PREMIER FINANCIAL BANCORP INC
Form 10-Q
May 10, 2016

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 March 31, 2016

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 000-20908

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

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

Registrant's telephone number (304) 525-1600

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if smaller reporting company)	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, – 9,650,830 shares outstanding at April 29, 2016

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MARCH 31, 2016

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying information has not been audited by an independent registered public accounting firm; however, in the opinion of management such information reflects all adjustments necessary for a fair presentation of the results for the interim period. All such adjustments are of a normal and recurring nature. Premier Financial Bancorp, Inc.'s ("Premier's") accounting and reporting policies are in accordance with accounting principles generally accepted in the United States of America. Certain accounting principles used by Premier involve a significant amount of judgment about future events and require the use of estimates in their application. The following policies are particularly sensitive in terms of judgments and the extent to which estimates are used: allowance for loan losses, the identification and evaluation of impaired loans, the impairment of goodwill, the realization of deferred tax assets and stock based compensation disclosures. These estimates are based on assumptions that may involve significant uncertainty at the time of their use. However, the policies, the estimates and the estimation process as well as the resulting disclosures are periodically reviewed by the Audit Committee of the Board of Directors and material estimates are subject to review as part of the external audit by the independent 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, 2015 for further information in this regard.

Index to consolidated financial statements:

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2016 AND DECEMBER 31, 2015
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	(UNAUDITED) 2016	2015
ASSETS		
Cash and due from banks	$ 35,641	$ 33,888
Interest bearing bank balances	80,838	32,816
Federal funds sold	8,052	5,835
Cash and cash equivalents	124,531	72,539
Securities available for sale	315,698	255,466
Loans	986,643	849,746
Allowance for loan losses	(9,915)	(9,647)
Net loans	976,728	840,099
Federal Home Loan Bank stock, at cost	3,267	3,072
Premises and equipment, net	24,029	19,841
Real estate and other property acquired through foreclosure	13,426	13,040
Interest receivable	3,715	3,162
Goodwill	37,117	33,796
Other intangible assets	3,768	2,180
Other assets	1,203	1,498
Total assets	$ 1,503,482	$ 1,244,693
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 305,512	$ 271,194
Time deposits, $250,000 and over	70,427	64,062
Other interest bearing	908,237	724,940
Total deposits	1,284,176	1,060,196
Securities sold under agreements to repurchase	24,533	21,694
FHLB advances	1,289	-
Other borrowed funds	10,684	11,292
Subordinated debentures	5,313	-
Interest payable	371	321
Other liabilities	4,385	3,958
Total liabilities	1,330,751	1,097,461
Stockholders' equity		
Common stock, no par value; 20,000,000 shares authorized; 9,605,830 shares issued and outstanding at March 31, 2016, and 8,179,731 shares issued and outstanding at December 31, 2015	91,561	69,319
Retained earnings	79,132	77,592
Accumulated other comprehensive income	2,038	321
Total stockholders' equity	172,731	147,232
Total liabilities and stockholders' equity	$ 1,503,482	$ 1,244,693

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31,	
	2016	2015
Interest income		
Loans, including fees	$12,601	$11,665
Securities available for sale		
Taxable	1,428	1,257
Tax-exempt	84	55
Federal funds sold and other	97	36
Total interest income	14,210	13,013
Interest expense		
Deposits	977	916
Repurchase agreements and other	7	10
FHLB advances and other borrowings	120	123
Subordinated debentures	51	-
Total interest expense	1,155	1,049
Net interest income	13,055	11,964
Provision for loan losses	312	69
Net interest income after provision for loan losses	12,743	11,895
Non-interest income		
Service charges on deposit accounts	961	878
Electronic banking income	762	644
Secondary market mortgage income	40	38
Other	174	145
	1,937	1,705
Non-interest expenses		
Salaries and employee benefits	4,991	4,341
Occupancy and equipment expenses	1,512	1,327
Outside data processing	1,321	1,096
Professional fees	150	129
Taxes, other than payroll, property and income	158	196
Write-downs, expenses, sales of other real estate owned, net	239	342
Amortization of intangibles	267	225
FDIC insurance	260	215
Conversion expenses	146	-
Other expenses	1,031	921
	10,075	8,792
Income before income taxes	4,605	4,808
Provision for income taxes	1,626	1,666

Net income	$2,979	$3,142
Net income per share:		
Basic	$0.32	$0.39
Diluted	0.32	0.36

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31, 2016	2015
Net income	$2,979	$3,142
Other comprehensive income:		
Unrealized gains arising during the period	2,632	1,306
Reclassification of realized amount	(4)	-
Net change in unrealized gain on securities	2,628	1,306
Less tax impact	(911)	(444)
Other comprehensive income	1,717	862
Comprehensive income	$4,696	$4,004

PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2016
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances, January 1, 2016	$69,319	$77,592	$ 321	$147,232
Net income	-	2,979	-	2,979
Other comprehensive income	-	-	1,717	1,717
Cash dividends paid ($0.15 per share)	-	(1,439)	-	(1,439)
Stock issued to acquire subsidiary, net	22,041	-	-	22,041
Stock options exercised	81	-	-	81
Stock based compensation expense	120	-	-	120
Balances, March 31, 2016	$91,561	$79,132	$ 2,038	$172,731

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(UNAUDITED, DOLLARS IN THOUSANDS)

	2016	2015
Cash flows from operating activities		
Net income	$ 2,979	$ 3,142
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	472	420
Provision for loan losses	312	69
Amortization (accretion), net	577	58
OREO writedowns (gains on sales), net	(11)	177
Stock compensation expense	120	139
Loans originated for sale	-	(1,679)
Secondary market loans sold	-	1,308
Secondary market income	-	(38)
Gain on disposition of securities	(4)	-
Changes in :		
Interest receivable	45	114
Other assets	859	544
Interest payable	(37)	(48)
Other liabilities	(1,567)	523
Net cash from operating activities	3,745	4,729
Cash flows from investing activities		
Purchases of securities available for sale	-	(8,757)
Proceeds from maturities and calls of securities available for sale	18,389	15,350
Redemption of FRB stock	143	-

Purchase of subsidiaries, net of cash received		16,385		-
Net change in loans		(4,132)		6,587
Purchases of premises and equipment, net		(54)		(180)
Improvements to OREO property		(30)		-
Proceeds from sales of other real estate acquired through foreclosure		71		1,652
Net cash from investing activities		30,772		14,652
Cash flows from financing activities				
Net change in deposits		18,823		14,603
Net change in agreements to repurchase securities		671		2,519
Repayment of FHLB Advances		(53)		-
Repayment of other borrowed funds		(608)		(607)
Proceeds from stock option exercises		81		11
Common stock dividends paid		(1,439)		(1,058)
Net cash from financing activities		17,475		15,468
Net change in cash and cash equivalents		51,992		34,849
Cash and cash equivalents at beginning of period		72,539		75,384
Cash and cash equivalents at end of period	$	124,531	$	110,233

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
THREE MONTHS ENDED MARCH 31, 2016 AND 2015
(UNAUDITED, DOLLARS IN THOUSANDS)

	2016	2015
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	$1,196	$1,097
Cash paid during period for income taxes	205	-
Loans transferred to real estate acquired through foreclosure	416	1,140

Additional information regarding the assets acquired and liabilities assumed in the acquisition of First National Bankshares Corporation on January 15, 2016 can be found in Note 10 below.

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

NOTE 1 - BASIS OF PRESENTATION

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

Subsidiary	Location	Year Acquired	Total Assets	March 31, 2016 Net Income Qtr
Citizens Deposit Bank & Trust	Vanceburg, Kentucky	1991	$393,226	$1,074
Premier Bank, Inc.	Huntington, West Virginia	1998	1,103,194	2,422
Parent and Intercompany Eliminations			7,062	(517)
Consolidated Total			$1,503,482	$2,979

All significant intercompany transactions and balances have been eliminated.

Recently Issued Accounting Pronouncements

In May 2014, FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2016. However, in April 2015, the FASB voted to defer the effective date of ASU 2014-09 by one year making the amendments effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Companies have the option to apply ASU 2014-09 as of the original effective date. Early adoption is not permitted. Management is currently evaluating the impact of the adoption of this guidance on the Company’s financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU makes several modifications to Subtopic 825-10 including the elimination of the available-for-sale classification of equity investments, and requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. This ASU will become effective for the Company for interim and annual periods beginning after December 15, 2017. The adoption of ASU No. 2016-01 is not expected to have a material impact on the Company's financial statements.

