PREMIER FINANCIAL BANCORP INC
Form 10-Q
November 09, 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 September 30, 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, – 9,665,128 shares outstanding at November 1, 2016

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SEPTEMBER 30, 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 and the impairment of goodwill. 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, 2015 for further information in this regard.

Index to consolidated financial statements:

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2016 AND DECEMBER 31, 2015
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	(UNAUDITED) September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 40,250	$ 33,888
Interest bearing bank balances	47,577	32,816
Federal funds sold	6,861	5,835
Cash and cash equivalents	94,688	72,539
Securities available for sale	295,211	255,466
Loans	1,033,945	849,746
Allowance for loan losses	(10,863)	(9,647)
Net loans	1,023,082	840,099
Federal Home Loan Bank stock, at cost	3,220	3,072
Premises and equipment, net	24,632	19,841
Real estate and other property acquired through foreclosure	12,293	13,040
Interest receivable	4,019	3,162
Goodwill	35,371	33,796
Other intangible assets	4,626	2,180
Other assets	978	1,498
Total assets	$ 1,498,120	$ 1,244,693
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 314,348	$ 271,194
Time deposits, $250,000 and over	66,171	64,062
Other interest bearing	893,066	724,940
Total deposits	1,273,585	1,060,196
Securities sold under agreements to repurchase	27,145	21,694
FHLB advances	531	-
Other borrowed funds	9,467	11,292
Subordinated debt	5,333	-
Interest payable	332	321
Other liabilities	4,296	3,958
Total liabilities	1,320,689	1,097,461
Stockholders' equity		
Common stock, no par value; 20,000,000 shares authorized; 9,665,128 shares issued and outstanding at September 30, 2016, and 8,179,731 shares issued and outstanding at December 31, 2015	92,165	69,319
Retained earnings	82,021	77,592
Accumulated other comprehensive income	3,245	321
Total stockholders' equity	177,431	147,232
Total liabilities and stockholders' equity	$ 1,498,120	$ 1,244,693

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income				
Loans, including fees	$13,375	$12,506	$39,084	$35,812
Securities available for sale				
Taxable	1,285	1,176	4,075	3,639
Tax-exempt	82	51	254	162
Federal funds sold and other	123	49	328	137
Total interest income	14,865	13,782	43,741	39,750
Interest expense				
Deposits	965	858	2,917	2,661
Repurchase agreements and other	10	9	28	28
FHLB advances	10	-	32	-
Other borrowings	101	132	321	391
Subordinated debt	63	-	181	-
Total interest expense	1,149	999	3,479	3,080
Net interest income	13,716	12,783	40,262	36,670
Provision for loan losses	312	309	1,436	232
Net interest income after provision for loan losses	13,404	12,474	38,826	36,438
Non-interest income				
Service charges on deposit accounts	1,031	948	2,975	2,740
Electronic banking income	791	670	2,355	2,016
Secondary market mortgage income	64	38	163	98
Other	176	146	571	415
	2,062	1,802	6,064	5,269
Non-interest expenses				
Salaries and employee benefits	4,817	4,149	15,025	12,965
Occupancy and equipment expenses	1,635	1,328	4,697	3,918
Outside data processing	1,300	1,104	3,935	3,275
Professional fees	167	189	500	497
Taxes, other than payroll, property and income	156	135	473	476
Write-downs, expenses, sales of other real estate owned, net	765	669	1,402	1,351
Amortization of intangibles	278	210	862	644
FDIC insurance	278	232	752	653
Conversion expense	1	-	196	-
Other expenses	1,211	1,070	3,478	3,028
	10,608	9,086	31,320	26,807
Income before income taxes	4,858	5,190	13,570	14,900
Provision for income taxes	1,694	1,865	4,803	5,306

Net income	$3,164	$3,325	$8,767	$9,594
Net income per share:				
Basic	$0.33	$0.41	$0.92	$1.18
Diluted	0.33	0.40	0.91	1.14

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$3,164	$3,325	$8,767	$9,594
Other comprehensive income (loss):				
Unrealized gains (losses) arising during the period	15	732	4,504	456
Reclassification of realized amount	-	-	(4)	-
Net change in unrealized gain on securities	15	732	4,500	456
Less tax impact	(5)	(249)	(1,576)	(155)
Other comprehensive income (loss)	10	483	2,924	301
Comprehensive income	$3,174	$3,808	$11,691	$9,895

PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 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	-	8,767	-	8,767
Other comprehensive income	-	-	2,924	2,924
Cash dividends paid ($0.45 per share)	-	(4,338)	-	(4,338)
Stock issued to acquire subsidiary	22,041	-	-	22,041
Stock based compensation expense	160	-	-	160
Stock options exercised	645	-	-	645
Balances, September 30, 2016	$92,165	$82,021	$ 3,245	$177,431

See Accompanying Notes to Consolidated Financial Statements

PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(UNAUDITED, DOLLARS IN THOUSANDS)

	2016	2015
Cash flows from operating activities		
Net income	$8,767	$9,594
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	1,461	1,290
Provision for loan losses	1,436	232
Amortization (accretion), net	2,010	154
OREO writedowns, net	508	625
Stock compensation expense	160	188
Loans originated for sale	-	(1,679)
Secondary market loans sold	-	1,941
Secondary market income	-	(38)
Changes in :		
Interest receivable	(259)	(188)
Other assets	(140)	221
Interest payable	(76)	(95)
Other liabilities	(2,071)	337
Net cash from operating activities	11,796	12,582
Cash flows from investing activities		
Purchases of securities available for sale	(22,512)	(51,610)
Proceeds from maturities and calls of securities available for sale	62,011	52,396
Purchase of FHLB stock	-	(76)
Redemption of FRB and FHLB stock	190	-
Net change in loans	(51,417)	19,330
Acquisition of subsidiary, net of cash received	16,385	-
Purchases of premises and equipment, net	(413)	(624)
Improvements to OREO property	-	(29)
Proceeds from sales of other real estate acquired through foreclosure	870	4,424
Net cash from investing activities	5,114	23,811
Cash flows from financing activities		
Net change in deposits	8,246	3,648
Net change in agreements to repurchase securities	3,282	4,952
Repayment of other borrowed funds	(1,824)	(15,669)
Proceeds from other borrowings	-	15,946
Proceeds from stock option exercises	645	218
Purchase of warrant	-	(5,675)
Repayment of FHLB advances, net	(772)	-
Common stock dividends paid	(4,338)	(3,346)
Net cash from financing activities	5,239	74
Net change in cash and cash equivalents	22,149	36,467

Cash and cash equivalents at beginning of period	72,539	75,384
Cash and cash equivalents at end of period	$94,688	$111,851

See Accompanying Notes to Consolidated Financial Statements

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PREMIER FINANCIAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(UNAUDITED, DOLLARS IN THOUSANDS)

	2016	2015
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	$3,555	$3,175
Cash paid during period for income taxes	5,122	4,686
Loans transferred to real estate acquired through foreclosure	631	5,726
Stock issued to acquire subsidiary	22,041	-
Premises transferred to other real estate owned	-	760

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.

See Accompanying Notes to Consolidated Financial Statements

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

NOTE 1 - BASIS OF PRESENTATION

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

				September 30, 2016	
		Year	Total	Net Income	
Subsidiary	Location	Acquired	Assets	Qtr	YTD
Citizens Deposit Bank & Trust	Vanceburg, Kentucky	1991	$403,077	$1,035	$3,277
Premier Bank, Inc.	Huntington, West Virginia	1998	1,093,654	2,566	6,933
Parent and Intercompany Eliminations			1,389	(437)	(1,443)
Consolidated Total			$1,498,120	$3,164	$8,767

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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NOTE 1 - BASIS OF PRESENTATION – continued

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This standard requires organizations to recognize 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.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments. This ASU replaces the measurement for credit losses from a probable incurred estimate with an expected future loss estimate, which is referred to as the “current expected credit loss” or “CECL”. The standard pertains to financial assets measured at amortized cost such as loans, debt securities classified as held-to-maturity, and certain other contracts. The largest impact will be on the allowance for loan and lease losses. This ASU will become effective for the Company for interim and annual periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this guidance on the Company’s financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 –SECURITIES

