CAMCO FINANCIAL CORP
Form 10-Q
August 05, 2005

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, 2005

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 3, 2005, the latest practicable date, 7,639,782 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, 2005
ASSETS	
Cash and due from banks	$ 22,979
Interest-bearing deposits in other financial institution	13,799
Cash and cash equivalents	36,778
Investment securities available for sale - at market	35,786
Investment securities held to maturity - at cost, approximate market value of $1,167 and $4,174 as of June 30, 2005 and December 31, 2004, respectively	1,122
Mortgage-backed securities available for sale - at market	72,882
Mortgage-backed securities held to maturity - at cost, approximate market value of $3,707 and $4,188 as of June 30, 2005 and December 31, 2004, respectively	3,728
Loans held for sale - at lower of cost or market	3,441

Loans receivable - net	841,191
Office premises and equipment - net	11,500
Real estate acquired through foreclosure	2,238
Federal Home Loan Bank stock - at cost	26,400
Accrued interest receivable	4,710
Prepaid expenses and other assets	1,765
Cash surrender value of life insurance	20,416
Goodwill - net of accumulated amortization	6,683
Prepaid federal income taxes	717
Total assets	$ 1,069,357
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	$ 669,283
Advances from the Federal Home Loan Bank	298,295
Advances by borrowers for taxes and insurance	1,182
Accounts payable and accrued liabilities	5,069
Dividends payable	1,108
Deferred federal income taxes	3,764
Total liabilities	978,701
Stockholders' equity	
Preferred stock - $1 par value; authorized 100,000 shares; no shares outstanding	-
Common stock - $1 par value; authorized 14,900,000 shares; 8,785,272 and 8,759,676 shares issued at June 30, 2005 and December 31, 2004, respectively	8,785
Additional paid-in capital	59,163
Retained earnings - substantially restricted	40,267
Accumulated other comprehensive income (loss) - unrealized gains (losses) on securities designated as available for sale, net of related tax effects	(591)
Less 1,141,525 and 1,096,523 shares of treasury stock at June 30, 2005 and December 31, 2004, respectively - at cost	(16,968)
Total stockholders' equity	90,656
Total liabilities and stockholders' equity	$ 1,069,357

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	SIX MONTHS ENDED JUNE 30, 2005	2004	THRE 2
Interest income			
Loans	$ 24,273	$ 22,884	$ 12,
Mortgage-backed securities	1,493	1,398	

Investment securities	442	385	
Interest-bearing deposits and other	1,258	1,047	
Total interest income	27,466	25,714	13,
Interest expense			
Deposits	7,289	6,652	3,
Borrowings	5,280	6,715	2,
Total interest expense	12,569	13,367	6,
Net interest income	14,897	12,347	7,
Provision for losses on loans	600	510	
Net interest income after provision for losses on loans	14,297	11,837	7,
Other income			
Late charges, rent and other	1,460	1,240	
Loan servicing fees	749	765	
Service charges and other fees on deposits	720	599	
Mortgage servicing rights - net	9	(73)	
Gain on sale of loans	349	490	
Gain (loss) on sale of real estate acquired through foreclosure	34	118	
Gain on sale of fixed assets	6	3	
Gain on investment securities transactions	13	97	
Total other income	3,340	3,239	1,
General, administrative and other expense			
Employee compensation and benefits	6,873	6,854	3,
Deferred compensation and benefits (FAS 91)	(1,098)	(1,186)	(
Occupancy and equipment	1,560	1,702	
Data processing	678	667	
Advertising	532	435	
Franchise taxes	146	507	
Other operating	2,685	2,385	1,
Total general, administrative and other expense	11,376	11,364	5,
Earnings before federal income taxes	6,261	3,712	2,
Federal income taxes			
Current	2,053	1,085	
Deferred	(49)	60	
Total federal income taxes	2,004	1,145	
NET EARNINGS	$ 4,258	$ 2,567	$ 2,
EARNINGS PER SHARE			
Basic	$ .56	$ .35	$
Diluted	$ .55	$ .35	$

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	SIX MONTHS ENDED JUNE 30, 2005	2004	T
Net earnings	$ 4,258	$ 2,567	$
Other comprehensive income (loss), net of related tax effects:			
Unrealized holding gains(losses) during the period, net of tax benefits of $(165), $(758), $347 and $(925) for the respective periods	(319)	(1,471)	
Reclassification adjustment for realized gains included in earnings, net of taxes of $4 and $33 for the respective six month periods and $0 and $7 for each of the three month periods ended June 30, 2005 and 2004, respectively	(9)	(64)	
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Comprehensive income (loss)	$ 3,930	$ 1,032	$
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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2005
Cash flows from operating activities:	
Net earnings for the period	$ 4,258
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:	
Amortization of deferred loan origination fees	31
Amortization of premiums and discounts on investment and mortgage-backed securities - net	254
Amortization of mortgage servicing rights - net	456
Amortization of purchase accounting adjustments - net	(44)
Depreciation and amortization	621
Provision for losses on loans	600
Federal Home Loan Bank stock dividends	(603)
(Gain) loss on sale of real estate acquired through foreclosure	(34)

