

PREMIER FINANCIAL BANCORP INC  
Form 10-Q  
August 13, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-20908

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

Kentucky  
(State or other jurisdiction of  
incorporation organization)

61-1206757  
(I.R.S. Employer Identification No.)

2883 Fifth Avenue  
Huntington, West Virginia  
(Address of principal executive offices)

25702  
(Zip Code)

Registrant's telephone number (304) 525-1600

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐.

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

Accelerated filer ☐.

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Large accelerated filer  
o.

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

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

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

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

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JUNE 30, 2010  
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PREMIER FINANCIAL BANCORP, INC.  
JUNE 30, 2010

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

Index to consolidated financial statements:

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PREMIER FINANCIAL BANCORP, INC.  
CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2010 AND DECEMBER 31, 2009  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	(UNAUDITED)	
	2010	2009
<b>ASSETS</b>		
Cash and due from banks	\$ 61,612	\$ 61,611
Federal funds sold	17,771	22,985
<u>Securities available for sale</u>	233,805	240,970
Loans held for sale	800	897
<u>Loans</u>	689,295	699,133
<u>Allowance for loan losses</u>	(9,201 )	(7,569 )
Net loans	680,094	691,564
Federal Home Loan Bank and Federal Reserve Bank stock	7,403	7,005
Premises and equipment, net	14,521	15,200
Real estate and other property acquired through foreclosure	9,660	9,251
Interest receivable	4,056	4,250
Goodwill	28,724	28,724
Other intangible assets	2,594	2,795
Prepaid FDIC insurance premiums	2,512	2,900
Deferred taxes	9,582	10,713
Other assets	3,372	2,885
Total assets	\$ 1,076,506	\$ 1,101,750
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Non-interest bearing	\$ 170,217	\$ 172,182
Time deposits, \$100k and over	137,002	149,890
Other interest bearing	585,985	591,712
Total deposits	893,204	913,784
Federal funds purchased	22	-
Securities sold under agreements to repurchase	21,448	24,600
<u>Federal Home Loan Bank advances</u>	10,727	14,937
Other borrowed funds	15,079	16,027
Interest payable	1,068	1,037
Other liabilities	2,908	2,809
Total liabilities	944,456	973,194
<b>Stockholders' equity</b>		
<u>Preferred stock, no par value; \$1,000 liquidation preference.</u>		
1,000,000 shares authorized, 22,252 shares issued and outstanding	21,786	21,705
<u>Common stock, no par value; 20,000,000 shares authorized;</u>		
7,937,143 shares issued and outstanding	71,436	71,412
Retained earnings	35,498	33,349
Accumulated other comprehensive income	3,330	2,090
Total stockholders' equity	132,050	128,556

Total liabilities and stockholders' equity	\$	1,076,506	\$	1,101,750
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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, 2010 AND 2009  
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest income				
Loans, including fees	\$11,018	\$7,453	\$22,570	\$14,878
Securities available for sale				
Taxable	2,048	1,587	4,021	3,223
Tax-exempt	65	61	130	118
Federal funds sold and other	34	19	61	37
Total interest income	13,165	9,120	26,782	18,256
Interest expense				
Deposits	2,190	2,236	4,413	4,589
Repurchase agreements and other	39	29	82	62
FHLB advances and other borrowings	223	193	511	385
Total interest expense	2,452	2,458	5,006	5,036
Net interest income	10,713	6,662	21,776	13,220
Provision for loan losses	1,409	110	1,980	212
Net interest income after provision for loan losses	9,304	6,552	19,796	13,008
Non-interest income				
Service charges on deposit accounts	1,069	828	1,991	1,553
Electronic banking income	372	256	712	492
Secondary market mortgage income	95	129	184	212
Other	158	113	324	239
	1,694	1,326	3,211	2,496
Non-interest expenses				
Salaries and employee benefits	3,916	2,656	7,987	5,450
Occupancy and equipment expenses	1,193	651	2,332	1,363
Outside data processing	1,021	779	2,030	1,534
Professional fees	266	241	491	582
Taxes, other than payroll, property and income	257	175	513	353
Write-downs, expenses, sales of other real estate owned, net	312	54	467	131
Supplies	118	100	238	208
FDIC insurance	417	515	872	606
Other expenses	1,055	714	2,135	1,422
	8,555	5,885	17,065	11,649
Income before income taxes	2,443	1,993	5,942	3,855
Provision for income taxes	224	638	1,410	1,271
Net income	\$2,219	\$1,355	\$4,532	\$2,584

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Preferred stock dividends and accretion	305	-	637	-
Net income available to common stockholders	\$1,914	\$1,355	\$3,895	\$2,584

Net income per common share:

Basic	\$0.24	\$0.21	\$0.49	\$0.40
Diluted	0.23	0.21	0.48	0.40
Dividends per common share	0.11	0.11	0.22	0.22

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009  
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	\$2,219	\$1,355	\$4,532	\$2,584
Other comprehensive income:				
Unrealized gains (losses) arising during the period	1,765	(888 )	1,879	(785 )
Reclassification of realized amount	-	-	-	-
Net change in unrealized gain (loss) on securities	1,765	(888 )	1,879	(785 )
Less tax impact	600	(302 )	639	(267 )
Other comprehensive income (loss):	1,165	(586 )	1,240	(518 )
Comprehensive income	\$3,384	\$769	\$5,772	\$2,066

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, 2010 AND 2009  
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2010	2009
Cash flows from operating activities		
Net income	\$ 4,532	\$ 2,584
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	732	516
Provision for loan losses	1,980	212
Amortization (accretion), net	(1,617 )	251
OREO writedowns (gains on sales), net	1	133
<u>Stock compensation expense</u>	24	27
Loans originated for sale	(8,331 )	(14,987 )
Secondary market loans sold	8,612	12,587
Secondary market income	(184 )	(212 )
Gain on sale of building	(81 )	-
Changes in :		
Interest receivable	194	716
Other assets	316	421
Interest payable	31	(102 )
Other liabilities	99	174
Net cash from operating activities	6,308	2,320
Cash flows from investing activities		
Purchases of securities available for sale	(130,360 )	(85,061 )
Proceeds from maturities and calls of securities available for sale	139,113	78,953
Purchase of FRB and FHLB stock, (net of redemptions)	(398 )	107
Net change in federal funds sold	5,214	2,920
Net change in loans	9,247	1,429
Purchases of premises and equipment, net	28	(592 )
Proceeds from sale of other real estate acquired through foreclosure	1,431	225
Net cash from investing activities	24,275	(2,019 )
Cash flows from financing activities		
Net change in deposits	(20,117 )	12,646
Common stock dividends paid	(1,746 )	(1,406 )
Preferred stock dividends paid	(556 )	-
Net change in short-term Federal Home Loan Bank advances	-	(1,300 )
Repayment of Federal Home Loan Bank advances	(4,085 )	(88 )
Repayment of other borrowed funds	(948 )	(961 )
Net change in federal funds purchased	22	-
Net change in agreements to repurchase securities	(3,152 )	(6,207 )
Net cash from financing activities	(30,582 )	2,684
Net change in cash and cash equivalents	1	2,985

Cash and cash equivalents at beginning of period	61,611	22,148
Cash and cash equivalents at end of period	\$ 61,612	\$ 25,133

