PREMIER FINANCIAL BANCORP INC
Form 10-Q
August 10, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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, – 8,167,806 shares outstanding at July 31, 2015

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JUNE 30, 2015

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

The accompanying financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the registrant's annual report on Form 10-K. Accordingly, the reader of the Form 10-Q may wish to refer to the registrant's Form 10-K for the year ended December 31, 2014 for further information in this regard.

Index to consolidated financial statements:

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2015 AND DECEMBER 31, 2014
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$33,440	$35,147
Interest bearing bank balances	35,437	35,251
Federal funds sold	3,265	4,986
Cash and cash equivalents	72,142	75,384
Securities available for sale	226,077	229,750
Loans held for sale	-	226
Loans	883,873	879,711
Allowance for loan losses	(10,694)	(10,347)
Net loans	873,179	869,364
Federal Home Loan Bank stock, at cost	3,072	2,996
Premises and equipment, net	20,127	21,384
Real estate and other property acquired through foreclosure	11,349	12,208
Interest receivable	3,271	3,219
Goodwill	33,796	33,796
Other intangible assets	2,599	3,033
Other assets	1,394	1,464
Total assets	$1,247,006	$1,252,824
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$253,094	$252,828
Time deposits, $250,000 and over	67,532	66,216
Other interest bearing	749,905	756,199
Total deposits	1,070,531	1,075,243
Securities sold under agreements to repurchase	15,307	15,580
Other borrowed funds	12,507	11,722
Interest payable	387	434
Other liabilities	3,836	4,063
Total liabilities	1,102,568	1,107,042
Stockholders' equity		
Common stock, no par value; 20,000,000 shares authorized; 8,167,806 shares issued and outstanding at June 30, 2015, and 8,142,056 shares issued and outstanding at December 31, 2014	69,257	74,568
Retained earnings	73,868	69,719
Accumulated other comprehensive income (loss)	1,313	1,495
Total stockholders' equity	144,438	145,782
Total liabilities and stockholders' equity	$1,247,006	$1,252,824

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest income				
Loans, including fees	$11,641	$11,262	$23,306	$22,925
Securities available for sale				
Taxable	1,206	1,400	2,463	2,715
Tax-exempt	56	63	111	98
Federal funds sold and other	52	64	88	96
Total interest income	12,955	12,789	25,968	25,834
Interest expense				
Deposits	887	960	1,803	1,847
Repurchase agreements and other	9	9	19	16
Other borrowings	136	144	259	288
Total interest expense	1,032	1,113	2,081	2,151
Net interest income	11,923	11,676	23,887	23,683
Provision (credit) for loan losses	(146)	(79)	(77)	(389)
Net interest income after provision for loan losses	12,069	11,755	23,964	24,072
Non-interest income				
Service charges on deposit accounts	914	899	1,792	1,638
Electronic banking income	702	655	1,346	1,150
Secondary market mortgage income	22	50	60	69
Other	124	179	269	307
	1,762	1,783	3,467	3,164
Non-interest expenses				
Salaries and employee benefits	4,475	4,873	8,816	8,857
Occupancy and equipment expenses	1,263	1,307	2,590	2,460
Outside data processing	1,075	1,029	2,171	1,898
Professional fees	179	209	308	745
Taxes, other than payroll, property and income	145	152	341	304
Write-downs, expenses, sales of other real estate owned, net	340	(488)	682	(394)
Amortization of intangibles	209	224	434	368
FDIC insurance	206	260	421	461
Other expenses	1,037	1,148	1,958	2,044
	8,929	8,714	17,721	16,743
Income before income taxes	4,902	4,824	9,710	10,493
Provision for income taxes	1,775	1,724	3,441	3,723
Net income	$3,127	$3,100	$6,269	$6,770

Preferred stock dividends and accretion	-	(165)	-	(330)
Net income available to common stockholders	$3,127	$2,935	$6,269	$6,440
Net income per share:				
Basic	$0.38	$0.36	$0.77	$0.80
Diluted	0.37	0.34	0.74	0.75