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

NOTE 1 - BASIS OF PRESENTATION - continued

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This standard requires organizations to recognizing lease assets and lease liabilities on the balance sheet and disclose key information about leasing requirements for leases that were historically classified as operating leases under previous generally accepted accounting principles. This ASU will become effective for the Company for interim and annual periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this guidance on the Company’s financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting. This ASU will require recognition of the income tax effects of share-based awards in the income statement when the awards vest or are settled (i.e., Additional Paid-in-Capital pools will be eliminated). The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The adoption of ASU No. 2016-09 is not expected to have a material impact on the Company's financial statements.

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

NOTE 2 –SECURITIES

Amortized cost and fair value of investment securities, by category, at March 31, 2016 are summarized as follows:

2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. sponsored agency MBS - residential	$ 161,274	$ 1,512	$ (52)	$ 162,734
U. S. sponsored agency CMO’s - residential	97,904	1,634	(327)	99,211
Total mortgage-backed securities of government sponsored agencies	259,178	3,146	(379)	261,945
U. S. government sponsored agency securities	31,311	87	(8)	31,390
Obligations of states and political subdivisions	22,121	264	(22)	22,363
Total available for sale	$ 312,610	$ 3,497	$ (409)	$ 315,698

Amortized cost and fair value of investment securities, by category, at December 31, 2015 are summarized as follows:

2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. sponsored agency MBS - residential	$ 132,661	$ 540	$ (854)	$ 132,347
U. S. sponsored agency CMO’s - residential	104,530	1,330	(738)	105,122
Total mortgage-backed securities of government sponsored agencies	237,191	1,870	(1,592)	237,469
U. S. government sponsored agency securities	10,401	29	(1)	10,429
Obligations of states and political subdivisions	7,387	184	(3)	7,568
Total available for sale	$ 254,979	$ 2,083	$ (1,596)	$ 255,466

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

NOTE 2–SECURITIES - continued

The amortized cost and fair value of securities at March 31, 2016 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	$ 5,689	$ 5,698
Due after one year through five years	38,141	38,319
Due after five years through ten years	8,447	8,576
Due after ten years	1,155	1,160
Mortgage-backed securities of government sponsored agencies	259,178	261,945
Total available for sale	$ 312,610	$ 315,698

During the first three months of 2016 the Company sold $47,000 of securities and realized a gain of $4,000. There were no sales of securities during the first three months of 2015.

Securities with unrealized losses at March 31, 2016 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S government sponsored agency securities	$ 5,335	$ (8)	$ -	$ -	$ 5,335	$ (8)
U.S government sponsored agency MBS – residential	27,723	(52)	-	-	27,723	(52)
U.S government sponsored agency CMO – residential	5,419	(33)	17,249	(294)	22,668	(327)
Obligations of states and political subdivisions	5,496	(22)	-	-	5,496	(22)
Total temporarily impaired	$ 43,973	$ (115)	$ 17,249	$ (294)	$ 61,222	$ (409)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2–SECURITIES - continued

Securities with unrealized losses at December 31, 2015 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S government sponsored agency securities	$2,016	$ (1)	$-	$ -	$2,016	$ (1)
U.S government sponsored agency MBS – residential	94,311	(854)	-	-	94,311	(854)
U.S government sponsored agency CMO's – residential	11,604	(161)	19,755	(577)	31,359	(738)
Obligations of states and political subdivisions	571	(3)	-	-	571	(3)
Total temporarily impaired	$108,502	$ (1,019)	$19,755	$ (577)	$128,257	$ (1,596)

The investment portfolio is predominately high credit quality interest-bearing bonds with defined maturity dates backed by the U.S. Government or Government sponsored entities. The unrealized losses at March 31, 2016 and December 31, 2015 are price changes resulting from changes in the interest rate environment and are considered to be temporary declines in the value of the securities. Management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. Their fair value is expected to recover as the bonds approach their maturity date and/or market conditions improve.

NOTE 3 - LOANS

Major classifications of loans at March 31, 2016 and December 31, 2015 are summarized as follows:

	2016	2015
Residential real estate	$339,969	$285,826
Multifamily real estate	56,316	50,452
Commercial real estate:		
Owner occupied	149,137	119,265
Non owner occupied	197,274	188,918
Commercial and industrial	77,801	68,339
Consumer	32,783	31,445
All other	133,363	105,501
	$986,643	$849,746

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

NOTE 3–LOANS - continued

As more fully discussed under Note 10 below, the table above includes loans purchased in the acquisition of First National Bankshares Corporation ("Bankshares"). The composition of the major classifications of the loans acquired from Bankshares at March 31, 2016 are summarized as follows:

	2016
Residential real estate	$52,379
Multifamily real estate	3,414
Commercial real estate:	
Owner occupied	22,616
Non owner occupied	10,809
Commercial and industrial	18,261
Consumer	3,040
All other	20,503
	$131,022

Activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2016 was as follows:

Loan Class	Balance Dec 31, 2015	Provision (credit) or loan losses	Loans charged-off	Recoveries	Balance March 31, 2016
Residential real estate	$2,501	$ 78	$ 49	$ 9	$2,539
Multifamily real estate	821	(76)	-	-	745
Commercial real estate:					
Owner occupied	1,509	21	-	1	1,531
Non owner occupied	2,070	267	-	-	2,337
Commercial and industrial	1,033	(136)	-	36	933
Consumer	307	(11)	44	36	288
All other	1,406	169	60	27	1,542
Total	$9,647	$ 312	$ 153	$ 109	$9,915

Activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2015 was as follows:

Loan Class	Balance Dec 31, 2014	Provision (credit) for loan losses	Loans charged-off	Recoveries	Balance March 31, 2015
Residential real estate	$2,093	$ 154	$ 74	$ 23	$2,196
Multifamily real estate	304	(17)	-	-	287

Commercial real estate:					
Owner occupied	1,501	(11)	2	1	1,489
Non owner occupied	2,316	8	-	-	2,324
Commercial and industrial	1,444	165	161	2	1,450
Consumer	243	18	54	34	241
All other	2,446	(248)	59	44	2,183
Total	$10,347	$ 69	$ 350	$ 104	$10,170

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

NOTE 3–LOANS - continued

Purchased Impaired Loans

The Company holds purchased loans for which there was, at their acquisition date, evidence of deterioration of credit quality since their origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows at March 31, 2016 and December 31, 2015.

	2016	2015
Residential real estate	$2,189	$-
Commercial real estate		
Owner occupied	2,466	131
Non owner occupied	5,511	5,549
Commercial and industrial	385	80
All other	2,430	-
Total carrying amount	$12,981	$5,760
Contractual principal balance	$17,102	$7,251
Carrying amount, net of allowance	$12,916	$5,680

For those purchased loans disclosed above, the Company did not increase the allowance for loan losses for the three-months ended March 31, 2016, nor did it increase the allowance for loan losses for purchased impaired loans during the three-months ended March 31, 2015.

For those purchased loans disclosed above, where the Company can reasonably estimate the cash flows expected to be collected on the loans, a portion of the purchase discount is allocated to an accretable yield adjustment based upon the present value of the future estimated cash flows versus the current carrying value of the loan and the accretable yield portion is being recognized as interest income over the remaining life of the loan.

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

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

NOTE 3–LOANS - continued

The accretable yield, or income expected to be collected, on the purchased loans above is as follows at March 31, 2016 and March 31, 2015.

	2016	2015
Balance at January 1	$185	$204
New loans purchased	1,506	-
Accretion of income	(40)	(5)
Reclassifications from non-accretable difference	-	-
Disposals	-	-
Balance at March 31	$1,651	$199

As part of the Bankshares acquisition on January 15, 2016, the Company purchased credit impaired loans for which it was probable at acquisition that all contractually required payments would not be collected. The contractually required payments of such loans totaled $10,040,000, while the cash flow expected to be collected at acquisition totaled $9,028,000 and the fair value of the acquired loans totaled $7,522,000.

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

NOTE 3–LOANS - continued

Past Due and Non-performing Loans

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of March 31, 2016 and December 31 2015. The recorded investment in non-accrual loans is less than the principal owed on non-accrual loans due to discounts applied to the carrying value of the loan at time of their acquisition and interest payments made by the borrower which have been used to reduce the recorded investment in the loan rather than recognized as interest income.

