CAMCO FINANCIAL CORP
Form 10-Q
August 06, 2004

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from ____________ to _______________

Commission File Number 0-25196

CAMCO FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	51-0110823
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

6901 Glenn Highway, Cambridge, Ohio 43725-9757

(Address of principal executive office) (Zip code)

Registrant's telephone number, including area code: (740) 435-2020

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 such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [X] No [ ]

As of August 4, 2004, the latest practicable date, 7,358,887 shares of the registrant's common stock, $1.00 par value, were issued and outstanding.

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

	JUNE 30, 2004
ASSETS	
Cash and due from banks	$ 23,2
Interest-bearing deposits in other financial institutions	14,9
Cash and cash equivalents	38,1
Investment securities available for sale - at market	27,4
Investment securities held to maturity - at cost, approximate market value of $1,167 and $1,204 as of June 30, 2004 and December 31, 2003, respectively	1,1
Mortgage-backed securities available for sale - at market	91,0
Mortgage-backed securities held to maturity - at cost, approximate market value of $5,020 and $7,839 as of June 30, 2004 and December 31, 2003, respectively	5,0
Loans held for sale - at lower of cost or market	4,8

Loans receivable - net	833,1
Office premises and equipment - net	13,0
Real estate acquired through foreclosure	2,4
Federal Home Loan Bank stock - at cost	24,9
Accrued interest receivable	4,1
Prepaid expenses and other assets	2,0
Cash surrender value of life insurance	18,0
Goodwill - net of accumulated amortization	2,9
Prepaid federal income taxes	
Total assets	$ 1,068,7
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	$ 677,5
Advances from the Federal Home Loan Bank	289,7
Advances by borrowers for taxes and insurance	1,3
Accounts payable and accrued liabilities	4,2
Dividends payable	1,0
Deferred federal income taxes	3,0
Total liabilities	976,9
Stockholders' equity	
Preferred stock - $1 par value; authorized 100,000 shares; no shares outstanding	
Common stock - $1 par value; authorized 14,900,000 shares; 8,455,411 and 8,428,946 shares issued at June 30, 2004 and December 31, 2003, respectively	8,4
Additional paid-in capital	55,3
Retained earnings - substantially restricted	45,5
Accumulated other comprehensive income (loss) - unrealized gains (losses) on securities designated as available for sale, net of related tax effects	(1,3
Less 1,096,523 shares of treasury stock at both June 30, 2004 and December 31, 2003, respectively - at cost	(16,3
Total stockholders' equity	91,7
Total liabilities and stockholders' equity	$ 1,068,7

CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
Interest income		
Loans	$22,884	$24,702
Mortgage-backed securities	1,398	2,039
Investment securities	385	711
Interest-bearing deposits and other	1,047	1,159
Total interest income	25,714	28,611

Interest expense		
Deposits	6,652	8,633
Borrowings	6,715	7,667
Total interest expense	13,367	16,300
Net interest income	12,347	12,311
Provision for losses on loans	510	675
Net interest income after provision for losses on loans	11,837	11,636
Other income		
Late charges, rent and other	1,240	1,998
Loan servicing fees	765	813
Service charges and other fees on deposits	599	569
Valuation of mortgage servicing rights - net	(73)	590
Gain on sale of loans	490	2,710
Gain (loss) on sale of real estate acquired through foreclosure	118	(62)
Gain on sale of fixed assets	3	-
Gain on investment securities transactions	97	185
Total other income	3,239	6,803
General, administrative and other expense		
Employee compensation and benefits	6,854	7,487
Deferred compensation and benefits (FAS 91)	(1,186)	(1,770)
Occupancy and equipment	1,702	1,856
Data processing	667	675
Advertising	435	364
Franchise taxes	507	597
Other operating	2,385	2,430
Total general, administrative and other expense	11,364	11,639
Earnings before federal income taxes	3,712	6,800
Federal income taxes		
Current	1,085	2,876
Deferred	60	(758)
Total federal income taxes	1,145	2,118
NET EARNINGS	$ 2,567	$ 4,682
EARNINGS PER SHARE		
Basic	$ .35	$ .62
Diluted	$ .35	$ .61

CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	SIX MONTHS JUNE 3 2004
Net earnings	$ 2,567
Other comprehensive income (loss), net of related tax effects:	
Unrealized holding losses during the period, net of tax benefits of $(758), $(231), $(925) and $(29) for the respective periods	(1,471)
Reclassification adjustment for realized gains included in earnings, net of taxes of $33 and $63 for the respective six month periods and $7 and $63 for each of the three month periods ended June 30, 2004 and 2003, respectively	(64)
Comprehensive income (loss)	$ 1,032
Accumulated comprehensive income (loss)	$(1,329)

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30,
(In thousands)

	20
Cash flows from operating activities:	
Net earnings for the period	$ 2
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:	
Amortization of deferred loan origination fees	
Amortization of premiums and discounts on investment and mortgage-backed securities - net	
Amortization of purchase accounting adjustments - net	
Depreciation and amortization	
Provision for losses on loans	
Federal Home Loan Bank stock dividends	
(Gain) loss on sale of real estate acquired through foreclosure	
Gain on sale of office premises and equipment	
Gain on investment securities transactions	
Gain on sale of loans	
Loans originated for sale in the secondary market	(57
Proceeds from sale of loans in the secondary market	58
Increase (decrease) in cash due to changes in:	
Accrued interest receivable	
Prepaid expenses and other assets	
Accrued interest and other liabilities	
Federal income taxes:	

