposits. This is due to the nature of the markets in which the subsidiaries operate.
2. Cash flow generated by repayment of loans and interest.
3. Arrangements with correspondent banks for purchase of unsecured federal funds.
4. The sale of securities under repurchase agreements and borrowing from the Federal Home Loan Bank.
5. Maintenance of an adequate available-for-sale security portfolio. The Company owns $269.8 million of securities at fair value as of June 30, 2014.

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

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E. Capital

At June 30, 2014, total shareholders' equity of $153.5 million was 12.1% of total assets. This compares to total shareholders' equity of $146.9 million, or 13.4% of total assets on December 31, 2013. While total shareholders' equity increased in the first six months of 2014, the ratio to total assets decreased as a result of the Gassaway acquisition. Per the terms of the acquisition, Premier Bank paid cash to the sellers and no equity was issued by the Company. As a result, total assets increased by approximately $185.5 million with no increase in total shareholders' equity.

The acquisition of Gassaway had a similar impact on Premier's regulatory capital ratios. Tier I capital totaled $119.2 million at June 30, 2014, which represents a Tier I leverage ratio of 9.48%. While total shareholders' equity increased, Tier I capital decreased slightly as the growth in equity was offset by an increase in intangible assets recorded as part of the Gassaway purchase. Tier I capital at December 31, 2013 was $119.9 million. Therefore the leverage ratio at June 30, 2014 was lower than the 11.0% leverage ratio at December 31, 2013 as the minor decrease in Tier I capital was divided by a higher base of average total assets at June 30, 2014.

Book value per common share was $17.47 at June 30, 2014, and $16.79 at December 31, 2013. The increase in book value per shares was largely the result of the $0.75 per share earned during the first six months of 2014, including an approximate $0.04 per share reduction for the $300,000 of preferred stock dividends and related accretion. This increase was partially offset by the $0.11 per share special cash dividend to common shareholders declared and paid during January 2014 and by the $0.12 per share quarterly cash dividend to common shareholders declared and paid during the first two quarters of 2014. Also increasing book value per share was the $2,283,000 of other comprehensive income for the first six months of 2014 related to the after tax increase in the market value of investment securities available for sale, which increased book value by approximately $0.28 per share.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company currently does not engage in any derivative or hedging activity. Refer to the Company's 2013 10-K for analysis of the interest rate sensitivity. The Company believes there have been no significant changes in the interest rate sensitivity since previously reported on the Company's 2013 10-K.

Item 4. Controls and Procedures

A. Disclosure Controls & Procedures

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

B. Changes in Internal Controls over Financial Reporting

There were no changes in internal controls over financial reporting during the second 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.
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PART II - OTHER INFORMATION

Item 1.	Legal Proceedings	None
Item 1A.	Risk Factors	

Please refer to Premier's Annual Report on Form 10-K for the year ended December 31, 2013 for disclosures with respect to Premier's risk factors at December 31, 2013. There have been no material changes since year-end 2013 in the specified risk factors disclosed in the Annual Report on Form 10-K.

Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	None
Item 3.	Defaults Upon Senior Securities	None
Item 4.	Mine Safety Disclosures	Not Applicable
Item 5.	Other Information	None
Item 6.	Exhibits	

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

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

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

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

PREMIER FINANCIAL BANCORP, INC.
JUNE 30, 2014

SIGNATURES

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

PREMIER FINANCIAL BANCORP, INC.

Date: August 8, 2014 /s/ Robert W. Walker

Robert W. Walker
President & Chief Executive Officer

Date: August 8, 2014 /s/ Brien M. Chase

Brien M. Chase
Senior Vice President & Chief Financial Officer