March 31, 2016	Principal Owed on Non-accrual Loans	Recorded Investment in Non-accrual Loans	Loans Past Due Over 90 Days, still accruing
Residential real estate	$ 2,581	$ 2,260	$ 1,166
Multifamily real estate	422	81	306
Commercial real estate			
Owner occupied	1,356	1,317	166
Non owner occupied	2,104	1,997	-
Commercial and industrial	2,291	1,174	382
Consumer	300	275	-
All other	1,057	996	-
Total	$ 10,111	$ 8,100	$ 2,020
Loans included in totals above acquired from Bankshares	$ -	$ -	$ 1,219

December 31, 2015	Principal Owed on Non-accrual Loans	Recorded Investment in Non-accrual Loans	Loans Past Due Over 90 Days, still accruing
Residential real estate	$ 2,367	$ 2,091	$ 867
Multifamily real estate	416	75	-
Commercial real estate			
Owner occupied	791	773	558
Non owner occupied	3,732	3,400	-
Commercial and industrial	1,460	337	870
Consumer	257	234	-
All other	287	231	737
Total	$ 9,310	$ 7,141	$ 3,032

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

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NOTE 3–LOANS - continued

The following table presents the aging of the recorded investment in past due loans as of March 31, 2016 by class of loans:

Loan Class	Total Loans	30-89 Days Past Due	Greater than 90 days past due	Total Past Due	Loans Not Past Due
Residential real estate	$339,969	$4,836	$2,006	$6,842	$333,127
Multifamily real estate	56,316	1,101	387	1,488	54,828
Commercial real estate:					
Owner occupied	149,137	1,356	1,265	2,621	146,516
Non owner occupied	197,274	1,383	1,969	3,352	193,922
Commercial and industrial	77,801	353	1,374	1,727	76,074
Consumer	32,783	292	105	397	32,386
All other	133,363	3,303	974	4,277	129,086
Total	$986,643	$12,624	$8,080	$20,704	$965,939
Loans included in totals above acquired from Bankshares	$131,022	$788	$1,219	$2,007	$129,015

The following table presents the aging of the recorded investment in past due loans as of December 31, 2015 by class of loans:

Loan Class	Total Loans	30-89 Days Past Due	Greater than 90 days past due	Total Past Due	Loans Not Past Due
Residential real estate	$285,826	$6,298	$1,681	$7,979	$277,847
Multifamily real estate	50,452	1,415	75	1,490	48,962
Commercial real estate:					
Owner occupied	119,265	1,354	1,195	2,549	116,716
Non owner occupied	188,918	2,481	3,400	5,881	183,037
Commercial and industrial	68,339	220	1,064	1,284	67,055
Consumer	31,445	288	101	389	31,056
All other	105,501	3,157	935	4,092	101,409
Total	$849,746	$15,213	$8,451	$23,664	$826,082

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NOTE 3–LOANS - continued

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2016:

	Allowance for Loan Losses				Loan Balances			
Loan Class	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
Residential real estate	$6	$ 2,533	$ -	$2,539	$541	$ 337,239	$ 2,189	$339,969
Multifamily real estate	-	745	-	745	1,058	55,258	-	56,316
Commercial real estate:								
Owner occupied	52	1,479	-	1,531	438	146,233	2,466	149,137
Non-owner occupied	125	2,212	-	2,337	5,281	186,482	5,511	197,274
Commercial and industrial	150	718	65	933	311	77,105	385	77,801
Consumer	-	288	-	288	-	32,783	-	32,783
All other	-	1,542	-	1,542	750	130,183	2,430	133,363
Total	$333	$ 9,517	$ 65	$9,915	$8,379	$ 965,283	$ 12,981	$986,643

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2015:

	Allowance for Loan Losses				Loan Balances			
Loan Class	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
Residential real estate	$-	$ 2,501	$ -	$2,501	$575	$ 285,251	$ -	$285,826
Multifamily real estate	-	821	-	821	75	50,377	-	50,452
Commercial real estate:								
Owner occupied	44	1,465	-	1,509	446	118,688	131	119,265
Non-owner occupied	22	2,048	-	2,070	6,502	176,867	5,549	188,918
Commercial and industrial	153	800	80	1,033	544	67,715	80	68,339
Consumer	-	307	-	307	-	31,445	-	31,445
All other	-	1,406	-	1,406	750	104,751	-	105,501
Total	$219	$ 9,348	$ 80	$9,647	$8,892	$ 835,094	$ 5,760	$849,746

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NOTE 3–LOANS - continued

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

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2016. The table includes $65 of loans acquired with deteriorated credit quality that are still individually evaluated for impairment.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	$ 544	$ 535	$ -
Multifamily real estate	1,399	1,058	-
Commercial real estate			
Owner occupied	82	76	-
Non owner occupied	4,677	4,571	-
Commercial and industrial	907	161	-
All other	805	750	-
	8,414	7,151	-
With an allowance recorded:			
Residential real estate	43	6	6
Commercial real estate			
Owner occupied	364	362	52
Non-owner occupied	710	710	125
Commercial and industrial	518	215	215
	1,635	1,293	398
Total	$ 10,049	$ 8,444	$ 398

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NOTE 3–LOANS - continued

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2015. The table includes $80 of loans acquired with deteriorated credit quality that are still individually evaluated for impairment.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	$ 636	$ 575	$ -
Multifamily real estate	416	75	-
Commercial real estate			
Owner occupied	276	269	-
Non owner occupied	6,554	6,222	-
Commercial and industrial	1,160	391	-
All other	805	750	-
	9,847	8,282	-
With an allowance recorded:			
Commercial real estate			
Owner occupied	$ 177	$ 177	$ 44
Non owner occupied	280	280	22
Commercial and industrial	528	233	233
	985	690	299
Total	$ 10,832	$ 8,972	$ 299

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NOTE 3–LOANS - continued

The following table presents the average balance of loans individually evaluated for impairment and interest income recognized on these loans for the three months ended March 31, 2016 and March 31, 2015. The table includes loans acquired with deteriorated credit quality that are still individually evaluated for impairment.

	Three months ended March 31, 2016			Three months ended March 31, 2015		
Loan Class	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
Residential real estate	$ 558	$ 5	$ 4	$ 135	$ 1	$ 1
Multifamily real estate	566	13	12	1,796	-	-
Commercial real estate:						
Owner occupied	441	-	-	1,457	9	8
Non-owner occupied	5,892	50	41	4,800	48	48
Commercial and industrial	500	3	3	987	4	4
All other	750	-	-	6,195	16	11
Total	$ 8,707	$ 71	$ 60	$ 15,370	$ 78	$ 72

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NOTE 3–LOANS - continued

Troubled Debt Restructurings

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

The following table presents TDR’s as of March 31, 2016 and December 31, 2015:

March 31, 2016	TDR’s on Non-accrual	Other TDR’s	Total TDR’s
Residential real estate	$ 50	$470	$520
Multifamily real estate	-	2,193	2,193
Commercial real estate			
Owner occupied	-	610	610
Non owner occupied	-	549	549
Commercial and industrial	-	405	405
All other	723	-	723
Total	$ 773	$4,227	$5,000

December 31, 2015	TDR’s on Non-accrual	Other TDR’s	Total TDR’s
Residential real estate	$ 7	$222	$229
Multifamily real estate	-	2,201	2,201
Commercial real estate			
Non owner occupied	-	454	454
Commercial and industrial	-	396	396
All other	-	723	723
Total	$ 7	$3,996	$4,003

At March 31, 2016 $151,000 in specific reserves was allocated to loans that had restructured terms. At December 31, 2015 there were no specific reserves allocated to loans that had restructured terms. As of March 31, 2016 and December 31, 2015, there were no commitments to lend additional amounts to these borrowers.

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NOTE 3–LOANS - continued

The following table presents TDR's that occurred during the three months ended March 31, 2016 and 2015.

	Three months ended March 31, 2016			Three months ended March 31, 2015		
Loan Class	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate	2	$ 299	$ 299	-	$ -	$ -
Multifamily real estate	-	-	-	1	1,543	1,543
Commercial real estate				-		
Owner occupied	2	610	610	-	-	-
Non owner occupied	1	100	100	-	-	-
Commercial and industrial	1	20	20	-	-	-
Total	6	$ 1,029	$ 1,029	1	$ 1,543	$ 1,543

The modifications reported above for the three months ended March 31, 2016 involve one borrowing relationship that did not include any permanent reduction of the recorded investment in the loans nor change in the interest rate on the loans. The Company has modified the terms of the loans by extending payment terms and requiring interest only payments during a period of loan rehabilitation. These periods have exceeded normal extension and interest only periods customarily offered by the Company. During the three month ended March 31, 2016, the Company increased the allowance for loan losses by $145,000 related to these loans.

