CAMCO FINANCIAL CORP
Form 424B3
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under the Securities Act of 1933

Registration No. 333-182719

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

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)**
814 Wheeling Avenue, Cambridge, Ohio	**43725**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $1 par value per share	**NASDAQ Global Market**
(Title of Each Class)	(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the issuer (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-Accelerated filer	¨	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the last sale reported as of June 29, 2012, was $16.5 million. There were 13,545,283 shares of the registrant s common stock outstanding on March 12, 2013.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III of Form 10-K: Portions of the Proxy Statement for the 2013 Annual Meeting of Stockholders

PART I

Item 1. Business.

General

Camco Financial Corporation (Camco or the Corporation) is a bank holding company that was organized under Delaware law in 1970. Camco is engaged in the financial services business in Ohio, Kentucky and West Virginia, through its wholly-owned subsidiary, Advantage Bank, an Ohio bank (Advantage or the Bank). On March 31, 2011, Camco divested activities related to Camco Title Agency and decertified as a financial holding company. Camco remains a bank holding company and continues to be regulated by the Federal Reserve Board (FRB).

Advantage is primarily regulated by the State of Ohio Department of Commerce, Division of Financial Institutions (the Division), and the Federal Deposit Insurance Corporation (the FDIC). Advantage is a member of the Federal Home Loan Bank (the FHLB) of Cincinnati, and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund (the DIF) administered by the FDIC.

Advantage s lending activities include the origination of commercial real estate and business loans, consumer loans, and residential conventional fixed-rate and variable-rate mortgage loans for the acquisition, construction or refinancing of single-family homes located in Advantage s primary market areas. Advantage also originates construction and permanent mortgage loans on condominiums, two- to four-family, multi-family (over four units) and nonresidential properties. Advantage continues to diversify the balance sheet through commercial, commercial real estate, and consumer loans as well as retail and business checking and money market deposit accounts.

The financial statements for Camco and Advantage are prepared on a consolidated basis. The principal source of revenue for Camco on an unconsolidated basis has historically been dividends from the Bank. Payment of dividends to Camco by the Bank is subject to various regulatory restrictions.

Because we are a public company, we are subject to regulation by the Securities and Exchange Commission (SEC). The SEC has established five categories of issuers for purpose of filing periodic and annual reports. Under these regulations, we are considered to be a smaller reporting company and, as such, must comply with SEC smaller reporting requirements.

References in this report to various aspects of the business, operations and financial condition of Camco may be limited to Advantage, as the context requires. Camco s Internet site, http://www.camcofinancial.com, provides Camco s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), free of charge as soon as reasonably practicable after Camco has filed the report with the SEC.

Recent Corporate Developments

On September 24, 2012, Camco announced a rights offering and public offering of up to $10.0 million worth of shares of its common stock to existing stockholders. Camco announced that any stock not sold in the rights offering may be sold in a public offering that immediately followed the rights offering. Under the terms of the rights offering all record holders of the Corporation s common stock as of July 29, 2012 received, at no charge, one subscription right for each share of common stock held as of the record date. Each subscription right entitled the holder of the right to purchase one share of Camco common stock at a subscription price of $1.75 per share. In addition, for every two shares purchased in the rights and public offerings, investors received one warrant to purchase Camco common stock within five years at $2.10 per share. Rights holders were provided the opportunity to purchase shares in excess of their basic subscription rights, subject to availability and certain limitations.

On November 8, 2012, Camco announced the successful closing of its $10.0 million rights offering. Our stockholders, along with unsolicited commitments from Directors and Officers allowed us to fully subscribe this $10.0 million offering without the need to solicit shares externally in the public offering phase. Camco issued 5,714,286 shares of common stock and 2,857,143 warrants at an exercise price of $2.10, which will expire on November 6, 2017**.** The total proceeds of the common stock offering were $9.4 million, net of offering costs of $619,000. The net proceeds of $9.4 million were invested in Advantage to improve its regulatory capital position.

Advantage is currently executing a project plan to acquire a 49% interest in AB Title Agency, LLC, which will partner with MJM Title Agency, LLC to provide insurance on titles. The execution of this plan is subject to the regulatory approval of the Division and FDIC.

Lending Activities

General. Camco s lending activities include the origination of commercial real estate and business loans, consumer loans, and conventional fixed-rate and adjustable-rate mortgage loans for the construction, acquisition or refinancing of single-family residential homes located in Advantage s primary market areas. Construction and permanent mortgage loans on condominiums, multifamily (over four units) and nonresidential properties are also offered by Camco.

Loan Portfolio Composition. The following table presents certain information regarding the composition of Camco s loan portfolio at the dates indicated:

	At December 31, 2012		2011		2010		2009		2008	
	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans
					(Dollars in thousands)					
Type of loan:										
Construction	$ 13,815	2.5%	$ 24,086	3.8%	$ 26,530	4.0%	$ 5,798	0.9%	$ 19,083	2.5%
Land, Farmland, Ag Loans	14,002	2.5	17,807	2.8	12,454	1.9	23,867	3.6	27,498	3.6
Residential	276,739	50.0	317,820	49.7	375,583	56.2	434,367	65.9	526,069	69.5
Commercial	137,606	24.8	164,256	25.7	163,951	24.6	135,371	20.5	131,518	17.4
Consumer	3,994	0.7	3,533	0.5	3,828	0.6	4,068	0.6	4,354	0.7
Commercial and industrial	42,094	7.6	38,921	6.1	28,943	4.3	25,668	3.9	26,425	3.5
Multi Family	79,988	14,4	88,276	13.8	74,342	11.1	46,138	7.0	37,087	4.9
Total Loans	$ 568,238	102.5	$ 654,699	102.4	$ 685,631	102.7	$ 675,277	102.4	$ 772,034	102.1
Less:										
Unamortized yield adjustments	(1,516)	(0.3)	(990)	(0.1)	(921)	(0.1)	(156)	(0.0)	354	0.0
Allowance for loan losses	(12,147)	(2.2)	(14,532)	(2.3)	(16,870)	(2.6)	(16,099)	(2.4)	(15,747)	(2.1)
Total loans, net	$ 554,575	100.0%	$ 639,177	100.0%	$ 667,840	100.0%	$ 659,022	100.0%	$ 756,641	100.0%

Loan Maturity Schedule. The following table sets forth certain information as of December 31, 2012, regarding the dollar amount of loans maturing in Camco s portfolio based on the contractual terms to maturity of the loans. Demand loans, loans having no stated schedule of repayments and loans having no stated maturity, are reported as due in one year or less.

	Due in one year or less	Due after one through five years	Due after five years	Total
		(In thousands)		
Loans:				
Construction	$ 4,541	$ 6,113	$ 3,161	$ 13,815
Land, Farmland, Ag Loans [(1)]	7,639	3,942	2,421	14,002
Residential	13,550	66,231	196,958	276,739
Commercial	8,373	70,245	58,988	137,606
Consumer	415	2,761	818	3,994
Commercial and industrial	13,704	26,714	1,676	42,094

Multi Family	6,710	26,777	46,501	79,988
Total	$ 54,932	$ 202,783	$ 310,523	$ 568,238

	Due after December 31, 2013 (In thousands)
Fixed rate of interest	$ 147,563
Adjustable rate of interest	365,743
Total	$ 513,306

(1) *See* Construction and development loan information on page 4 related to disbursement and construction periods. The above maturity schedule is the actual maturity date of loans including the construction period.

Generally, loans originated by Advantage are on a fully-amortizing basis. Advantage has no rollover provisions in its loan documents and anticipates that loans will be paid in full by the maturity date.

Residential Loans. A portion of the lending activity of Advantage is the origination of fixed-rate and adjustable-rate conventional loans for acquisition, refinancing, home equity lines of credit or construction of single-family residences. Home equity loans are made at fixed and variable rates of interest for terms of up to 15 years.

Advantage originates home equity lines of credit that provide consumers with greater flexibility in financing personal expenditures. At December 31, 2012, the home equity line of credit loan portfolio totaled $71.1 million, or 12.5%, of the total loans. Advantage currently offers home equity lines of credit with a prime-based variable rate for the entire 10-year term of the loan. Advantage also offers a home equity line of credit whose terms include a fixed rate for a five year term. At December 31, 2012, total outstanding principal balances and available credit amounts of the home equity lines of credit constituted $108.2 million, or 19.1% of Advantage s total loans.

