CAMCO FINANCIAL CORP
Form 10-Q
May 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 March 31, 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 May 3, 2004, the latest practicable date, 7,357.887 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)

	MARCH 31 2004
ASSETS	
Cash and due from banks	$ 20,6
Interest-bearing deposits in other financial institutions	18,1
Cash and cash equivalents	38,7
Investment securities available for sale - at market	28,9
Investment securities held to maturity - at cost, approximate market value of $1,217 and $1,204 as of March 31, 2004 and December 31, 2003, respectively	1,1
Mortgage-backed securities available for sale - at market	93,3
Mortgage-backed securities held to maturity - at cost, approximate market value of $6,234 and $7,839 as of March 31, 2004 and December 31,	

2003, respectively	6,1
Loans held for sale - at lower of cost or market	8,9
Loans receivable - net	811,7
Office premises and equipment - net	13,1
Real estate acquired through foreclosure	2,7
Federal Home Loan Bank stock - at cost	24,7
Accrued interest receivable	4,1
Prepaid expenses and other assets	1,7
Cash surrender value of life insurance	17,9
Goodwill - net of accumulated amortization	2,9
Prepaid federal income taxes	5
Total assets	$ 1,057,0

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits	$ 669,0
Advances from the Federal Home Loan Bank	283,2
Advances by borrowers for taxes and insurance	2,3
Accounts payable and accrued liabilities	4,1
Dividends payable	1,0
Deferred federal income taxes	4,0
Total liabilities	964,0
Commitments	
Stockholders' equity	
Preferred stock - $1 par value; authorized 100,000 shares; no shares outstanding	
Common stock - $1 par value; authorized 14,900,000 shares; 8,448,674 and 8,428,946 shares issued at March 31, 2004 and December 31, 2003, respectively	8,4
Additional paid-in capital	55,3
Retained earnings - substantially restricted	45,0
Accumulated other comprehensive income - unrealized gains on securities designated as available for sale, net of related tax effects	4
Less 1,096,523 shares of treasury stock at both March 31, 2004 and December 31, 2003, respectively - at cost	(16,3
Total stockholders' equity	92,9
Total liabilities and stockholders' equity	$ 1,057,0

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS

For the three months ended March 31,
(In thousands, except per share data)

	2004	200

Interest income		
Loans	$ 11,415	$ 12,
Mortgage-backed securities	607	1,
Investment securities	182	
Interest-bearing deposits and other	525	
Total interest income	12,729	14,
Interest expense		
Deposits	3,349	4,
Borrowings	3,309	3,
Total interest expense	6,658	8,
Net interest income	6,071	6,
Provision for losses on loans	255	
Net interest income after provision for losses on loans	5,816	5,
Other income		
Late charges, rent and other	640	
Loan servicing fees	386	
Service charges and other fees on deposits	272	
Gain on sale of loans	276	1,
Increase (decrease) in valuation of mortgage servicing rights - net	(102)	
Gain (loss) on sale of real estate acquired through foreclosure	(13)	
Gain on sale of mortgage-backed securities	77	
Total other income	1,536	3,
General, administrative and other expense		
Employee compensation and benefits	2,996	2,
Occupancy and equipment	874	
Data processing	342	
Advertising	254	
Franchise taxes	214	
Other operating	1,190	1,
Total general, administrative and other expense	5,870	5,
Earnings before federal income taxes	1,482	3,
Federal income taxes		
Current	412	
Deferred	36	
Total federal income taxes	448	1,
NET EARNINGS	$ 1,034	$ 2,
EARNINGS PER SHARE		
Basic	$ .14	$
Diluted	$ .14	$

Dividends declared per share	$ .145	$.
	==========	=====

CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31,
(In thousands)

	2004	2003
Net earnings	$ 1,034	$2,45
Other comprehensive income, net of tax:		
Unrealized holding gains (losses) on securities during the period, net of tax effects (benefits) of $167 and ($202) in 2004 and 2003, respectively	325	(39
Reclassification adjustment for realized gains included in earnings net of taxes of $26 in 2004	(51)	
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Comprehensive income	$ 1,308	$2,06
	=======	=====
Accumulated comprehensive income	$ 480	$1,70
	=======	=====

CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31,
(In thousands)

	200
Cash flows from operating activities:	
Net earnings for the period	$ 1
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	
Depreciation and amortization	
Amortization of purchase accounting adjustments, net	
Provision for losses on loans	
Loss (gain) on sale of real estate acquired through foreclosure	

Gain on sale of mortgage-backed securities	
Federal Home Loan Bank stock dividends	
Gain on sale of loans	
Loans originated for sale in the secondary market	(29
Proceeds from sale of loans in the secondary market	26
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 (used in) operating activities	(1
Cash flows provided by (used in) investing activities:	
Purchases of investment securities designated as available for sale	(8
Proceeds from maturities of investment securities	6
Proceeds from sale of mortgage-backed securities designated as available for sale	12
Principal repayments on mortgage-backed securities	6
Purchases of mortgage-backed securities designated as available for sale	(32
Loan principal repayments	54
Loan disbursements	(62
Purchases of loans	(6
Additions to office premises and equipment	
Proceeds from sale of real estate acquired through foreclosure	
Net increase in cash surrender value of life insurance	
Net cash used in investing activities	(29
Net cash (used in) provided by operating and investing activities balance carried forward	(31

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the three months ended March 31,
(In thousands)

	20
Net cash (used in) provided by operating and investing activities (balance brought forward)	$ (31
Cash flows provided by (used in) financing activities:	
Net increase (decrease) in deposits	(2
Proceeds from Federal Home Loan Bank advances	25
Repayment of Federal Home Loan Bank advances	(5
Dividends paid on common stock	(1
Proceeds from exercise of stock options	
Purchase of treasury shares	
Decrease in advances by borrowers for taxes and insurance	(1

Net cash provided by (used in) financing activities	16
Increase (decrease) in cash and cash equivalents	(14
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	$ 6
Supplemental disclosure of noncash investing activities:	
Unrealized gains (losses) on securities designated as available for sale, net of related tax effects	$
Recognition of mortgage servicing rights in accordance with SFAS No. 140	$
Transfers from mortgage loans to real estate acquired through foreclosure	$ 1
Dividends declared but unpaid	$ 1

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CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month periods ended March 31, 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 three month period ended March 31, 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 three-month periods ended March 31, 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 THREE MONTHS ENDED MARCH 31, 2004	2003
Weighted-average common shares outstanding (basic)	7,345,340	7,674,434
Dilutive effect of assumed exercise of stock options	69,276	95,112
Weighted-average common shares outstanding (diluted)	7,414,616	7,769,546

Options to purchase 17,705 and 7,088 shares of common stock with respective weighted-average exercise prices of $17.17 and $16.59 were outstanding at March 31, 2004 and 2003, respectively, but were excluded from the computation of common share equivalents for those respective periods 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.

CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three-month periods ended March 31, 2004 and 2003

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 March 31, 2004 and 2003, would have been reported as the pro forma amounts indicated below:

		2004	2003
		(In thousands, except per share data)	
NET EARNINGS	As reported	$ 1,034	$ 2,454
	Stock-based compensation, net of tax	(7)	(20)
	Pro-forma	$ 1,027	$ 2,434
EARNINGS PER SHARE			
BASIC	As reported	$ .14	$ .32
	Stock-based compensation, net of tax	-	-
	Pro-forma	$ .14	$ .32
DILUTED	As reported	$ .14	$ .32
	Stock-based compensation, net of tax	-	(.01)
	Pro-forma	$ .14	$ .31

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.

CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three-month periods ended March 31, 2004 and 2003

5. Stock Option Plans (continued)

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

	THREE MONTHS ENDED MARCH 31, 2004		YEAR ENDED DECEMBER 31, 2003		2002	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCIS PRICE
Outstanding at beginning of year	257,072	$ 12.11	323,291	$ 9.79	503,005	$ 10
Granted	17,705	17.17	56,948	16.13	3,700	14
Exercised	(19,728)	8.72	(117,800)	7.60	(174,106)	10
Forfeited	(1,050)	14.65	(5,367)	13.92	(9,308)	11
Outstanding at end of year	253,999	$ 12.41	257,072	$ 12.11	323,291	$ 9
Options exercisable at year-end	206,839	$ 11.50	211,780	$ 11.25	323,291	$ 9
Weighted-average fair value of options granted during the year		$ 3.59		$ 2.60		$ 1

The following information applies to options outstanding at March 31, 2004:

Number outstanding	55,
Range of exercise prices	$ 7.40-8
Number outstanding	63,
Range of exercise prices	$ 9.75-11
Number outstanding	6,
Range of exercise prices	$12.50-12
Number outstanding	128,
Range of exercise prices	$14.55-17
Weighted-average exercise price	$ 12
Weighted-average remaining contractual life	6.9 ye

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 three-month periods ended March 31, 2004 and 2003

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

At March 31, 2004, Camco's consolidated assets totaled $1.06 billion, an increase of $17.9 million, or 1.7%, from the December 31, 2003 total. The increase in total assets was comprised primarily of increases in mortgage-backed securities available for sale, loans receivable, and loans held for sale, which were partially offset by a decrease in cash and cash equivalents.

Cash and interest-bearing deposits in other financial institutions totaled $38.8 million at March 31, 2004, a decrease of $15.0 million, or 27.8%, from December 31, 2003 levels. Investment securities totaled $30.1 million at March 31, 2004, an increase of $1.9 million, or 6.8%, from the total at December 31, 2003. Investment securities purchases of $8.0 million were comprised primarily of intermediate-term callable U.S. Government agency obligations with an average yield of 3.49%, which were partially offset by $6.0 million of investment maturities.

Mortgage-backed securities totaled $99.5 million at March 31, 2004, an increase of $13.9 million, or 16.2%, from December 31, 2003. Mortgage-backed securities purchases totaled $32.4 million, while principal repayments totaled $6.1 million and sales totaled $12.5 million during the three-month period ended March 31, 2004. Purchases of mortgage-backed securities during the period were comprised primarily of short duration mortgage-backed securities yielding 3.87%, all of which were classified as available for sale.

Loans receivable, including loans held for sale, totaled $820.7 million at March 31, 2004, an increase of $15.6 million, or 1.9%, from December 31, 2003. The increase resulted primarily from loan disbursements and purchases totaling $98.4 million, which were partially offset by principal repayments of $54.2 million and loan sales of $26.8 million. The volume of loans originated and purchased during the first three months of 2004 decreased compared to the 2003 period by $46.2 million, or 31.9%, while the volume of loan sales decreased by $65.2 million year to year. 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 three-month period ended March 31, 2004, were comprised primarily of $48.6 million of loans secured by one- to four-family residential real estate, $18.8 million in consumer and other loans and $31.0 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 March 31, 2004 and December 31, 2003, respectively, representing 43.0% and 41.5% of nonperforming loans, respectively, at those dates. Nonperforming loans (90 days or more delinquent plus nonaccrual loans) totaled $12.7 million and $13.6 million at March 31, 2004 and December 31, 2003, respectively, constituting 1.55% and 1.69% of total net loans, including loans held for sale, at those dates. At March 31, 2004, nonperforming loans were comprised of $10.7 million in one- to four-family residential real estate loans, $1.2 million in commercial and multi-family real estate loans and $777,000 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 $7.0 million at March 31, 2004, compared to $8.7 million at December 31, 2003, a decrease of $1.7 million, or 20.0%. Although management believes that its allowance for loan losses is adequate based upon the available facts and circumstances at March 31, 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.

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

Deposits totaled $669.0 million at March 31, 2004, a decrease of $2.2 million, or .33%, from the total at December 31, 2003. The decrease in deposits was due to a $7.9 million decrease of interest bearing deposits which were offset partially by the increase of $4.0 million of certificates of deposit.