Gain on sale of office premises and equipment	(6)
Gain on investment securities transactions	(13)
Gain on sale of loans	(349)
Loans originated for sale in the secondary market	(33,825)
Proceeds from sale of loans in the secondary market	33,570
Increase (decrease) in cash due to changes in:	
Accrued interest receivable	(207)
Prepaid expenses and other assets	(182)
Accrued interest and other liabilities	(271)
Federal income taxes:	
Current	4,582
Deferred	49
Net cash provided by operating activities	8,887
Cash flows provided by (used in) investing activities:	
Proceeds from maturities of investment securities and interest-bearing deposits	8,000
Proceeds from sale of mortgage-backed securities designated as available for sale	
Proceeds from sale of investment securities designated as available for sale	27
Purchase of investment securities designated as available for sale	(21,088)
Purchase of mortgage-backed securities designated as held to maturity	
Purchase of mortgage-backed securities designated as available for sale	(3,348)
Principal repayments on mortgage-backed securities	10,582
Loan principal repayments	147,045
Loan disbursements	(152,313)
Purchase of loans	(4,730)
Additions to office premises and equipment	(475)
Additions to real estate acquired through foreclosure	(23)
Proceeds from sale of real estate acquired through foreclosure	1,693
Proceeds from sale of office premises and equipment	7
Net increase in cash surrender value of life insurance	(374)
Net cash used in investing activities	(14,997)
Net cash provided by (used in) operating and investing activities (balance carried forward)	(6,110)

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

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

	2005	2
Net cash provided by (used in) operating and investing activities (balance brought forward)	$ (6,110)	$(44,
Cash flows provided by (used in) financing activities:		
Net decrease in deposits	1,505	6,
Proceeds from Federal Home Loan Bank advances	10,000	33,
Repayment of Federal Home Loan Bank advances	(7,015)	(6,

Dividends paid on common stock	(2,225)	(2,
Purchase of treasury stock	(623)	
Proceeds from exercise of stock options	200	
Decrease in advances by borrowers for taxes and insurance	(1,848)	(2,
Net cash provided by (used in) financing activities	(6)	29,
Net decrease in cash and cash equivalents	(6,116)	(15,
Cash and cash equivalents at beginning of period	42,894	53,
Cash and cash equivalents at end of period	$ 36,778	$ 38,
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest on deposits and borrowings	$ 14,389	$ 13,
Income taxes	$ -	$
Supplemental disclosure of noncash investing activities:		
Unrealized losses on securities designated as available for sale, net of related tax benefits	$ (319)	$ (1,
Recognition of mortgage servicing rights in accordance with SFAS No. 140	$ 466	$
Transfers from loans to real estate acquired through foreclosure	$ 2,390	$ 3,
Issuance of loans upon sale of real estate acquired through foreclosure	$ 796	$
Dividends declared but unpaid	$ 1,108	$ 1,

CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six- and three-month periods ended June 30, 2005 and 2004

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, 2004. 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, 2005, 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 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'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.

For the six- and three-month periods ended June 30, 2005 and 2004

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.

For the six- and three-month periods ended June 30, 2005 and 2004

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 THREE MONTHS ENDED JUNE 30,	
	2005	2004	2005	2004
Weighted-average common shares outstanding (basic)	7,668,909	7,351,487	7,660,120	7,357,635
Dilutive effect of assumed exercise of stock options	23,719	55,269	21,066	46,294
Weighted-average common shares outstanding (diluted)	7,692,628	7,406,756	7,681,186	7,403,929

Anti-dilutive options to purchase 167,879 and 80,789 shares of common stock with respective weighted-average exercise prices of $16.46 and $16.40 were outstanding at June 30, 2005 and 2004, respectively, but were excluded from the computation of common share equivalents for each of the six month periods then ended, because the exercise prices were greater than the average market price of the common shares.

Anti-dilutive options to purchase 211,650 and 80,789 shares of common stock with respective weighted-average exercise prices of $16.08 and $16.40 were outstanding at June 30, 2005 and 2004, respectively, but were excluded from the computation of common share equivalents for each of the three month periods then ended, because the exercise prices were greater than the average market price of the common shares.