Federal regulations and Ohio law limit the amount which Advantage may lend in relationship to the appraised value of the underlying real estate at the time of loan origination (the Loan-to-Value Ratio or LTV). In accordance with such regulations and law, Advantage generally makes loans for its own portfolio on single-family residences up to 95% of the value of the real estate and improvements. Advantage generally requires the borrower on each loan with an LTV in excess of 80% to obtain private mortgage insurance, loan default insurance or a guarantee by a federal agency. On an exception basis only, Advantage permits borrowers to exceed a LTV of 80% without private mortgage insurance, loan default insurance or a guarantee by a federal agency.

The interest rate adjustment periods on adjustable-rate mortgage loans (ARMs) offered by Advantage are generally one, three, five and seven years. The interest rates initially charged on ARMs and the new rates at each adjustment date are determined by adding a stated margin to a designated interest rate index. Advantage has generally used one-year and three-year United States Treasury note yields, adjusted to a constant maturity, as the index for one-year and three-year adjustable-rate loans, respectively. Advantage has used the London Interbank Offered Rate (LIBOR) and FHLB advance rates as additional indices on certain loan programs to diversify its concentrations of indices that may prove beneficial during re-pricing of loans throughout changing economic cycles. The maximum adjustment on residential loans at each adjustment date for ARMs is usually 2%, with a maximum adjustment of 6% over the term of the loan.

From time to time, Advantage originates ARMs which have an initial interest rate that is lower than the sum of the specified index plus the margin. Such loans are subject to increased risk of delinquency or default due to increasing monthly payments as the interest rates on such loans increase to the fully indexed level. Advantage attempts to reduce the risk by underwriting ARMs at rates ranging from note rate on longer term ARMs to the maximum possible rate on shorter term ARMs. None of Advantage s ARMs have negative amortization or payment option features. Over the past few years, Advantage has not offered this product or originated such loans due to the abnormally low interest rate environment.

Residential mortgage loans offered by Advantage are usually for terms of up to 30 years, which could have an adverse effect upon earnings if the loans do not re-price as quickly as the cost of funds. To minimize such effect, Advantage generally sells fixed-rate loans to Freddie Mac and Fannie Mae with servicing retained. As a result of prepayments in connection with refinancing and sales of the underlying properties, residential loans generally remain outstanding for periods which are substantially shorter than the maturity of such loans. In 2012, approximately $6.0 million of Federal Housing Administration loans were sold, servicing released. Additionally, the Corporation held approximately $2.3 million, of ten and fifteen year fixed-rate residential loans due to the decreasing balance of our residential portfolio. The fixed rate loans that were held in portfolio were secondary market quality with low loan to values and reduced risk for delinquency. The Bank plans to continue to slightly build the residential fixed portfolio in 2013 in order to stabilize margin.

At December 31, 2012, fixed-rate loans comprised 28.7% of the one- to four-family residential loan portfolios. Approximately 71.3% of the one- to four-family residential loan portfolios had adjustable rates tied to U.S. Treasury note yields or LIBOR.

Construction and Development Loans. Advantage offers residential construction loans both to owner-occupants and to builders for homes being built under contract with owner-occupants. Advantage also makes loans to persons constructing projects for investment purposes. Loans for developed building lots are generally made on an adjustable-rate basis for terms of up to two years with an LTV of 65% or less.

Advantage offers construction loans to residential owner-occupants at adjustable-rate term loans on which the borrower pays only interest on the disbursed portion during the construction period, which is usually 9 months for residential. At December 31, 2012, Advantage had approximately $4.8 million of residential construction loans, of which $2.6 million was undisbursed.

Advantage also offers construction loans for investment properties which involve greater underwriting and default risks than loans secured by mortgages on existing properties or construction loans for single-family residences. Such construction loans are at adjustable-rate terms on which the borrower pays only interest on the disbursed portion during the construction period, which is usually 18 to 24 months. Loan funds are advanced upon the security of the project under construction, which is more difficult to value before the completion of construction. Moreover, because of the uncertainties inherent in estimating construction costs, it is relatively difficult to evaluate precisely the total loan funds required to complete a project and the related LTV ratios. In the event a default on a construction loan occurs and foreclosure follows, Advantage could be adversely affected because it would have to take control of the project and either arrange for completion of construction or dispose of the unfinished project. Advantage mitigates these risks by working with experienced developers that have substantial personal liquidity, and utilizing third party reviews related to the construction process, budgets and draws. At December 31, 2012, Advantage had $31.1 million of multi-family and non-residential construction loans, of which $19.5 million was undisbursed.

Nonresidential Real Estate Loans. Advantage originates loans secured by mortgages on nonresidential real estate, including office, industrial and other types of business facilities. Nonresidential real estate loans are made on an adjustable-rate or fixed-rate basis for terms of up to 10 years. Nonresidential real estate loans originated by Advantage generally have an LTV of 75% or less. The largest nonresidential real estate loan outstanding at December 31, 2012 was $6.7 million secured by a medical office building. Commercial and nonresidential real estate loans comprised $136.9 million, or 24.2% of total loans at December 31, 2012.

Nonresidential real estate lending is generally considered to involve a higher degree of risk than residential lending due to the relatively large loan amounts and the effects of general economic conditions on the successful operation of income-producing properties. Advantage has endeavored to reduce this risk by carefully evaluating the credit history and past performance of the borrower, the location of the real estate, the quality of the management operating the property, the rent roll, the property s debt service coverage, the quality and characteristics of the income stream generated by the property and appraisals supporting the property s valuation.

Consumer and Other Loans. Advantage makes various types of consumer loans, including loans made to depositors secured by deposit accounts, automobile loans and unsecured personal loans. Most other consumer loans are made at fixed rates of interest for terms of up to 10 years.

Consumer loans generally involve more risk as to collectability than real estate mortgage loans because of the type and nature of the collateral and, in certain instances, the absence of collateral. As a result, consumer lending collections are dependent upon the borrower s continued financial stability, and are at more risk from adverse changes in personal circumstances. In addition, application of various state and federal laws, including bankruptcy and insolvency laws, could limit the amount that may be recovered under these loans. Credit approval for consumer loans typically requires demonstration of sufficiency of income to repay principal and interest due, stability of employment, credit history and sufficient collateral for secured loans. The risk of default on consumer loans during an economic recession is greater than for residential mortgage loans. Advantage reviews its consumer loan portfolio monthly and charges off loans that do not meet its standards to adhere strictly to all laws and regulations governing consumer lending.

Overdraft Line. Advantage grants overdraft lines to qualified customers based on credit scores. Overdraft line is a service that is provided to retail deposit customers by establishing an overdraft protection account. After the line is established customers are permitted to overdraw their checking account up to their overdraft line limit. Customer then receives information related to the overdraft line within their next depository statement. The balance related to overdraft lines was $55,000 at December 31, 2012 compared to $95,000 at December 31, 2011.

Loan Solicitation and Processing. Loan originations are developed from a number of sources, including: solicitations by Advantage s lending staff; referrals; participations with other banks; continuing business with depositors, other business borrowers and real estate developers; and walk-in customers. Advantage s management stresses the importance of individualized attention to the financial needs of its customers.

The loan origination process for each of Advantage s regions is centralized in the processing and underwriting of loans. Mortgage loan applications from potential borrowers are taken by loan officers originating loans and then forwarded to the loan department for processing. The Bank typically obtains a credit report, verification of employment and other documentation concerning the borrower and orders an appraisal of the fair market value of the collateral which will secure the loan. The collateral is thereafter physically inspected and appraised by a staff appraiser or by a designated fee appraiser approved by the Board of Directors of Advantage. Upon the completion of the appraisal and the receipt of all necessary information regarding the borrower, the loan is reviewed by an underwriter or officer with appropriate loan approval authority. If the loan is approved, an attorney s opinion of title or title insurance is generally obtained on the real estate which will secure the loan. Borrowers are required to carry satisfactory fire and casualty insurance and, if applicable, flood and private mortgage insurance, and to name Advantage as an insured mortgagee.

The procedure for approval of construction loans is the same as for mortgage loans, except that the appraiser evaluates the building plans, construction specifications and construction cost estimates. Advantage also evaluates the feasibility of the proposed construction project, often utilizing independent architects as consultants.

Consumer loans are underwritten on the basis of the borrower s credit history and an analysis of the borrower s income and expenses, ability to repay the loan and the value of the collateral. Centralized processing and underwriting are utilized to add adequate controls over the credit review process.