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$3,127	$3,100	$6,269	$6,770
Other comprehensive income (loss):				
Unrealized gains (losses) arising during the period	(1,582)	741	(276)	3,459
Reclassification of realized amount	-	-	-	-
Net change in unrealized gain on securities	(1,582)	741	(276)	3,459
Less tax impact	538	(252)	94	(1,176)
Other comprehensive income (loss)	(1,044)	489	(182)	2,283
Comprehensive income	$2,083	$3,589	$6,087	$9,053

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(UNAUDITED, DOLLARS IN THOUSANDS)

	2015	2014
Cash flows from operating activities		
Net income	$6,269	$6,770
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	874	735
Provision (credit) for loan losses	(77)	(389)
Amortization (accretion), net	307	484
OREO writedowns (gains on sales), net	254	(800)
Stock compensation expense	163	170
Loans originated for sale	(1,679)	(3,192)
Secondary market loans sold	1,941	2,851
Secondary market income	(38)	(69)
Changes in :		
Interest receivable	(52)	417
Other assets	166	1,066
Interest payable	(47)	(56)
Other liabilities	(227)	174
Net cash from operating activities	7,854	8,161
Cash flows from investing activities		
Purchases of securities available for sale	(30,705)	(34,453)
Proceeds from maturities and calls of securities available for sale	33,557	24,298
Purchase of FHLB stock	(76)	-
Redemption of FHLB stock	-	408
Net change in loans	(4,415)	1,605
Acquisition of subsidiary, net of cash received	-	40,973
Purchases of premises and equipment, net	(377)	(290)
Improvements to OREO property	(29)	(242)
Proceeds from sales of other real estate acquired through foreclosure	2,649	2,803
Net cash from investing activities	604	35,102
Cash flows from financing activities		
Net change in deposits	(4,618)	(18,903)
Net change in agreements to repurchase securities	(273)	(316)
Repayment of other borrowed funds	(3,215)	(1,207)
Proceeds from other borrowings	4,000	-
Proceeds from stock option exercises	201	449
Purchase of warrant	(5,675)	-
Common stock dividends paid	(2,120)	(2,822)
Preferred stock dividends paid	-	(300)
Net cash from financing activities	(11,700)	(23,099)
Net change in cash and cash equivalents	(3,242)	20,164

Cash and cash equivalents at beginning of period	75,384	76,761
Cash and cash equivalents at end of period	$72,142	$96,925

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
SIX MONTHS ENDED JUNE 30, 2015 AND 2014
(UNAUDITED, DOLLARS IN THOUSANDS)

	2015	2014
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	$2,128	$2,207
Cash paid during period for income taxes	2,866	2,299
Loans transferred to real estate acquired through foreclosure	1,255	1,079
Premises transferred to other real estate owned	760	-

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

NOTE 1 - BASIS OF PRESENTATION

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

				June 30, 2015	
		Year	Total	Net Income	
Subsidiary	Location	Acquired	Assets	Qtr	YTD
Citizens Deposit Bank & Trust	Vanceburg, Kentucky	1991	$387,663	$931	$1,945
Premier Bank, Inc.	Huntington, West Virginia	1998	853,078	2,702	5,275
Parent and Intercompany Eliminations			6,265	(506)	(951)
Consolidated Total			$1,247,006	$3,127	$6,269

All significant intercompany transactions and balances have been eliminated.

Recently Issued Accounting Pronouncements

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

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

NOTE 1 - BASIS OF PRESENTATION - continued

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 June 2014, FASB issued Accounting Standards Update 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this update require two accounting changes. First, the amendments in this update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counter-party, which will result in secured borrowing accounting for the repurchase agreement. This update also requires certain disclosures for these types of transactions. This ASU became effective for the Company on January 1, 2015. The adoption of ASU 2014-11 did not 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 June 30, 2015 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. sponsored agency MBS - residential	$ 76,141	$ 674	$ (399)	$ 76,416
U. S. sponsored agency CMO's - residential	123,441	2,140	(704)	124,877
Total mortgage-backed securities of government sponsored agencies	199,582	2,814	(1,103)	201,293
U. S. government sponsored agency securities	14,463	98	-	14,561
Obligations of states and political subdivisions	10,044	197	(18)	10,223
Total available for sale	$ 224,089	$ 3,109	$ (1,121)	$ 226,077