Current	
Deferred	
Net cash provided by operating activities	4
Cash flows provided by (used in) investing activities:	
Proceeds from maturities of investment securities and interest-bearing deposits	11
Proceeds from sale of mortgage-backed securities designated as available for sale	12
Proceeds from sale of investment securities designated as available for sale	1
Purchase of investment securities designated as available for sale	(13
Purchase of mortgage-backed securities designated as held to maturity	
Purchase of mortgage-backed securities designated as available for sale	(43
Principal repayments on mortgage-backed securities	17
Loan principal repayments	117
Loan disbursements	(137
Purchase of loans	(16
Additions to office premises and equipment	
Additions to real estate acquired through foreclosure	
Proceeds from sale of real estate acquired through foreclosure	2
Proceeds from sale of office premises and equipment	
Proceeds from redemption of life insurance	
Net increase in cash surrender value of life insurance	
Net cash used in investing activities	(49
Net cash provided by (used in) operating and investing activities (balance carried forward)	(44

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the six months ended June 30,
(In thousands)

	20
Net cash provided by (used in) operating and investing activities (balance brought forward)	$(44
Cash flows provided by (used in) financing activities:	
Net decrease in deposits	6
Proceeds from Federal Home Loan Bank advances	33
Repayment of Federal Home Loan Bank advances	(6
Dividends paid on common stock	(2
Purchase of treasury stock	
Proceeds from exercise of stock options	
Decrease in advances by borrowers for taxes and insurance	(2
Net cash provided by (used in) financing activities	29
Net decrease in cash and cash equivalents	(15
Cash and cash equivalents at beginning of period	53

Cash and cash equivalents at end of period	$ 38
Supplemental disclosure of cash flow information:	
Cash paid during the period for:	
Interest on deposits and borrowings	$ 13
Income taxes	$
Supplemental disclosure of noncash investing activities:	
Unrealized losses on securities designated as available for sale, net of related tax benefits	$ (1
Recognition of mortgage servicing rights in accordance with SFAS No. 140	$
Transfers from loans to real estate acquired through foreclosure	$ 3
Issuance of loans upon sale of real estate acquired through foreclosure	$
Dividends declared but unpaid	$ 1

CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six- and three-month periods ended June 30, 2004 and 2003

1. Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Accordingly, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Camco Financial Corporation ("Camco" or the "Corporation") included in Camco's Annual Report on Form 10-K for the year ended December 31, 2003. However, all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements, have been included. The results of operations for the six- and three-month periods ended June 30, 2004, are not necessarily indicative of the results which may be expected for the entire year.

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Camco and its two wholly-owned subsidiaries: Advantage Bank ("Advantage" or the "Bank") and Camco Title Insurance Agency, Inc.

3. Critical Accounting Policies

"Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as disclosures found elsewhere in this quarterly report, are based upon Camco Financial's consolidated financial statements, which are prepared in accordance with US GAAP. The preparation of these financial statements requires Camco to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Several factors are considered in determining whether or not a policy is critical in the preparation of financial statements. These factors include, among other things, whether the estimates are significant to the financial statements, the nature of the estimates, the ability to readily validate the estimates with other information including third parties or available prices, and sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be utilized under US GAAP.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of mortgage servicing rights and goodwill impairment. Actual results could differ from those estimates.

ALLOWANCE FOR LOAN LOSSES

The procedures for assessing the adequacy of the allowance for loan losses reflect our evaluation of credit risk after careful consideration of all information available to us. In developing this assessment, we must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown such as economic factors, developments affecting companies in specific industries and issues with respect to single borrowers. Depending on changes in circumstances, future assessments of credit risk may yield materially different results, which may require an increase or a decrease in the allowance for loan losses.

3. Critical Accounting Policies (continued)

ALLOWANCE FOR LOAN LOSSES (continued)

The allowance is regularly reviewed by management to determine whether the amount is considered adequate to absorb probable losses. This evaluation includes specific loss estimates on certain individually reviewed loans, statistical loss estimates for loan pools that are based on historical loss experience, and general loss estimates that are based upon the size, quality, and concentration characteristics of the various loan portfolios, adverse situations that may affect a borrower's ability to repay, and current economic and industry conditions. Also considered as part of that judgement is a review of the Bank's trends in delinquencies and loan losses, as well as trends in delinquencies and losses for the region and nationally, and economic factors.

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on management's current judgement about the credit quality of the loan portfolio. While the Corporation strives to reflect all known risk factors in its evaluations, judgment errors may occur.

MORTGAGE SERVICING RIGHTS

To determine the fair value of its mortgage servicing rights ("MSRs") each reporting quarter, the Corporation transmits information to a third party provider, representing individual loan information in each pooling period accompanied by escrow amounts. The third party then evaluates the possible impairment of MSRs as described below.