5. Stock Option Plans

Under the 2002 Stock OptionPlan, 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 Financial Corporation, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six- and three-month periods ended June 30, 2005 and 2004

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, 2005 and 2004, would have been reported as the pro forma amounts indicated below:

		Six months ended June 30,		Three months ended June 30,	
		2005	2004	2005	2004
Net earnings (In thousands)	As reported	$4,258	$ 2,567	$2,040	$ 1,532
	Stock-based compensation, net of tax	(42)	(14)	(21)	(7)
	Pro-forma	$4,216	$ 2,553	$2,019	$ 1,525
Earnings per share					
Basic	As reported	$ .56	$ .35	$ .27	$ .21
	Stock-based compensation, net of tax	(.01)	-	(.01)	-
	Pro-forma	$ .55	$ .35	$ .26	$ .21
Diluted	As reported	$ .55	$ .35	$ .26	$ .21
	Stock-based compensation, net of tax	-	(.01)	-	-
	Pro-forma	$ .55	$ .34	$ .26	$ .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 2005 and 2004: dividend yield of 3.80%, and 3.40% respectively; expected volatility of 18.76% and 21.44% respectively; a risk-free interest rate of 4.22% and 4.11% respectively, and an expected life of ten years for all grants.

CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six- and three-month periods ended June 30, 2005 and 2004

5. Stock Option Plans (continued)

A summary of the status of the Corporation's stock option plans as of June 30, 2005 and December 31, 2004, and changes during the periods ending on those dates is presented below:

	SIX MONTHS ENDED JUNE 30, 2005		YEAR ENDED DECEMBER 31, 2004	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	218,324	$ 12.91	257,072	$ 12.11
Granted	87,240	16.51	17,705	17.17
Exercised	(25,595)	7.83	(52,911)	8.83
Forfeited	(1,553)	14.89	(3,542)	15.03
Outstanding at end of year	278,416	$ 14.49	218,324	$ 12.91
Options exercisable at year-end	189,080	$ 13.57	175,542	$ 12.05
Weighted-average fair value of options granted during the year		$ 2.89		$ 3.59

The following information applies to options outstanding at June 30, 2005:

Number outstanding	21,911
Range of exercise prices	$ 7.40 - 8.94
Number outstanding	38,575
Range of exercise prices	$ 9.75 - 11.36
Number outstanding	50,051
Range of exercise prices	$12.50 - 14.65
Number outstanding	167,879
Range of exercise prices	$16.13 - 17.17
Weighted-average exercise price	$ 14.49
Weighted-average remaining contractual life	6.9 years

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.

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, 2005 and 2004

Discussion of Financial Condition Changes from December 31, 2004 to June 30, 2005

At June 30, 2005, Camco's consolidated assets totaled $1.1 billion, an increase of $3.5 million, or .3%, from the December 31, 2004 total. The increase in total assets was comprised primarily of increases in investments 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 $36.8 million at June 30, 2005, a decrease of $6.1 million, or 14.3%, from December 31, 2004 levels. Investment securities totaled $36.9 million at June 30, 2005, an increase of $12.9, or 54.0%, from the total at December 31, 2004. Investment securities purchases totaled $21.1 million, while maturities totaled $8.0 million and sales totaled $13,000. Purchases were comprised primarily of intermediate-term callable U.S. Government agency obligations with an average yield of 3.96%. Investments available for sale have been purchased during the first six months in order to take advantage of shorter duration assets in a rising interest rate environment.

Mortgage-backed securities totaled $76.6 million at June 30, 2005, a decrease of $7.9 million, or 9.3%, from December 31, 2004. Mortgage-backed securities purchases totaled $3.3 million, while principal repayments totaled $10.6 million during the six-month period ended June 30, 2005. Purchases of mortgage-backed securities during the period were comprised primarily of short duration mortgage-backed securities yielding 4.17%, all of which were classified as available for sale.

Loans receivable, including loans held for sale, totaled $844.6 million at June 30, 2005, an increase of $8.0 million, or 1.0%, from December 31, 2004. The increase resulted primarily from loan disbursements and purchases totaling $190.9 million, which were partially offset by principal repayments of $147.0 million and loan sales of $33.2 million. The volume of loans originated and purchased during the first six months of 2005 decreased compared to the 2004 period by $21.1 million, or 10.0%, and the volume of loan sales also decreased by $24.5 million, or 42.4%, period to period. The decrease in total loans originated and purchased is primarily attributable to a decrease in loans originated for sale in the secondary market. As long term rates have risen, production levels have dropped on fixed rate loans with an increase in the production of adjustable rate loans for portfolio. Camco has typically held adjustable-rate mortgage loans in its portfolio as an integral part of its strategy to build interest rate sensitive assets for interest rate risk purposes. Loan originations during the six-month period ended June 30, 2005, were comprised primarily of $80.0 million of loans secured by one- to four-family residential real estate, $46.6 million in consumer and other loans and $64.3 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 on its loan portfolio.