Amortized cost and fair value of investment securities, by category, at September 30, 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	$ 164,992	$ 3,148	$ (12)	$ 168,128
U. S. sponsored agency CMO’s - residential	81,114	1,482	(74)	82,522
Total mortgage-backed securities of government sponsored agencies	246,106	4,630	(86)	250,650
U. S. government sponsored agency securities	25,700	167	-	25,867
Obligations of states and political subdivisions	18,414	286	(6)	18,694
Total available for sale	$ 290,220	$ 5,083	$ (92)	$ 295,211

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2–SECURITIES - continued

The amortized cost and fair value of securities at September 30, 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	$ 7,179	$ 7,208
Due after one year through five years	28,038	28,272
Due after five years through ten years	8,089	8,264
Due after ten years	808	817
Mortgage-backed securities of government sponsored agencies	246,106	250,650
Total available for sale	$ 290,220	$ 295,211

Securities with unrealized losses at September 30, 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 MBS – residential	$ 10,494	$ (12)	$ -	$ -	$ 10,494	$ (12)
U.S government sponsored agency CMO's – residential	6,833	(3)	9,543	(71)	16,376	(74)
Obligations of states and political subdivisions	2,350	(6)	-	-	2,350	(6)
Total temporarily impaired	$ 19,677	$ (21)	$ 9,543	$ (71)	$ 29,220	$ (92)

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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 September 30, 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 September 30, 2016 and December 31, 2015 are summarized as follows:

	2016	2015
Residential real estate	$345,375	$285,826
Multifamily real estate	68,483	50,452
Commercial real estate:		
Owner occupied	138,906	119,265
Non owner occupied	225,027	188,918
Commercial and industrial	77,617	68,339
Consumer	32,205	31,445
All other	146,332	105,501
	$1,033,945	$849,746

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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 September 30, 2016 are summarized as follows:

	2016
Residential real estate	$49,424
Multifamily real estate	3,265
Commercial real estate:	
Owner occupied	20,024
Non owner occupied	9,650
Commercial and industrial	18,361
Consumer	2,427
All other	18,401
	$121,552

Activity in the allowance for loan losses by portfolio segment for the nine months ended September 30, 2016 was as follows:

Loan Class	Balance Dec 31, 2015	Provision (credit) for loan losses	Loans charged-off	Recoveries	Balance Sept. 30, 2016
Residential real estate	$2,501	$377	$107	$19	$2,790
Multifamily real estate	821	92	-	-	913
Commercial real estate:					
Owner occupied	1,509	(140)	-	2	1,371
Non owner occupied	2,070	645	-	-	2,715
Commercial and industrial	1,033	83	29	42	1,129
Consumer	307	172	232	71	318
All other	1,406	207	207	221	1,627
Total	$9,647	$1,436	$575	$355	$10,863

Activity in the allowance for loan losses by portfolio segment for the nine months ending September 30, 2015 was as follows:

Loan Class	Balance Dec 31, 2014	Provision (credit) for loan losses	Loans charged-off	Recoveries	Balance Sept. 30, 2015

Residential real estate	$2,093	$ 557	$ 102	$ 74	$2,622
Multifamily real estate	304	291	-	-	595
Commercial real estate:					
Owner occupied	1,501	(3)	2	2	1,498
Non owner occupied	2,316	(599)	-	659	2,376
Commercial and industrial	1,444	71	403	7	1,119
Consumer	243	128	167	82	286
All other	2,446	(213)	1,058	154	1,329
Total	$10,347	$ 232	$ 1,732	$ 978	$9,825

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

NOTE 3–LOANS - continued

Activity in the allowance for loan losses by portfolio segment for the three months ended September 30, 2016 was as follows:

Loan Class	Balance June 30, 2016	Provision (credit) for loan losses	Loans charged-off	Recoveries	Balance Sept. 30, 2016
Residential real estate	$2,747	$ 91	$ 51	$ 3	$2,790
Multifamily real estate	822	91	-	-	913
Commercial real estate:					
Owner occupied	1,442	(72)	-	1	1,371
Non owner occupied	2,708	7	-	-	2,715
Commercial and industrial	1,111	43	29	4	1,129
Consumer	306	139	142	15	318
All other	1,668	13	81	27	1,627
Total	$10,804	$ 312	$ 303	$ 50	$10,863

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

Loan Class	Balance June 30, 2015	Provision (credit) for loan losses	Loans charged-off	Recoveries	Balance Sept. 30, 2015
Residential real estate	$2,466	$ 185	$ 35	$ 6	$ 2,622
Multifamily real estate	512	83	-	-	595
Commercial real estate:					
Owner occupied	1,476	21	-	1	1,498
Non owner occupied	2,332	44	-	-	2,376
Commercial and industrial	1,139	211	234	3	1,119
Consumer	274	23	35	24	286
All other	2,495	(258)	946	38	1,329
Total	$10,694	$ 309	$ 1,250	$ 72	$ 9,825

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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 September 30, 2016 and December 31, 2015.