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PREMIER FINANCIAL BANCORP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
SIX MONTHS ENDED JUNE 30, 2010 AND 2009  
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2010	2009
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	\$ 4,975	\$ 5,138
Cash paid during period for income taxes	1,350	750
Loans transferred to real estate acquired through foreclosure	1,841	299

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" or "Premier") and its wholly owned subsidiaries:

Subsidiary	Location	Year Acquired	Total Assets	June 30, 2010 Net Income	
				Qtr	Six Mos
Citizens Deposit Bank & Trust	Vanceburg, Kentucky	1991	\$ 121,674	\$ 355	\$ 735
Farmers Deposit Bank	Eminence, Kentucky	1996	62,826	192	326
Ohio River Bank	Ironton, Ohio	1998	92,775	319	631
First Central Bank, Inc.	Philippi, West Virginia	1998	128,164	388	757
Boone County Bank, Inc.	Madison, West Virginia	1998	168,758	205	661
Traders Bank	Spencer, West Virginia	2008	155,675	712	1,009
Adams National Bank	Washington, DC	2009	262,857	(59 )	484
Consolidated Bank & Trust	Richmond, Virginia	2009	76,158	214	459
Mt. Vernon Financial Holdings, Inc.	Huntington, West Virginia	1999	221	0	(6 )
Parent and Intercompany Eliminations			7,398	(107 )	(524 )
Consolidated Total			\$ 1,076,506	\$ 2,219	\$ 4,532

All significant intercompany transactions and balances have been eliminated.

## New Accounting Standards:

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

In June 2009, the FASB amended guidance for consolidation of variable interest entity guidance by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Additional disclosures about an enterprise's involvement in variable interest entities are also required. This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Early

adoption is prohibited. The adoption of this guidance did not have a material impact on the Company's consolidated results of operations or financial position.

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

NOTE 1–BASIS OF PRESENTATION - continued

In January 2010, the FASB issued Accounting Standards Update No. 2010-4, “Accounting for Various Topics, Technical Corrections to SEC Paragraphs.” In addition, in February 2010, the FASB issued Accounting Standards Update No. 2010-8, “Technical Corrections to Various Topics.” These updates covered a wide variety of accounting matters, including subsequent events, goodwill, derivative financial instruments, and investments in limited partnerships. The most significant provisions of these updates were effective upon issuance and did not have a material effect on the Company’s results of operations or financial position.

In January 2010, the FASB amended previous guidance related to fair value measurements and disclosures, which requires new disclosures for transfers in and out of Levels 1 and 2 and requires a reconciliation to be provided for the activity in Level 3 fair value measurements. A reporting entity should disclose separately the amounts of significant transfers in and out of Levels 1 and 2 and provide an explanation for the transfers. This guidance is effective for interim periods beginning after December 15, 2009, and did not have a material effect on the Company’s results of operations or financial position.

In the reconciliation for fair value measurements using unobservable inputs (Level 3) a reporting entity should present separately information about purchases, sales, issuances, and settlements on a gross basis rather than a net basis. Disclosures relating to purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurement will become effective after December 15, 2010, and for interim periods within those fiscal years. The adoption of this standard is not expected to have a material effect on the Company’s results of operations or financial position but it will require expansion of the Company’s future disclosures about fair value measurements.

In July 2010, the FASB issued ASU No. 2010-20, “Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The ASU expands the disclosures about the credit quality of financing receivables and the related allowance for credit losses. The ASU also requires disaggregation of existing disclosures by portfolio segment. The amendments that require disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The adoption of this guidance will expand the Company’s disclosures surrounding credit quality of financing receivables and the related allowance for credit losses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## NOTE 2 –SECURITIES

Amortized cost and fair value of investment securities, by category, at June 30, 2010 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. agency MBS - residential	\$44,314	\$2,515	\$-	\$46,829
U. S. agency CMO's	15,128	766	-	15,894
Total mortgage-backed securities of government sponsored entities	59,442	3,281	-	62,723
U. S. government sponsored entity securities	153,926	1,166	(63 )	155,029
Obligations of states and political subdivisions	10,064	229	(29 )	10,264
Other securities	5,327	473	(11 )	5,789
Total available for sale	\$228,759	\$5,149	\$(103 )	\$233,805

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

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



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## NOTE 2–SECURITIES - continued

The amortized cost and fair value of securities at June 30, 2010 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available for sale		
Due in one year or less	\$2,262	\$2,276
Due after one year through five years	41,078	41,578
Due after five years through ten years	121,200	122,102
Due after ten years	3,685	3,887
Corporate preferred securities	1,092	1,239
Mortgage-backed securities of government sponsored entities	59,442	62,723
Total available for sale	\$228,759	\$233,805

Securities with unrealized losses at June 30, 2010 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government sponsored entity securities	\$ 4,006	\$ (34 )	\$ 1,019	\$ (29 )	\$ 5,025	\$ (63 )
Obligations of states and political subdivisions	1,739	(24 )	273	(5 )	2,012	(29 )
Other securities	2,285	(11 )	-	-	2,285	(11 )
Total temporarily impaired	\$ 8,030	\$ (69 )	\$ 1,292	\$ (34 )	\$ 9,322	\$ (103 )

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## NOTE 2–SECURITIES - continued

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

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

The investment portfolio is predominately high quality interest-bearing debt securities with defined maturity dates backed by the U.S. Government or Government sponsored entities. The unrealized losses at June 30, 2010 and December 31, 2009 are price changes resulting from changes in the interest rate environment and it is more likely than not that the Company will not be required to sell the securities before their anticipated recovery. Therefore, the Company does not consider the securities to be other-than-temporarily impaired. Their fair value is expected to recover as the securities approach their maturity date and/or market conditions improve.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## NOTE 3 – LOANS

Major classifications of loans at June 30, 2010 and December 31, 2009 are summarized as follows:

	2010	2009
Commercial, secured by real estate	\$301,282	\$304,607
Commercial, other	75,198	76,140
Real estate construction	42,514	51,637
Residential real estate	209,099	211,552
Agricultural	2,554	2,710
Consumer and home equity	51,011	49,312
Other	7,637	3,175
	\$689,295	\$699,133

The following table sets forth information with respect to the Company's impaired loans at June 30, 2010 and December 31, 2009.

	2010	2009
Impaired loans at period end with an allowance	\$27,656	\$14,494
Impaired loans at period end with no allowance	44,775	49,370
Amount of allowance for loan losses allocated	2,221	1,279

The following table sets forth information with respect to the Company's nonperforming loans at June 30, 2010 and December 31, 2009.