The modification of the multifamily residential real estate loan during the three months ended March 31, 2015 did not include a permanent reduction of the recorded investment in the loan and did not increase the allowance for loan losses during the period. The modification included a lengthening of the amortization period and reduction in the stated interest rate, however the maturity date was reduced to the end of a fifteen month forbearance period with a balloon payment due at maturity. The modified loan paid in full during the three months ended June 30, 2015.

During the three months ended March 31, 2016 and the three months ended March 31, 2015, there were no TDR's for which there as a payment default within twelve months following the modification.

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

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NOTE 3–LOANS - continued

Credit Quality Indicators:

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

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

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

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

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

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NOTE 3–LOANS - continued

As of March 31, 2016, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

Loan Class	Pass	Special Mention	Substandard	Doubtful	Total Loans
Residential real estate	$324,652	$6,164	$ 9,147	$ 6	$339,969
Multifamily real estate	52,858	1,184	2,274	-	56,316
Commercial real estate:					
Owner occupied	137,121	6,917	5,099	-	149,137
Non-owner occupied	187,493	4,039	5,742	-	197,274
Commercial and industrial	74,363	1,795	1,602	41	77,801
Consumer	31,909	221	653	-	32,783
All other	124,317	6,882	2,164	-	133,363
Total	$932,713	$27,202	$ 26,681	$ 47	$986,643
Loans included in totals above acquired from Bankshares	$123,006	$2,361	$ 5,655	$ -	$131,022

As of December 31, 2015, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

Loan Class	Pass	Special Mention	Substandard	Doubtful	Total Loans
Residential real estate	$273,741	$5,389	$ 6,689	$ 7	$285,826
Multifamily real estate	46,135	2,041	2,276	-	50,452
Commercial real estate:					
Owner occupied	112,989	3,964	2,312	-	119,265
Non-owner occupied	179,179	2,891	6,848	-	188,918
Commercial and industrial	64,563	2,859	873	44	68,339
Consumer	31,000	269	176	-	31,445
All other	101,839	2,490	1,172	-	105,501
Total	$809,446	$19,903	$ 20,346	$ 51	$849,746

NOTE 4- STOCKHOLDERS' EQUITY AND REGULATORY MATTERS

The Company's principal source of funds for dividend payments to shareholders is dividends received from the subsidiary Banks. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, as defined, combined with the retained net profits of the preceding two years, subject to the capital requirements and additional restrictions as discussed below. During 2016 the Banks could, without prior approval, declare dividends to the Company of approximately $1.1 million plus any 2016 net profits retained to the date of the dividend declaration.

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

These quantitative measures established by regulation to ensure capital adequacy require the Company and Banks to maintain minimum amounts and ratios (set forth in the following table) of Common Equity Tier 1 Capital, Tier 1 Capital and Total Capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 Capital (as defined) to average assets (as defined). Management believes, as of March 31, 2016 the Company and the Banks meet all quantitative capital adequacy requirements to which they are subject.

Beginning in 2016, a new capital buffer computation is being phased-in over the next three-years as a component of regulatory capital. By maintaining Premier's regulatory capital ratios in excess of the phased-in capital buffer, the Company will avoid regulatorily imposed limitations on dividends and discretionary bonus payments to management. The capital buffer percentage required in 2016 is an additional 0.625% added to the minimum capital ratios. By maintaining well capitalized ratios, Premier's subsidiary banks will meet the capital buffer requirement through the end of 2018.

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

	Mar 31, 2016	December 31, 2015	Regulatory Minimum Requirements	To Be Considered Well Capitalized
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	13.3%	13.6 %	4.5 %	6.5 %
Tier 1 Capital (to Risk-Weighted Assets)	13.9%	13.6 %	6.0 %	8.0 %
Total Capital (to Risk-Weighted Assets)	14.9%	14.7 %	8.0 %	10.0 %
Tier 1 Capital (to Average Assets)	10.0%	9.4 %	4.0 %	5.0 %

As of March 31, 2016, the most recent notification from each of the Banks' primary Federal regulators categorized the subsidiary Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain minimum Common Equity Tier 1 risk-based, Tier 1 risk-based, Total risk-based and Tier 1 leverage ratios as set forth in the preceding table. There are no conditions or events since that notification that management believes have changed the Banks' categories.

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NOTE 5 – FEDERAL HOME LOAN BANK ADVANCES

As part of the acquisition of Bankshares, the Company assumed five amortizing advances from FHLB-Pittsburgh to First National Bank, its wholly owned subsidiary, totaling $1,261,000 as of the January 15, 2016 acquisition date. The borrowings have stated fixed interest rates ranging from 4.320% to 4.930%, with penalties for prepayment, maturity dates ranging from December 2017 to May 2025, and are collateralized by FHLB stock and qualifying first mortgage loans owned by the Company. The carrying value of the advances include the remaining unamortized fair value adjustments recorded as a result of the acquisition of Bankshares on January 15, 2016. Reported interest expense on the advances includes the periodic accretion of the fair value adjustments. Principal payments on the advances for the next five years are as follows:

2016	$200
2017	278
2018	157
2019	145
2020	110
Thereafter	319
Principal amount outstanding at March 31, 2016	$1,209

There were no borrowings outstanding at December 31, 2015.

NOTE 6 – SUBORDINATED DEBENTURES

As part of the acquisition of Bankshares, the Company formally assumed $6,186,000 of junior subordinated debentures (“Debentures”) issued to FNB Capital Trust One (“Trust”), a statutory business trust formed by Bankshares on February 26, 2004. The Debentures were issued to Trust in exchange for ownership of all of the common equity of Trust and the proceeds of mandatorily redeemable securities sold by Trust to third party investors (“Capital Securities”). Interest on the Debentures is payable quarterly to the Trust at a variable interest rate equal to the three month London Interbank Offered Rate (LIBOR) plus 2.95% updated quarterly. The interest rate on the Debentures was 3.569% at March 31, 2016. The Company is not considered the primary beneficiary of this trust (variable interest entity), therefore Trust is not consolidated in the Company’s financial statements, but rather the Debentures are shown as a liability. The Debentures mature on April 24, 2034; however, the Company may redeem the Debentures, in whole or in part, at 100% of the principal amount plus any accrued and unpaid interest. The Debentures held by Trust are the sole asset of the trust. The Debentures held by Trust may be included in the Tier 1 capital of the Company (with certain limitations applicable) under current regulatory guidelines and interpretations.

The carrying value of the Debentures includes the remaining unamortized fair value adjustment recorded as a result of the acquisition of Bankshares on January 15, 2016. Reported interest expense on the Debentures includes the periodic amortization of the fair value adjustment. The Company’s investment in the common stock of the trust is $186,000 and is included in other assets.

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NOTE 7 – STOCK COMPENSATION EXPENSE

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

On March 16, 2016, 50,900 incentive stock options were granted out of the 2012 Long Term Incentive Plan at an exercise price of $14.90, the closing market price of Premier's common stock on the grant date. These options vest in three equal annual installments ending on March 16, 2019. On March 18, 2015, 47,650 incentive stock options were granted out of the 2012 Long Term Incentive Plan at an exercise price of $14.72, the closing market price of Premier's common stock on the grant date. These options vest in three equal annual installments ending on March 18, 2018.

On March 16, 2016, 7,000 shares of Premier's common stock were granted to President and CEO, Robert W. Walker as stock-based bonus compensation under the 2012 Long-term Incentive Plan. The fair value of the stock at the time of the grant was $14.90 per share based upon the closing price of Premier's stock on the date of grant and $104,000 of stock-based compensation was recorded as a result. On March 18, 2015, 7,000 shares of Premier's common stock were granted to President and CEO, Robert W. Walker as stock-based bonus compensation under the 2012 Long-term Incentive Plan. The fair value of the stock at the time of the grant was $14.72 per share based upon the closing price of Premier's stock on the date of grant and $103,000 of stock-based compensation was recorded as a result.

