UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 52370 / August 31, 2005

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 2306 / August 31, 2005

ADMINISTRATIVE PROCEEDING
File No. 3-12027

In the Matter of **PREMIER FINANCIAL BANCORP, INC.,** **Respondent.**	**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 ("Exchange Act"), against Premier Financial Bancorp, Inc. ("Premier" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Respondent

1. Premier, headquartered in Huntington, West Virginia, is a multi-bank holding company that operates community bank subsidiaries throughout West Virginia, Ohio and Kentucky. For the fiscal year ended December 31, 2004, Premier reported $537 million in total assets at year end, and $6.7 million in net income. Premier files its financial statements on a consolidated basis. Premier's common stock is registered pursuant to Section 12(g) of the Exchange Act and trades on the NASDAQ National Market System.

Other Relevant Entity and Individual

2. Farmers Deposit Bank ("Farmers"), one of Premier's subsidiary banks, is a community bank located in Eminence, Kentucky. Premier acquired Farmers in 1996. As of December 31, 2004, Farmers reported $91,605,000 in assets, and a net loss of $250,000 for the year.

3. William J. Covington ("Covington"), age 54, is a resident of Eminence, Kentucky, and served as President and CEO of Farmers from September 1986 until June 2003. As President and CEO, Covington was ultimately responsible for Farmers' lending, financial, and accounting functions.[2]

Improper Accounting for Loan Losses

4. On June 16, 2003, Premier filed a Form 8-K announcing its discovery of a systematic disregard for its loan approval and credit administration policies at one of its subsidiary banks. Premier also announced that it had accepted the resignation of the bank's President and CEO, and was conducting an ongoing investigation. Premier did not identify the name of the bank or the bank's President and CEO.

5. On July 31, 2003, Premier filed a Form 8-K identifying Farmers as the relevant subsidiary bank, and Covington as the bank's President and CEO. Premier also reported that as a result of its ongoing internal investigation it was charging off as uncollectible approximately $6.2 million of loans and increasing its allowance for loan losses to over $8.7 million at Farmers.

6. Farmers' records overstated the subsidiary's net income during 2001, 2002, and 2003 by failing to accurately reflect loan losses and charge-offs. As a result of these errors,

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[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

[2] The Commission is filing a settled civil action against Covington in United States District Court.

Premier filed materially inaccurate financial information in its Quarterly Reports on Form 10-Q for each of the quarters of 2001, 2002, and 2003, and Annual Reports on Form 10-K for the years ended 2001 and 2002. Some or all of these false and misleading reports were incorporated by reference into a registration statement on Form S-8 filed by Premier on July 30, 2002. On April 14, 2004, Premier filed a Form 10-K restating its financial statements to accurately reflect loan losses and charge-offs that should have been recorded in these earlier time periods.

7. Premier's inaccurate filings resulted from Covington's fraudulent conduct. From at least 2001 until 2003, Covington engaged in a variety of deceptive acts and practices designed to conceal mounting loan losses from Premier and its officers, directors, auditors and banking regulators, including the Federal Deposit Insurance Corporation and Kentucky Department of Financial Institutions.

8. Among other things, Covington concealed problems with Farmers' loan portfolio by (1) recording loans under fictitious or misleading names and using the proceeds from these loans to keep earlier loans current, and by failing to report, as required, that the loans were related; (2) altering documents presented to Farmers' board of directors; (3) bump-dating loans, which means altering the records to assign a later due date, thus, making the loans appear current; (4) structuring loans by dividing them into smaller amounts to avoid meeting the minimum loan amount required for presentation to Farmers' auditors and board of directors for review; (5) initiating fictitious payments on loans; (6) reassigning loan payments to unrelated accounts; and (7) releasing collateral securing loans without requiring payment of the debt.

9. Covington's concealment of loan losses caused Farmers' financial and accounting records to be inaccurate by reflecting inadequate reserves for loan losses and recording interest income on delinquent and uncollectible loans. On a monthly and quarterly basis, Covington reported Farmer's financial statements to Premier, which he knew prepared its financial statements on a consolidated basis. Because Premier relied on these records to prepare its consolidated financial reports, Premier's quarterly and yearly Commission filings during 2001 through 2003 likewise contained materially inaccurate financial information. As a result, Premier's Forms 10-K filed for the years 2001 and 2002, and Forms 10-Q filed for the first three quarters of 2001, 2002, and 2003, contained financial statements that failed to comply with GAAP.[3]

10. Specifically, Premier's net income for the fiscal year ended December 31, 2001, was overstated by 94%, and its net loss for the fiscal year ended December 31, 2002 was understated by 63%. Thus, in its restatement filed on April 14, 2004, Premier reported a combined net loss of $2,143,000 for fiscal years 2001 and 2002, in contrast to the previously reported combined net income of $1,099,000.