	2010	2009
Non-accrual loans	\$48,997	\$46,299
Accruing loans which are contractually past due 90 days or more	3,702	489
Restructured loans	11,867	11,974
Total	\$64,566	\$58,762

## NOTE 4 – ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the three and six months ended June 30, 2010 and 2009 are as follows:

	Three Months Ended June 30		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance, beginning of period	\$8,068	\$8,587	\$7,569	\$8,544
Gross charge-offs	(378)	(311)	(583)	(476)
Recoveries	102	64	235	170
Provision for loan losses	1,409	110	1,980	212
Balance, end of period	\$9,201	\$8,450	\$9,201	\$8,450

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## NOTE 5 – FEDERAL HOME LOAN BANK ADVANCES

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

Advances from the FHLB at June 30, 2010 and December 31, 2009 were as follows:

	2010	2009
Payment due at maturity in March 2012, fixed rate at 1.81%	\$10,417	\$10,542
Payments due at maturity in May 2010, fixed rate at rates from 6.25% to 6.64%, averaging 6.45%	-	4,000
Payments due monthly with maturities from November 2011 to July 2012, fixed rates from 4.10% to 4.40%, averaging 4.26%	310	395
Overnight borrowed funds	-	-
	\$10,727	\$14,937

Advances are secured by the FHLB stock, certain pledged investment securities and substantially all single family first mortgage loans of the participating Banks. Scheduled principal payments due on advances during the five years subsequent to June 30, 2010 are as follows:

2010 (remaining six months)	\$212
2011	422
2012	10,093
2013	-
2014	-
Thereafter	-
	\$10,727

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**NOTE 6 - STOCKHOLDERS' EQUITY AND REGULATORY MATTERS**

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

The Company and the subsidiary Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's operations and 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, 2010, that the Company and the Banks meet all quantitative capital adequacy requirements to which they are subject.

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

	June 30, 2010	December 31, 2009	Regulatory Minimum Requirements	To Be Considered Well Capitalized
Tier I Capital (to Risk-Weighted Assets)	14.2%	13.6%	4.0%	6.0%
Total Capital (to Risk-Weighted Assets)	15.4%	14.6%	8.0%	10.0%
Tier I Capital (to Average Assets)	9.2%	8.9%	4.0%	5.0%

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

As of June 30, 2010, the most recent notification from each of the Banks' primary Federal regulators categorized the subsidiary Banks as well capitalized under the regulatory framework for prompt corrective action, except Adams National Bank. To be categorized as well capitalized, the Banks must maintain minimum Total risk-based, Tier I risk-based and Tier I leverage ratios as

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NOTE 6 - STOCKHOLDERS' EQUITY AND REGULATORY MATTERS - continued

set forth in the preceding table. There are no conditions or events since that notification that management believes have changed the Banks' categories. Adams National Bank is subject to a written agreement with the OCC and is required to maintain minimum capital ratios in excess of the ratios required to be defined as well capitalized under the framework for prompt corrective action. This requirement means that the bank may not be deemed to be well capitalized while the written agreement is in effect. At June 30, 2010, Adams National Bank's capital ratios met or exceeded the minimum capital ratios required by its written agreement with the OCC.

As more fully discussed in Note 12 – Subsequent Event, Premier and Consolidated Bank and Trust Company ("CB&T") are parties to a Written Agreement with the Federal Reserve Bank of Richmond ("FRB") and the State Corporation Commission Bureau of Financial Institutions ("Virginia Bureau") which requires prior written approval of the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors of the Federal Reserve System for declaring or paying any dividends from Premier and also the Virginia Bureau's approval for declaring or paying any dividends from CB&T.

NOTE 7 – PREFERRED STOCK

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

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



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NOTE 7 – PREFERRED STOCK - continued

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.

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

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

NOTE 8 – STOCK COMPENSATION EXPENSE

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

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

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

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PREMIER FINANCIAL BANCORP, INC.  
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## NOTE 8– STOCK COMPENSATION EXPENSE - continued

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

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

Compensation expense of \$24,000 was recorded for the first six months of 2010 compared to \$27,000 for the first six months of 2009. For the three months ended June 30, \$14,000 was recorded for 2010 while \$13,000 was recorded for 2009. Stock-based compensation expense is recognized ratably over the requisite service period for all awards. Unrecognized stock-based compensation expense related to stock options totaled \$65,000 at June 30, 2010. 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:

	2010		2009	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	212,449	\$11.18	181,916	\$12.47
Grants	47,700	8.90	47,100	6.55
Exercises	-	-	-	-
Forfeitures or expired	(2,000 )	12.42	(11,567 )	12.01
Outstanding at June 30,	258,149	\$10.75	217,449	\$8.68
Exercisable at June 30,	165,699		131,631	
Weighted average remaining life of options outstanding	6.9		7.2	
Weighted average fair value of options granted during the year	\$1.41		\$0.37	

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

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## NOTE 8– STOCK COMPENSATION EXPENSE - continued

Additional information regarding stock options outstanding and exercisable at June 30, 2010, is provided in the following table:

Range of Exercise Prices	----- Outstanding -----			----- Currently Exercisable -----			
	Number	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$6.50 to \$10.00	131,716	\$ 8.00	\$ 62	52,959	4.7	\$ 8.06	\$ 21
\$10.01 to \$12.50	28,333	11.62	-	28,333	5.6	11.62	-
\$12.51 to \$15.00	70,600	13.46	-	56,907	7.1	13.59	-
\$15.01 to \$17.50	27,500	16.00	-	27,500	5.6	16.00	-
Outstanding - Jun 30, 2010	258,149	10.75	\$ 62	165,699	5.7	11.89	\$ 21

## NOTE 9 – EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the earnings per common share and earnings per common share assuming dilution computations for the three and six months ended June 30, 2010 and 2009 is presented below:

	Three Months Ended June 30, 2010		Six Months Ended June 30, 2009	
Basic earnings per share				
Income available to common stockholders	\$1,914	\$1,355	\$3,895	\$2,584
Weighted average common shares outstanding	7,937	6,393	7,937	6,393
Earnings per share	\$0.24	\$0.21	\$0.49	\$0.40
Diluted earnings per share				
Income available to common stockholders	\$1,914	\$1,355	\$3,895	\$2,584
Weighted average common shares outstanding	7,937	6,393	7,937	6,393
Add dilutive effects of potential additional common stock	261	-	234	-
Weighted average common and dilutive potential common shares outstanding	8,198	6,393	8,171	6,393
Earnings per share assuming dilution	\$0.23	\$0.21	\$0.48	\$0.40

Stock options for 197,299 and 229,016 shares of common stock were not considered in computing diluted earnings per share for the periods ended June 30, 2010 and 2009 because they were antidilutive.