	2016	2015
Residential real estate	$1,793	$-
Commercial real estate		
Owner occupied	2,040	131
Non owner occupied	5,436	5,549
Commercial and industrial	361	80
All other	2,058	-
Total carrying amount	$11,688	$5,760
Contractual principal balance	$15,906	$7,251
Carrying amount, net of allowance	$11,676	$5,680

For those purchased loans disclosed above, the Company did not increase the allowance for loan losses for the nine-months ended September 30, 2016, nor did it increase the allowance for loan losses for purchased impaired loans during the nine-months ended September 30, 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. The carrying value of these loans totals $396,000 at September 30, 2016, including $347,000 acquired from Bankshares. Any loan accounted for under the cost recovery method is also included as a non-accrual loan in the amounts presented in the Past Due and Non-performing Loans section below.

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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 September 30, 2016 and September 30, 2015.

	2016	2015
Balance at January 1	$185	$204
New loans purchased	1,151	-
Accretion of income	(64)	(14)
Reclassification to non-accretable	-	-
Disposals	-	-
Balance at September 30	$1,272	$190

As part of the acquisition of First National Bankshares Corporation (“Bankshares”) 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 $8,437,000 and the fair value of the acquired loans totaled $7,286,000.

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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 September 30, 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.

September 30, 2016	Principal Owed on Non-accrual Loans	Recorded Investment in Non-accrual Loans	Loans Past Due Over 90 Days, still accruing
Residential real estate	$ 4,030	$ 2,893	$ 951
Multifamily real estate	71	26	-
Commercial real estate			
Owner occupied	2,103	2,044	-
Non owner occupied	244	148	-
Commercial and industrial	2,449	1,167	26
Consumer	362	342	48
All other	1,884	1,814	5,747
Total	$ 11,143	$ 8,434	$ 6,772

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 September 30, 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	$345,375	$6,659	$2,478	$9,137	$336,238
Multifamily real estate	68,483	12,503	26	12,529	55,954
Commercial real estate:					
Owner occupied	138,906	361	1,752	2,113	136,793
Non owner occupied	225,027	89	125	214	224,813
Commercial and industrial	77,617	1,557	1,097	2,654	74,963
Consumer	32,205	410	143	553	31,652
All other	146,332	2,005	7,339	9,344	136,988
Total	$1,033,945	$23,584	$12,960	$36,544	$997,401

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 September 30, 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	$3	$ 2,787	$ -	$2,790	$389	$343,193	$ 1,793	$345,375
Multifamily real estate	-	913	-	913	2,598	65,885	-	68,483
Commercial real estate:								
Owner occupied	41	1,330	-	1,371	2,541	134,325	2,040	138,906
Non-owner occupied	161	2,554	-	2,715	3,146	216,445	5,436	225,027
Commercial and industrial	294	823	12	1,129	1,463	75,793	361	77,617
Consumer	-	318	-	318	-	32,205	-	32,205
All other	12	1,615	-	1,627	9,622	134,652	2,058	146,332
Total	$511	$ 10,340	$ 12	$10,863	$19,759	$1,002,498	$ 11,688	$1,033,945

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 September 30, 2016. The table includes $396,000 of loans acquired with deteriorated credit quality that the Company cannot reasonably estimate cash flows such that they are accounted for on the cost recovery method and are still individually evaluated for impairment.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	$ 1,034	$ 534	$ -
Multifamily real estate	2,940	2,598	-
Commercial real estate			
Owner occupied	2,236	2,190	-
Non owner occupied	2,707	2,615	-
Commercial and industrial	2,472	1,393	-
All other	9,603	9,536	-
	20,992	18,866	-
With an allowance recorded:			
Residential real estate	$ 41	$ 3	$ 3
Commercial real estate			
Owner occupied	357	351	41
Non owner occupied	531	531	161
Commercial and industrial	460	318	306
All other	92	86	12
	1,481	1,289	523
Total	$ 22,473	$ 20,155	$ 523

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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 $80,000 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	$ 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
All other	-	-	-
	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 nine months ended September 30, 2016 and September 30, 2015. The table includes loans acquired with deteriorated credit quality that are still individually evaluated for impairment.