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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, 2005 and 2004

Discussion of Financial Condition Changes from December 31, 2004 to June 30, 2005 (continued)

The allowance for loan losses totaled $6.5 million at June 30, 2005 and December 31, 2004, representing 69.7% and 66.1% of nonperforming loans, respectively, at those dates. Nonperforming loans (90 days or more delinquent plus nonaccrual loans) totaled $9.4 million and $9.8 million at June 30, 2005 and December 31, 2004, respectively, constituting 1.11% and 1.17% of total net loans, including loans held for sale, at those dates. At June 30, 2005, nonperforming loans were comprised of $5.0 million in one- to four-family residential real estate loans, $2.6 million of consumer and non-residential loans and $1.8 million in commercial and multi-family real estate 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 $5.8 million at June 30, 2005, compared to $12.3 million at December 31, 2004, a decrease of $6.5 million, or 52.8%. The decrease was primarily due to loans being paid current in the six month period ending June 30, 2005. Although management believes that its allowance for loan losses is adequate based upon the available facts and circumstances at June 30, 2005, there can be no assurance that increased provisions will not be necessary in future periods, which could adversely affect Camco's results of operations.

Deposits totaled $669.3 million at June 30, 2005, an increase of $1.5 million, or .2%, from the total at December 31, 2004. The increase in deposits was due to a $19.1 million increase of certificates of deposit and $3.0 million in non interest bearing checking accounts, partially offset by a $12.5 million decrease in interest bearing checking accounts, $5.4 million decrease in money market accounts and $2.8 million decrease in passbook and statement savings. The increase in certificates of deposit is a result of the Bank actively pursuing the extension of deposit maturities in a rising rate environment, while the decrease in interest bearing checking accounts, money market accounts and savings was due to highly competitive pricing in the Bank's market area.

Stockholders' equity totaled $90.7 million at June 30, 2005, an increase of $1.3, or 1.5%, from December 31, 2004. The increase resulted primarily from net earnings of $4.3 million and proceeds from the exercise of stock options of $253,000, offset partially by dividends of $2.2 million, the purchase of $623,000 in treasury shares and a increase in the unrealized losses on securities of $328,000.

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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, 2005 and 2004

Discussion of Financial Condition Changes from December 31, 2004 to June 30, 2005 (continued)

Camco and the Bank are required to maintain minimum regulatory capital pursuant to federal regulations. At June 30, 2005, the regulatory capital of Camco and the Bank exceeded all regulatory capital requirements.

The following tables present certain information regarding compliance by Advantage with applicable regulatory capital requirements at June 30, 2005:

Camco: At June 30, 2005

	Actual		For capital adequacy purposes		To be "well-capitalized" under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Total capital (to risk-weighted assets)	$90,408	12.5%	> or = $58,051	> or = 8.0%	N/A	N/A
Tier I capital (to risk-weighted assets)	$83,868	11.6%	> or = $29,026	> or = 4.0%	N/A	N/A
Tier I leverage	$83,868	7.9%	> or = $42,378	> or = 4.0%	N/A	N/A

Advantage: At June 30, 2005

	Actual		For capital adequacy purposes		To be "well-capitalized" und prompt correcti action provisio	
	Amount	Ratio	Amount	Ratio	Amount	R
			(Dollars in thousands)			
Total capital (to risk-weighted assets)	$81,005	11.2%	> or = $57,928	> or = 8.0%	> or = $72,410	> or
Tier I capital (to risk-weighted assets)	$74,465	10.3%	> or = $28,964	> or = 4.0%	> or = $43,446	> or
Tier I leverage	$74,465	7.1%	> or = $41,967	> or = 4.0%	> or = $52,459	> 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, 2005 and 2004

General

Camco's net earnings for the six months ended June 30, 2005 totaled $4.3 million, an increase of $1.7 million, or 65.9%, from the $2.6 million of net earnings reported in the comparable 2004 period. The increase in earnings was primarily attributable to a $2.6 million or 20.7% increase in net interest income, which was partially offset by an increase in the provision for loan losses of $90,000 or 17.6%, a $858,000 or 74.9% increase in the provision of federal income tax and a $301,000 or 12.9% increase in other operating costs.

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, 2005 and 2004

Comparison of Results of Operations for the Six Months Ended June 30, 2005 and 2004 (continued)

Net Interest Income

Total interest income amounted to $27.5 million for the six months ended June 30, 2005, an increase of $1.8 million, or 6.8%, compared to the six-month period ended June 30, 2004, generally reflecting the effects of an increase in yield on total interest-earning assets of 30 basis points, from 5.14% in the 2004 period to 5.44% in 2005, and a $8.8 million or .9%, increase in the average balance of interest-earning assets outstanding year to year.

AVERAGE BALANCE, YIELD, RATE AND VOLUME DATA

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resulting yields, and the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. The table does not reflect any effect of income taxes. Balances are based on the average of month-end balances which, in the opinion of management, do not differ materially from daily balances.