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NOTE 10 – FAIR VALUE

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

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

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

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

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

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

Investment Securities: The fair values for securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges, if available (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using estimates of current market rates for each type of security. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

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## NOTE 10 – FAIR VALUE - continued

## Assets and Liabilities Measured on a Recurring Basis

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

		Fair Value Measurements at June 30, 2010 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale				
Mortgage-backed securities				
U. S. agency MBS - residential	\$ 46,829	\$ -	\$ 46,829	\$ -
U. S. agency CMO's	15,894	-	15,894	-
Total mortgage-backed securities of government sponsored entities	62,723	-	62,723	-
U. S. government sponsored entity securities	155,029	-	155,029	-
Obligations of states and political subdivisions	10,264	-	10,124	140
Other securities	5,789	-	5,789	-
Total available for sale	\$ 233,805	\$ -	\$ 233,665	\$ 140

		Fair Value Measurements at December 31, 2009 Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale				
Mortgage-backed securities				
U. S. agency MBS - residential	\$ 54,482	\$ -	\$ 54,482	\$ -
U. S. agency CMO's	19,560	-	19,560	-
Total mortgage-backed securities of government sponsored entities	74,042	-	74,042	-
U. S. Treasury securities	1,005	-	1,005	-
	150,067	-	150,067	-



U. S. government sponsored entity  
securities

Obligations of states and political  
subdivisions

	10,247	-	10,107	140
Other securities	5,609	-	5,609	-
Total available for sale	\$ 240,970	\$ -	\$ 240,830	\$ 140

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## NOTE 10 – FAIR VALUE - continued

The carrying amounts and estimated fair values of financial instruments at June 30, 2010 and December 31, 2009 were as follows:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash and due from banks	\$61,612	\$61,612	\$61,611	\$61,611
Federal funds sold	17,771	17,771	22,985	22,985
Securities available for sale	233,805	233,805	240,970	240,970
Loans held for sale	800	800	897	897
Loans, net	680,094	681,395	691,564	691,708
Federal Home Loan Bank and Federal Reserve Bank stock	7,403	n/a	7,005	n/a
Interest receivable	4,056	4,056	4,250	4,250
<b>Financial liabilities</b>				
Deposits	\$(893,204 )	\$(895,853 )	\$(913,784 )	\$(917,859 )
Securities sold under agreements to repurchase	(21,470 )	(21,470 )	(24,600 )	(24,600 )
Federal Home Loan Bank advances	(10,727 )	(10,876 )	(14,937 )	(15,028 )
Other borrowed funds	(15,079 )	(15,045 )	(16,027 )	(15,984 )
Interest payable	(1,068 )	(1,068 )	(1,037 )	(1,037 )

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

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

**Impaired Loans:** The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

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## NOTE 10 – FAIR VALUE - continued

Other real estate owned (OREO): The fair value of OREO is based on appraisals less cost to sell at the date of foreclosure. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell.

## Assets and Liabilities Measured on a Non-Recurring Basis

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

		Fair Value Measurements at June 30, 2010 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		June 30, 2010		
Assets:				
Impaired loans	\$ 25,435	\$ -	\$ -	\$ 25,435
Other real estate owned	9,660	-	-	9,660

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

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$27,656,000 at June 30, 2010 with a valuation allowance of \$2,221,000 and a carrying amount of \$14,494,000 at December 31, 2009 with a valuation allowance of \$1,279,000, resulting in a provision for loan losses of \$942,000 for the six months ended June 30, 2010 and an additional provision for loan losses of \$769,000 for the three months ended June 30, 2010.



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NOTE 11 – PENDING BRANCH PURCHASE

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

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

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

NOTE 12 – SUBSEQUENT EVENT

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

The Written Agreement requires the Bank to submit written plans to strengthen board oversight of the Bank, improve the Bank’s asset quality, review and revise the Bank’s methodology for determining the allowance for loan losses, maintain sufficient capital at the Bank, improve the Bank’s earnings, and enhance the Bank’s liquidity position and funds management practices. The Bank is also required to submit quarterly written progress reports. The agreement restricts the Bank’s ability to declare and pay dividends without prior written approval of the regulatory agencies or incur, increase, or guarantee any debt without prior written approval of the regulatory agencies.

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

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PREMIER FINANCIAL BANCORP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010

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

FORWARD-LOOKING STATEMENTS

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

A. Results of Operations

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

Net income for the six months ended June 30, 2010 was \$4,532,000, or \$0.48 per diluted share, compared to net income of \$2,584,000, or \$0.40 per diluted share for the six months ended June 30, 2009. The increase in income in 2010 is largely due to the acquisition of Abigail Adams National Bancorp, Inc. (Abigail Adams) and its two subsidiary banks, Adams National Bank (Adams) and Consolidated Bank and Trust (CB&T) on October 1, 2009 (collectively the "Acquired Banks"). The operations of the Acquired Banks are only included in Premier's results from the date of acquisition and therefore, are included in the first six months of 2010 results but not the first six months of 2009 results. The operations of Adams and CB&T added \$943,000 of net income in the first six months of 2010. Excluding this income, the remaining Premier operations increased net income in the first six months of 2010 by \$1,005,000, or 38.9%, compared to the same period of 2009, as the decrease in interest expense exceeded the decrease in interest income while the decrease in net overhead costs more than offset an increase in the provision for loan losses. These were also complemented by a decrease in income tax expense. The annualized returns on average common shareholders' equity and average assets were approximately 7.09% and 0.82% for the six months ended June 30, 2010 compared to 5.66% and 0.70% for the same period in 2009. For the quarter ending June 30, 2010, annualized returns on average common shareholders' equity and average assets were approximately 6.96% and 0.81% compared to 5.95% and 0.74% for the same quarter of 2009.

Net income for the three months ended June 30, 2010 was \$2,219,000, or \$0.23 per diluted share, compared to net income of \$1,355,000, or \$0.21 per diluted share for the three months ended June 30, 2009. Again, the increase in income in 2010 is partially due to the inclusion of the operations of the Acquired Banks in 2010 but not in 2009. The operations of Adams and CB&T added \$155,000 of net income in the second quarter of 2010.





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PREMIER FINANCIAL BANCORP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010

Excluding this income, the remaining Premier operations increased net income in the second quarter of 2010 by \$709,000, or 52.3%, compared to the same period of 2009, as the decrease in interest expense exceeded the decrease in interest income. However, the increase in the provision for loan losses exceeded the decrease in net overhead costs. The second quarter 2010 results were also enhanced by a decrease in income tax expense.

Net interest income for the six months ending June 30, 2010 totaled \$21.78 million, up \$8.56 million, or 64.7%, from the \$13.22 million of net interest income earned in the first six months of 2009, as the \$7.99 million of additional net interest income of the Acquired Banks added to the 4.3% increase in net interest income of Premier's other operations. Interest income in the first six months of 2010 increased by \$8.53 million, or 46.7%, as a result of the \$9.03 million of interest income added by the operations of the Acquired Banks. Excluding the operations of the Acquired Banks, interest income decreased by \$505,000, or 2.8%, in the first six months of 2010. Interest income on loans decreased by \$272,000, largely due to a lower average volume of loans outstanding and a slightly lower yield earned on those loans. Interest earned on investments decreased by \$229,000, due to lower average yields even though on a higher average volume of investments. Interest earned on federal funds sold and interest bearing bank balances decreased by \$4,000, largely due to lower yields earned resulting from the Federal Reserve Board of Governors' policy to stimulate the economy by maintaining the federal funds sold rate near 0.00% to 0.25%.