Servicing assets are recognized as separate assets when loans are sold with servicing retained. A pooling methodology to the servicing valuation, in which loans with similar characteristics are "pooled" together, is applied for valuation purposes. Once pooled, each grouping of loans is evaluated on a discounted earnings basis to determine the present value of future earnings that a purchaser could expect to realize from the portfolio. Earnings are projected from a variety of sources including loan service fees, interest earned on float, net interest earned on escrow balances, miscellaneous income and costs to service the loans. The present value of future earnings is the estimated market value for the pool, calculated using consensus assumptions that a third party purchaser would utilize in evaluating a potential acquisition of the servicing. Events that may significantly affect the estimates used are changes in interest rates and the related impact on mortgage loan prepayment speeds and the payment performance of the underlying loans. The interest rate for float, which is supplied by management, takes into consideration the investment portfolio average yield as well as current short duration investment yields. Management believes this methodology provides a reasonable estimate. Mortgage loan prepayment speeds are calculated by the third party provider utilizing the Economic Outlook as published by the Office of Chief Economist of Freddie Mac in estimating prepayment speeds and provides a specific scenario with each evaluation. Based on the assumptions discussed, pre-tax projections are prepared for each pool of loans serviced. These earning figures approximate the cash flow that could be received from the servicing portfolio. Valuation results are presented quarterly to management. At that time, management reviews the information and mortgage servicing rights are marked to lower of amortized cost or market for the current quarter.

3. Critical Accounting Policies (continued)

GOODWILL

We have developed procedures to test goodwill for impairment on an annual basis using June 30 financial information. This testing procedure is outsourced to a third party that evaluates possible impairment based on the following:

The test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying value including goodwill. The value is determined assuming a freely negotiated transaction between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts. Accordingly, to derive the fair value of the reporting unit, the following common approaches to valuing business combination transactions involving financial institutions are utilized by a third party selected by Camco:

(1) the comparable transactions approach - specifically based on earnings, book, assets and deposit premium multiples received in recent sales of comparable thrift franchises; and (2) the discounted cash flow ("DCF") approach. The application of the valuation techniques take into account the reporting unit's operating history, the current market environment and future prospects. As of the most recent quarter, the only reporting unit carrying goodwill is the Bank.

If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and no second step is required. If not, a second test is required to measure the amount of goodwill impairment. The second test of the overall goodwill impairment compares the implied fair value of the reporting unit goodwill with the carrying amount of the goodwill. The impairment loss shall equal the excess of carrying value over fair value.

After each testing period, the third party compiles a summary of the test that is then provided to the Audit Committee for review.

SUMMARY

Management believes the accounting estimates related to the allowance for loan losses, the capitalization, amortization, and valuation of mortgage servicing rights and the goodwill impairment test are "critical accounting estimates" because: (1) the estimates are highly susceptible to change from period to period because they require management to make assumptions concerning the changes in the types and volumes of the portfolios, rates of future prepayments, and anticipated economic conditions, and (2) the impact of recognizing an impairment or loan loss could have a material effect on Camco's assets reported on the balance sheet as well as its net earnings. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed Camco's disclosures relating to such matters in the quarterly Management's Discussion and Analysis.

CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six- and three-month periods ended June 30, 2004 and 2003

4. Earnings Per Share

Basic earnings per common share is computed based upon the weighted-average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under the Corporation's stock option plans. The computations are as follows:

	FOR THE SIX MONTHS ENDED JUNE 30,		FOR THE THRE JUN
	2004	2003	2004
Weighted-average common shares outstanding (basic)	7,351,487	7,599,184	7,357,635
Dilutive effect of assumed exercise			

of stock options	55,269	84,932	46,294
Weighted-average common shares outstanding (diluted)	7,406,756	7,684,116	7,403,929

Options to purchase 80,789 and 64,036 shares of common stock with respective weighted-average exercise prices of $16.40 and $16.18 were outstanding at June 30, 2004 and 2003, respectively, but were excluded from the computation of common share equivalents for each of the six and three month periods then ended, because the exercise prices were greater than the average market price of the common shares.

5. Stock Option Plans

Stockholders of the Corporation have approved four stock option plans. Under the 1972 Plan, 254,230 common shares were reserved for issuance to officers, directors, and key employees of the Corporation and its subsidiaries. The 1982 Plan reserved 115,824 common shares for issuance to employees of the Corporation and its subsidiaries. All of the stock options under the 1972 and 1982 Plans have been granted and were subject to exercise at the discretion of the grantees through 2002. Under the 1995 Plan, 161,488 shares were reserved for issuance. Under the 2002 Plan, 400,000 shares were reserved for issuance. Additionally, in connection with the acquisition of First Savings, the stock options of First Savings were converted into options to purchase 174,421 shares of the Corporation's stock at an exercise price of $7.38 per share, which expire in 2005. In connection with the 2000 acquisition of Westwood Homestead, the stock options of Westwood Homestead were converted into options to purchase 311,794 shares of the Corporation's stock at a weighted-average exercise price of $11.89 per share, which expire in 2008.

The Corporation accounts for its stock option plans in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," which contains a fair-value based method for valuing stock-based compensation that entities may use, that measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits entities to continue to account for stock options and similar equity instruments under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB Opinion No. 25 are required to make pro forma disclosures of net earnings and earnings per share, as if the fair-value based method of accounting defined in SFAS No. 123 had been applied.