Amortized cost and fair value of investment securities, by category, at December 31, 2014 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities				
U. S. sponsored agency MBS - residential	$ 52,006	$ 774	$ -	$ 52,780
U. S. sponsored agency CMO's - residential	142,932	2,167	(911)	144,188
Total mortgage-backed securities of government sponsored agencies	194,938	2,941	(911)	196,968
U. S. government sponsored agency securities	22,553	30	(57)	22,506
Obligations of states and political subdivisions	10,015	261	-	10,276
Total available for sale	$ 227,486	$ 3,232	$ (968)	$ 229,750

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

NOTE 2–SECURITIES - continued

The amortized cost and fair value of securities at June 30, 2015 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	$ 3,472	$ 3,489
Due after one year through five years	17,732	17,952
Due after five years through ten years	3,054	3,093
Due after ten years	249	250
Mortgage-backed securities of government sponsored agencies	199,582	201,293
Total available for sale	$ 224,089	$ 226,077

There were no sales of securities during the first six months of 2015 nor the first six months of 2014.

Securities with unrealized losses at June 30, 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 MBS – residential	$ 30,728	$ (399)	$ -	$ -	$ 30,728	$ (399)
U.S government sponsored agency CMO – residential	7,204	(91)	19,292	(613)	26,496	(704)
Obligations of states and political subdivisions	911	(18)	-	-	911	(18)
Total temporarily impaired	$ 38,843	$ (508)	$ 19,292	$ (613)	$ 58,135	$ (1,121)

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

NOTE 2–SECURITIES - continued

Securities with unrealized losses at December 31, 2014 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S government sponsored agency securities	$9,971	$ (57)	$-	$ -	$9,971	$ (57)
U.S government sponsored agency CMO's – residential	5,194	(52)	26,471	(859)	31,665	(911)
Total temporarily impaired	$15,165	$ (109)	$26,471	$ (859)	$41,636	$ (968)

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 June 30, 2015 and December 31, 2014 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 June 30, 2015 and December 31, 2014 are summarized as follows:

	2015	2014
Residential real estate	$282,923	$278,212
Multifamily real estate	37,112	30,310
Commercial real estate:		
Owner occupied	122,879	120,861
Non owner occupied	217,881	230,750
Commercial and industrial	76,193	85,943
Consumer	31,561	32,745
All other	115,324	100,890
	$883,873	$879,711

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

NOTE 3–LOANS - continued

Activity in the allowance for loan losses by portfolio segment for the six months ended June 30, 2015 was as follows:

Loan Class	Balance Dec 31, 2014	Provision (credit) for loan losses	Loans charged-off	Recoveries	Balance June 30, 2015
Residential real estate	$2,093	$ 372	$ 78	$ 79	$2,466
Multifamily real estate	304	208	-	-	512
Commercial real estate:					
Owner occupied	1,501	(24)	2	1	1,476
Non owner occupied	2,316	(643)	-	659	2,332
Commercial and industrial	1,444	(140)	169	4	1,139
Consumer	243	105	132	58	274
All other	2,446	45	112	116	2,495
Total	$10,347	$ (77)	$ 493	$ 917	$10,694

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3–LOANS - continued

Activity in the allowance for loan losses by portfolio segment for the three months ended June 30, 2015 was as follows:

Loan Class	Balance March 31, 2015	Provision (credit) for loan losses	Loans charged-off	Recoveries	Balance June 30, 2015
Residential real estate	$2,196	$ 218	$ 4	$ 56	$2,466
Multifamily real estate	287	225	-	-	512
Commercial real estate:					
Owner occupied	1,489	(13)	-	-	1,476
Non owner occupied	2,324	(651)	-	659	2,332
Commercial and industrial	1,450	(305)	8	2	1,139
Consumer	241	87	78	24	274
All other	2,183	293	53	72	2,495
Total	$10,170	$ (146)	$ 143	$ 813	$10,694

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

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

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

NOTE 3–LOANS - continued

Purchased Impaired Loans

The Company holds purchased loans for which there was, at their acquisition date, evidence of deterioration of credit quality since their origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows at June 30, 2015 and December 31, 2014.