Interest expense in the first six months of 2010 (which includes the \$1.04 million increase in interest expense in 2010 from the operations of the Acquired Banks) decreased by \$30,000, or 0.6%, when compared to the same six months of 2009. Excluding the Acquired Banks' operations, interest expense decreased by \$1.07 million, or 21.3%, in 2010 compared to the first six months of 2009, more than offsetting the decrease in interest income from the remaining Premier operations. Interest expense on deposits (excluding the operations of the Acquired Banks) decreased by \$1.08 million, or 23.5%, largely due to lower rates paid, although on a higher average balance of deposits outstanding. Interest expense on repurchase agreements and other short-term borrowings decreased by \$3,000, largely due to a lower average balance. Interest expense on FHLB advances decreased by \$53,000, due to a decrease in the average balance outstanding resulting from principal payments and maturities during the last twelve months as well as a lower average rate paid as a result of maturities in the second quarter of 2010. Slightly offsetting these decreases, interest expense on other borrowings increased by \$62,000 due to higher rates paid on a higher average outstanding balance. The Board of Governors' policy to reduce the federal funds rate to nearly zero, coupled with the U.S. Treasury actively buying investment securities, has significantly reduced the yield on much of Premier's earning assets including investments, federal funds sold and variable rate loans. Premier has tried to offset some of the lower interest income by lowering the rates paid on its deposits and repurchase agreements with customers. However, the higher yield on the loans of the Acquired Banks coupled with the lower rates paid on the interest bearing deposits and borrowings of the Acquired Banks have combined to boost Premier's overall net interest margin. Premier's net interest margin in the first six months of 2010 was 4.38% compared to 4.01% for the same period in 2009. A portion of the additional interest income on loans from the acquired banks is the result of recognizing into interest income the remaining fair value discount on notes that are fully paid-off during the period. These events cannot be predicted with certainty and may positively or negatively affect interest income on loans in future months.

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

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

	Six Months Ended June 30, 2010				Six Months Ended June 30, 2009			
	Balance	Interest	Yield/Rate		Balance	Interest	Yield/Rate	
<b>Assets</b>								
<b>Interest Earning Assets</b>								
Federal funds sold and other	\$64,903	\$61	0.19	%	\$34,255	\$37	0.22	%
<b>Securities available for sale</b>								
Taxable	242,055	4,021	3.32		160,785	3,223	4.01	
Tax-exempt	10,250	130	3.84		7,419	118	4.82	
Total investment securities	252,305	4,151	3.34		168,204	3,341	4.04	
Total loans	687,921	22,570	6.62		464,410	14,878	6.46	
Total interest-earning assets	1,005,129	26,782	5.38	%	666,869	18,256	5.53	%
Allowance for loan losses	(7,916 )				(8,545 )			
Cash and due from banks	19,853				24,875			
Other assets	76,010				47,784			
Total assets	\$1,093,076				\$730,983			
<b>Liabilities and Equity</b>								
<b>Interest-bearing liabilities</b>								
Interest-bearing deposits	\$733,902	4,413	1.21		\$496,268	4,589	1.86	
Short-term borrowings	22,024	82	0.75		14,129	62	0.88	
FHLB advances	13,881	207	3.12		5,125	143	5.63	
Other borrowings	15,536	304	3.95		15,055	242	3.24	
Total interest-bearing liabilities	785,343	5,006	1.29	%	530,577	5,036	1.91	%
Non-interest bearing deposits	172,290				105,764			
Other liabilities	4,446				3,858			
Shareholders' equity	130,997				90,784			
Total liabilities and equity	\$1,093,076				\$730,983			
<b>Net interest income</b>								
		\$21,776				\$13,220		
Net interest spread			4.09	%			3.62	%
Net interest margin			4.38	%			4.01	%

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

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

	Three Months Ended June 30, 2010				Three Months Ended June 30, 2009			
	Balance	Interest	Yield/Rate		Balance	Interest	Yield/Rate	
<b>Assets</b>								
<b>Interest Earning Assets</b>								
Federal funds sold and other	\$66,559	\$34	0.20	%	\$27,472	\$19	0.28	%
<b>Securities available for sale</b>								
Taxable	245,021	2,048	3.34		169,897	1,587	3.74	
Tax-exempt	10,242	65	3.85		7,595	61	4.87	
Total investment securities	255,263	2,113	3.36		177,492	1,648	3.78	
Total loans	683,509	11,018	6.47		464,118	7,453	6.44	
Total interest-earning assets	1,005,331	13,165	5.26	%	669,082	9,120	5.48	%
Allowance for loan losses	(8,150 )				(8,521 )			
Cash and due from banks	19,509				25,365			
Other assets	75,863				48,476			
Total assets	\$1,092,553				\$734,402			
<b>Liabilities and Equity</b>								
<b>Interest-bearing liabilities</b>								
Interest-bearing deposits	\$732,456	2,190	1.20		\$499,210	2,236	1.80	
Short-term borrowings	20,037	39	0.78		12,585	29	0.92	
FHLB advances	12,885	71	2.39		4,598	71	6.19	
Other borrowings	15,296	152	3.99		14,813	122	3.30	
Total interest-bearing liabilities	780,674	2,452	1.26	%	531,206	2,458	1.86	%
Non-interest bearing deposits	175,690				108,122			
Other liabilities	4,541				3,953			
Shareholders' equity	131,648				91,121			
Total liabilities and equity	\$1,092,553				\$734,402			
<b>Net interest income</b>								
		\$10,713				\$6,662		
Net interest spread			4.01	%			3.62	%
Net interest margin			4.29	%			4.01	%

Net interest income for the quarter ending June 30, 2010 totaled \$10.71 million, up \$4.05 million or 60.8% from the \$6.66 million of net interest income earned in the second quarter of 2009, as the \$3.74 million of additional net interest income of the Acquired Banks added to the 4.7% increase in net interest income of Premier's other operations. Interest income in the second quarter of 2010 increased by \$4.05 million, or 44.4%, as a result of the \$4.27 million of interest income added by the operations of the Acquired Banks. Excluding the operations of the Acquired Banks, interest income decreased by \$220,000, or 2.4%, in the second quarter of 2010 when compared to the

same quarter of 2009. Interest income on loans decreased by \$146,000, largely due to a lower average volume of loans outstanding and a slightly lower yield. Interest earned on investments decreased by \$73,000, due to lower average yields even though on a higher average volume of investments. Interest earned on federal funds sold and interest bearing bank balances decreased by \$1,000, largely due lower yields earned resulting from the Federal Reserve Board of Governors' policy to stimulate the economy by maintaining the federal funds sold rate near 0.00% to 0.25%.

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Interest expense in the second quarter of 2010 (which includes the \$527,000 increase in interest expense in the second quarter of 2010 from the operations of the Acquired Banks) decreased by \$6,000, or 0.2%, when compared to the same quarter of 2009. Excluding the Acquired Banks' operations, interest expense decreased by \$533,000, or 21.7%, in the second quarter of 2010 compared to the second quarter of 2009, more than offsetting the decrease in interest income from the remaining Premier operations. Interest expense on deposits (excluding the operations of the Acquired Banks) decreased by \$520,000, or 23.3%, largely due to lower rates paid, although on a higher average balance of deposits outstanding. Interest expense on repurchase agreements and other short-term borrowings increased by \$2,000, due to a higher average rate paid although on an a lower average balance. Interest expense on FHLB advances decreased by \$45,000, due to a decrease in the average balance outstanding resulting from principal payments and maturities during the last twelve months as well as a lower average rate paid as a result of maturities in the second quarter of 2010. Interest expense on other borrowings increased by \$30,000 due to higher rates paid on a higher average outstanding balance.