5. Stock Option Plans (continued)

The Corporation utilizes APB Opinion No. 25 and related Interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized for the plans. Had compensation cost for the Corporation's stock option plans been determined based on the fair value at the grant dates for awards under the plans consistent with the accounting method utilized in SFAS No. 123, the Corporation's net earnings and earnings per share for the three-month periods ended June 30, 2004 and 2003, would have been reported as the pro forma amounts indicated below:

		SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003	THREE J 2004
Net earnings (In thousands)	As reported	$2,567	$4,682	$1,532
	Stock-based compensation, net of tax	(14)	(10)	(7
	Pro-forma	$2,553	$4,672	$1,525
Earnings per share				
Basic	As reported	$ .35	$ .62	$ .21
	Stock-based compensation, net of tax	-	(.01)	-
	Pro-forma	$ .35	$ .61	$ .21
Diluted	As reported	$ .35	$ .61	$ .21
	Stock-based compensation, net of tax	(.01)	-	-
	Pro-forma	$ .34	$ .61	$ .21

The fair value of each option grant is estimated on the date of grant using the modified Black-Scholes options-pricing model with the following assumptions used for grants during 2004, 2003 and 2002: dividend yield of 3.40%, 3.50%, and 3.84%, respectively; expected volatility of 21.44%, 16.88% and 16.34% respectively; a risk-free interest rate of 4.11%, 3.95% and 2.00% respectively, and an expected life of ten years for all grants.

5. Stock Option Plans (continued)

A summary of the status of the Corporation's stock option plans as of June 30, 2004 and December 31, 2003 and 2002, and changes during the periods ending on those dates is presented below:

	SIX MONTHS ENDED JUNE 30, 2004 SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	YEAR ENDED DECEMBER 31, 2003 SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHA
Outstanding at beginning of year	257,072	$ 12.11	323,291	$ 9.79	503

Granted	17,705	17.17	56,948	16.13	3
Exercised	(26,465)	8.99	(117,800)	7.60	(174
Forfeited	(3,017)	15.10	(5,367)	13.92	(9
Outstanding at end of year	245,295	$ 12.46	257,072	$ 12.11	323
Options exercisable at year-end	198,972	$ 11.53	211,780	$ 11.25	323
Weighted-average fair value of options granted during the year		$ 3.59		$ 2.60	

The following information applies to options outstanding at June 30, 2004:

Number outstanding
Range of exercise prices

Number outstanding
Range of exercise prices

Number outstanding
Range of exercise prices

Number outstanding
Range of exercise prices

Weighted-average exercise price
Weighted-average remaining contractual life

6. Forward Looking Statements

Certain statements contained in this report that are not historical facts are forward looking statements that are subject to certain risks and uncertainties. When used herein, the terms "anticipates," "plans," "expects," "believes," and similar expressions as they relate to Camco or its management are intended to identify such forward looking statements. Camco's actual results, performance or achievements may materially differ from those expressed or implied in the forward-looking statements. Risks and uncertainties that could cause or contribute to such material differences include, but are not limited to, general economic conditions, interest rate environment, competitive conditions in the financial services industry, changes in law, governmental policies and regulations, and rapidly changing technology affecting financial services.

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CAMCO FINANCIAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

For the six- and three-month periods ended June 30, 2004 and 2003

Discussion of Financial Condition Changes from December 31, 2003 to June 30, 2004

At June 30, 2004, Camco's consolidated assets totaled $1.1 billion, an increase of $29.6 million, or 2.8%, from the December 31, 2003 total. The increase in total assets was comprised primarily of increases in mortgage-backed securities available for sale and loans receivable, as excess cash was redeployed into higher interest earning assets.

Cash and interest-bearing deposits in other financial institutions totaled $38.2 million at June 30, 2004, a decrease of $15.5 million, or 28.9%, from December 31, 2003 levels. Investment securities totaled $28.6 million at June 30, 2004, an increase of $428,000, or 1.5%, from the total at December 31, 2003. Investment securities purchases totaled $14.0 million, while maturities totaled $11.5 million and sales totaled $1.5 million. Purchases were comprised primarily of intermediate-term callable U.S. Government agency obligations with an average yield of 3.34%.

Mortgage-backed securities totaled $96.1 million at June 30, 2004, an increase of $10.5 million, or 12.3%, from December 31, 2003. Mortgage-backed securities purchases totaled $43.3 million, while principal repayments totaled $17.7 million and sales totaled $12.7 million during the six-month period ended June 30, 2004. The pre-tax unrealized loss on mortgage-backed securities totaled $1.9 million at June 30, 2004. Purchases of mortgage-backed securities during the period were comprised primarily of short duration mortgage-backed securities yielding 3.96%, all of which were classified as available for sale.

Loans receivable, including loans held for sale, totaled $838.0 million at June 30, 2004, an increase of $32.9 million, or 4.1%, from December 31, 2003. The increase resulted primarily from loan disbursements and purchases totaling $212.0 million, which were partially offset by principal repayments of $117.2 million and loan sales of $57.7 million. The volume of loans originated and purchased during the first six months of 2004 decreased compared to the 2003 period by $130.4 million, or 38.1%, while the volume of loan sales decreased by $147.2 million period to period. As interest rates have moved off their historical lows, loans originated and purchased moved away from fixed rate lending to adjustable rate lending. This has caused origination and purchases to be lower while at the same time has allowed our portfolio to grow. Camco has typically held adjustable-rate mortgage loans in its portfolio as an integral part of its strategy to maintain an asset-sensitive interest-rate risk position. Loan originations during the six-month period ended June 30, 2004, were comprised primarily of $113.9 million of loans secured by one- to four-family residential real estate, $50.8 million in consumer and other loans and $47.3 million in loans secured by commercial real estate. Management will continue to expand its consumer and commercial real estate lending in future periods as a means of increasing the yield and diversifying the portfolio to a less dominated proportion of one- to four-family residential real estate loans.