Loan Originations, Purchases and Sales. Generally, residential fixed-rate loans made by Advantage are originated with documentation which will permit a possible sale of such loans to secondary mortgage market investors. When a mortgage loan is sold to the investor, Advantage services the loan by collecting monthly payments of principal and interest and forwarding such payments to the investor, net of a servicing fee. Fixed-rate loans not sold and virtually all of the ARMs originated by Advantage are held in Advantage s loan portfolio. During the year ended December 31, 2012, Advantage sold approximately $109.2 million in loans. Residential loans serviced by Advantage for others totaled $426.5 million at December 31, 2012.

The Corporation s lending efforts have historically focused on loans secured by existing one- to four-family residential properties. Generally, such loans have been underwritten on the basis of no more than an 80% loan-to-value ratio, which has historically provided the Corporation with adequate collateral coverage in the event of default. Nevertheless, Advantage, as with any lending institution, is subject to the risk that residential real estate values could deteriorate in its primary lending areas within Ohio, West Virginia, and northern Kentucky, thereby impairing collateral values.

In 2009, our Commercial Banking Division began an extensive review of the loan portfolio and began to assist our Credit Administration Unit with implementing strategies to decrease our classified assets and non-performing loans. Since 2010, the Commercial Banking Division has been a key revenue driver with higher loan and origination fees and a significant amount of new commercial deposit relationships.

We believe that some of the key attributes of the commercial business include the opportunity to provide financial services to high net worth individuals, lower leveraged real estate projects and high credit quality operating companies. The Commercial Banking Division continues to be focused on relationship banking, credit quality and earning an acceptable interest rate margin.

Of the total loans originated by Advantage during the year ended December 31, 2012, 58.3% were ARM and 41.7% were fixed-rate loans. Adjustable-rate loans comprised 71.4% of Advantage s total loans outstanding at December 31, 2012.

From time to time, Advantage sells participation interests in mortgage loans, business loans and commercial loans originated by it and purchases whole loans or participation interests in loans originated by other lenders. Advantage held whole loans and participations in loans originated by other lenders of approximately $5.8 million at December 31, 2012 compared to $7.8 million at December 31, 2011. Loans that Advantage purchases or participates must meet or exceed the normal underwriting standards utilized by the Bank.

The following table presents Advantage s loan origination, purchase, sale and principal repayment activity for the periods indicated:

	Year ended December 31,				
	2012	2011	2010 (In thousands)	2009	2008
Loans originated:					
Construction (purchased and originated) (1)	$ 15,888	$ 24,990	$ 15,929	$ 2,310	$ 7,774
Residential	123,686	72,109	105,427	190,662	107,776
Commercial, consumer and other	178,906	157,790	146,993	55,243	127,604
Total loans originated	318,480	254,889	268,349	245,905	243,154
Loans purchased	0	0	2,554	7,035	249
Reductions:					
Principal repayments	290,360	196,732	144,598	204,502	229,330
Loans sold	109,198	67,749	88,697	108,481	45,330
Transfers from loans to real estate owned	5,132	11,191	5,991	9,631	6,574
Total reductions	(404,690)	(275,672)	(239,286)	(322,614)	(281,234)
Increase (decrease) in other items, net (2)	62	(1,998)	(21,066)	(29,655)	(18,614)
Net increase (decrease)	$ (86,148)	$ (22,781)	$ 10,551	$ (99,329)	$ (56,445)

(1) Construction includes draws of $13.1 million related to commercial and $2.8 million related to residential for the year ending December 31, 2012

(2) Other items primarily consist of amortization of deferred loan origination fees and the provision for losses on loans.

Lending Limit. Federal regulations and Ohio law generally impose a lending limit on the aggregate amount that a depository institution can lend to one borrower to an amount equal to 15% of the institution s total capital for risk-based capital purposes plus any loan reserves not already included in total capital (the Lending Limit Capital). A depository institution may loan to one borrower an additional amount not to exceed 10% of the institution s Lending Limit Capital, if the additional amount is fully secured by certain forms of readily marketable collateral. Real estate is not considered readily marketable collateral. In applying this limit, the regulations require that loans to certain related or affiliated borrowers be aggregated.

The largest amount which Advantage could have loaned to one borrower at December 31, 2012 was approximately $11.2 million. The largest amount Advantage had outstanding to one borrower and related persons or entities at December 31, 2012, was $9.9 million, which consisted of a multi-tenant office building, a warehouse, business assets and equipment.

Loan Concentrations. As of December 31, 2012, Advantage is within all policy concentration limits and had no significant concentrations of loans to specific industries other than commercial real estate.

Regulatory guidance suggests that financial institutions not exceed 3x risk based capital in a concentration of commercial real estate. At December 31, 2012, Advantage s ratio for this concentration was 2.6x risk based capital, approximately $27.3 million under the guidance limitation.

Loan Origination and Other Fees. In addition to interest earned on loans, Advantage may receive loan origination fees or points relating to the loan amount, depending on the type of loan, plus reimbursement of certain other expenses. Loan origination fees and other fees are a more volatile source of income, varying with the volume of lending and economic conditions. All loan origination fees and certain direct loan origination costs are deferred and recognized as an adjustment to yield over the life of the related loan.

Delinquent Loans, Nonperforming Assets and Classified Assets. Generally, after a loan payment is 15 days delinquent, a late charge of 5% of the amount of the payment is assessed and a collection officer contacts the borrower to request payment. In certain limited instances, Advantage may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his or her financial affairs. Advantage initiates foreclosure proceedings in accordance with applicable laws, when it appears that a modification or moratorium would not be or has not been effective.

7

Real estate which has been acquired by Advantage as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until it is sold. Real estate owned is recorded at the lower of the book value of the loan or the fair value of the property less estimated selling expenses at the date of acquisition. Periodically, real estate owned is reviewed to ensure that fair value is not less than carrying value, and any write-down resulting from the review is charged to earnings as a provision for losses on real estate acquired through foreclosure. All costs incurred from the date of acquisition are expensed in the period paid.

Nonperforming status denotes loans greater than three payments past due, loans for which, in the opinion of management, the collection of additional interest is unlikely, or loans that meet nonperforming criteria as established by regulatory authorities. Payments received on nonperforming loans are either applied to the outstanding principal balance or recorded as a receivable to interest income, depending on management s assessment of the collectability of the loan. Currently, the receivable of interest income is not taken into income until the previously reported non-performing loan is paid in full.

Federal regulations require the Bank to classify its assets on a regular basis. Problem assets are to be classified as either (i) substandard, (ii) doubtful or (iii) loss. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss of principal or interest if the deficiencies are not corrected. Doubtful assets have the same weaknesses as substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of existing facts, conditions and value. Assets classified as loss are considered uncollectible and of such little value that their treatment as assets without the establishment of a specific reserve is unwarranted. Loans classified as loss are generally charged off in the month they are identified. Regulators may require the reclassification of assets.

The interpretive guidance of the regulations also includes a special mention category, consisting of assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification, but which possess credit deficiencies or potential weaknesses deserving management s close attention.

Allowance for Loan Losses.

Lending money is a substantial part of Camco s business. However, every loan Camco makes carries a risk of non-payment. This risk is affected by, among other things, cash flow of the borrower and/or the project being financed; in the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral; the credit history of a particular borrower; changes in economic and industry conditions; and the duration of the loan.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make significant estimates that affect the financial statements. One of Camco s most critical estimates is the level of the allowance for loan losses. Due to the inherent nature of these estimates, Camco cannot provide absolute assurance that it will not be required to charge earnings for significant unexpected loan losses.

Camco maintains an allowance for loan losses that it believes is a reasonable estimate of known and inherent losses within the loan portfolio. Camco makes various assumptions and judgments about the collectability of Camco s loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Through a periodic review and consideration of the loan portfolio, management determines the amount of the allowance for loan losses by considering general market conditions, credit quality of the loan portfolio, the collateral supporting the loans and performance of customers relative to their financial obligations with us. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond Camco s control, and these losses may exceed current estimates. Camco cannot fully predict the amount or timing of losses or whether the loan loss allowance will be adequate in the future.

In originating loans, the Bank recognizes that credit losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions, and, in the case of a secured loan, the quality of the security for the loan. It is management s policy to maintain an adequate allowance for loan losses based on, among other things, the Bank s historical loan loss experience, evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. The Bank increases its allowance for loan losses by charging provisions for loan losses against the Bank s income.

General allowances are made pursuant to management s assessment of risk in the Bank s loan portfolio as a whole. Specific allowances are provided for individual loans when ultimate collection is considered questionable by management after reviewing the current status of loans which are contractually past due and considering the net realizable value of the security for the loan. Management continues to actively monitor the Bank s asset quality and to charge off loans against the allowance for loan losses when appropriate or to provide specific loss reserves when necessary. Although management believes it uses the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the economic conditions in the assumptions used in making the initial determinations.