	Nine months ended Sept 30, 2016			Nine months ended Sept 30, 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	$612	$ 16	$ 14	$329	$ 5	$ 5
Multifamily real estate	1,580	121	121	1,051	685	685
Commercial real estate:						
Owner occupied	1,144	3	3	1,157	25	25
Non-owner occupied	5,066	275	273	4,552	137	115
Commercial and industrial	1,155	26	26	856	20	20
All other	3,011	40	6	4,841	43	28
Total	$12,568	$ 481	$ 443	$12,786	$ 915	$ 878

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 September 30, 2016 and September 30, 2015 The table includes loans acquired with deteriorated credit quality that are still individually evaluated for impairment.

	Three months ended Sept 30, 2016			Three months ended Sept 30, 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	$667	$ 5	$ 5	$523	$ 3	$ 3
Multifamily real estate	2,594	63	63	305	671	671
Commercial real estate:						
Owner occupied	1,847	3	3	857	7	7
Non-owner occupied	4,240	175	175	4,304	43	34
Commercial and industrial	1,809	10	10	726	6	6
All other	5,243	33	-	3,487	14	-
Total	$16,400	$ 289	$ 256	$10,202	$ 744	$ 721

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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 September 30, 2016 and December 31, 2015:

September 30, 2016	TDR's on Non-accrual	Other TDR's	Total TDR's
Residential real estate	$ 88	$471	$559
Multifamily real estate	-	2,206	2,206
Commercial real estate			
Owner occupied	-	864	864
Non owner occupied	-	100	100
Commercial and industrial	-	447	447
Consumer	-	48	48
All other	751	4,419	5,170
Total	$ 839	$8,555	$9,394

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 September 30, 2016 $227,000 in specific reserves were 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 September 30, 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 tables present TDR's that occurred during the nine months ended September 30, 2016 and September 30, 2015, and three months ended September 30, 2016. During the three months ending September 30, 2015, no new TDR's occurred.

	Nine months ended Sept 30, 2016			Nine months ended Sept 30, 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	8	$ 483	$ 483	-	$ -	$ -
Multifamily real estate	-	-	-	1	1,543	1,543
Commercial real estate				-		
Owner occupied	3	865	865	-	-	-
Non owner occupied	1	100	100	-	-	-
Commercial and industrial	1	20	20	-	-	-
All other	1	4,106	4,106	-	-	-
Total	14	$ 5,574	$ 5,574	1	$ 1,543	$ 1,543

	Three months ended Sept 30, 2016			Three months ended Sept 30, 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	6	$ 184	$ 184	-	$ -	$ -
Commercial real estate				-		
Owner occupied	1	255	255	-	-	-
All other	1	4,106	4,106	-	-	-
Total	8	$ 4,545	$ 4,545	-	$ -	$ -

The modifications reported above for the three and nine months ended September 30, 2016 involve reducing the borrowers' required monthly payment by offering extended interest only periods that exceed the timeframes customarily offered by the Company and/or lengthening the amortization period for loan repayment, each in an effort to help the borrowers keep their loan current. The modifications did not include a permanent reduction of the recorded investment in the loans and did not decrease the stated interest rate on loans. The Company increased the allowance for loan losses related to these loans by $35,000 during the three months ended September 30, 2016, and by $204,000 during the nine months ended September 30, 2016.

The modification of the multifamily residential real estate loan during the nine months ended September 30, 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.

NOTE 3–LOANS - continued

During the three and nine months ended September 30, 2016 and the three and nine months ended September 30, 2015, there were no TDR's for which there was a payment default within twelve months following the modification.