	FOR SIX MONTHS ENDED JUNE 30,				
	2005			2004	
	AVERAGE OUTSTANDING BALANCE	INTEREST EARNED/ PAID	AVERAGE YIELD/ RATE	AVERAGE OUTSTANDING BALANCE	INTERES EARNED PAID
				(Dollars in thous	
Interest-earning assets:					
Loans receivable (1)	$ 842,347	$ 24,273	5.76%	$ 850,536	$ 22,88
Mortgage-backed securities (2)	80,439	1,493	3.71	90,241	1,39
Investment securities (2)	27,529	442	3.21	28,228	38
Interest-bearing deposits and other interest-earning assets	59,437	1,258	4.23	31,903	1,04
	-----------	--------		-----------	-------

Total interest-earning assets	$ 1,009,752	27,466	5.44	$ 1,000,908	25,71
Interest-bearing liabilities:					
Deposits	$ 644,082	7,289	2.26	$ 647,686	6,65
FHLB advances	291,590	5,280	3.62	272,416	6,71
Total interest-bearing liabilities	$ 935,672	12,569	2.69	$ 920,102	13,36
Net interest income/Interest rate spread		$ 14,897	2.75%		$ 12,34
NET INTEREST MARGIN (3)			2.95%		
Average interest-earning assets to average interest-bearing liabilities			107.9%		

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(1) Includes nonaccrual loans and loans held for sale.

(2) Includes securities designated as available for sale.

(3) Net interest income as a percent of average interest-earning assets.

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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, 2005 and 2004

Comparison of Results of Operations for the Six Months Ended June 30, 2005 and 2004 (continued)

Interest income on loans totaled $24.3 million for the six months ended June 30, 2005, an increase of $1.4 million or 6.1% from the comparable 2004 period. The increase resulted primarily from an 18 basis point increase in the average yield to 5.76% from 5.58% in 2004, coupled with the increase of average balance outstanding of $21.8 million or 2.7% in the 2004 period. Interest income on mortgage-backed securities totaled $1.5 million for the six months ended June 30, 2005, a $95,000 or 6.8% increase from the 2004 period. The increase was due primarily to a 61 basis point increase in the average yield, to 3.71% for the 2005 period, offset partially by a $9.8 million or 10.9%, decrease in the average balance outstanding in the 2005 period. Interest income on investment securities increased by $57,000 or 14.8%, due primarily to a a 48 basis point increase in the average yield, to 3.21% in the 2005 period offset partially by a decrease of $699,000 or 2.5% in the average balance outstanding. Interest income on other interest-earning assets increased by $211,000 or 20.2%, due primarily to a 85 basis point increase in the average yield, to 4.23% compared to 3.38% for the six months ended June 30, 2004 which was partially offset by a $2.5 million or 4.0%, decrease in the average balance outstanding.

Interest expense on deposits totaled $7.3 million for the six months ended June 30, 2005, an increase of $637,000 or 9.6%, compared to the same period in 2004, due primarily to a 21 basis point increase in the average cost of deposits to 2.26% in the current period offset partially by a $3.6 million or .6%, decrease in average deposits outstanding. Interest expense on borrowings totaled $5.3 million for the six months ended June 30, 2005, a decrease of $1.4 million or 21.4%, from the same 2004 six-month period. The decrease resulted primarily from a 131 basis point decrease in the average cost of borrowings to 3.62%, offset partially by a $19.2 million or 7.0%, increase in the average balance outstanding year to year. The large decrease in the average cost of borrowings was the result of the December 2004 restructuring of $144.1 million of FHLB borrowings which carried an average fixed rate of 6.25%. The borrowings were replaced with various fixed-rate advances having a weighted average rate of approximately 3.7%. The restructuring transaction positioned itself well in the balance sheet as a result of recent and continuing efforts to manage towards shorter duration assets generated from commercial and consumer loans.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by $2.6 million or 20.7%, to a total of $14.9 million for the six months ended June 30, 2005. The interest rate spread increased to approximately 2.75% at June 30, 2005 from 2.23% at June 30, 2004, while the net interest margin increased to approximately 2.95% for the six months ended June 30, 2005 compared to 2.47% for the 2004 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 $600,000 for the six months ended June 30, 2005. Management believes all classified loans are adequately collateralized or reserved. 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.

Comparison of Results of Operations for the Six Months Ended June 30, 2005 and 2004 (continued)

Other Income

Other income totaled $3.3 million for the six months ended June 30, 2005, an increase of $101,000, or 3.1%, from the comparable 2004 period. The increase in other income was primarily attributable to a $220,000 increase in late charges, rent and other and a $121,000 increase in service charges and other fees on deposits, and a $82,000 or 112.3% increase in the value of mortgage servicing rights, which were partially offset by a decrease of $141,000 in gain on sale of loans and a decrease of $84,000 in gain on sale of real estate acquired through foreclosure.