The allowance for loan losses totaled $5.5 million and $5.6 million at June 30, 2004 and December 31, 2003, respectively, representing 47.6% and 41.5% of nonperforming loans, respectively, at those dates. Nonperforming loans (90 days or more delinquent plus nonaccrual loans) totaled $11.6 million and $13.6 million at June 30, 2004 and December 31, 2003, respectively, constituting 1.39% and 1.69% of total net loans, including loans held for sale, at those dates. At June 30, 2004, nonperforming loans were comprised of $8.8 million in one- to four-family residential real estate loans, $1.0 million in commercial and multi-family real estate loans and $1.8 million of consumer and non-residential loans. Management believes all nonperforming loans are adequately collateralized and no loss is expected over and above allocated reserves on such loans. Loans delinquent greater than 30 days but less than 90 days totaled $4.2 million at June 30, 2004, compared to $8.7 million at December 31, 2003, a decrease of $4.5 million, or 51.7%. Although management believes that its allowance for loan losses is adequate based upon the available facts and circumstances at June 30, 2004, there can be no assurance that increased provisions will not be necessary in future periods, which could adversely affect Camco's results of operations.

CAMCO FINANCIAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

For the six- and three-month periods ended June 30, 2004 and 2003

Discussion of Financial Condition Changes from December 31, 2003 to June 30, 2004 (continued)

Deposits totaled $677.6 million at June 30, 2004, an increase of $6.3 million, or .9%, from the total at December 31, 2003. The increase in deposits was due to a $10.6 million increase of certificates of deposit and a $6.5 million increase in interest bearing accounts which were offset partially by a decrease of $9.0 million of money market demand accounts.

Stockholders' equity totaled $91.7 million at June 30, 2004, a decrease of $820,000, or .9%, from December 31, 2003. The decrease resulted primarily from dividends of $2.1 million, an increase in the unrealized losses on securities of $1.5 million, offset partially by net earnings of $2.6 million and proceeds from the exercise of stock options of $284,000.

Advantage is required to maintain minimum regulatory capital pursuant to federal regulations. At June 30, 2004, the Bank's regulatory capital exceeded all regulatory capital requirements and is considered "well capitalized".

The following tables present certain information regarding compliance by Advantage with applicable regulatory capital requirements at June 30, 2004:

			At June 30, 2004		
	Actual		For capital adequacy purposes		ca p a
	Amount	Ratio	Amount	Ratio	Am
			(Dollars in thousands)		
Total capital (to risk-weighted assets)	$81,387	12.0%	> or =$54,360	> or =8.0%	> or
Tier I capital (to risk-weighted assets)	$75,859	11.2%	> or =$27,180	> or =4.0%	> or
Tier I leverage	$75,859	7.2%	> or =$41,920	> or =4.0%	> or

Federal law prohibits a financial institution from making a capital distribution to anyone or paying management fees to any person having control of the institution if, after such distribution or payment, the institution would be undercapitalized.

Comparison of Results of Operations for the Six Months Ended June 30, 2004 and 2003

General

Camco's net earnings for the six months ended June 30, 2004 totaled $2.6 million, a decrease of $2.1 million, or 45.2%, from the $4.7 million of net earnings reported in the comparable 2003 period. The decrease in earnings was primarily attributable to a $3.6 million, or 52.4% decrease in other income, which was partially offset by a decrease in general administrative and other expense of $275,000 or 2.4% and a $973,000 or 45.9% decrease in federal income tax.

Comparison of Results of Operations for the Six Months Ended June 30, 2004 and 2003 (continued)

Net Interest Income

Total interest income amounted to $25.7 million for the six months ended June 30, 2004, a decrease of $2.9 million, or 10.1%, compared to the six-month period ended June 30, 2003, generally reflecting the effects of a decrease in yield on total interest-earning assets of 45 basis points, from 5.59% in the 2003 period to 5.14% in 2004, and a $22.5 million, or 2.2%, decrease in the average balance of interest-earning assets outstanding year to year.

Interest income on loans totaled $22.9 million for the six months ended June 30, 2004, a decrease of $1.8 million, or 7.4% from the comparable 2003 period. The decrease resulted primarily from an 86 basis point decrease in the average yield to 5.58% from 6.44% in 2003 which was partially offset by the increase of average balance outstanding of $54.0 million or 7.0% in the 2004 quarter. Interest income on mortgage-backed securities totaled $1.4 million for the six months ended June 30, 2004, a $641,000, or 31.4% decrease from the 2003 quarter. The decrease was due primarily to a 22 basis point decrease in the average yield, to 3.10% for the 2004 period, coupled with a $32.7 million, or 26.6%, decrease in the average balance outstanding in the 2004 period. Interest income on investment securities decreased by $326,000, or 45.9%, due primarily to a $13.7 million decrease in the average balance outstanding, coupled with a 66 basis point decrease in the average yield, to 2.73% in the 2004 period. Interest income on other interest-earning assets decreased by $112,000, or 9.7%, due primarily to a $29.9 million, or 32.6%, decrease in the average balance outstanding which was partially offset by an 86 basis point increase in the average yield, to 3.38% compared to 2.52% for the six months ended June 30, 2003.