Stockholders' equity totaled $93.0 million at March 31, 2004, an increase of $450,000, or .49%, from December 31, 2003. The increase resulted primarily from net earnings of $1.0 million, an increase in the unrealized gains on available for sale securities of $274,000, and proceeds from the exercise of stock options of $210,000 which were partially offset by dividends of $1.1 million.

Advantage is required to maintain minimum regulatory capital pursuant to federal regulations. At March 31, 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 March 31, 2004:

At March 31, 2004

	Actual		For capital adequacy purposes		
	Amount	Ratio	Amount	Ratio	A
			(Dollars in thousands)		
Total capital (to risk-weighted assets)	$80,670	12.18%	> or = $52,996	> or = 8.0%	> or
Tier I capital (to risk-weighted assets)	$75,210	11.35%	> or = $26,498	> or = 4.0%	> or
Tier I leverage	$75,210	7.41%	> or = $40,610	> 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. In addition, each company controlling an undercapitalized institution must guarantee that the institution will comply with its capital restoration plan until the institution has been adequately capitalized on average during each of the four preceding calendar quarters and must provide adequate assurances of performance.

Comparison of Results of Operations for the Three Months Ended March 31, 2004 and 2003

General

Camco's net earnings for the three months ended March 31, 2004 totaled $1.0 million, a decrease of $1.4 million, or 57.9%, from the $2.5 million of net earnings reported in the comparable 2003 period. The decrease in earnings was primarily attributable to a $1.9 million, or 55.5% decrease in other income and a decrease of $295,000, or 4.6% in net interest income, which were partially offset by a decrease in the provision for losses on loans of $165,000 and a decrease in federal income tax expense of $720,000.

Comparison of Results of Operations for the Three Months Ended March 31, 2004 and 2003 (continued)

Net Interest Income

Total net interest income amounted to $6.1 million for the three months ended March 31, 2004, a decrease of $295,000, or 4.6%, compared to the three-month period ended March 31, 2003, generally reflecting the effects of a decrease in yield on total interest-earning assets of 54 basis points, from 5.69% in the 2003 period to 5.15% in 2004, and a $43.7 million, or 4.2%, decrease in the average balance of interest-earning assets outstanding year to year.

Interest income on loans totaled $11.4 million for the three months ended March 31, 2004, a decrease of $1.3 million, or 10.3% from the comparable 2003 period. The decrease resulted primarily from a 94 basis point decrease in the average yield to 5.62% from 6.56% in 2003 which was partially offset by the increase of average balance outstanding of $36.9 million or 4.8% in the 2004 quarter. Interest income on mortgage-backed securities totaled $607,000 for the three months ended March 31, 2004, a $441,000, or 42.1% decrease from the 2003 quarter. The decrease was due primarily to a 66 basis point decrease in the average yield, to 2.87% for the 2004 period, coupled with a $34.0 million, or 28.7%, decrease in the average balance outstanding in the 2004 period. Interest income on investment securities decreased by $162,000, or 47.1%, due primarily to a $14.2 million decrease in the average balance outstanding, coupled with a 65 basis point decrease in the average yield, to 2.64% in the 2004 period. Interest income on other interest-earning assets decreased by $53,000, or 9.2%, due primarily to a $32.4 million, or 33.5%, decrease in the average balance outstanding which was partially offset by an 87 basis point increase in the average yield, to 3.26% compared to 2.39% for the three months ended March 31, 2003.

Interest expense on deposits totaled $3.3 million for the three months ended March 31, 2004, a decrease of $1.1 million, or 25.3%, compared to the same quarter in 2003, due primarily to a 62 basis point decrease in the average cost of deposits to 2.08% in the current quarter, and a $21.0 million, or 3.2%, decrease in average deposits outstanding. Interest expense on borrowings totaled $3.3 million for the three months ended March 31, 2004, a decrease of $534,000, or 13.9%, from the same 2003 three-month period. The decrease resulted primarily from a 56 basis point decrease in the average cost of borrowings to 5.01%, and a $11.9 million, or 4.3%, 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 due primarily to the overall decrease in interest rates in the economy 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% as of March 31, 2004.