The increase in late charges, rent and other was primarily attributable to prepayment fees, late charge income, and loan fees. The increase in service charges and other fees was attributable to income related to a new extended overdraft product. The increase in mortgage servicing rights was due to the slow down of repayment speeds and the increased value of new production. The decrease in gain on sale of loans was due to the slowdown in production sold into the secondary market in the first half of 2005 versus the first half of 2004. During the first half of 2005, $33.8 million was sold in the secondary market versus $57.1 million in the first half of 2004. The decrease in gain on sale of real estate was due to 24 properties sold in 2005 compared to 33 properties sold in the 2004 period.

General, Administrative and Other Expense

General, administrative and other expense totaled $11.4 million for the six months ended June 30, 2005, an increase of $12,000 or .1%, from the comparable period in 2004. The increase in general, administrative and other expense was due primarily to a $301,000 or 12.9% increase in other operating expense, a $88,000, or 7.4%, increase in FAS 91 deferred compensation and an increase of $97,000 or 22.3% in advertising. The increase was partially offset by a decrease of $361,000 or 71.2% in franchise tax, and a $142,000 or 8.3% decrease in occupancy and equipment. The increase in other operating expense was primarily due to the accrual of $275,000 for the proposed settlement of litigation. The increase in deferred compensation relates to FAS 91 and the decline in residential loan production and the increase in advertising is primarily due to hiring an advertising agency to better manage the Company's marketing effort to uniformly promote our brand and key product offerings. The decrease in frachise tax was primarily due to acquiring London Financial Corporation in August of 2004 and changing charters to a state chartered commercial bank. This is a one time savings which will only occur in 2005. The decrease in occupancy and equipment was due primarily to the sale of our Kentucky division, consisting of two branches, in December of 2004 and a decrease in depreciation expense.

Federal Income Taxes

The provision for federal income taxes totaled $2.0 million for the six months ended June 30, 2005, an increase of $858,000 or 74.9%, compared to the six months ended June 30, 2004. This increase was primarily attributable to a $2.6 million, or 68.7%, increase in pre-tax earnings. The Corporation's effective tax rates amounted to 32.0% and 30.9% for the six-month periods ended June 30, 2005 and 2004, respectively.

Comparison of Results of Operations for the Three Months Ended June 30, 2005 and 2004

General

Camco's net earnings for the three months ended June 30, 2004 totaled $2.0 million, an increase of $508,000 or 33.2%, from the $1.5 million of net earnings reported in the comparable 2004 period. The increase in earnings was primarily attributable to a $1.3 million, or 20.0% increase in net interest income partially offset by a decrease of $69,000 or 4.1% in other income, and an increase in general administration and other expense of $316,000 and a increase in federal income tax expense of $255,000.

Net Interest Income

Total interest income amounted to $14.0 million for the three months ended June 30, 2005, an increase of $976,000 or 7.5%, compared to the three-month period ended June 30, 2004, generally reflecting the effects of an increase in yield on total interest-earning assets of 40 basis points, from 5.11% in the 2004 period to 5.51% in 2005.

Interest income on loans totaled $12.3 million for the three months ended June 30, 2005, an increase of $842,000 or 7.3% from the comparable 2004 period. The increase resulted primarily from a 30 basis point increase in the average yield to 5.83% from 5.53% in 2004 coupled with the increase of average balance outstanding of $15.0 million or 1.8% in the 2005 quarter. Interest income on mortgage-backed securities totaled $742,000 for the three months ended June 30, 2005, a $49,000 or 6.2% decrease from the 2004 quarter. The decrease was due primarily to a $19.4 million or 19.8%, decrease in the average balance outstanding in the 2005 period, partially offset by a 55 basis point increase in the average yield, to 3.77% for the 2005 period. Interest income on investment securities increased by $54,000 or 26.6%, due primarily to a 58 basis point increase in the average yield, to 3.35% in the 2005 period coupled with a $1.4 million increase in the average balance outstanding. Interest income on other interest-earning assets increased by $129,000 or 24.7%, due primarily to an 86 basis point increase in the average yield, to 4.39% compared to 3.53% for the three months ended June 30, 2004 coupled with a $184,000 or .3%, increase in the average balance outstanding.