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[3] Under GAAP, the bank's bad debt reserve should reflect the estimated probable loss inherent in loans receivable based on information indicating that the asset was impaired at the date of the financial statements. *Statement of Financial Accounting Standards No. 5, Accounting for Contingencies* and *Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan.* On the balance sheet the reserve is deducted from loans receivable resulting in a figure that represents the net realizable value (i.e. the amount estimated to be collectible) and on the income statement an increase in the reserve is reflected as a charge against earnings.

11. Additionally, each of Premier's quarterly filings filed throughout 2001, 2002, and 2003 were materially misstated. For example, for the first quarter 2003, Premier initially reported net income of $353,000. In the restatement, Premier reported a loss for this quarter of $393,000.

Premier's Inadequate Controls

12. Premier granted each of its subsidiaries, including Farmers, substantial autonomy in their operations throughout the 1990's. Each bank's President was responsible for the bank's loan accounting treatments, such as the establishment of loan loss allowances and treatment of impaired loans, and served as the primary contact for the bank's auditors and regulators. Additionally, each subsidiary bank had its own board of directors, and established and followed its own loan origination and accounting policies and procedures.

13. In 2003, to better administer and supervise the loan origination process, Premier instituted a company-wide standard loan policy that required each of the subsidiary banks to adhere to uniform loan policies and procedures.

14. The combination of Premier's hands-off approach to managing its subsidiary banks, along with its delay in preparing standardized loan policies and procedures, contributed to the record-keeping and reporting errors. The fact that Covington's conduct was permitted to occur and went undetected for at least three years, evidences that certain of Premier's internal accounting controls were inadequate during the relevant time period.

Violations

15. Section 13(a) of the Exchange Act requires reporting companies to file periodic and other reports with the Commission containing such information as the Commission's rules prescribe. Exchange Act Rule 13a-1 requires issuers to file annual reports with the Commission on Form 10-K, and Exchange Act Rule 13a-13 requires issuers to file quarterly reports with the Commission on Form 10-Q. Rule 12b-20, promulgated pursuant to Section 12 of the Exchange Act, requires "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made not misleading." A violation of these provisions is established if annual or quarterly reports are shown to contain materially inaccurate information regarding such items as the issuer's income.

16. Section 13(b)(2)(A) of the Exchange Act requires reporting companies to make and keep books, records, and accounts, which in reasonable detail, accurately and fairly reflect their transactions and disposition of assets. Section 13(b)(2)(B) of the Exchange Act requires reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles.

17. As a result of the conduct described above, Premier violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder by making filings that were materially false and misleading. In addition, Premier violated Section 13(b)(2)(A) of the Exchange Act by failing to make and keep books and records which accurately reflected Farmers' and, ultimately, its own net earnings during 2001 through 2003. Premier also violated Section

13(b)(2)(B) of the Exchange Act, by failing to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions were recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles.

Premier's Remedial Efforts

18. Since June 2003, Premier has undertaken the following voluntary remedial actions:

A. Notified its banking regulators, including the Federal Deposit Insurance Corp., Federal Reserve of Cleveland, Ohio, and the Kentucky Department of Financial Institutions, to inform them of the irregularities;

B. Retained auditors and outside counsel to conduct an investigation to determine the full extent of the loss;

C. Made permanent staffing changes, with a focus on establishing more experienced management at Farmers, and assistance in loan documentation, administration, and compliance;

D. Enhanced its board of directors by adding new members and forming new committees focused on oversight;

E. Expanded its internal audit program by hiring a full time internal auditor, and established a new process for reviewing large credits at all affiliate banks; and

F. Filed a Form 10-K restating the financial statements for 2001 through 2003 to account for loan losses which should have been realized during these earlier time periods.

19. In determining to accept the Offer, the Commission considered the remedial acts promptly undertaken by Premier, including those set forth in Paragraph 18, above, and cooperation afforded the Commission staff by Respondent.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Premier's Offer.

Accordingly, it is hereby ORDERED that Respondent Premier cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder.

By the Commission.

Jonathan G. Katz
Secretary