8

Management s approach includes establishing a specific valuation allowance by evaluating individual non-performing loans for probable losses. In evaluating these loans for impairment, the measure of expected loss is based on the present value of the expected future cash flows discounted at the loan s effective interest rate, a loan s observable market price or the fair value of the collateral if the loan is collateral dependent. Additionally, management establishes a general valuation allowance for pools of performing loans segregated utilizing the standardized loan categories specifically defined in the FDIC Call Report instructions related to the loan schedules. For the general valuation allowance, management applies a prudent loss factor based on the Bank s historical loss experience, while considering trends based on changes to non-performing loans and foreclosure activity, and the subjective evaluation of the economic environment. The initial basis for each loss factor is the Corporation s loss experience for each category. Historical loss percentages are calculated and adjusted by taking charge-offs (net of recoveries) in each risk category during the past 12 consecutive quarters and dividing the total by the balance of each category.

The following table sets forth the allocation of Advantage s allowance for loan losses by type of loan at the dates indicated:

	2012		2011		2010		2009		2008	
	Amount	Percent of Loans In each Category To Total Loans	Amount	Percent of Loans In each Category To Total Loans	Amount	Percent of Loans In each Category To Total Loans	Amount	Percent of Loans In each Category To Total Loans	Amount	Percent of Loans In each Category To Total Loans
Construction	$ 169	2.4%	$ 35	3.5%	$ 166	4.3%	$ 338	0.9%	$ 285	2.5%
Land, Farmland, Agriculture	353	2.5	554	2.7	849	2.9	628	3.5	542	3.6
Residential	6,981	48.7	8,277	48.5	8,050	53.6	10,519	64.3	10,697	68.1
Commercial / Non-residential	1,691	24.2	2,565	27.5	3,638	22.2	3,148	20.1	2,643	17.0
Consumer	132	0.7	80	0.5	246	0.5	98	0.6	92	0.6
Commercial and industrial	1,560	7.4	537	6.0	1,061	4.4	637	3.8	481	3.4
Multi Family	1,261	14.1	2,484	11.3	2,860	12.1	731	6.8	1,007	4.8
Total	$ 12,147	100.0%	$ 14,532	100.0%	$ 16,870	100.0%	$ 16,099	100.0%	$ 15,747	100.0%

Investment and Mortgage-Backed Securities Activities

Federal regulations permit Camco to invest liquid assets, in United States Treasury obligations, securities of various U.S. Government sponsored enterprises, certificates of deposit at FDIC insured banks, corporate debt and equity securities or obligations of state and local political subdivision s and municipalities. Camco is also permitted to make limited investments in commercial paper and certain mutual funds.

Camco s investment activities are governed internally by a written, Board-approved policy, which is administered by Advantage s Asset-Liability Management Committee (ALCO). The primary purpose of Advantage s investment portfolio is to: (1) employ excess funds not needed for loan demand; (2) provide a source of liquid assets to accommodate unanticipated deposit and loan fluctuations and overall liquidity needs; (3) earn the maximum overall return proportionate to the investment s risk and corporate needs. Investment strategies to achieve these objectives are reviewed and approved by the ALCO. In its evaluation of investment strategies, the ALCO considers various factors, including the interest rate environment, balance sheet mix, actual and anticipated loan demand, funding opportunities and Advantage s overall interest rate sensitivity. The ALCO also has additional responsibilities which are discussed in the Liquidity and Capital Resources section of Management s Discussion and Analysis of Financial Condition and Results of Operations

Deposits and Borrowings

General. Deposits are a primary source of Advantage s funds for use in lending and other investment activities. In addition to deposits, Advantage derives funds from interest payments and principal repayments on loans, advances from the FHLB of Cincinnati and income on earning assets. Loan payments are a relatively stable source of funds, while deposit inflows and outflows fluctuate more in response to general interest rate and money market conditions. As part of Advantage s asset and liability management strategy, FHLB advances can be used on a short-term basis to compensate for reductions in the availability of funds from other sources and to fund loan originations when needed.

Deposits. Deposits are attracted principally from within Advantage s primary market area through the offering of a broad selection of deposit instruments, including interest-bearing and non-interest bearing checking accounts, money market deposit accounts, regular savings accounts, health savings accounts, term certificate accounts and retirement savings plans. In 2010, Advantage began offerings with Qwick Rate as part of the Bank s contingency funding plan. Qwick Rate is a non-brokered deposit listing service that provides the Bank with access to institutional certificates of deposit. The Bank pays an annual subscription fee to access the listing service. Interest rates paid, maturity terms, service fees and withdrawal penalties for the various types of accounts are established periodically by management of Advantage based on its liquidity requirements, growth goals and interest rates paid by competitors. Qwick Rate has not been used as a source of liquidity related to contingency funding since 2010, the current balance is minimal and maturing deposits are not being renewed.

Interest rates paid by Advantage on deposits became subject to limitations as a result of a cease and desist order Advantage entered into with the FDIC and Ohio Division of Financial Institutions in July 2009 (2009 Cease and Desist Order). *See* Regulation-Regulatory Agreements below. Deposits solicited by the Bank cannot exceed the prevailing rates in its market areas by more than 75 basis points. Although the limitations became effective for Advantage on January 1, 2010, Advantage has utilized these standards since mid-year 2009.

The following table sets forth the dollar amount of deposits in the various types of savings programs offered by Advantage at the dates indicated:

	At December 31,					
	2012		2011		Change	
	Amount	Weighted-average rate	Amount	Weighted-average rate	Amount	Weighted-average rate
	(Dollars in thousands)					
Non-interest bearing demand	$ 76,490	0.00%	$ 62,881	0.00%	$ 13,609	0.00%
Interest-bearing demand	70,472	0.13	64,213	0.18	6,259	(0.05)
Money market demand accounts	121,437	0.24	114,503	0.45	6,934	(0.21)
Savings accounts	54,726	0.05	42,417	0.10	12,309	(0.05)
Total certificate accounts	304,099	1.28	345,245	1.65	(41,146)	(0.37)
Total deposits	$ 627,224	0.69%	$ 629,259	1.01%	$ (2,035)	(0.32)%

Camco expects overall deposit rates to remain suppressed in 2013 in response to the FRB s current monetary policy of keeping interest rates low. In addition to the external interest rate environment, the overall direction of rate movements in Advantage s deposit base will largely depend on the level of deposit growth it needs to maintain adequate liquidity and competitive pricing considerations.

The following table sets forth the amount and maturities of Advantage s time deposits of $100,000 or more at December 31, 2012:

	(In thousands)
Three months or less	$ 10,265
Over three to six months	11,623
Over six to twelve months	14,762
Over twelve months	47,735
Total	$ 84,386

In 2011, Advantage Bank formed an alliance with Stratos Wealth Partners and LPL Financial a retail non-deposit investment program under the name Advantage Wealth Partners. Stratos integrated their investment services into 22 Advantage Bank offices with their largest presence being located at 814 Wheeling Avenue in Cambridge, Ohio. Stratos has branded their services under the name Advantage Wealth Partners. Stratos powered by LPL Financial, an independent broker/dealer, specializes in comprehensive investment management services with strategic investment advice and alternatives, grounded on policy and risk tolerance assessments.

Borrowings. The twelve regional FHLBs function as central reserve banks, providing credit for their member institutions. As a member in good standing of the FHLB of Cincinnati, Advantage is authorized to apply for advances from the FHLB of Cincinnati, provided certain standards of creditworthiness have been met. Advances are made pursuant to several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution s regulatory capital or on the FHLB s assessment of the institution s creditworthiness. Under current regulations, a member institution must meet certain qualifications to be eligible for FHLB advances. FHLB advances are secured by a blanket pledge on Advantage s 1-4 family and multifamily residential loans, home equity lines of credit, junior mortgages, commercial and FHLB stock. Advantage currently provides its notes as collateral without recourse or warranty.

FHLB Advances decreased $10.3 million, or 16.2% from December 31, 2011. During 2012, $5.0 million matured on May 7, 2012 with a weighted rate of 4.7%, and $5.0 million matured on September 11, 2012 with a weighted rate of 4.45%. Each of the maturated advances was paid in full with no additional borrowings. The weighted average rate at December 31, 2012 was 3.45% compared to 3.63% at December 31, 2011.