The Board of Governors' policy to reduce the federal funds rate to nearly zero, coupled with the U.S. Treasury actively buying investment securities, has significantly reduced the yield on much of Premier's earning assets including investments, federal funds sold and variable rate loans. Premier has tried to offset some of the lower interest income by lowering the rates paid on its deposits and repurchase agreements with customers. However, the higher yield on the loans of the Acquired Banks coupled with the lower rates paid on the interest bearing deposits and borrowings of the Acquired Banks have combined to boost Premier's overall net interest margin. Premier's net interest margin in the second quarter of 2010 was 4.29% compared to 4.01% for the same period in 2009. A portion of the additional interest income on loans from the acquired banks is the result of recognizing into interest income the remaining fair value discount on notes that fully paid-off during the period. These events cannot be predicted with certainty and may positively or negatively affect interest income on loans in future months.

Non-interest income increased \$715,000 to \$3,211,000 for the first six months of 2010. Included in this increase is \$655,000 of non-interest income from the operations of the Acquired Banks. Excluding their operations, service charges on deposit accounts increased by \$32,000, or 2.1%, and electronic banking income (income from debit/credit cards, ATM fees and internet banking charges) increased by \$64,000 or 13.0%. These increases were partially offset by a \$28,000, or 13.2%, decrease in secondary market mortgage income and an \$8,000, or 3.3% decrease in other non-interest income. Secondary market mortgage income decreased as the number of mortgage borrowers have decreased compared to the first six months of 2009 even though the increased requirements to approve the purchase of mortgage loans by government agency buyers have become more widely accepted. Premier concentrates its efforts on selling high quality mortgage loans and routinely searches for new buyers for these loans; however, the volume of future sales may depend on factors beyond the control of the Company. Electronic banking income increased largely due to continued increases in Premier's deposit customer base and customers' greater propensity to use electronic means to conduct their banking business. Premier's conversion to a more modern banking software system in 2005 has allowed Premier to offer more electronic banking services and made it easier for customers to conduct their banking electronically.

For the quarter ending June 30, 2010, non-interest income increased \$368,000 to \$1,694,000, again largely due to the inclusion of \$335,000 of non-interest income from the operations of the Acquired Banks in 2010. Excluding their operations, service charges on deposit accounts increased by \$35,000, or 4.2%, and electronic banking income increased by \$34,000 or 13.3%. These increases were partially offset by a \$34,000, or 26.3%, decrease in secondary market mortgage income and a \$2,000, or 1.8% decrease in other non-interest income.

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Non-interest expenses for the first six months of 2010 totaled \$17,065,000, or 3.15% of average assets on an annualized basis, compared to \$11,649,000, or 3.21% of average assets for the same period of 2009. The \$5,416,000 increase in non-interest expenses in 2010 when compared to the first six months of 2009 is largely due to the \$5,805,000 of additional non-interest expenses from the operations of the Acquired Banks. Excluding their operations, non-interest expenses in the first six months of 2010 decreased by \$389,000, or 3.3%. Excluding the operations of the Acquired Banks, staff costs increased by \$160,000, or 2.9%, in 2010 largely due to normal salary and benefit increases. Outside data processing increased by \$69,000, or 4.5%, due to increases in processing fees and the outsourcing of statement rendering services. Taxes not on income increased by \$128,000, or 36.3%, due to increases in taxes on equity resulting from the additional equity from the acquisition of Abigail Adams and the issuance of preferred stock to the U.S. Treasury. The increase in these expenses were more than offset by decreases in occupancy and equipment expenses, professional fees, OREO expenses and writedowns, supplies, FDIC insurance and other operating expenses. Occupancy and equipment expenses decreased by \$160,000, or 11.7%, largely due to \$81,000 from gains on the sale of three buildings in the first quarter of 2010 and a \$90,000 decrease in equipment depreciation and maintenance expenses including information technology and furniture and fixtures, as many of these assets have become fully depreciated. Professional fees decreased by \$260,000, or 44.7%, in 2010 largely due to legal fees expensed in 2009 related to the acquisition of Abigail Adams and other legal fees incurred to settle outstanding lawsuits in 2009. OREO expenses and writedowns decreased by \$18,000, or 13.7%, in 2010, largely due to writedowns of OREO property in the first quarter of 2009 substantially offset by higher OREO expenses in 2010. FDIC insurance decreased by \$173,000, or 28.5%, due to the FDIC's special assessment on all banks in the United States during the second quarter of 2009 which cost Premier approximately \$319,000 partially offset by a combination of higher FDIC insurance rate increases in 2010 and the expiration of offsetting FDIC insurance credits used to offset some FDIC insurance in 2009. Supplies expense decreased by \$37,000 in the first six months of 2010 while other operating expenses decreased in total by \$98,000, largely due to customer fraud losses incurred in the first six months of 2009.

Non-interest expenses for the second quarter of 2010 totaled \$8,555,000 or 3.14% of average assets on an annualized basis compared to \$5,885,000 or 3.21% of average assets for the same period of 2009. The \$2,670,000 increase in non-interest expenses in the second quarter of 2010 when compared to the second quarter of 2009 is largely due to the \$2,862,000 of additional non-interest expenses from the operations of the Acquired Banks. Excluding the operations of the Acquired Banks, staff costs increased by \$131,000, or 4.9%, in 2010 largely due to normal salary and benefit increases. Outside data processing increased by \$31,000, or 4.0%, due to increases in processing fees and the outsourcing of statement rendering services. Taxes not on income increased by \$66,000, or 37.7%, due to increases in taxes on equity resulting from the additional equity from the acquisition of Abigail Adams and the issuance of preferred stock to the U.S. Treasury. OREO expenses and writedowns increased by \$42,000, or 77.8%, in 2010, largely due to higher OREO maintenance expenses in 2010. The increase in these expenses were more than offset by decreases in occupancy and equipment expenses, professional fees, supplies, FDIC insurance and other operating expenses. Occupancy and equipment expenses decreased by \$41,000, or 6.3%, largely due to lower depreciation and maintenance expenses on buildings, information technology equipment and furniture and fixtures. Professional fees decreased by \$55,000, or 22.8%, in 2010 largely due to legal fees expensed in 2009 related to the acquisition of Abigail Adams.



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FDIC insurance decreased by \$299,000, or 58.1%, due to the FDIC's special assessment on all banks in the United States during the second quarter of 2009 which cost Premier approximately \$319,000 partially offset by a combination of higher FDIC insurance rate increases in 2010 and the expiration of offsetting FDIC insurance credits used to offset some FDIC insurance in 2009. Supplies expense decreased by \$21,000 in the second quarter of 2010 while other operating expenses decreased in total by \$46,000, largely due to customer fraud losses incurred in the second quarter of 2009.

Income tax expense was \$1,410,000 for the first six months of 2010 compared to \$1,271,000 for the first six months of 2009. The effective tax rate for the six months ended June 30, 2010 was 23.7% compared to the 33.0% effective tax rate for the same period in 2009. The decrease in the effective tax rate is largely due to the recognition of a \$538,000, net of federal income tax expense, West Virginia income tax benefit resulting from Premier's projected ability to fully realize its West Virginia state deferred tax assets. The majority of the state deferred tax assets are made up of West Virginia net operating loss carryforwards, some of which were incurred as a result of Premier's historical operations and some of which were obtained from the Traders Bankshares acquisition in 2008. The projection takes into account changes in West Virginia's corporation income tax rules regarding consolidated income tax returns and the likelihood that the projected taxable income from the Acquired Banks will accelerate the utilization of all carryforwards. Income tax expense for the quarter ending June 30, 2010 was \$224,000 (9.2% effective tax rate) compared to \$638,000 (32.0% effective tax rate) for the same period of 2009. The decrease in income tax expense is directly related to the West Virginia income tax benefit detailed above.