	2015	2014
Multifamily real estate	$460	$497
Commercial real estate		
Owner occupied	131	131
Non owner occupied	5,623	5,695
Commercial and industrial	126	136
All other	5,149	5,128
Total carrying amount	$11,489	$11,587
Contractual principal balance	$21,159	$21,250
Carrying amount, net of allowance	$10,463	$10,639

For those purchased loans disclosed above, the Company did not increase the allowance for loan losses for the six months ended June 30, 2015, nor did it increase the allowance for loan losses for purchased impaired loans during the six months ended June 30, 2014.

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

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

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NOTE 3–LOANS - continued

The accretable yield, or income expected to be collected, on the purchased loans above is as follows at June 30, 2015 and June 30, 2014.

	2015	2014
Balance at January 1	$204	$217
New loans purchased	-	-
Accretion of income	(10)	(6)
Reclassifications from non-accretable difference	-	-
Disposals	-	-
Balance at June 30	$194	$211

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

NOTE 3–LOANS - continued

Past Due and Non-performing Loans

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2015 and December 31, 2014. The recorded investment in non-accrual loans is less than the principal owed on non-accrual loans due to discounts applied to the carrying value of the loan at time of their acquisition and interest payments made by the borrower which have been used to reduce the recorded investment in the loan rather than recognized as interest income.

June 30, 2015	Principal Owed on Non-accrual Loans	Recorded Investment in Non-accrual Loans	Loans Past Due Over 90 Days, still accruing
Residential real estate	$ 2,507	$ 2,283	$ 378
Multifamily real estate	1,532	539	-
Commercial real estate			
Owner occupied	807	737	8
Non owner occupied	1,960	1,689	1,820
Commercial and industrial	1,576	471	83
Consumer	98	80	-
All other	12,635	5,183	-
Total	$ 21,115	$ 10,982	$ 2,289

December 31, 2014	Principal Owed on Non-accrual Loans	Recorded Investment in Non-accrual Loans	Loans Past Due Over 90 Days, still accruing
Residential real estate	$ 1,996	$ 1,768	$ 668
Multifamily real estate	1,803	1,033	564
Commercial real estate			
Owner occupied	2,115	1,928	-
Non owner occupied	2,020	1,819	26
Commercial and industrial	2,012	806	8
Consumer	213	185	-
All other	12,608	5,173	-
Total	$ 22,767	$ 12,712	$ 1,266

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

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NOTE 3–LOANS - continued

The following table presents the aging of the recorded investment in past due loans as of June 30, 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	$282,923	$5,862	$1,658	$7,520	$275,403
Multifamily real estate	37,112	460	79	539	36,573
Commercial real estate:					
Owner occupied	122,879	1,769	549	2,318	120,561
Non owner occupied	217,881	125	3,509	3,634	214,247
Commercial and industrial	76,193	1,737	348	2,085	74,108
Consumer	31,561	526	15	541	31,020
All other	115,324	13,591	5,149	18,740	96,584
Total	$883,873	$24,070	$11,307	$35,377	$848,496

The following table presents the aging of the recorded investment in past due loans as of December 31, 2014 by class of loans:

Loan Class	Total Loans	30-89 Days Past Due	Greater than 90 days past due	Total Past Due	Loans Not Past Due
Residential real estate	$278,212	$5,810	$1,706	$7,516	$270,696
Multifamily real estate	30,310	177	1,100	1,277	29,033
Commercial real estate:					
Owner occupied	120,861	250	1,530	1,780	119,081
Non owner occupied	230,750	2,173	1,670	3,843	226,907
Commercial and industrial	85,943	1,720	608	2,328	83,615
Consumer	32,745	497	71	568	32,177
All other	100,890	234	5,127	5,361	95,529
Total	$879,711	$10,861	$11,812	$22,673	$857,038