Interest expense on deposits totaled $6.7 million for the six months ended June 30, 2004, a decrease of $2.0 million, or 22.9%, compared to the same period in 2003, due primarily to a 56 basis point decrease in the average cost of deposits to 2.05% in the current period, and a $13.9 million, or 2.1%, decrease in average deposits outstanding. Interest expense on borrowings totaled $6.7 million for the six months ended June 30, 2004, a decrease of $952,000, or 12.4%, from the same 2003 six-month period. The decrease resulted primarily from a 65 basis point decrease in the average cost of borrowings to 4.93%, and a $2.2 million, or .8%, decrease in the average balance outstanding year to year. Decreases in the level of average yields on interest-earning assets and average costs of interest-bearing liabilities were primarily due to assets repricing into current lower interest rates, coupled with a December restructuring of $25.4 million of FHLB borrowings which carried an average fixed rate of 5.41%.

The borrowings were replaced with variable rate advances having a weighted average rate of approximately 1.5% as of June 30, 2004.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by $36,000, or .3%, to a total of $12.3 million for the six months ended June 30, 2004. The interest rate spread increased to approximately 2.23% at June 30, 2004, from 2.11% at June 30, 2003, while the net interest margin increased to approximately 2.47% for the six months ended June 30, 2004, compared to 2.41% for the 2003 period.

Provision for Losses on Loans

A provision for losses on loans is charged to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Bank, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to the Bank's market areas, and other factors related to the collectibility of the Bank's loan portfolio. Based upon an analysis of these factors, management recorded a provision for losses on loans totaling $510,000 for the six

Comparison of Results of Operations for the Six Months Ended June 30, 2004 and 2003 (continued)

Provision for Losses on Loans (continued)

months ended June 30, 2004. Management believes all classified loans are adequately collateralized, however, there can be no assurance that the loan loss allowance will be adequate to absorb losses on known classified assets or that the allowance will be adequate to cover losses on classified assets in the future.

Other Income

Other income totaled $3.2 million for the six months ended June 30, 2004, a decrease of $3.6 million, or 52.4%, from the comparable 2003 period. The decrease in other income was primarily attributable to a $2.2 million decrease in gain on sale of loans, a $663,000 decrease in the valuation of mortgage servicing rights and a decrease of $758,000 in late charges, rent and other. The decline in mortgage servicing rights was primarily attributable to the significant slowdown in production sold into the secondary market in the first half of 2004 versus the first half of 2003. During the first half of 2003, $205.0 million was sold in the secondary market versus $57.7 million in the first half of 2004. The reduction in late charges, rent and other was due primarily to a decrease in title insurance premiums and other fees on loans due to the $130.4 million decrease of loans originated and purchased in 2004 compared to the 2003 period. The Corporation's mortgage banking income, largely comprised of gains on sale of loans, servicing revenue, and title insurance premiums are subject to the cyclical changes in the overall level of interest rates in the economy. The rise in home mortgage interest rates off historical lows over the last six months has had a dampening effect on the Corporation's net earnings. The diminished proportional benefit from other income is expected to continue as the higher interest rates will likely decrease the Company's originations for primarily fixed rate mortgage loans, diminishing the fee income derived from the sale of those loans in the secondary market. The origination of adjustable rate loans generally increases during these interest rate cycles and, after a period of time, borrowers have historically come back into the home purchase and construction market using adjustable rate loans to finance their homes. Over time, this shifts earnings from fees to net interest income for the Bank.

General, Administrative and Other Expense

General, administrative and other expense totaled $11.4 million for the six months ended June 30, 2004, a decrease of $275,000, or 2.4%, from the comparable period in 2003. The decrease in general, administrative and other expense was due primarily to a decrease of $633,000, or 8.5% decrease in employee compensation and benefits, a $154,000, or 8.3% decrease in occupancy and equipment and a $90,000 or 15.1% decrease in franchise tax, which were partially offset by a decrease of $584,000 or 33.0% in deferred compensation (FAS 91) and a $71,000, or 19.5%, in advertising. The decrease in employee compensation was due to continued efforts to contain personnel costs through operating efficiencies created by the consolidation of charters in 2001. The decrease in occupancy and equipment was primarily due to the closing of the Russell, Kentucky branch and a decrease in depreciation expense. The decrease in franchise tax was due to lowered accrual in 2004 compared to the 2003 period. The increase in deferred compensation relates to FAS 91 and the decline in residential loan production. The decrease in advertising was primarily due to hiring an advertising agency to better manage the Company's marketing effort to uniformly promote our brand and key product offerings.

Comparison of Results of Operations for the Six Months Ended June 30, 2004 and 2003 (continued)

Federal Income Taxes

The provision for federal income taxes totaled $1.1 million for the six months ended June 30, 2004, a decline of $973,000, or 45.9%, compared to the six months ended June 30, 2003. This reduction was primarily attributable to a $3.1 million, or 45.4%, decrease in pre-tax earnings, as well as the non-taxable nature of increases in cash surrender value of life insurance. The Corporation's effective tax rates amounted to 30.9% and 31.2% for the six-month periods ended June 30, 2004 and 2003, respectively.