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B. Financial Position

Total assets at June 30, 2010 decreased by \$25.2 million to approximately \$1.077 billion from the \$1.102 billion at December 31, 2009. Likewise, earning assets decreased by \$21.5 million from \$972.5 million at year-end 2009 to end the quarter at \$951.1 million. The decrease in earning assets was largely due to a decrease in total loans outstanding plus a decrease in securities available for sale and federal funds sold (see below).

Cash and due from banks at June 30, 2010 was \$61.6 million, unchanged from the \$61.6 million at December 31, 2009. Federal funds sold decreased by \$5.2 million from the \$23.0 million reported at December 31, 2009. Changes in these two highly liquid assets are generally in response to increases in deposits, the demand for deposit withdrawals or the funding of loans or investment purchases and are part of Premier's management of its liquidity and interest rate risks. The decrease in federal funds sold during the first six months of 2010 was largely in response to meet the demand for deposit withdrawals and the retirement of customer repurchase agreements during that time, as these two sources of funding decreased in total by \$23.6 million during the first six months of 2010.

Securities available for sale totaled \$233.8 million at June 30, 2010, a \$7.2 million decrease from the \$241.0 million at December 31, 2009. The decrease was largely due to several investment calls during the first six months of 2010, some of which were used to satisfy the demand for deposit withdrawals. The remaining balance of funds was used to reinvest in investment grade bonds. During the first quarter of 2010, longer-term bond yields began increasing in anticipation of potential future increases in the Federal Reserve Board of Governors' policy on interest rates. During the second quarter of 2010, this anticipation waned and investment yields began decreasing once again. During this time of falling market yields, issuers called eligible securities in an effort to issue new investments at even lower coupon rates. The level of proceeds from maturities and calls of securities in the first six months of 2010 was 75% more than the level in the first six months of 2009. As a result, the average yield on Premier's investment portfolio continued to decline. The investment portfolio is predominately high quality interest-bearing bonds with defined maturity dates backed by the U.S. Government or Government sponsored entities. The unrealized gains at June 30, 2010 and December 31, 2009 are price changes resulting from changes in the interest rate environment. Additional details on investment activities can be found in the Consolidated Statements of Cash Flows.

Total loans at June 30, 2010 were \$689.3 million compared to \$699.1 million at December 31, 2009, a decrease of approximately \$9.8 million. Over \$20.2 million of the decrease in loans came from the Acquired Banks as decreasing the total assets of these two banks is part of management's strategy to improve the ratio of the banks' capital to assets. The remaining banks produced a \$10.4 million increase in loans, largely due to \$8.1 million of loans purchased from Integra Bank per an agreement dated April 27, 2010. The remaining increase was due to loan demand during the first six months of 2010 more than offsetting payoffs and principal payments.

Deposits totaled \$893.2 million as of June 30, 2010, a \$20.6 million decrease from the \$913.8 million in deposits at December 31, 2009. The overall decrease in deposits is largely due to a \$23.9 million decrease in deposits at Adams, again as part of management's strategy to improve the ratio of the bank's capital to assets. The remaining banks, during the first six months of 2010, experienced a \$5.7 million increase in non-interest bearing deposits and a \$1.2 million increase in other interest bearing deposits partially offset by a \$3.5 million decrease in time deposits \$100,000 and over. Similarly, repurchase agreements with corporate and public entity customers decreased during the first six months of 2010, declining by \$3.1 million to \$21.5 million as of June 30, 2010. Decreases at Adams accounted for \$4.8 million of this decrease with the remaining banks increasing their repurchase agreement balances by \$1.7 million in total during the first six months of 2010.

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Long-term Federal Home Loan Bank ("FHLB") advances declined by \$4.2 million in the first six months of 2010 largely to \$4.0 million of debt maturities in May. The remaining \$210,000 decrease is due to regularly scheduled principal payments and accretion of a yield adjustment on the FHLB advance assumed via acquisition of Adams. Other borrowed funds decreased by \$948,000 during the first six months of 2010 due to regularly scheduled principal payments. See Note 5 to the consolidated financial statements for additional information on the Company's outstanding FHLB advances.

The following table sets forth information with respect to the Company's nonperforming assets at June 30, 2010 and December 31, 2009.

	(In Thousands)			
	2010		2009	
Non-accrual loans	\$48,997		\$46,299	
Accruing loans which are contractually past due 90 days or more	3,702		489	
Restructured	11,867		11,974	
Total non-performing loans	64,566		58,762	
Other real estate acquired through foreclosure (OREO)	9,660		9,251	
Total non-performing assets	\$74,226		\$68,013	
Non-performing loans as a percentage of total loans	9.37	%	8.40	%
Non-performing assets as a percentage of total assets	6.90	%	6.17	%

Total non-performing loans have increased since year-end, due to increases in non-accrual loans and loans past due 90 days or more. These increases were in addition to an increase in other real estate owned acquired through foreclosure. The increase in other real estate owned is largely due to the foreclosure of approximately \$1.8 million of loans partially offset by sales of \$1.5 million of OREO properties. The significant level of non-accrual loans and OREO is due to the non-performing assets that came with the acquisition of Abigail Adams and its two subsidiary banks.

At December 31, 2009, the Acquired Banks accounted for \$48.0 million or 70.5% of Premier's non-performing assets while at June 30, 2010 the Acquired Banks accounted for \$51.3 million or 69.2% of Premier's non-performing assets. However, since these assets were recorded at an estimated fair value on the date of acquisition, the amount of credit risk assumed by Premier is not nearly as great as the volume of non-performing assets suggests taken at face value. The estimate of fair value on all loans, but particularly on non-performing assets, included factors for the measurement of credit risk, interest rate risk and re-salability in the most advantageous market for the loans in an orderly transaction between market participants. These estimates included significant discounts on the non-accrual loans. Since the estimated fair value of these loans was believed to have accounted for the reasonably estimable credit risk in the loans, consistent with new accounting guidance for acquisitions after 2008, no allowance for loan losses for these loans was recorded at the date of acquisition.

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Under previous accounting standards, the loan loss allowance of the Acquired Banks would have carried over to Premier's books and records, as was the case for the acquisitions of Traders Bankshares and Citizens First Bank in 2008. The following table illustrates the face value of the non-performing assets of the Acquired Banks as of June 30, 2010 and December 31, 2009 and the discounted net carrying value of those non-performing assets.