Compensation expense of $120,000 was recorded for the first three months of 2016 while $139,000 was recorded for the first three months of 2015, including the compensation expense related to the stock grants to Mr. Walker. Stock-based compensation expense related to incentive stock option grants is recognized ratably over the requisite vesting period for all awards. Unrecognized stock-based compensation expense related to stock options totaled $100,000 at March 31, 2016. This unrecognized expense is expected to be recognized over the next 35 months based on the vesting periods of the options.

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NOTE 8 – EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the earnings per common share and earnings per common share assuming dilution computations for the three months ended March 31, 2016 and 2015 is presented below:

	Three Months Ended March 31,	
	2016	2015
Basic earnings per share		
Income available to common stockholders	$2,979	$3,142
Weighted average common shares outstanding	9,374,312	8,143,326
Earnings per share	$0.32	$0.39
Diluted earnings per share		
Income available to common stockholders	$2,979	$3,142
Weighted average common shares outstanding	9,374,312	8,143,326
Add dilutive effects of potential additional common stock	60,883	488,900
Weighted average common and dilutive potential common shares outstanding	9,435,195	8,632,226
Earnings per share assuming dilution	$0.32	$0.36

Stock options for 20,000 and 23,500 shares of common stock were not considered in computing diluted earnings per share for the three months ended March 31, 2016 and 2015 because they were antidilutive.

NOTE 9 – FAIR VALUE

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

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

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

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

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

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

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

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

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NOTE 9 – FAIR VALUE - continued

The carrying amounts and estimated fair values of financial instruments at March 31, 2016 were as follows:

	Carrying Amount	Fair Value Measurements at March 31, 2016 Using			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash and due from banks	$116,479	$116,479	$-	$-	$116,479
Federal funds sold	8,052	8,052	-	-	8,052
Securities available for sale	315,698	-	315,698	-	315,698
Loans, net	976,728	-	-	976,296	976,296
Federal Home Loan Bank stock	3,267	n/a	n/a	n/a	n/a
Interest receivable	3,715	13	994	2,708	3,715
Financial liabilities					
Deposits	$(1,284,176)	$(907,270)	$(375,088)	$-	$(1,282,358)
Securities sold under agreements to repurchase	(24,533)	-	(24,533)	-	(24,533)
FHLB advances	(1,289)	-	(1,300)	-	(1,300)
Other borrowed funds	(10,684)	-	(10,841)	-	(10,841)
Subordinated debt	(5,313)	-	(5,313)	-	(5,313)
Interest payable	(371)	(7)	(364)	-	(371)

The carrying amounts and estimated fair values of financial instruments at December 31, 2015 were as follows:

	Carrying Amount	Fair Value Measurements at December 31, 2015 Using			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash and due from banks	$66,704	$66,704	$-	$-	$66,704
Federal funds sold	5,835	5,835	-	-	5,835
Securities available for sale	255,466	-	255,466	-	255,466
Loans, net	840,099	-	-	838,867	838,867
Federal Home Loan Bank stock	3,072	n/a	n/a	n/a	n/a
Interest receivable	3,162	-	633	2,529	3,162
Financial liabilities					
Deposits	$(1,060,196)	$(726,018)	$(331,747)	$-	$(1,057,765)
Securities sold under agreements to repurchase	(21,694)	-	(21,694)	-	(21,694)
Other borrowed funds	(11,292)	-	(11,318)	-	(11,318)
Interest payable	(321)	(6)	(315)	-	(321)

PREMIER FINANCIAL BANCORP, INC.
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NOTE 9 – FAIR VALUE - continued

Assets and Liabilities Measured on a Recurring Basis

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

		Fair Value Measurements at March 31, 2016 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	$162,734	$-	$ 162,734	$ -
U. S. agency CMO's - residential	99,211	-	99,211	-
Total mortgage-backed securities of government sponsored agencies	261,945	-	261,945	-
U. S. government sponsored agency securities	31,390	-	31,390	-
Obligations of states and political subdivisions	22,363	-	22,363	-
Total available for sale	$315,698	$-	$ 315,698	$ -

		Fair Value Measurements at December 31, 2015 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	$132,347	$-	$ 132,347	$ -
U. S. agency CMO's	105,122	-	105,122	-
Total mortgage-backed securities of government sponsored agencies	237,469	-	237,469	-
U. S. government sponsored agency securities	10,429	-	10,429	-

Obligations of states and political subdivisions	7,568	-	7,568	-
Total securities available for sale	$ 255,466	$ -	$ 255,466	$ -

There were no transfers between Level 1 and Level 2 during 2016 or 2015.

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NOTE 9 – FAIR VALUE - continued

Assets and Liabilities Measured on a Non-Recurring Basis

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

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent collateral appraisals. Real estate appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and unique to each property and result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports. Management periodically evaluates the appraised collateral values and will discount the collateral's appraised value to account for a number of factors including but not limited to the cost of liquidating the collateral, the age of the appraisal, observable deterioration since the appraisal, management's expertise and knowledge of the client and client's business, or other factors unique to the collateral. To the extent an adjusted collateral value is lower than the carrying value of an impaired loan, a specific allocation of the allowance for loan losses is assigned to the loan.

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

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NOTE 9 – FAIR VALUE - continued

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2016 are summarized below:

		Fair Value Measurements at March 31, 2016 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Commercial real estate				
Owner occupied	$ 309	$ -	$ -	$ 309
Non-owner occupied	405	-	-	405
Total impaired loans	$ 714	$ -	$ -	$ 714
Other real estate owned:				
Residential real estate	$ 608	$ -	$ -	$ 608
Commercial real estate				
Owner occupied	259	-	-	259
Non-owner occupied	2,253	-	-	2,253
All other	4,898	-	-	4,898
Total OREO	$ 8,018	$ -	$ -	$ 8,018

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $1,293,000 at March 31, 2016 with a valuation allowance of $398,000 and a carrying amount of $690,000 at December 31, 2015 with a valuation allowance of $299,000 resulting in a provision for loan losses of $99,000 for the three months ended March 31, 2016, compared to a $9,000 in provision for loan losses for the three months ended March 31, 2015. The detail of impaired loans by loan class is contained in Note 3 above.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $8,018,000 which is made up of the outstanding balance of $10,758,000 net of a valuation allowance of $2,740,000 at March 31, 2016. There were no write downs during the three months ended March 31, 2015, and $50,000 of write downs during the three months ended March 31, 2015. At December 31, 2015, other real estate owned had a net carrying amount of $8,059,000, made up of the outstanding balance of $10,825,000, net of a valuation allowance of $2,766,000.

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NOTE 9 – FAIR VALUE - continued

The significant unobservable inputs related to assets and liabilities measured at fair value on a non-recurring basis at March 31, 2016 are summarized below:

	March 31, 2016	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Impaired loans:				
Commercial real estate				
Owner occupied	$309	sales comparison	adjustment for limited salability of specialized property	44.8%-76.3% (72.9%)
Non-owner occupied	405	sales comparison	adjustment for limited salability of specialized property	8.0%-8.0% (8.0%)
Total impaired loans	$714			
Other real estate owned:				
Residential real estate	$608	sales comparison	adjustment for differences between the comparable sales	0.7%-31.6% (24.7%)
Commercial real estate				
Owner occupied	259	sales comparison	adjustment for differences between the comparable sales	25.4%-41.3% (38.8%)
Non-owner occupied	2,253	sales comparison	adjustment for differences between the comparable sales	21.9%-23.4% (23.1%)
All other	4,898	sales comparison	adjustment for estimated realizable value	18.9%-46.6% (27.5%)
Total OREO	$8,018			

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NOTE 9 – FAIR VALUE - continued

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2015 are summarized below:

		Fair Value Measurements at December 31, 2015 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Commercial real estate				
Owner occupied	$ 133	$ -	$ -	$ 133
Non-owner occupied	258	-	-	258
Total impaired loans	$ 391	$ -	$ -	$ 391
Other real estate owned:				
Residential real estate	$ 648	$ -	$ -	$ 648
Commercial real estate				
Owner occupied	260	-	-	260
Non-owner occupied	2,253	-	-	2,253
All other	4,898	-	-	4,898
Total OREO	$ 8,059	$ -	$ -	$ 8,059

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NOTE 9 – FAIR VALUE - continued

The significant unobservable inputs related to assets and liabilities measured at fair value on a non-recurring basis at December 31, 2015 are summarized below:

	December 31, 2015	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
Impaired loans:				
Commercial real estate				
Owner occupied	$ 133	sales comparison	adjustment for limited salability of specialized property	60.7%-72.4% (66.3%)
Non-owner occupied	258	sales comparison	adjustment for differences between the comparable sales	8.0%-8.0% (8.0%)
Total impaired loans	$ 391			
Other real estate owned:				
Residential real estate	$ 648	sales comparison	adjustment for differences between the comparable sales	0.7%-31.6% (24.7%)
Commercial real estate				
Owner occupied	260	sales comparison	adjustment for differences between the comparable sales	25.4%-41.3% (38.8%)
Non-owner occupied	2,253	sales comparison	adjustment for differences between the comparable sales	21.9%-23.4% (23.1%)
All other	4,898	sales comparison	adjustment for estimated realizable value	18.9%-46.6% (27.5%)
Total OREO	$ 8,059			

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NOTE 10 – ACQUISITION OF FIRST NATIONAL BANKSHARES CORPORATION

Effective at the close of business on January 15, 2016, Premier completed its purchase of First National Bankshares Corporation (“Bankshares”), a $237.5 million single bank holding company headquartered in Ronceverte, West Virginia. Under terms of an agreement of merger dated July 6, 2015, Premier issued 1.69 shares of its common stock for each share of Bankshares for a total of 1.4 million shares and an acquisition value of approximately $22.0 million. Based on the initial preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed the purchase price resulted in approximately $3.32 million in goodwill and $1.85 million in core deposit intangible, none of which is deductible for tax purposes. The core deposit intangible will be amortized using an accelerated method. The following table presents estimated amortization of the Bankshares core deposit intangible for each of the next five years.

2016	$319
2017	288
2018	234
2019	202
2020	199
Thereafter	613
Total core deposit intangible acquired	$1,855

The valuations of loans, premises and equipment and core deposit intangible are still preliminary and subject to change. United States generally accepted accounting principles (“U.S. GAAP”) provides up to twelve months following the date of acquisition in which management can finalize the fair values of acquired assets and assumed liabilities. Material events that occur during the measurement period will be analyzed to determine if the new information reflected facts and circumstances that existed on the acquisition date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns more information is unobtainable. The measurement period is limited to one year from the acquisition date. Once management has finalized the fair values of acquired assets and assumed liabilities within this twelve month period, management considers such values to be the “Day One Fair Values.” Based on management’s preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, the purchase price for the Bankshares acquisition is allocated in the table below.

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NOTE 10 – ACQUISITION OF FIRST NATIONAL BANKSHARES CORPORATION - continued

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

	First National Bankshares
Cash and due from banks	$ 16,385
Securities available for sale	76,612
Loans, net	132,954
Premises and equipment	4,606
Goodwill and other intangible assets	5,176
Other assets	1,764
Total assets acquired	237,497
Deposits	(205,174)
Repurchase agreements	(2,168)
FHLB borrowings	(1,347)
Subordinated debt	(5,307)
Other liabilities	(1,460)
Total liabilities assumed	(215,456)
Net assets acquired	$ 22,041

The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these non-impaired financial instruments will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the accounting guidance relating to purchase credit impaired loans, which have shown evidence of credit deterioration since origination. The non-impaired loans excluded from the purchase credit impairment guidance were recorded at an estimated fair value of $125,433,000 and had gross contractual amounts receivable of $127,347,000 on the date of acquisition.

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 ide forward-looking statements.

A. Results of Operations

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

Net income for the three months ended March 31, 2016 was $2,979,000, or $0.32 per diluted share, compared to net income of $3,142,000, or $0.36 per diluted share for the three months ended March 31, 2015. The decrease in income in the first three months of 2016 is largely due to an increase in provision for loan losses compared to the first three months of 2015 and an increase in operating expenses from the operations of the acquired First National Bank ("First National"), which were not included in Premier's first quarter 2015 results. First National, a wholly owned subsidiary of First National Bankshares Corporation ("Bankshares") headquartered in Ronceverte, West Virginia, was purchased as part of Premier's acquisition of Bankshares on January 15, 2016. Premier issued 1.4 million shares of its common stock valued at approximately $22,041,000 to the shareholders of Bankshares. On March 4, 2016, as part of Premier's assimilation of Bankshares, First National was converted to Premier's operating systems and merged into Premier Bank, Inc., a wholly own subsidiary of Premier. The six branches of First National became branches of Premier Bank and now comprise the bank's second largest operating division. The operations of First National's six branches plus the operations of Bankshares are only included in the operations of Premier since the January 15, 2016 acquisition date. The decrease in net income related to the provision for loan losses is due to $69,000 of provision expense recorded during the first three months of 2015, which compares to $312,000 of provision expense recorded during the first three months of 2016. The annualized returns on average common shareholders' equity and average assets were approximately 7.06% and 0.83% for the three months ended March 31, 2016 compared to 8.46% and 1.00% for the same period in 2015.

Net interest income for the quarter ended March 31, 2016 totaled $13.055 million, up $1.091 million, or 9.1%, from the $11.964 million of net interest income earned in the first quarter of 2015. Interest income in 2016 increased by $1.197 million, or 9.2%, largely due to a $1.637 million increase in interest income from the operations of First National, partially offset by a $440,000, or 3.3%, decrease in interest income from Premier's other operations. Interest earned on investments increased by $200,000, or 15.2%, due to the addition of $215,000 of interest income on investments added via the acquisition of First National, partially offset by a $15,000 decrease in interest income on investments from Premier's other operations. Interest earned on federal funds sold and interest bearing bank balances increased by $61,000 largely due to higher yields earned on these highly liquid assets.

Interest expense increased in total during the first three months of 2016 by $106,000, or 10.1%, when compared to the same three months of 2015. Interest expense increased by $243,000 due to the addition of the operations acquired from Bankshares, including $192,000 of interest expense on the deposits and borrowings of First National and $51,000 of interest expense on subordinated debentures assumed by Premier as part of the acquisition of Bankshares. The subordinated debentures can be included as a portion of Premier's regulatory Tier 1 capital, subject to certain conditions and limitations. Partially offsetting the $243,000 increase in interest expense from the addition of the operations acquired from Bankshares was a $137,000, or 13.1%, decrease in interest expense from Premier's other operations largely due to a $123,000, or 13.4%, decrease in interest expense on deposits and a $10,000, or 8.1%, decrease in interest expense on other borrowings.

Premier's net interest margin during the first three months of 2016 was 3.93% compared to 4.17% for the same period in 2015. Impacting the comparison of Premier's net interest margin in 2016 with its net interest margin in 2015 are the assets and liabilities acquired via the Bankshares purchase, which generated additional net interest income in the first three months of 2016 compared to the net interest income in the first three months of 2015 but not necessarily at the same net interest margin as Premier's historical yields. As shown in the table below, while Premier's yield earned on federal funds sold and interest bearing bank balances increased to 0.67% in the first three months of 2016, the average yield earned on securities available for sale and total loans outstanding both decreased when compared to the first three months of 2015, largely due to the acquired earning assets of First National. However, the average rate paid on interest bearing liabilities decreased very little in the first three months of 2016, as decreases in the average rates paid on interest-bearing deposits, short-term borrowings and other borrowings were partially offset by higher average rates paid on the FHLB advances and subordinated debentures assumed in the acquisition of Bankshares. The overall effect was to reduce Premier's net interest spread by 23 basis points to 3.80% and its net interest margin by 24 basis points to 3.93% in the first three months of 2016 when compared to the first three months of 2015.

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Additional information on Premier's net interest income for the first quarter of 2016 and first quarter of 2015 is contained in the following table.