Borrowings also include repurchase agreements and subordinated debentures. Repurchase agreements are collateralized by a portion of Advantage s investment portfolio.

Competition

Advantage competes for deposits with other commercial banks, savings associations, savings banks, insurance companies and credit unions and with the issuers of commercial paper and other securities, such as shares in money market mutual funds. The primary factors in competing for deposits are interest rates and convenient internet banking and office location. In making loans, Advantage competes with other commercial banks, savings banks, savings associations, consumer finance companies, credit unions and other lenders. Advantage competes for loan originations primarily through the interest rates and loan fees it charges and through the efficiency and quality of the services it provides to borrowers. Competition is affected by, among other things, the general availability of lendable funds, general and local economic conditions, current interest rate levels and other factors which are not readily predictable.

Holding Company Capital Resources

Camco is required to act as a source of strength to the Bank. Camco is obligated to pay its expenses, as well as interest payments on the outstanding trust preferred securities. *See* Note H to the financial statements below for a discussion of the trust preferred securities. Camco has limited capital resources to meet these obligations. As a result of the written agreement entered into between Camco and the FRB discussed below, Camco was required to defer the payment of dividends on the trust preferred securities beginning in the second quarter of 2009. Under the terms of the trust preferred securities, Camco has the ability to continue to defer dividends through the first quarter of 2014.

Advantage has not been permitted to pay dividends to Camco since 2008. In order for Advantage to pay dividends to Camco, Advantage must obtain regulatory approval.

As of December 31, 2012, on a stand-alone basis, Camco had an available cash balance of approximately $416,000 in order to meet its ongoing obligations. As of March 1, 2013 there were 177,137 warrants exercised which equated to an additional $372,000 of cashflow for the holding company. However, if Camco needs additional funds to continue meeting its financial obligations sometime during mid-2013, Camco will seek approval from its regulators to pay dividends from the Bank or it may raise additional capital. No agreement as to any such support has yet been requested.

On November 8, 2012, Camco announced the completion of a $10.0 million rights offering and public offering. Net proceeds of $9.4 million, net of offerings costs of $619,000 were invested in Advantage to improve its regulatory capital position. *See* Note-K for additional information. In addition to the common stock, 2.5 million non-transferable warrants were granted at $2.10 per share with an expiration date of November 6, 2017. As of March 1, 2013 there were 177,137 warrants exercised which equated to an additional $372,000 of cashflow for the holding company.

Service Corporation Activities

Advantage has no operating subsidiaries. First S&L Corporation, a subsidiary of Advantage, is inactive and was capitalized on a nominal basis at December 31, 2012.

Employees

As of December 31, 2012, Camco had 200 full-time employees and 20 part-time employees. Camco believes that relations with its employees are stable. None of the employees of Camco are represented by a collective bargaining unit.

REGULATION

General

As a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the BHC Act), Camco is subject to regulation, examination and oversight by the FRB. Advantage is a non-member of the FRB and is primarily subject to regulation by the Division and the FDIC. Camco and Advantage must file periodic reports with these governmental agencies, as applicable, concerning their activities and financial condition. Examinations are conducted at least annually by the applicable regulators to determine whether Camco and Advantage are in compliance with various regulatory requirements and are operating in a safe and sound manner.

Ohio Regulation

Regulation by the Division affects the internal organization of Advantage, as well as its depository, lending and other investment activities. Periodic examinations by the Division are usually conducted on a joint basis with the FDIC. Ohio law requires that Advantage maintain federal deposit insurance as a condition of doing business. The ability of Ohio chartered banks to engage in certain state-authorized investments is subject to oversight and approval by the FDIC. See Federal Deposit Insurance Corporation State Chartered Bank Activities.

Any mergers involving or acquisitions of control of Ohio banks must be approved by the Division. The Division may initiate certain supervisory measures or formal enforcement actions against Ohio chartered banks. Ultimately, if the grounds provided by law exist, the Division may place an Ohio chartered bank in conservatorship or receivership.

In addition to being governed by the laws of Ohio specifically governing banks, Advantage is also governed by Ohio corporate law, to the extent such law does not conflict with the laws specifically governing banks.

Federal Deposit Insurance Corporation

Supervision and Examination. The FDIC is responsible for the regulation and supervision of all commercial banks that are not members of the FRB (Non-member Banks). The FDIC is an independent federal agency that insures the deposits, up to prescribed statutory limits, of federally insured banks and thrifts and safeguards the safety and soundness of the bank and thrift industries.

Non-member Banks are subject to regulatory oversight under various state and federal consumer protection and fair lending laws. These laws govern, among other things, truth-in-lending and truth-in-savings disclosure, equal credit opportunity, fair credit reporting and community reinvestment. Failure to abide by federal laws and regulations governing community reinvestment could limit the ability of an institution to open a new branch or engage in a merger transaction.

State Chartered Bank Activities. The ability of Advantage to engage in any state-authorized activities or make any state-authorized investments, as principal, is limited if such activity is conducted or investment is made in a manner different than that permitted for, or subject to different terms and conditions than those imposed on, national banks. Engaging as a principal in any such activity or investment not permissible for a national bank is subject to approval by the FDIC. Such approval will not be granted unless certain capital requirements are met and there is not a significant risk to the FDIC insurance fund. Most equity and real estate investments (excluding office space and other real estate owned) authorized by state law are not permitted for national banks. Certain exceptions are granted for activities deemed by the FRB to be closely related to banking and for FDIC-approved subsidiary activities.

Liquidity. Advantage maintains liquid assets (cash and due plus unpledged investments) to total assets ratio at or above 5%, as well as a liquid assets to total deposits ratio at or above 5%. The FDIC expects it to maintain adequate liquidity relative to the condition of the institution to protect safety and soundness. At December 31, 2012 liquid assets to total assets was 17.6%.

Regulatory Capital Requirements. Camco and Advantage are required by applicable law and regulations to meet certain minimum capital requirements. The capital standards include a leverage limit, or core capital requirement, a tangible capital requirement and a risk-based capital requirement.

Pursuant to the current 2012 Consent Order (defined below), Advantage is required to maintain a Tier 1 leverage capital ratio of 9% on and after March 31, 2012. Until the 2012 Consent Order, the 2009 Cease and Desist Order required a Tier 1 leverage capital ratio of 8%. Tier 1 capital includes common stockholder s equity, noncumulative perpetual preferred stock and minority interest in the equity accounts of consolidated subsidiaries, less all intangibles, other than includable purchased mortgage servicing rights and credit card relationships. For purposes of computing risk-based capital, assets and certain off-balance sheet items are weighted at percentage levels ranging from 0% to 100%, depending on their relative risk. Advantage did not meet the 9% Tier 1 capital requirement at December 31, 2012 as its Tier 1 was 8.19%. This failure to comply could result in additional enforcement action by the FDIC or the Division.

The risk-based capital guidelines adopted by the federal banking agencies are based on the International Convergence of Capital Measurement and Capital Standards (Basel I), published by the Basel Committee on Banking Supervision (the Basel Committee) in 1988. In 2004, the Basel Committee published a new capital adequacy framework (Basel II) for large, internationally active banking organizations and in December 2010 and January 2011, the Basel Committee issued an update to Basel II (Basel III). The Basel Committee frameworks become applicable to banks supervised in the United States only when adopted into United States law or regulation. The United States banking regulators generally have not yet imposed any of the Basel II or Basel III rules on banks with less than $250 billion in assets or $10 billion of on-balance sheet foreign exposure. The federal banking agencies have proposed extensive changes to their capital requirements for such smaller banks, including raising required amounts and eliminating the inclusion of certain instruments from the calculations of capital. Due to the extent of comments on such proposed changes, it is unclear when final regulations will be adopted or what they will contain.

12

Regulatory Agreements.

On March 4, 2009 Camco entered into a Memorandum of Understanding (the MOU) with the FRB. The MOU prohibited Camco from engaging in certain activities while the MOU is in effect, including, without the prior written approval of the FRB, (1) the declaration or payment of dividends to stockholders or (2) the repurchase of Camco s stock.

On April 30, 2009, Camco was notified by the FRB that it had conducted a surveillance review as of December 31, 2008. Based on that review, the FRB notified Camco that it must (i) eliminate stockholder dividends and (ii) defer interest payments on its 30-year junior subordinated deferrable interest notes that were issued to its wholly-owned subsidiary, Camco Statutory Trust I, in its trust preferred financing that was completed in July 2007. These prohibitions were memorialized in a written agreement with the FRB on August 5, 2009. Camco and Camco Statutory Trust I are permitted to defer interest and dividend payments, respectively, for up to five consecutive years without resulting in a default. Camco may not resume these dividend or interest payments until it receives approval from the FRB.