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NOTE 3–LOANS - continued

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 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	$183	$ 2,283	$ -	$2,466	$571	$ 282,352	$ -	$282,923
Multifamily real estate	-	512	-	512	79	36,573	460	37,112
Commercial real estate:								
Owner occupied	48	1,428	-	1,476	943	121,805	131	122,879
Non-owner occupied	29	2,303	-	2,332	4,396	207,862	5,623	217,881
Commercial and industrial	230	783	126	1,139	666	75,401	126	76,193
Consumer	-	274	-	274	-	31,561	-	31,561
All other	-	1,595	900	2,495	912	109,263	5,149	115,324
Total	$490	$ 9,178	$ 1,026	$10,694	$7,567	$ 864,817	$ 11,489	$883,873

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, 2014:

	Allowance for Loan Losses				Loan Balances			
Loan Class	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
Residential real estate	$-	$ 2,093	$ -	$2,093	$137	$ 278,075	$ -	$278,212
Multifamily real estate	-	304	-	304	536	29,277	497	30,310
Commercial real estate:								
Owner occupied	107	1,394	-	1,501	2,011	118,719	131	120,861
Non-owner occupied	54	2,262	-	2,316	4,874	220,181	5,695	230,750
Commercial and industrial	291	1,105	48	1,444	902	84,905	136	85,943
Consumer	-	243	-	243	-	32,745	-	32,745
All other	-	1,546	900	2,446	1,109	94,653	5,128	100,890
Total	$452	$ 8,947	$ 948	$10,347	$9,569	$ 858,555	$ 11,587	$879,711

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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 June 30, 2015. The table includes $5,658,000 of loans acquired with deteriorated credit quality that the Company cannot reasonably estimate cash flows such that they are accounted for on the cost recovery method and are still individually evaluated for impairment.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	$ 363	$ 325	$ -
Multifamily real estate	1,532	539	-
Commercial real estate			
Owner occupied	612	549	-
Non owner occupied	4,049	3,778	-
Commercial and industrial	1,193	417	-
All other	967	912	-
	8,716	6,520	-
With an allowance recorded:			
Residential real estate	$ 252	$ 246	$ 183
Commercial real estate			
Owner occupied	394	394	48
Non owner occupied	618	618	29
Commercial and industrial	651	375	356
All other	12,546	5,149	900
	14,461	6,782	1,516
Total	$ 23,177	$ 13,302	$ 1,516

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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, 2014. The table includes $5,673,000 of loans acquired with deteriorated credit quality that the Company cannot reasonably estimate cash flows such that they are accounted for on the cost recovery method and are still individually evaluated for impairment.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	$ 179	$ 137	$ -
Multifamily real estate	1,803	1,033	-
Commercial real estate			
Owner occupied	1,404	1,304	-
Non owner occupied	4,398	4,190	-
Commercial and industrial	1,030	270	-
All other	1,144	1,108	-
	9,958	8,042	-
With an allowance recorded:			
Commercial real estate			
Owner occupied	$ 707	$ 707	$ 107
Non owner occupied	684	684	54
Commercial and industrial	929	680	339
All other	12,525	5,129	900
	14,845	7,200	1,400
Total	$ 24,803	$ 15,242	$ 1,400

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NOTE 3–LOANS - continued

The following table presents the average balance of loans individually evaluated for impairment and interest income recognized on these loans for the six months ended June 30, 2015 and June 30, 2014. The table includes loans acquired with deteriorated credit quality that are still individually evaluated for impairment.

	Six months ended June 30, 2015			Six months ended June 30, 2014		
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	$281	$ 2	$ 2	$2,536	$ 61	$ 61
Multifamily real estate	1,377	14	14	2,586	727	727
Commercial real estate:						
Owner occupied	1,286	18	13	2,155	29	21
Non-owner occupied	4,665	94	82	800	627	627
Commercial and industrial	922	14	14	2,395	542	542
All other	6,150	30	28	7,603	81	81
Total	$14,681	$ 172	$ 153	$18,075	$ 2,067	$ 2,059

The following table presents the average balance of loans individually evaluated for impairment and interest income recognized on these loans for the three months ended June 30, 2015 and June 30, 2014. The table includes loans acquired with deteriorated credit quality that are still individually evaluated for impairment.