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

	June 30, 2010		December 31, 2009	
	Face Value	Discounted Net Carrying Value	Face Value	Discounted Net Carrying Value
Non-performing Assets				
Non-accrual loans	\$53,657	\$42,456	\$48,430	\$39,306
Loans 90+ days past due	1,358	1,321	119	115
Other real estate owned	8,867	7,572	9,830	8,535
Total non-performing assets	\$63,882	\$51,349	\$58,379	\$47,956

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

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

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

During the second quarter of 2010, the Company recorded \$1.4 million of provisions for loan losses, largely due to estimated increases in the credit risk of impaired loans primarily at the Acquired Banks; but also as a result of increases in the estimated overall credit risk in the loan portfolio. The continuing level of non-performing loans plus the increase in net charge-offs are evidence of the increasing credit risk in the loan portfolio. The longer the downturn in the national and local economy continues, the greater the risk that one or more of Premier's loan customers may be affected in a negative way and therefore struggle to meet their commitment to repay their loan. The \$1.4 million second quarter 2010 provision for loan losses compares to \$110,000 of provisions for loan losses recorded during the second quarter of 2009.

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For the first six months of 2010, total provisions for loan losses equaled \$2.0 million. This compares to \$212,000 of provisions for loan losses recorded during the first six months of 2009. The provisions for loan losses were made in accordance with Premier's policies regarding management's estimation of probable incurred losses in the loan portfolio and the adequacy of the allowance for loan losses, which are in accordance with accounting principles generally accepted in the United States of America. In the coming months, Premier will continue to monitor the impact that national housing market price declines may have on its local markets and collateral valuations as management evaluates the adequacy of the allowance for loan losses. While some price deterioration is expected, it is not currently anticipated that Premier's markets will be impacted as severely as other areas of the country due to the historically modest increases in real estate values in the Company's Appalachian markets. However, as local and national unemployment rates remain at elevated levels and the downturn in housing prices extends further into the future, there is an increasing risk of price deterioration in real estate values in the Company's markets. Future provisions to the allowance for loan losses, positive or negative, will depend on future improvement or deterioration in estimated credit risk in the loan portfolio as well as whether additional payments are received on loans having significant credit risk.

Gross charge-offs totaled \$583,000 during the first six months of 2010. Any collections on these loans would be presented in future financial statements as recoveries of the amounts charged against the allowance. Recoveries recorded during the first six months of 2010 totaled \$235,000 resulting in net charge-offs for the first six months of 2010 of \$348,000. This compares to \$306,000 of net charge-offs recorded in the first six months of 2009. The allowance for loan losses at June 30, 2010 was 1.33% of total loans compared to 1.08% at December 31, 2009. The increase in the ratio is largely due to the \$1,980,000 of additional provisions for loan losses exceeding the \$348,000 of net charge-offs recorded in the first six months of 2010 as well as the decrease in total loans outstanding.

The ratio of the allowance for loan losses to total loans decreased significantly as a result of the acquisition of Abigail Adams when compared to ratios calculated prior to the acquisition. As discussed earlier, the loans acquired from Abigail Adams were recorded at their estimated fair value. Since the estimated fair value of these loans was believed to have accounted for the reasonably estimable credit risk in the loans, consistent with new accounting guidance for acquisitions after 2008, no allowance for loan losses for these loans was recorded at the date of acquisition. In the nine months since the acquisition, the Acquired Banks have recorded an allowance for loan losses of approximately \$1,567,000 largely due to identified additional risks of loss on impaired loans. Excluding the net loan portfolios of the Acquired Banks, Premier's remaining operations have a collective allowance for loan losses of approximately 1.61% of total loans at June 30, 2010. This compares to an approximately 1.60% collective ratio for these same entities at December 31, 2009.

C. Critical Accounting Policies

The Company follows financial accounting and reporting policies that are in accordance with generally accepted accounting principles in the United States of America. These policies are presented in Note 1 to the consolidated audited financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2009. Some of these accounting policies, as discussed below, are considered to be critical accounting policies. Critical accounting policies are those policies that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

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The Company has identified four accounting policies that are critical accounting policies, and an understanding of these policies is necessary to understand the financial statements. These policies relate to determining the adequacy of the allowance for loan losses, the identification and evaluation of impaired loans, the impairment of goodwill and the realization of deferred tax assets. A detailed description of these accounting policies is contained in the Company's annual report on Form 10-K for the year ended December 31, 2009. There have been no significant changes in the application of these accounting policies since December 31, 2009.

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

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D. Liquidity

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

1. Core deposits consisting of both consumer and commercial deposits and certificates of deposit of \$100,000 or more. Management believes that the majority of its \$100,000 or more certificates of deposit are no more volatile than its other deposits. This is due to the nature of the markets in which the subsidiaries operate.
2. Cash flow generated by repayment of loans and interest.
3. Arrangements with correspondent banks for purchase of unsecured federal funds.
4. The sale of securities under repurchase agreements and borrowing from the Federal Home Loan Bank.
5. Maintenance of an adequate available-for-sale security portfolio. The Company owns \$233.8 million of securities at fair value as of June 30, 2010.

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

E. Capital

At June 30, 2010, total shareholders' equity of \$132.1 million was 12.3% of total assets. This compares to total shareholders' equity of \$128.6 million or 11.7% of total assets on December 31, 2009.

Tier I capital totaled \$97.4 million at June 30, 2010, which represents a Tier I leverage ratio of 9.2%. This ratio is up slightly from the 8.9% at December 31, 2009 as the growth in Tier I capital was divided by a decrease in total assets during the first six months of 2010.

Book value per common share was \$13.89 at June 30, 2010, and \$13.46 at December 31, 2009. The increase in book value per share was the result of the \$0.49 per share earned during the quarter less the \$0.22 per share common dividend and the \$637,000 of preferred stock dividends and accretion. Also increasing the book value per share was \$1,240,000 of other comprehensive income for the first six months of 2010 related to the after tax increase in the market value of securities available for sale.



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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4(T). Controls and Procedures

A. Disclosure Controls & Procedures

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

B. Changes in Internal Controls over Financial Reporting

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

C. Inherent Limitations on Internal Control

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

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PART II - OTHER INFORMATION

Item 1.	Legal Proceedings	None
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Item 1A.	Risk Factors
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Please refer to Premier's Annual Report on Form 10-K for the year ended December 31, 2009 for disclosures with respect to Premier's risk factors at December 31, 2009. There have been no material changes since year-end 2009 in the specified risk factors disclosed in the Annual Report on Form 10-K.

Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	None
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Item 3.	Defaults Upon Senior Securities	None
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Item 4.	Submission of Matters to a vote of Security Holders	None
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Item 5.	Other Information	None
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Item 6.	Exhibits
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(a) The following exhibits are furnished in accordance with the provisions of Item 601 of Regulation S-K.

10.1 Written Agreement by and among Premier Financial Bancorp, Inc., Huntington, West Virginia, Abigail Adams National Bancorp, Inc., Washington, D.C., Consolidated Bank and Trust Company, Richmond, Virginia, the Federal Reserve Bank of Richmond, Richmond, Virginia, and State Corporation Commission Bureau of Financial Institutions, Richmond Virginia dated July 29, 2010 filed as Exhibit 10.1 to Premier's Form 8-K dated July 29, 2010 is incorporated herein by reference.

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

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

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

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## SIGNATURES

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

PREMIER FINANCIAL BANCORP, INC.

Date: August 13, 2010 /s/ Robert W. Walker  
Robert W. Walker  
President & Chief Executive Officer

Date: August 13, 2010 /s/ Brien M. Chase  
Brien M. Chase  
Senior Vice President & Chief Financial Officer

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