The MOU was terminated and on August 5, 2009 at which time Camco, entered into a written agreement with the FRB. The written agreement requires Camco to obtain approval prior to: (i) declaring or paying any dividends; (ii) receiving dividends or any other form of payment representing a reduction in capital from Advantage; (iii) making any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities; (iv) incurring, increasing or guaranteeing any debt; or (v) repurchasing any Camco stock. The written agreement also required Camco to develop a capital plan and submit it to the FRB for approval, which it has done.

On March 4, 2011, Camco was notified by the FRB that by March 31, 2011 it must divest of activities conducted pursuant to section 4(k) of the BHC Act, which meant Camco Title Agency, and it must decertify as a financial holding company. Camco complied with this request by liquidating Camco Title Agency and decertifying on March 31, 2011. After it decertified, Camco remained a bank holding company.

Advantage entered into a cease and desist agreement with the FDIC and the Division that provided for the issuance of an order by the FDIC and the Division. The 2009 Cease and Desist Order was executed by the FDIC and Division on July 31, 2009. The 2009 Cease and Desist Order required Advantage to, among other things, (i) increase its Tier 1 risk based capital to 8%; and (ii) seek regulatory approval prior to declaring or paying any cash dividend. As a result of the 2009 Cease and Desist Order, Advantage was disqualified as a public depository under Ohio law and incurs higher premiums for FDIC insurance of its accounts. The 2009 Cease and Desist Order was terminated on February 9, 2012, at which time a consent agreement was signed.

On February 9, 2012, Advantage entered into a consent agreement with the FDIC and the Division that provided for the issuance of an order by the FDIC and the Division. That order was executed by the FDIC and Division on February 9, 2012 (the 2012 Consent Order). *See* Exhibit 10 (xxix). The 2012 Consent Order requires Advantage, within specified timeframes, to, among other things,: (i) add two independent directors to Advantage s Board; (ii) increase its Tier 1 leverage capital ratio to 9% and its total risk based capital ratio to 12.0% by March 31, 2012; (iii) develop and submit a capital plan; (iv) implement plans to reduce its classified assets and loan concentrations; (v) ensure the establishment of a comprehensive policy and methodology for determining the adequacy of the allowance for loan and lease losses; (vi) seek regulatory approval prior to declaring or paying any cash dividend; and (vii) adopt and develop a strategic plan, liquidity plan, profit plan and budget. As a result of the 2012 Consent Order, Advantage continues to be ineligible as a public depository under Ohio law.

In addition to the limitations and requirements described above, Advantage cannot (i) appoint any new director or senior executive officer or change the responsibilities of any senior executive officer without regulatory approval, (ii) make indemnification or golden parachute payments, as defined in 12 C.F.R. Part 359 without obtaining prior regulatory approval, or (iii) make any additional advances that would increase the current concentrations of credit or create new concentrations.

The Bank will be considered adequately capitalized until the 2012 Consent Order is removed by the FDIC and the Division.

A material failure to comply with the provisions of the 2012 Consent Order or Written Agreement could result in additional enforcement actions by the FDIC, the Division or the FRB.

Transactions with Affiliates and Insiders

All transactions between banks and their affiliates must comply with Sections 23A and 23B of the Federal Reserve Act (the FRA) and the FRB s Regulation W. An affiliate is any company or entity which controls, is controlled by or is under common control with the financial institution. In a holding company context, the parent holding company of a bank and any companies that are controlled by such parent holding company are affiliates of the institution. Generally, Sections 23A and 23B of the FRA (i) limit the extent to which a financial institution or its subsidiaries may engage in covered transactions with any one affiliate up to an amount equal to 10% of such institution s capital stock and surplus for any one affiliate and 20% of such capital stock and surplus for the aggregate of such transactions with all affiliates, and (ii) require that all such transactions be on terms substantially the same, or at least as favorable to the institution or the subsidiary, as those provided to a non-affiliate. The term covered transaction includes the making of loans, purchase of assets, issuance of a guarantee and similar types of transactions. Exemptions from Sections 23A or 23B of the FRA may be granted only by the FRB. Advantage was in compliance with these requirements at December 31, 2012.

Change in Control

Federal Law. The Federal Deposit Insurance Act (the FDIA) provides that no person, acting directly or indirectly or in concert with one or more persons, shall acquire control of any insured depository institution or holding company, unless 60-days prior written notice has been given to the primary federal regulator for that institution and such regulator has not issued a notice disapproving the proposed acquisition. Control, for purposes of the FDIA, means the power, directly or indirectly, alone or acting in concert, to direct the management or policies of an insured institution or to vote 25% or more of any class of securities of such institution. Control exists in situations in which the acquiring party has direct or indirect voting control of at least 25% of the institution s voting shares, controls in any manner the election of a majority of the directors of such institution or is determined to exercise a controlling influence over the management or policies of such institution. In addition, control is presumed to exist, under certain circumstances where the acquiring party (which includes a group acting in concert) has voting control of at least 10% of the institution s voting stock. These restrictions do not apply to holding company acquisitions. See Holding Company Regulation .

Ohio Law. A statutory limitation on the acquisition of control of an Ohio bank requires the written approval of the Division prior to the acquisition by any person or entity of a controlling interest. Control exists, for purposes of Ohio law, when any person or entity which, either directly or indirectly, or acting in concert with one or more other persons or entities, owns, controls, holds with power to vote, or holds proxies representing, 15% or more of the voting shares or rights of an association, or controls in any manner the election or appointment of a majority of the directors. Ohio law also requires that certain acquisitions of voting securities that would result in the acquiring shareholder owning 20%, 33-1/3% or 50% of the outstanding voting securities of Camco must be approved in advance by the holders of at least a majority of the outstanding voting shares represented at a meeting at which a quorum is present and a majority of the portion of the outstanding voting shares represented at such a meeting, excluding the voting shares by the acquiring shareholder. This statute was intended, in part, to protect shareholders of Ohio corporations from coercive tender offers.

Holding Company Regulation

As a bank holding company, Camco has registered with the FRB and is subject to FRB regulations, examination, supervision and reporting requirements.

Source of Strength Doctrine

FRB policy historically has required bank holding companies to act as a source of strength to their bank subsidiaries and to commit capital and financial resources to support those subsidiaries. The Dodd-Frank Act codifies this policy as a statutory requirement. Such support may be required by the FRB at times when Camco might otherwise determine not to provide it. Any capital loan by a bank holding company to any of its subsidiary banks is subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. The BHC Act provides that in the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Federal Reserve Requirements

FRB regulations currently require banks to maintain reserves of net transaction accounts (primarily NOW accounts). At December 31, 2012, Advantage was in compliance with its reserve requirements.

Item 1A. Risk Factors.

Forward-Looking Statements

This annual report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, which can be identified by the use of forward-looking terminology, such as may, might, could, would, believe, expect, intend, plan, seek, anticipate, estimate, project or continue or the negative thereof or comparable terminology. All statements other than statements of historical fact included in this document regarding our outlook, financial position and results of operation, liquidity, capital resources and interest rate sensitivity are forward-looking statements. These forward-looking statements also include, but are not limited to:

- anticipated changes in industry conditions created by state and federal legislation and regulations;
- anticipated changes in general interest rates and the impact of future interest rate changes on our profitability, capital adequacy and the fair value of our financial assets and liabilities;
- retention of our existing customer base and our ability to attract new customers;
- the development of new products and services and their success in the marketplace;
- the adequacy of the allowance for loan losses; and,
- statements regarding our anticipated loan and deposit account growth, expense levels, liquidity and capital resources and projections of earnings.

These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results to be materially different from any future results expressed or implied by such forward-looking statements. Although we believe the expectations reflected in such forward-looking statements are reasonable, we can give no assurance such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from those in the forward-looking statements included herein include, but are not limited to:

- competition in the industry and markets in which we operate;
- levels of non-performing assets;
- changes in general interest rates;
- loan demand;
- rapid changes in technology affecting the financial services industry;

real estate values;

changes in government regulation; and

general economic and business conditions.

Overview

Like all financial companies, Camco s business and results of operations are subject to a number of risks, many of which are outside of our control. In addition to the other information in this report, readers should carefully consider that the following important factors, among others, could materially impact our business and future results of operations.

Camco expects to continue to be subject to restrictions and conditions of the FRB Written Agreement and 2012 Consent Order. As a result, Camco has incurred and expects to continue to incur significant additional regulatory compliance expenses that will negatively affect our results of operations.