As a result of the foregoing changes in interest income and interest expense, net interest income decreased by $295,000, or 4.6%, to a total of $6.1 million for the three months ended March 31, 2004. The interest rate spread increased to approximately 2.22% at March 31, 2004, from 2.15% at March 31, 2003, while the net interest margin decreased to approximately 2.46% for the three months ended March 31, 2004, compared to 2.47% for the 2003 period.

Comparison of Results of Operations for the Three Months Ended March 31, 2004 and 2003 (continued)

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 March 31, 2004, a decrease of $165,000, or 39.3%, from the comparable period in 2003. The decrease in the current period provision compared to the 2003 period was predicated primarily on a $1.7 million, or 8.0% decrease in the level of classified loans year to year. 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 $1.5 million for the three months ended March 31, 2004, a decrease of $1.9 million, or 55.5%, from the comparable 2003 period. The decrease in other income was primarily attributable to a $1.2 million decrease in gain on sale of loans, a $602,000 decrease in the valuation of mortgage servicing rights and a decrease of $208,000, in late charges, rent and other. The decrease in gain on sale of loans was due to the decrease of $65.2 million in the volume of loan sales. The decline in mortgage servicing rights was attributable to amortization related to the high level of loan prepayments in the servicing portfolio in 2003. 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 $46.2 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 have 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 fee income derived from the sale of those loans in the secondary market. The origination of adjustable rate home loans generally increase during these interest rate cycles and after a period of time, borrowers have typically come back into the home purchase and construction market using those types of loans to finance their homes. Over time, this will shift earnings from fees to net interest margin income for the Bank.

General, Administrative and Other Expense

General, administrative and other expense totaled $5.9 million for the three months ended March 31, 2004, an increase of $91,000, or 1.6%, from the comparable period in 2003. The increase in general, administrative and other expense was due primarily to an increase of $77,000, or 43.5%, in advertising and a $25,000, or 2.1%, increase in other operating costs, which were partially offset by a reduction of $66,000, or 7.0%, in occupancy and equipment and $62,000 in franchise taxes. The increase in advertising was primarily due to hiring an advertising agency to better manage the Company's marketing effort to uniformly promote our brand, key product offerings and better manage our costs. The increase in other operating costs were attributable to higher compliance costs as a result of Sarbanes/Oxley. 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 franchise tax was due to the receipt of refunds.

CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

For the three-month periods ended March 31, 2004 and 2003

Comparison of Results of Operations for the Three Months Ended March 31, 2004 and 2003 (continued)

Federal Income Taxes

The provision for federal income taxes totaled $448,000 for the three months ended March 31, 2004, a decline of $720,000, or 61.6%, compared to the three months ended March 31, 2003. This reduction was primarily attributable to a $2.1 million, or 59.1%, 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 30.2% and 32.2% for the three-month periods ended March 31, 2004 and 2003, respectively.

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 December 31, 2003. 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 significant changes in Camco's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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

On April 27, 2004, Camco held its Annual Meeting of Stockholders. The only matter that was submitted to stockholders was the election of two directors for terms expiring in 2007, as follows:

	For	Withheld
Terry A. Feick	6,045,666	248,138
Susan J. Insley	6,046,348	247,456

The following directors terms continued after the meeting: Richard C. Baylor, Robert C. Dix, Paul D. Leake, Larry A. Caldwell, Carson K. Miller, Samuel W. Speck and Jeffrey T. Tucker.

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 January 26, 2004, a Form 8-K was filed to report net earnings for the quarter and year ended December 31, 2003

On March 25, 2004, a Form 8-K was filed to report the declaration of a cash dividend.

On March 29, 2004 a Form 8-K was filed to report the execution of an agreement to acquire London Financial Corporation.

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: May 3, 2004

By: /s/Richard C. Baylor

Richard C. Baylor
Chief Executive Officer

Date: May 3, 2004

By: /s/Mark A. Severson

Mark A. Severson

Chief Financial Officer

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