	Three months ended June 30, 2015			Three months ended June 30, 2014		
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	$352	$ 1	$ 1	$2,318	$ 27	$ 27
Multifamily real estate	1,550	14	14	2,353	19	19
Commercial real estate:						
Owner occupied	922	9	5	1,983	14	10
Non-owner occupied	4,561	46	34	214	-	-
Commercial and industrial	908	10	10	1,265	9	9
All other	6,108	14	14	7,453	38	38
Total	$14,401	$ 94	$ 78	$15,586	$ 107	$ 103

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NOTE 3–LOANS - continued

Troubled Debt Restructurings

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

The following table presents TDR's as of June 30, 2015 and December 31, 2014:

June 30, 2015	TDR's on Non-accrual	Other TDR's	Total TDR's
Residential real estate	$ 9	$ 181	$ 190
Commercial real estate			
Non owner occupied	-	464	464
Commercial and industrial	-	417	417
All other	-	886	886
Total	$ 9	$ 1,948	$ 1,957

December 31, 2014	TDR's on Non-accrual	Other TDR's	Total TDR's
Residential real estate	$ 13	$ 191	$ 204
Commercial real estate			
Non owner occupied	-	474	474
Commercial and industrial	-	761	761
All other	-	1,063	1,063
Total	$ 13	$ 2,489	$ 2,502

At June 30, 2015 and December 31, 2014 there were no specific reserves allocated to loans that had restructured terms and there were no commitments to lend additional amounts on these loans.

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NOTE 3–LOANS - continued

The following table presents TDR's that occurred during the six months ended June 30, 2015. There were no TDR's that occurred during the six months ended June 30, 2014.

	Six months ended June 30, 2015		
Loan Class	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Multifamily Real Estate	1	$ 1,543	$ 1,543
Total	1	$ 1,543	$ 1,543

The modification of the multifamily residential real estate loan 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 ended June 30, 2015. 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 and six months ended June 30, 2015 and the three and six months ended June 30, 2014, there were no TDR's for which there as a payment default within twelve months following the modification.

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

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NOTE 3–LOANS - continued

Credit Quality Indicators:

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

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

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

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

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

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NOTE 3–LOANS - continued

As of June 30, 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	$270,610	$5,125	$ 7,179	$ 9	$282,923
Multifamily real estate	32,287	4,286	539	-	37,112
Commercial real estate:					
Owner occupied	115,111	5,326	2,442	-	122,879
Non-owner occupied	209,695	888	7,298	-	217,881
Commercial and industrial	74,396	714	1,034	49	76,193
Consumer	31,175	245	141	-	31,561
All other	94,355	14,310	6,659	-	115,324
Total	$827,629	$30,894	$ 25,292	$ 58	$883,873

As of December 31, 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

Loan Class	Pass	Special Mention	Substandard	Doubtful	Total Loans
Residential real estate	$265,285	$8,292	$ 4,622	$ 13	$278,212
Multifamily real estate	27,260	2,017	1,033	-	30,310
Commercial real estate:					
Owner occupied	111,024	6,505	3,332	-	120,861
Non-owner occupied	218,971	6,652	5,127	-	230,750
Commercial and industrial	83,634	1,007	1,275	27	85,943
Consumer	32,364	267	114	-	32,745
All other	89,173	4,873	6,844	-	100,890
Total	$827,711	$29,613	$ 22,347	$ 40	$879,711

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NOTE 4- STOCKHOLDERS' EQUITY AND REGULATORY MATTERS

The Company's principal source of funds for dividend payments to shareholders is dividends received from the subsidiary Banks. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, as defined, combined with the retained net profits of the preceding two years, subject to the capital requirements and additional restrictions as discussed below. During 2015 the Banks could, without prior approval, declare dividends to Premier of approximately $5.5 million plus any 2015 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). The Common Equity Tier 1 Capital measurement became effective with the March 31, 2015 reporting period. Management believes, as of June 30, 2015 the Company and the Banks meet all quantitative capital adequacy requirements to which they are subject.