Camco and the Bank continue to be under the conditions of the FRB Written Agreement and 2012 Consent Order as a result of various regulatory concerns as of December 31, 2012. Camco has incurred and expects to continue to incur significant additional regulatory compliance expense in connection with these directives and will incur ongoing expenses attributable to compliance with their terms. Although Camco does not expect it, it is possible regulatory compliance expenses related to the directives could have a materially adverse impact on us in the future.

Our Tier 1 leverage capital levels currently do not comply with the higher capital requirements required by the 2012 Consent Order.

Under the 2012 Consent Order, the FDIC and the Division required the Bank to raise its Tier I leverage capital to 9% by March 31, 2012. As of December 31, 2012, the Bank needed approximately $6.2 million in additional capital based on assets at such date to meet this requirement. The Corporation currently does not have any capital available to invest in the Bank. Camco is considering various strategies to help us achieve the required capital level, but there is no assurance that any capital raising strategy can be completed successfully in the near future. Moreover, any further increases to our allowance for loan losses, additional deterioration of our real estate owned portfolio and operating losses would negatively impact our capital levels and make it more difficult to achieve the capital level directed by the FDIC and the Division. Based on our failure to meet the required capital level, the FDIC or the Division could take additional enforcement action against us.

In addition to the 2012 Consent Order, the FRB Written Agreement, governmental regulation and regulatory actions against us may further impair our operations or restrict our growth.

In addition to the requirements of the 2012 Consent Order, the Written Agreement, Camco is subject to significant governmental supervision and regulation. These regulations are intended primarily for the protection of depositors funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Statutes and regulations affecting our business may be changed at any time and the interpretation of these statutes and regulations by examining authorities may also change.

There can be no assurance that such changes to the statutes and regulations or to their interpretation will not adversely affect our business. Such changes could subject us to additional costs, limit the types of financial services and products Camco may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things.

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act has significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act requires various federal agencies to adopt a broad range of regulations with significant discretion. Although some of the regulations have been adopted, many still have not, and the effect they will have on Camco and its subsidiaries will not be known for years.

Among the provisions already implemented that have or may have an effect on Camco are the following:

- the Consumer Financial Protection Bureau (CFPB)has been formed, which has broad powers to adopt and enforce consumer protection regulations;

- the federal law prohibiting the payment of interest on commercial demand deposit accounts was eliminated effective July 21, 2011;

- the standard maximum amount of deposit insurance per customer was permanently increased to $250,000, and non-interest bearing transaction accounts had unlimited insurance through December 31, 2012;

- the assessment base for determining deposit insurance premiums has been expanded from domestic deposits to average assets minus average tangible equity;

- public companies in all industries are now required to provide stockholders the opportunity to cast a non-binding advisory vote on executive compensation; and

- the FRB has imposed on financial institutions with assets of $10 billion or more a cap on the debit card interchange fees the financial institutions may charge. Although the cap is not applicable to Advantage, it may have an adverse effect on Advantage as the debit cards issued by Advantage and other smaller banks, which have higher interchange fees, may become less competitive.

Additional provisions not yet implemented that may have an effect on Camco are the following:

new capital regulations for bank holding companies will be adopted, which may impose stricter requirements; and trust preferred securities issued after May 19, 2010 will no longer constitute Tier I capital; and

new corporate governance requirements applicable generally to all public companies in all industries will require other new compensation practices and disclosure requirements, including requiring companies to claw back incentive compensation under certain circumstances, to consider the independence of compensation advisors and to make additional disclosures in proxy statements with respect to compensation matters.

As many provisions of the Dodd-Frank Act have not yet been implemented and will require interpretation and rule making, the ultimate effect on Camco cannot yet be determined. However, the implementation of certain provisions have already increased compliance costs and the implementation of future provisions will likely increase both compliance costs and fees paid to regulators, along with possibly restricting the operations of Camco.

Legislative and regulatory reforms continue to have significant impacts throughout the financial services industry.

The Dodd-Frank Act, which is complex and broad in scope, established the CFPB, which has extensive regulatory and enforcement powers over consumer financial products and services, and the Financial Stability Oversight Council, which has oversight authority for monitoring and regulating systemic risk. In addition, the Dodd-Frank Act alters the authority and duties of the federal banking and securities regulatory agencies, implements certain corporate governance requirements for all public companies including financial institutions with regard to executive compensation, proxy access by stockholders, and certain whistleblower provisions, and restricts certain proprietary trading and hedge fund and private equity activities of banks and their affiliates. The Dodd-Frank Act also requires the issuance of many implementing regulations which will take effect over several years, making it difficult to anticipate the overall impact to us, our customers, or the financial industry in general.

With the appointment of a director for the CFPB in January 2012, the CFPB began to exercise its full authority under the Dodd- Frank Act. For example, the CFPB completed its first public enforcement actions regarding unfair, deceptive or abusive practices in connection with marketing, sales and operation of certain add-on products offered in connection with credit cards. Furthermore, in 2012 the CFPB issued its first major regulation, which covers remittance transfers (international wire transfers) by consumers, which will take effect later in 2013.

In mid-January 2013, the CFPB issued eight final regulations governing consumer mortgage lending. The first of these rules was issued on January 10, 2013, and included the ability to repay and qualified mortgage rule. This rule will impose additional requirements on lenders, including rules designed to require lenders to ensure borrowers ability to repay their mortgage. The same day, the CFPB also finalized a rule on escrow accounts for high-cost mortgages and a rule expanding the scope of the high-cost mortgage provision in the Truth in Lending Act. On January 17, 2013, the CFPB issued its final rules implementing provisions of the Dodd-Frank Act that relate to mortgage servicing, which will take effect on January 10, 2014. On January 18, 2013, the CFPB issued a final appraisal rule under the Equal Credit Opportunity Act and six agencies including the CFPB, FRB, OCC, and FDIC, issued an interagency rule on appraisals for higher-priced mortgage loans. A final rule on loan originator compensation was released on January 20, 2013, and the industry expects a final rule on integrated mortgage disclosures within the next year. We are evaluating these rules to determine their impact on the Bank.

We must comply with anti-money laundering and customer privacy regulations, as well as corporate governance, accounting, and reporting requirements.

The USA Patriot Act of 2001 and its related regulations require insured depository institutions, broker-dealers, and certain other financial institutions to have policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing. The statute and its regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. Pursuant to Title V of the Gramm-Leach-Bliley Act, we, like all other financial institutions, are required to:

- provide notice to our customers regarding privacy policies and practices,
- inform our customers regarding the conditions under which their nonpublic personal information may be disclosed to nonaffiliated third parties, and
- give our customers an option to prevent certain disclosure of such information to nonaffiliated third parties.

The Sarbanes-Oxley Act of 2002 imposed new or revised corporate governance, accounting, and reporting requirements on us. In addition to a requirement that chief executive officers and chief financial officers certify financial statements in writing, the statute imposed requirements affecting, among other matters, the composition and activities of audit committees, disclosures relating to corporate insiders and insider transactions, code of ethics, and the effectiveness of internal controls over financial reporting.

17

Camco may not be able to attract and retain skilled people.

Our success depends in large part on our ability to attract and retain key people. There are a limited number of qualified persons in Southeastern Ohio with the knowledge and experience required to successfully implement our recovery plan. At this time, new senior executives are required to be approved by our regulators. Suitable candidates for positions may decline to consider employment with the Corporation given its financial condition and the current regulatory environment. In addition, it may be difficult for us to offer compensation packages that would be sufficient to convince candidates that are acceptable to our regulators and meet our requirements to agree to become our employee and/or relocate. Our financial condition and the existing uncertainties may result in existing employees seeking positions at other companies where these issues are not present. The unexpected loss of services of other key personnel could have a material adverse impact on our business because of a loss of their skills, knowledge of our market and years of industry experience. If Camco is not able to promptly recruit qualified personnel, which Camco requires to conduct our operations, our business and our ability to successfully implement our recovery plan could be affected.

Camco has a relatively high percentage of non-performing loans and classified assets relative to our total assets. If our allowance for loan losses is not sufficient to cover our actual loan losses, profitability could be adversely affected.

The Corporation maintains an allowance for loan losses to provide for loan defaults and non-performance. The Corporation s allowance for loan losses may not be adequate to cover actual loan losses and future provisions for loan losses could materially and adversely affect the Corporation s operating results. The Corporation s allowance for loan losses is based on its historical loss experience, as well as an evaluation of the risks associated with its loans held for investment. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond the Corporation s control, and these losses may exceed current estimates.