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

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 September 30, 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	$330,422	$5,048	$ 9,902	$ 3	$345,375
Multifamily real estate	64,717	80	3,686	-	68,483
Commercial real estate:					
Owner occupied	127,557	6,781	4,568	-	138,906
Non-owner occupied	217,023	4,419	3,585	-	225,027
Commercial and industrial	72,553	2,660	2,370	34	77,617
Consumer	31,670	201	334	-	32,205
All other	130,469	5,551	10,312	-	146,332
Total	$974,411	$24,740	$ 34,757	$ 37	$1,033,945

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

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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 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 that, as of September 30, 2016 the Company and the Banks meet all quantitative capital adequacy requirements to which they are subject.

Beginning in 2016, a new 2.50% capital conservation buffer is being phased-in over the next three-years as a component of regulatory capital. The capital conservation buffer percentage required in 2016 is an additional 0.625% added to the minimum capital ratios, and will be increased by an additional 0.625% each year until fully phased-in in 2019. By maintaining Premier's regulatory capital ratios in excess of the phased-in capital buffer, the Company will avoid regulatorily imposed limitations on dividends, equity repurchases and discretionary bonus payments to management. Premier's capital conservation buffer over the minimum total capital to risk-weighted assets ratio at September 30, 2016 was 6.77%, compared to the 0.625% required at September 30, 2016 and the 2.50% fully phased-in capital buffer beginning on January 1, 2019.

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NOTE 4- STOCKHOLDERS' EQUITY AND REGULATORY MATTERS - continued

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

	September 30, 2016	December 31, 2015	Regulatory Minimum Requirements	To Be Considered Well Capitalized
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	13.2%	13.6%	4.5%	6.5%
Tier 1 Capital (to Risk-Weighted Assets)	13.7%	13.6%	6.0%	8.0%
Total Capital (to Risk-Weighted Assets)	14.8%	14.7%	8.0%	10.0%
Tier 1 Capital (to Average Assets)	9.9%	9.4%	4.0%	5.0%

As of September 30, 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 the prescribed ratios set forth in the preceding table for Common Equity Tier 1 capital, Tier 1 capital and Total capital. 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. Since acquisition the company has paid off four of the advances leaving one remaining borrowing which includes a stated fixed interest rate of 4.930%, a penalty for prepayment, and a maturity date of December 2024. The advance is collateralized by FHLB stock and qualifying first mortgage loans owned by the Company. The carrying value of the advance includes 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 remaining advance over the next five years are as follows:

2016	$ 12
2017	50
2018	53
2019	55
2020	58
Thereafter	262
Principal amount outstanding at September 30, 2016	$ 490
Carrying amount, net of fair value adjustment at September 30, 2016	$ 531

There were no borrowings outstanding at December 31, 2015.

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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 3.665% at September 30, 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. From time to time the Company also grants shares of stock to its employees. The Company uses the closing price of the stock on the date of grant to determine the amount of compensation expense to record as a result of the stock 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 $160,000 was recorded for the first nine months of 2016 while $188,000 was recorded for the first nine 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 $63,000 at September 30, 2016. This unrecognized expense is expected to be recognized over the next 29 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 and nine months ended September 30, 2016 and 2015 is presented below:

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2016	2015	2016	2015
Basic earnings per share				
Income available to common stockholders	$3,164	$3,325	$8,767	$9,594
Weighted average common shares outstanding	9,660,168	8,172,577	9,553,463	8,158,003
Earnings per share	$0.33	$0.41	$0.92	$1.18
Diluted earnings per share				
Income available to common stockholders	$3,164	$3,325	$8,767	$9,594
Weighted average common shares outstanding	9,660,168	8,172,577	9,553,463	8,158,003
Add dilutive effects of potential additional common stock	55,220	65,090	54,883	259,466
Weighted average common and dilutive potential common shares outstanding	9,715,388	8,237,667	9,608,346	8,417,469
Earnings per share assuming dilution	$0.33	$0.40	$0.91	$1.14

Stock options for 23,500 shares of common stock were not considered in computing diluted earnings per share for the three and nine months ended September 30, 2015 because they were antidilutive. There were no stock options considered antidilutive for the three or nine months ended September 30, 2016.

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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 September 30, 2016 were as follows:

		Fair Value Measurements at September 30, 2016 Using			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and due from banks	$87,827	$87,827	$ -	$ -	$87,827
Federal funds sold	6,861	6,861	-	-	6,861
Securities available for sale	295,211	-			