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

	Three Months Ended March 31, 2016				Three Months Ended March 31, 2015			
	Balance	Interest	Yield/Rate		Balance	Interest	Yield/Rate	
Assets								
Interest Earning Assets								
Federal funds sold and other	$58,597	$97	0.67	%	$60,393	$36	0.24	%
Securities available for sale								
Taxable	299,033	1,428	1.91		221,320	1,257	2.27	
Tax-exempt	18,111	84	2.81		8,391	55	3.97	
Total investment securities	317,144	1,512	1.96		229,711	1,312	2.33	
Total loans	963,693	12,601	5.26		875,720	11,665	5.40	
Total interest-earning assets	1,339,434	14,210	4.28	%	1,165,824	13,013	4.53	%
Allowance for loan losses	(9,742)				(10,411)			
Cash and due from banks	32,994				32,109			
Other assets	80,854				73,880			
Total assets	$1,443,540				$1,261,402			
Liabilities and Equity								
Interest-bearing liabilities								
Interest-bearing deposits	$940,630	977	0.42		$823,382	916	0.45	
Short-term borrowings	20,328	7	0.14		16,095	10	0.25	
FHLB advances	1,059	7	2.66		-	-	-	
Other borrowings	11,014	113	4.13		11,395	123	4.38	
Subordinated debentures	4,379	51	4.68		-	-	-	
Total interest-bearing liabilities	977,410	1,155	0.48	%	850,872	1,049	0.50	%
Non-interest bearing deposits	292,583				257,304			
Other liabilities	4,648				4,703			
Stockholders' equity	168,899				148,523			
Total liabilities and equity	$1,443,540				$1,261,402			
Net interest earnings		$13,055				$11,964		
Net interest spread			3.80	%			4.03	%
Net interest margin			3.93	%			4.17	%

Non-interest income increased by $232,000, or 13.6%, to $1,937,000 for the first three months of 2016 compared to the same three months of 2015. Service charges on deposit accounts increased by $83,000, or 9.5%, electronic banking income (income from debit/credit cards, ATM fees and internet banking charges) increased by $118,000, or 18.3%, and income from other sources increased by $31,000, or 16.9%. The increases in these non-interest income sources is largely due to the inclusion of the operations of First National in 2016.

Non-interest expenses for the first quarter of 2016 totaled $10,075,000, or 2.81% of average assets on an annualized basis, compared to $8,792,000, or 2.83% of average assets for the same period of 2015. The $1,283,000 increase in non-interest expenses in 2016 when compared to the first quarter of 2015 is largely due to a $1,276,000 increase in non-interest expense from the operations of the six branches of First National and $146,000 of expenses directly incurred during the quarter to convert First National's operating and data systems. These increases were partially offset by a $139,000, or 1.6%, decrease in non-interest expense from Premier's other operations. Largely as a result of the First National operations, staff costs increased by $650,000, or 15.0%, occupancy and equipment expenses increased by $185,000, or 13.9%, data processing costs (excluding conversion costs) increased by $225,000, or 20.5%, and FDIC insurance costs increased by $45,000, or 20.9%. These increases were partially offset by a $38,000, or 19.4%, decrease in taxes not based on income, and a $103,000, or 30.1%, decrease in OREO expenses and writedowns when compared to the first quarter of 2015.

Income tax expense was $1,626,000 for the first three months of 2016 compared to $1,666,000 for the first three months of 2015. The effective tax rate for the three months ended March 31, 2016 was 35.3% compared to the 34.7% effective tax rate for the same period in 2015. The increase in income tax expense can be primarily attributed to the full phase-in of the 35% maximum federal corporate income tax rate in 2016 due to Premier's projected taxable income for the year versus a partial phase-in of the 35% federal corporate income tax rate in 2015.

B. Financial Position

Total assets at March 31, 2016 increased by $258.8 million to $1.503 billion from the $1.245 billion at December 31, 2015. The increase in total assets since year-end is largely due to the $237.5 million of assets from the Bankshares acquisition in January 2016, plus an $18.8 million increase in deposits from Premier's other operations. Earning assets increased by $247.7 million from the $1.147 billion at year-end 2015 to end the quarter at $1.395 billion including an increase of $224.0 million of earning assets from the Bankshares acquisition.

Cash and due from banks at March 31, 2016 was $35.6 million, a $1.7 million increase from the $33.9 million at December 31, 2015. Interest bearing bank balances increased by $48.0 million from the $32.8 million reported at December 31, 2015 and federal funds sold increased by $2.2 million to $8.1 million at March 31, 2016. The increases are partially due to the Bankshares acquisition which added approximately $2.4 million of cash and due from banks and $14.0 million of interest bearing bank balances. Changes in these highly liquid assets are generally in response to increases in deposits, the demand for deposit withdrawals or the funding of loans or investment purchases and are part of Premier's management of its liquidity and interest rate risks. The increase in interest bearing bank balances and federal funds sold during the first three months of 2016 was largely in response to increases in available funds from investment maturities plus an increase in total deposits outstanding at the end of the quarter.

Securities available for sale totaled $315.7 million at March 31, 2016, a $60.2 million increase from the $255.5 million at December 31, 2015. The increase was largely due to the $76.6 million of securities available for sale added from the Bankshares acquisition. Otherwise, securities decreased by $16.4 primarily due to proceeds from monthly principal payments on Premier's mortgage backed securities portfolio and securities maturing during the quarter, which more than offset a $2.6 million increase in the market value of the securities available for sale. The investment portfolio is predominately high quality residential mortgage backed securities backed by the U.S. Government or Government sponsored agencies. Any unrealized losses on securities within the portfolio at March 31, 2016 and December 31, 2015 are believed to be price changes resulting from increases in the long-term interest rate environment and management anticipates receiving all principal and interest on these investments as they come due. Additional details on investment activities can be found in the Consolidated Statements of Cash Flows.

Total loans at March 31, 2016 were $986.6 million compared to $849.7 million at December 31, 2015, an increase of approximately $136.9 million, or 16.1%. The increase in loans was largely due to the $133.0 million of loans added from the Bankshares acquisition. Total loans also increased by $3.9 million during the first three months of 2016 as internal loan growth at Premier's other operations more than offset regular principal payments, loan payoffs and transfers of loans to OREO upon foreclosure.

Premises and equipment increased by $4.2 million, as the $4.6 million of premises and equipment of the six branches of First National was partially offset by normal quarterly depreciation of fixed assets. Goodwill and other intangible assets increased by $4.9 million, as the $5.2 million of intangible assets generated by the acquisition of Bankshares was partially offset by $267,000 of core deposit intangible amortization.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2016

Deposits totaled $1.284 billion as of March 31, 2016, a $224.0 million, or 21.1%, increase from the $1.060 billion in deposits at December 31, 2015. The overall increase in deposits is largely due to the $205.2 million of deposits assumed in Bankshares acquisition plus an additional $18.8 million, or 1.8%, increase in deposits from Premier's other operations. The $18.8 million increase in deposits includes a $10.3 million, or 3.8%, increase in non-interest bearing deposits, a $7.1 million, or 3.8%, increase in interest bearing transaction accounts, and a $11.5 million, or 4.3%, increase in savings and money market accounts. . These increases more than offset a $10.1 million, or 3.0%, decrease in certificates of deposit. Repurchase agreements with corporate and public entity customers increased in the first quarter of 2016 by $2.8 million, or 13.1%, which includes $2.2 million obtained by the acquisition of Bankshares. Other borrowings decreased by $608,000 since year-end 2015 due to scheduled principal payments plus additional principal payments on Premier's existing borrowings. However, Premier assumed approximately $1.4 million of FHLB advances made to First National, reduced by principal payments since January, and also assumed $6.186 million of subordinated debentures issued by Bankshares, reduced by $873,000 of fair value adjustments, as a result of the acquisition of Bankshares in January 2016.

The following table sets forth information with respect to the Company's nonperforming assets at March 31, 2016 and December 31, 2015.

	(In Thousands)	
	2016	2015
Non-accrual loans	$8,100	$7,141
Accruing loans which are contractually past due 90 days or more	2,020	3,032
Accruing restructured loans	4,227	4,003
Total non-performing loans	14,347	14,176
Other real estate acquired through foreclosure (OREO)	13,426	13,040
Total non-performing assets	$27,773	$27,216
Non-performing loans as a percentage of total loans	1.45 %	1.67 %
Non-performing assets as a percentage of total assets	1.85 %	2.19 %

Total non-performing loans have increased slightly since year-end, largely due to $1.2 million of loans past due 90 days or more from the acquisition of Bankshares and $1.0 million of new accruing restructured loans. Otherwise, a $1.0 million increase in non-accrual loans was more than offset by a $2.2 million decrease in loans past due 90 days or more from Premier's other operations. Other real estate owned ("OREO") increased slightly by $386,000 as new foreclosures in the first three months of 2016 exceeded OREO sales. The acquisition of Bankshares did not add any OREO properties. Any non-accrual loans and restructured loans of Bankshares were converted to performing loans as a result of applying purchase discounts to the acquisition value of the loans based upon the borrowers' ability to repay their obligations. Additional details on these "Purchase Credit Impaired" loans is found in Note 3 to the financial statements.