Interest expense on deposits totaled $3.8 million for the three months ended June 30, 2005, an increase of $483,000 or 14.6%, compared to the same quarter in 2004, due primarily to a 31 basis point increase in the average cost of deposits to 2.34% in the current quarter, offset partially by a $3.8 million or .6%, decrease in average deposits outstanding. Interest expense on borrowings totaled $2.6 million for the three months ended June 30, 2005, a decrease of $760,000 or 22.3%, from the same 2004 three-month period. The decrease resulted primarily from a 115 basis point decrease in the average cost of borrowings to 3.66%, partially offset by a $5.7 million or 2.0%, increase in the average balance outstanding year to year. The large decrease in the average cost of borrowings was the result of the December 2004 restructuring of $144.1 million of FHLB borrowings which carried an average fixed rate of 6.25%. The borrowings were replaced with various fixed-rate advances having a weighted average rate of approximately 3.7% as of December 31, 2004. The restructuring transaction positioned itself well in our balance sheet as a result of our recent and continuing efforts to manage towards shorter duration assets generated from commercial and consumer loans.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by $1.3 million, or 20.0%, to a total of $7.5 million for the three months ended June 30, 2005. The interest rate spread increased to approximately 2.76% at June 30, 2005, from 2.24% at June 30, 2004, while the net interest margin increased to approximately 2.97% for the three months ended June 30, 2005, compared to 2.47% for the 2004 period.

For the six- and three-month periods ended June 30, 2005 and 2004

Comparison of Results of Operations for the Three Months Ended June 30, 2005 and 2004 (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 $360,000 for the three months ended June 30, 2005, an increase of $105,000 or 41.2%, for the comparable period in 2004. The increase was primarily due to the continued shift in loan portfolio composition to more commercial and consumer loans that require higher reserve allocations. Management believes all classified loans are adequately collateralized or reserved. 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 $1.6 million for the three months ended June 30, 2005, a decrease of $69,000 or 4.1%, from the comparable 2004 period. The decrease in other income was primarily attributable to a $106,000 or 80.9%, decrease in gain on sale of real estate acquired through foreclosure, a decrease of $71,000 or 244.8%, in mortgage servicing rights and a decrease of $35,000 or 16.4%, in gain on sale of loans. The decreases were partially offset by the increase of $115,000 or 19.2%, in late charges rent and other. The decrease in gain on sale of real estate was primarily due to eight less properties sold in 2005. The decrease in mortgage servicing rights and gain on sale of loans was due to the decrease in the volume of loans sold of $12.5 million or 39.9%, from the volume of loans sold in the 2004 period coupled with the slowing of prepayment on the portfolio. The overall value of mortgage servicing rights increased to 1.26% from 1.15% as a percent of loans serviced. The increase in late charges, rent and other was due to prepayment penalty fees, loan fees, and late charge income, offset partially by a decrease in title insurance premiums at Camco Title Agencys, Inc.

General, Administrative and Other Expense

General, administrative and other expense totaled $5.8 million for the three months ended June 30, 2005, an increase of $316,000 or 5.8%, from the comparable period in 2004. The increase in general, administrative and other expense was due primarily to an increase of $302,000 or 25.3% in other operating expense, an increase of $122,000 or 67.4%, in advertising, an $86,000 or 12.3%, increase in FAS 91 deferred compensation and a $53,000 or 1.6% increase in employee compensation and benefits, which were partially offset by a $227,000 or 77.2%, decrease in franchise taxes. The increase in other operating expense was primarily due to the accrual of $275,000 for the proposed settlement of ligitagion. 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 and key product offerings. The increase in deferred compensation relates to FAS 91 and the decline in residential loan production while the increase in employee compensation and benefits was due primarily to an increase in accruals for end of year incentive and 401(k) profit sharing, as well as directors compensation. The decrease in frachise tax was primarily due to acquiring London Financial Corporation in August of 2004 and changing charters to a state chartered commercial bank. This is a one time savings which will only occur in 2005.

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, 2005 and 2004

Comparison of Results of Operations for the Three Months Ended June 30, 2005 and 2004 (continued)

Federal Income Taxes

The provision for federal income taxes totaled $953,000 for the three months ended June 30, 2004, an increase of $255,000 or 36.5%, compared to the three months ended June 30, 2004. This increase was primarily attributable to a $763,000 or 34.2%, increase in pre-tax earnings. The Corporation's effective tax rates amounted to 31.8% and 31.3% for the three-month periods ended June 30, 2005 and 2004, 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 and the sale of loans.

The following table sets forth information regarding the Bank's obligations and commitments to make future payments under contract as of June 30, 2005.

	PAYMENTS DUE BY PERIOD				
	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS	TO
	(In thousands)				
Contractual obligations:					
Operating lease obligations	$ 127	$ 208	$ 76	$ 182	$
Advances from the Federal Home Loan Bank	89,006	82,529	69,293	57,467	29
Certificates of deposit	216,557	118,416	44,616	1,394	38
Amount of commitments expiration per period					
Commitments to originate loans:					
Overdraft lines of credit	717	-	-	-	
Home equity lines of credit	66,724	-	-	-	6
Commercial lines of credit	10,041	-	-	-	1
One- to four-family and multi-family loans	11,187	-	-	-	
Non-residential real estate and land loans	442	-	-	-	

Total contractual obligations	$394,801	$201,153	$ 113,985	$59,043	$76

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, 2005 and 2004

ITEM 3: Quantitative and Qualitative Disclosures about Market Risk

The objective of the Bank's asset/liability management function is to maintain consistent growth in net interest income within the Bank's policy limits. This objective is accomplished through management of the Bank's balance sheet composition, liquidity, and interest rate risk exposures arising from changing economic conditions, interest rates and customer preferences.