Comparison of Results of Operations for the Three Months Ended June 30, 2004 and 2003

General

Camco's net earnings for the three months ended June 30, 2004 totaled $1.5 million, a decrease of $696,000, or 31.2%, from the $2.2 million of net earnings reported in the comparable 2003 period. The decrease in earnings was primarily attributable to a $1.6 million, or 49.1% decrease in other income partially offset by an increase of $331,000, or 5.6% in net interest income, a decrease in general administration and other expense of $366,000 and a decrease in federal income tax expense of $252,000.

Net Interest Income

Total interest income amounted to $13.0 million for the three months ended June 30, 2004, a decrease of $933,000, or 6.7%, compared to the three-month period ended June 30, 2003, generally reflecting the effects of a decrease in yield on total interest-earning assets of 37 basis points, from 5.48% in the 2003 period to 5.11% in 2004.

Interest income on loans totaled $11.5 million for the three months ended June 30, 2004, a decrease of $510,000, or 4.3% from the comparable 2003 period. The decrease resulted primarily from a 79 basis point decrease in the average yield to 5.53% from 6.32% in 2003 which was partially offset by the increase of average balance outstanding of $71.2 million or 9.4% in the 2004 quarter. Interest income on mortgage-backed securities totaled $791,000 for the three months ended June 30, 2004, a $200,000, or 20.2% decrease from the 2003 quarter. The decrease was due primarily to a $30.5 million, or 23.7%, decrease in the average balance outstanding in the 2004 period, partially offset by a 14 basis point increase in the average yield, to 3.22% for the 2004 period. Interest income on investment securities decreased by $164,000, or 44.7%, due primarily to a $12.1 million decrease in the average balance outstanding, coupled with a 77 basis point decrease in the average yield, to 2.77% in the 2004 period. Interest income on other interest-earning assets decreased by $59,000, or 10.2%, due primarily to a $29.1 million, or 32.9%, decrease in the average balance outstanding which was partially offset by a 90 basis point increase in the average yield, to 3.53% compared to 2.63% for the three months ended June 30, 2003.

Interest expense on deposits totaled $3.3 million for the three months ended June 30, 2004, a decrease of $847,000, or 20.4%, compared to the same quarter in 2003, due primarily to a 49 basis point decrease in the average cost of deposits to 2.03% in the current quarter, and a $8.3 million, or 1.3%, decrease in average deposits outstanding. Interest expense on borrowings totaled $3.4 million for the three months ended June 30, 2004, a decrease of $417,000, or 10.9%, from the same 2003 three-month period. The decrease resulted primarily from a

Comparison of Results of Operations for the Three Months Ended June 30, 2004 and 2003 (continued)

Net Interest Income (continued)

79 basis point decrease in the average cost of borrowings to 4.81%, partially offset by a $10.1 million, or 3.7%, increase in the average balance outstanding year to year. The decrease in the level of weighted-average yields on interest-earning assets and the decrease in the average costs of interest-bearing liabilities were due primarily to assets repricing into current lower interest rates in the economy period to period. The decline in interest expense on FHLB advances was due primarily to a December restructuring of $25.4 million of FHLB borrowings which carried an average fixed rate of 5.41%. The

borrowings were replaced with variable rate advances having a weighted average rate of approximately 1.50% as of June 30, 2004.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by $331,000, or 5.6%, to a total of $6.3 million for the three months ended June 30, 2004. The interest rate spread increased to approximately 2.24% at June 30, 2004, from 2.06% at June 30, 2003, while the net interest margin increased to approximately 2.47% for the three months ended June 30, 2004, compared to 2.34% for the 2003 period.

Provision for Losses on Loans

A provision for losses on loans is charged to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Bank, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to the Bank's market areas, and other factors related to the collectibility of the Bank's loan portfolio. Based upon an analysis of these factors, management recorded a provision for losses on loans totaling $255,000 for the three months ended June 30, 2004, which is comparable to the period in 2003. Management believes all classified loans are adequately collateralized, however, there can be no assurance that the loan loss allowance will be adequate to absorb losses on known classified assets or that the allowance will be adequate to cover losses on classified assets in the future.

Other Income

Other income totaled $1.7 million for the three months ended June 30, 2004, a decrease of $1.6 million, or 49.1%, from the comparable 2003 period. The decrease in other income was primarily attributable to a $1.1 million decrease in gain on sale of loans, a $550,000 decrease in late charges, rent and other, and a decrease of $61,000 in the valuation of mortgage servicing rights. The decline in mortgage servicing rights was primarily attributable to the significant slowdown in production sold into the secondary market in the second quarter of 2004 versus the second quarter of 2003. During the second quarter of 2003, $113.3 million was sold in the secondary market versus $31.2 million in the second quarter of 2004. The reduction in late charges, rent and other was due primarily to a decrease in title premiums and other fees on loans due to the $84.3 million decrease of loans originated and purchased in 2004 compared to the 2003 period. The Corporation's mortgage banking income, largely comprised of gains on sale of loans, servicing revenue, and title premiums are subject to the cyclical changes in the overall level of interest rates in the economy. The rise in home mortgage interest rates off the historical lows over the last six months has had a dampening effect on the Corporation's net earnings. The higher home mortgage rates will decrease the Company's originations for primarily fixed rate mortgage loans which will diminish the gains derived from the sale of those loans in the secondary market. The origination of adjustable rate home loans generally increases during these interest rate

Comparison of Results of Operations for the Three Months Ended June 30, 2004 and 2003 (continued)

Other Income (continued)

cycles and, after a period of time, borrowers have historically come back into the home purchase and construction market using adjustable rate loans to finance their homes. Over time, this will shift earnings from gains to net interest income for the Bank.