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

	June 30, 2015	December 31, 2014	Regulatory Minimum Requirements [1]	To Be Considered Well Capitalized [1]
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	12.5 %	n/a	4.5 %	6.5 %
Tier 1 Capital (to Risk-Weighted Assets) [1]	12.5 %	13.3 %	6.0 %	8.0 %
Total Capital (to Risk-Weighted Assets)	13.7 %	14.6 %	8.0 %	10.0 %
Tier 1 Capital (to Average Assets)	9.1 %	9.1 %	4.0 %	5.0 %

(1) The regulatory requirements presented in the table are effective as of January 1, 2015. At December 31, 2014, the minimum Tier 1 capital to risk-weighted assets ratio was 4.0% and to be considered well capitalized the ratio was required to be at least 6.0%

As of June 30, 2015, 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.

NOTE 5 – PREFERRED STOCK AND COMMON STOCK WARRANT

On October 2, 2009, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program, the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "Purchase Agreement") with the United States Department of the Treasury ("U.S. Treasury"). Pursuant to the Purchase Agreement, the Company issued and sold to the U.S. Treasury 22,252 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, with a liquidation preference of one thousand dollars per share (the "Series A Preferred Stock") and a ten-year warrant (the "Warrant") to purchase 628,588 shares of the Company's common stock, no par value, at an exercise price of $5.31 per share, for an aggregate purchase price of $22,252,000 in cash.

Under standardized TARP Capital Purchase Program terms, cumulative dividends on the Series A Preferred Stock accrued on the liquidation preference at a rate of 5% per annum until November 14, 2014. As of November 14, 2014, all of the 22,252 shares of the Series A Preferred Stock have been repurchased or redeemed. The Series A Preferred Stock had no maturity date and ranked senior to the Company's common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of Premier.

Under terms of the Warrant, the exercise price and the number of shares that can be purchased were adjusted based upon certain events including common stock dividends paid to shareholders that exceed the $0.11 per share regular quarterly dividend paid by Premier at the time the Warrant was issued. Due to dividends paid in 2015 and 2014 that were either special cash dividends or dividends that exceeded the $0.11 regular quarterly cash dividend per share defined in the terms of the Warrant, the Warrant was adjusted to permit the purchase of 636,378 shares of the Company's common stock at an exercise price of $5.25 per share. On May 6, 2015, Premier purchased the Warrant from the U.S. Treasury for $5,675,000. Premier borrowed $4,000,000 on its line of credit with the Bankers Bank of Kentucky and used $1,675,000 of its cash and cash equivalents to complete the purchase. The purchase reduced shareholders' equity and regulatory capital by the $5,675,000 purchase price but also reduced the dilutive effect of potential additional common shares. See Note 7 below for additional information on the calculation of diluted earnings per share.

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NOTE 6 – STOCK COMPENSATION EXPENSE

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

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

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

	2015	2014
Risk-free interest rate	1.41 %	2.78 %
Expected option life (yrs)	10.00	10.00
Expected stock price volatility	17.20%	31.19%
Dividend yield	3.53 %	3.33 %
Weighted average fair value of options granted	$1.37	$3.74

The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield in effect at the time of the grant. The expected option life for the 2015 grant was based upon the weighted-average life of options exercised from January 1, 2012 through December 31, 2014. The expected option life for the 2014 grant was estimated since there had been little option exercise history at the time of the grant. The expected stock price volatility is based on historical volatilities of the Company's common stock. The dividend yield was estimated by annualizing the current quarterly dividend on the Company's common stock at the time of the option grant.

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.

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NOTE 6 – STOCK COMPENSATION EXPENSE - continued

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

Stock-based compensation expense of $163,000 was recorded for the first six months of 2015 compared to $170,000 for the first six months of 2014. For the three months ended June 30, $121,000 was recorded for 2015 while $128,000 was recorded for 2014. Stock-based compensation expense is recognized ratably over the requisite vesting period for all awards. Unrecognized stock-based compensation expense related to stock options totaled $98,000 at June 30, 2015. This unrecognized expense is expected to be recognized over the next 32 months based on the vesting periods of the options.

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

	- - - - - - 2015 - - - - - -		- - - - - - 2014 - - - - -	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	273,942	$ 11.06	354,281	$ 9.84
Grants	47,650	14.72	46,300	14.43
Exercises	(18,450)	10.87	(63,297)	8.45
Forfeitures or expired	(16,733)	17.10	(8,133)	9.27
Outstanding at June 30,				