The goal of liquidity management is to provide adequate funds to meet changes in loan demand or unexpected deposit withdrawals. This is accomplished by maintaining liquid assets in the form of investment securities, maintaining sufficient unused borrowing capacity and achieving consistent growth in core deposits.

Management considers interest rate risk the Bank's most significant market risk. Interest rate risk is the exposure to adverse changes in net interest income due to changes in interest rates. Consistency of the Bank's net interest income is largely dependent upon the effective management of interest rate risk.

To identify and manage its interest rate risk, the Bank employs an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The model is based on actual cash flows and repricing characteristics and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. The model also includes management projections for activity levels in each of the product lines offered by the Bank. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates are also incorporated into the model. Assumptions are inherently uncertain and the measurement of net interest income or the impact of rate fluctuations on net interest income cannot be precisely predicted. Actual results may differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

The Bank's Asset/Liability Management Committee ("ALCO"), which includes senior management representatives and reports to the Bank's Board of Directors, monitors and manages interest rate risk within Board-approved policy limits. The Bank's current interest rate risk position is determined by measuring the anticipated change in net interest income over a 12 month horizon assuming a 200 basis point (bp) instantaneous and parallel shift (linear) increase or decrease in all interest rates. Current policy limits this exposure to plus or minus 25% of net interest income for a 12-month horizon.

The following table shows the Bank's estimated earnings sensitivity profile as of June 30, 2005:

CHANGE IN INTEREST RATES (BASIS POINTS)	PERCENTAGE CHANGE IN NET INTEREST INCOME 12 MONTHS
+200	-12.04%
-200	-11.72%

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, 2005 and 2004

Given a 200bp linear increase in the yield curve used in the simulation model, it is estimated net interest income for the Bank would decrease by 12.04% over one year. A 200bp linear decrease in interest rates would decrease net interest income by 11.72% over one year. These estimated changes in net interest income are within the policy guidelines established by the Board of Directors. The Bank's ALCO also monitors the economic value of equity (EVE) ratio, measured on a static basis at the current period end. Current policy limits the EVE ratio to a minimum of 4.0%.

The following table shows the EVE ratios as of June 30, 2005:

CHANGE IN INTEREST RATES (BASIS POINTS)	EVE RATIO
+200	6.75%
0	7.98%
-200	7.85%

In order to reduce the exposure to interest rate fluctuations and to manage liquidity, the Bank has developed sale procedures for several types of interest-sensitive assets. Generally, all long-term, fixed-rate single family residential mortgage loans underwritten according to Federal Home Loan Mortgage Corporation ("FHLMC") or Federal National Mortgage Association ("FNMA") guidelines are sold for cash upon origination. A total of $33.2 million and $57.7 million of such loans were sold to the FHLMC, FNMA and other parties during the six months ended 2005 and 2004, respectively.

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, 2005. 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, 2005, which materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

Camco Financial Corporation

PART II

ITEM 1. Legal Proceedings

Not applicable

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

All purchases of shares during the quarter related to the 5% stock repurchase program announced April 26, 2005.

Period of Repurchase	Number of shares purchased	Average price paid per share	Maximum Number of Shares that May yet be Purchased Under the Program
April 1 - April 30	0	N/A	383,937
May 1 - 31	45,000	$13.83	338,937
June 1 - 30	0	N/A	338,937

ITEM 3. Defaults Upon Senior Securities

Not applicable

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

On April 26, 2005, Camco held its Annual Meeting of Stockholders. The only matter that was submitted to stockholders was the election of four directors for terms expiring in 2008, as follows:

	For	Withheld
Larry A. Caldwell	6,746,609	144,879
Carson K. Miller	6,742,821	148,667
Samuel W. Speck	6,734,781	156,707
Jeffrey T. Tucker	6,737,612	153,876

The following directors terms continued after the meeting: Richard C. Baylor, Robert C. Dix, Jr., Terry A. Feick, Susan J. Insley and Paul D. Leake.

ITEM 5. Other Information

Not applicable

ITEM 6. Exhibits

Exhibit 3	Bylaws, as amended
Exhibit 31.1	Section 302 certification by Chief Executive Officer
Exhibit 31.2	Section 302 certification by Chief Financial Officer
Exhibit 32.1	Section 1350 certification by Chief Executive Officer
Exhibit 32.2	Section 1350 certification by Chief Financial Officer

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 4, 2005 By: /s/ Richard C. Baylor

Richard C. Baylor
Chief Executive Officer

Date: August 4, 2005 By: /s/ Mark A. Severson

Mark A. Severson
Chief Financial Officer