General, Administrative and Other Expense

General, administrative and other expense totaled $5.5 million for the three months ended June 30, 2004, a decrease of $366,000, or 6.3%, from the comparable period in 2003. The decrease in general, administrative and other expense was due primarily to a decrease of $467,000, or 12.2%, in employee compensation and benefits, an $88,000 or 9.6% decrease in occupancy and equipment, a $71,000, or 5.6%, decrease in other operating costs and a $47,000 or 12.6% decrease in data processing expense, which were partially offset by a $340,000, or 32.6%, decrease in deferred compensation (FAS 91). The decrease in employee compensation and benefits was primarily due to the decrease in commissions paid and bonus accruals and continued efforts to contain personnel costs through operating efficiencies created by the consolidation of charters in 2001. The decrease in occupancy and equipment was due primarily to the closing of the Russell, Kentucky branch and a decrease in depreciation expense. The decrease in other operating costs was due primarily to the decrease of other loan expense due to the decline in loan production. The decrease in data processing expense was due primarily to the end of year processing expense accrued in 2004 but not 2003. The decrease in deferred compensation (FAS 91) relates to the decline in residential loan production.

Federal Income Taxes

The provision for federal income taxes totaled $698,000 for the three months ended June 30, 2004, a decline of $252,000, or 26.5%, compared to the three months ended June 30, 2003. This reduction was primarily attributable to a $948,000, or 29.8%, decrease in pre-tax earnings as well as the non-taxable nature of increases in cash surrender value of life insurance. The Corporation's effective tax rates amounted to 31.3% and 29.9% for the three-month periods ended June 30, 2004 and 2003, respectively.

Liquidity and Capital Resources

Camco, like other financial institutions, is required under applicable federal regulations to maintain sufficient funds to meet deposit withdrawals, loan commitments and expenses. Liquid assets consist of cash and interest-bearing deposits in other financial institutions, investments and mortgage-backed securities. Management monitors and assesses liquidity needs daily in order to meet deposit withdrawals, loan commitments and expenses.

The primary sources of funds include deposits, borrowings and principal and interest repayments on loans. Other funding sources included Federal Home Loan Bank advances.

Liquidity and Capital Resources (continued)

The following table sets forth information regarding the Bank's obligations and commitments to make future payments under contract as of June 30, 2004.

	PAYMENTS DUE BY PERIOD		
	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS (In thousands)
Contractual obligations:			
Operating lease obligations	$ 163	$ 207	$ 135
Advances from the Federal Home Loan (1)	6,817	12,209	32,427
Certificates of deposit	187,122	87,751	62,224
Amount of commitments expiration per period			
Commitments to originate loans:			
Overdraft lines of credit	768	-	-
Home equity lines of credit	65,442	-	-
Commercial lines of credit	2,497	-	-
One- to four-family and multi-family loans	2,946	-	-
Non-residential real estate and land loans	264	-	-
Total contractual obligations	$266,019	$100,167	$94,786

(1) Fully secured asset borrowings totaling $40.5 million are not included.

ITEM 3: Quantitative and Qualitative Disclosures about Market Risk

There has been no material change in the Corporation's market risk since the Corporation's Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2003.

ITEM 4: Controls and Procedures

(a) Camco's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the disclosure controls and procedures (as defined under Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934, as amended) as of June 30, 2004. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Camco's disclosure controls and procedures are effective.

(b) There were no changes in Camco's internal control over financial reporting during the quarter ended June 30, 2004, which materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

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Camco Financial Corporation

PART II

ITEM 1. Legal Proceedings

Not applicable

ITEM 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

None

ITEM 3. Defaults Upon Senior Securities

Not applicable

ITEM 4. Submission of Matters to a Vote of Security Holders

Not applicable

ITEM 5. Other Information

Not applicable

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 31(i)	Section 302 certification by Chief Executive Officer
Exhibit 31(ii)	Section 302 Certification by Chief Financial Officer
Exhibit 32(i)	Section 1350 certification by Chief Executive Officer
Exhibit 32(ii)	Section 1350 certification by Chief Financial Officer

Reports on Form 8-K: On April 29, 2004, a Form 8-K was filed to report net earnings for the quarter ended March 31, 2004.

On May 3, 2004, a Form 8-K was filed to report inclusion in the Nasdaq Community Bank index.

On June 24, 2004, a Form 8-K was filed to report the declaration of a cash dividend.

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SIGNATURES

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

Date: August 5, 2004 By: /s/Richard C. Baylor

Richard C. Baylor
Chief Executive Officer

Date: August 5, 2004 By: /s/Mark A. Severson

Mark A. Severson

Chief Financial Officer