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

Gross charge-offs totaled $153,000 during the first three months of 2016, due in part to the partial charge-off of loans upon foreclosure and placement into OREO during the quarter. Any collections on charged-off loans, or partially charged-off loans, would be presented in future financial statements as recoveries of the amounts charged against the allowance. Recoveries recorded during the first three months of 2016 totaled $109,000, resulting in net charge-offs for the first quarter of 2016 of $44,000. This compares to $246,000 of net charge-offs recorded in the first quarter of 2015. The allowance for loan losses at March 31, 2016 was 1.00% of total loans compared to 1.14% at December 31, 2015. The decrease in the ratio is largely due the $133.0 million increase in total loans outstanding resulting from the acquisition of Bankshares with no additional amount added to the allowance. These loans were recorded at fair value, incorporating estimated credit risk and interest rate yield adjustments into the recorded value. As such, under current accounting guidance, no increase in the allowance for loan losses was recorded as a result of the Bankshares acquisition. Excluding the initial $133.0 million in loans from the Bankshares acquisition, the allowance for loan losses would be 1.16% of the remaining loans in the portfolio. The increase in the comparative ratio since year-end is largely due to an increase in the amount of allowance allocated to loans individually evaluated for impairment.

During the first quarter of 2016, Premier recorded $312,000 of provision for loan losses. This provision compares to $69,000 of provision for loan losses recorded during the same quarter of 2015. The provision for loan losses recorded during the first quarter of 2016 was primarily to provide for additional identified credit risk in Premier's commercial real estate loan and construction loan portfolios. The provision for loan losses recorded during the first quarter of 2015 was primarily to provide for additional identified credit risk in Premier's residential real estate loan and commercial real estate loan portfolios. The level of provision expense is determined under Premier's internal analyses of evaluating credit risk. The amount of future provisions for loan losses will depend on any future improvement or further deterioration in the estimated credit risk in the loan portfolio as well as whether additional payments are received on loans previously identified as having significant credit risk.

The provisions for loan losses recorded in 2015 and 2016 were made in accordance with Premier's policies regarding management's estimation of probable incurred losses in the loan portfolio and the adequacy of the allowance for loan losses, which are in accordance with accounting principles generally accepted in the United States of America. Future provisions to the allowance for loan losses, positive or negative, will depend on future improvement or deterioration in estimated credit risk in the loan portfolio as well as whether additional payments are received on loans having significant credit risk. Premier continues to monitor and evaluate the impact that national housing market prices may have on its local markets and collateral valuations as management evaluates the adequacy of the allowance for loan losses. While some price deterioration has occurred, it is not currently anticipated that Premier's markets will be impacted as severely as other areas of the country due to the historically modest increases in real estate values in the Company's markets in West Virginia, Ohio and Kentucky. With the concentrations of commercial real estate loans in the Washington, DC and Richmond, Virginia markets, fluctuations in commercial real estate values will also be monitored. Premier also continues to monitor the impact of the declining coal mining industry that may have a larger impact in the southern area of West Virginia and the state of the natural gas extraction industry which may have a larger impact in the central area of West Virginia. A declining market and resulting decline in employment could increase non-performing assets. In each of the last four years, Premier sold some OREO properties at a gain while other OREO properties have required subsequent write-downs to net realizable values. These factors are considered in determining the adequacy of the allowance for loan losses. For additional details on the activity in the allowance for loan losses, impaired loans, past due and non-accrual loans and restructured loans, see Note 3 to the consolidated financial statements.

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C. Critical Accounting Policies

The Company follows financial accounting and reporting policies that are in accordance with generally accepted accounting principles in the United States of America. These policies are presented in Note 1 to the consolidated audited financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2015. Some of these accounting policies, as discussed below, are considered to be critical accounting policies. Critical accounting policies are those policies that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company has identified four accounting policies that are critical accounting policies, and an understanding of these policies is necessary to understand the financial statements. These policies relate to determining the adequacy of the allowance for loan losses, the identification and evaluation of impaired loans, the impairment of goodwill and the realization of deferred tax assets. A detailed description of these accounting policies is contained in the Company's annual report on Form 10-K for the year ended December 31, 2015. There have been no significant changes in the application of these accounting policies since December 31, 2015.

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

D. Liquidity

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

1. Core deposits consisting of both consumer and commercial deposits and certificates of deposit of $250,000 or more. Management believes that the majority of its $250,000 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 $315.7 million of securities at fair value as of March 31, 2016.

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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 March 31, 2016, total stockholders' equity of $172.7 million was 11.5% of total assets. This compares to total stockholders' equity of $147.2 million, or 11.8% of total assets on December 31, 2015. The increase in stockholders' equity was largely due to the $22.0 million of common stock issued to shareholders of Bankshares in the acquisition. Otherwise $3.0 million of first quarter net income as well as a $1.7 million, net of tax, increase in the market value of the investment portfolio available for sale were partially offset by a $0.15 per share common stock dividend declared and paid during the first quarter of 2016.

Tier 1 capital totaled $140.7 million at March 31, 2016, which represents a Tier 1 leverage ratio of 10.0%. This ratio is up from the 9.4% Tier 1 leverage ratio and $116.3 million of Tier 1 capital at December 31, 2015, as the growth in Tier 1 capital from the acquisition of Bankshares was higher in proportion to the average assets added from the acquisition of Bankshares during the quarter ended March 31, 2016, thus having a positive effect on Premier's leverage ratio. 1

The regulatory authorities introduced a new capital measure in the first quarter of 2015 for financial institutions of Premier's size, Common Equity Tier 1 Capital. The Common Equity Tier 1 capital measure seeks to determine how much of the traditional Tier 1 capital is attributable to equity contributed by common shareholders by excluding Tier 1 capital from other sources such as preferred stockholders' equity and subordinated debt. As of March 31, 2016, Premier's Common Equity Tier 1 capital is $6.0 million lower than its total Tier 1 capital due to the additional Tier 1 capital included from the subordinated debentures assumed in the acquisition of Bankshares. Since the subordinated debentures are held by the parent company, the Common Equity Tier 1 capital of the subsidiary banks is identical to their total Tier 1 capital, as none of the subsidiary banks have issued any preferred stock or subordinated debentures. Beginning in 2016, a new capital buffer computation is being phased-in over the next three-years as a component of regulatory capital. By maintaining Premier's regulatory capital ratios in excess of the phased-in capital buffer, the Company will avoid regulatorily imposed limitations on dividends and discretionary bonus payments to management. The capital buffer percentage required in 2016 is an additional 0.625% added to the minimum capital ratios. By maintaining well capitalized ratios, Premier's subsidiary banks will meet the capital buffer requirement through the end of 2018.

Book value per common share was $17.97 at March 31, 2016 and $18.00 at December 31, 2015. The decrease in book value per share was largely the result of the issuance of shares to acquire Bankshares at a fair value under Premier's $18.00 book value at December 31, 2015. Adding to Premier's book value per share in the first quarter of 2016 was the $0.32 per share earned during the quarter partially offset by the $0.15 per share quarterly cash dividend to common shareholders declared and paid during the first quarter of 2016. Also adding to Premier's book value per share at March 31, 2016 was the $1,717,000 of other comprehensive income for the first three months of 2016 related to the after tax increase in the market value of investment securities available for sale, which increased book value by approximately $0.18 in book value per share.

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 2015 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 2015 10-K.

Item 4. Controls and Procedures

A. Disclosure Controls & Procedures

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

B. Changes in Internal Controls over Financial Reporting

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

C. Inherent Limitations on Internal Control

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

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MARCH 31, 2016

PART II - OTHER INFORMATION

Item 1. Legal Proceedings None

Item 1A. Risk Factors

Please refer to Premier's Annual Report on Form 10-K for the year ended December 31, 2015 for disclosures with respect to Premier's risk factors at December 31, 2015. There have been no material changes since year-end 2015 in the specified risk factors disclosed in the Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds None

Item 3. Defaults Upon Senior Securities None

Item 4. Mine Safety Disclosures Not Applicable

Item 5. Other Information None

Item 6. Exhibits

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

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

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

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

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PREMIER FINANCIAL BANCORP, INC.
MARCH 31, 2016

SIGNATURES

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

PREMIER FINANCIAL BANCORP, INC.

Date: May 10, 2016 /s/ Robert W. Walker
Robert W. Walker
President & Chief Executive Officer

Date: May 10, 2016 /s/ Brien M. Chase
Brien M. Chase
Senior Vice President & Chief Financial Officer