At December 31, 2012, our non-performing loans totaled $19.6 million, representing 3.4% of total loans and 2.6% of total assets. In addition, loans which management has classified as either substandard, doubtful or loss totaled $30.0 million, representing 5.1% of total loans and 3.8% of total assets. At December 31, 2012, our allowance for loan losses was $12.1 million, representing 62.0% of non-performing loans. In the event our loan customers do not repay their loans according to their terms and the collateral securing the payment of these loans is insufficient to pay any remaining loan balance, Camco may experience significant loan losses, which could have a materially adverse effect on our operating results. Camco makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, Camco reviews loans and our loss and delinquency experience, and evaluates economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable losses in our loan portfolio, resulting in additions to our allowance. The additions to our allowance for loan losses would be made through increased provision for loan losses, which would reduce our income.

From 2008 through 2010 our loan quality was negatively impacted by deteriorating conditions within the commercial real estate market and economy as a whole, which caused declines in commercial real estate values and deterioration in financial condition of various commercial borrowers. Additionally, increases in delinquent real estate mortgage loans occurred as a result of deteriorating economic conditions and a decline in the housing market across our geographic footprint that reflected declining home prices and increasing inventories of houses for sale. These conditions led Camco to downgrade the loan quality ratings on various commercial real estate loans through its normal loan review process during those years. In addition, several impaired loans became under-collateralized due to reductions in the estimated net realizable fair value of the underlying collateral. As a result, Camco s provision for loans losses, net charge-offs and nonperforming loans in preceding years continued to be higher than historical levels. The additional provisions for loan losses in this period were largely attributed to the aforementioned issues.

In 2011 and 2012, the credit trends improved and charge offs slowed; however, changes in economic conditions or in the financial situations of our borrowers could reverse this trend. Further, federal regulatory agencies, as an integral part of their examination process, review the Corporation s loans and allowance for loan losses. While the Corporation believes that its allowance for loan losses is adequate to cover current losses, the Corporation could need to increase its allowance for loan losses or regulators could require it to increase this allowance. Either of these occurrences could materially and adversely affect the Corporation s earnings and profitability.

Camco may elect or be compelled to seek additional capital, but that capital may not be available when it is needed.

Camco and Advantage are required by federal and state regulatory authorities to maintain adequate levels of capital to support their operations. Although the financial condition of the Bank and the Corporation has improved, currently, Advantage is not in compliance with the Tier 1 capital requirement required by the 2012 Consent Order. The Corporation may seek additional debt or equity capital in the future to achieve its long-term business objectives. The sale of equity or convertible debt securities in the future may be dilutive to the Corporation s stockholders, and debt refinancing arrangements may require the Corporation to pledge some of its assets and enter into covenants that would restrict its ability to incur further indebtedness. Camco s ability to raise additional capital will depend on its financial performance, conditions in the capital markets, economic conditions and a number of other factors, many of which are outside of its control. Accordingly, there can be no assurance that Camco can raise additional capital on terms it deems acceptable. If Camco cannot raise additional capital, it may have a material adverse effect on its financial condition, results of operations, growth strategy and future prospects, and may result in further enforcement action by the FRB, FDIC or Division, including a potential federal conservatorship or receivership of the Bank, or a requirement that Camco sell or transfer its assets or take other action which would likely result in a significant loss of the value of Camco s ownership interest in the Bank and a significant loss of the value of the shares held by Camco s stockholders.

Camco is subject to examinations and challenges by tax authorities.

In the normal course of business, Camco and the Bank are, routinely subject to examinations from federal and state tax authorities regarding the amount of taxes due in connection with investments made and the businesses in which Camco has engaged. Recently, federal and state tax authorities have become increasingly aggressive in challenging tax positions taken by financial institutions. These tax positions may relate to tax compliance, sales and use, franchise, gross receipts, payroll, property and income tax issues, including tax base, apportionment and tax credit planning. The challenges made by tax authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions.

Income tax returns are subject to audit by the IRS. Income tax expense for current and prior periods is subject to adjustment based upon the outcome of such audits. During 2011, the IRS began an examination of the Corporation s tax returns for the year ended December 31, 2009. The examination is near completion. The IRS has taken the position that the Corporation took bad debt deductions prematurely. The Corporation disagrees. The matter has not been resolved at the examination level, therefore, the Corporation has contested the matter at the IRS Office of Appeals. Management believes it is more likely than not that the Corporation will be successful in the appeals process. If the IRS prevails, the Corporation may be required to repay approximately $1.57 million of tax refunds it had received as a result of a carryback of a net operating loss and the Corporation will increase its net operating loss tax carry forward by the same amount as the disallowed deduction. The Corporation has a 100% valuation allowance against its deferred tax asset. In the event that the Corporation does not prevail on appeals and the deferred tax asset has a 100% valuation allowance, the Corporation will be required to take a charge of income tax expense in the amount of $1.57 million plus assessed statutory interest.

A large percentage of our loans are collateralized by real estate and continued deterioration in the real estate market may result in additional losses and adversely affect our financial results.

Our results of operations have been, and in future periods will continue to be significantly impacted by the economy in Ohio, and to a lesser extent, other markets Camco is exposed to, including Kentucky and West Virginia.

Deterioration of the economic environment Camco is exposed to, including a continued decline or worsening declines in the real estate market and single-family home re-sales or a material external shock, may significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. In the event of a default with respect to any of these loans, amounts received upon sale of the collateral may be insufficient to recover outstanding principal and interest on the loan. Over the past several years, material declines in the value of the real estate assets securing many of our commercial real estate loans has led to significant credit losses in this portfolio. Because of our high concentration of loans secured by real estate it is possible that Camco will continue to experience some level of credit losses and additional provisions even if the overall real estate market stabilizes or improves due to the continuing uncertainty surrounding many of the specific real estate assets securing our loans and the weakened financial condition of some of our commercial real estate borrowers and guarantors.

The same deterioration noted above can affect our real estate owned portfolio and if the economic environment continues to decline or worsen it could significantly impair the value of the portfolio and our ability to sell the properties in a timely manner.

Difficult economic conditions and market volatility have adversely impacted the banking industry and financial markets generally and may significantly affect our business, financial condition, or results of operation.

The continued deteriorating economic conditions in our markets may negatively affect the Corporation. Falling home prices and increasing foreclosures, unemployment and underemployment have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions. The resulting write-downs to assets of financial institutions have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to seek government assistance or bankruptcy protection.

Many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers, including to other financial institutions because of concern about the stability of the financial markets and the strength of counterparties. It is difficult to predict how long these economic conditions will exist, which of our markets, products or other businesses will ultimately be affected, and whether management s actions will effectively mitigate these external factors. Accordingly, the resulting lack of available credit, lack of confidence in the financial sector, decreased consumer confidence, increased volatility in the financial markets and reduced business activity could materially and adversely affect Camco s business, financial condition and results of operations.

As a result of the challenges presented by economic conditions, Camco may face the following risks in connection with these events:

Inability of borrowers to make timely repayments of their loans, or decreases in value of real estate collateral securing the payment of such loans resulting in significant credit losses, which could result in increased delinquencies, foreclosures and customer bankruptcies, any of which could have a material adverse effect on our operating results.

Further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, may result in an inability to borrow on favorable terms or at all from other financial institutions.

Our ability to use net operating loss carry forwards to reduce future tax payments may be limited or restricted.

Camco has generated net operating losses (NOLs) as a result of our recent losses. Camco generally is able to carry NOLs forward to reduce taxable income in future years. However, our ability to utilize the NOLs is subject to the rules of Section 382 of the Internal Revenue Code. Section 382 generally restricts the use of NOLs after an ownership change. An ownership change occurs if, among other things, the stockholders (or specified groups of stockholders) who own or have owned, directly or indirectly, 5% or more of a corporation s common stock or are otherwise treated as 5% stockholders under Section 382 and the Treasury regulations caused in increase in their aggregate percentage ownership of that corporation s stock by more than 50 percentage points over the lowest percentage of the stock owned by these stockholders over a three-year rolling period. In the event of an ownership change, Section 382 imposes an annual limitation on the amount of taxable income a corporation may offset with NOL carry forwards. This annual limitation is generally equal to the product of the value of the corporation s stock on the date of the ownership, multiplied by the long-term tax-exempt rate published monthly by the Internal Revenue Service. Any unused annual limitation may be carried over to later years until the applicable expiration date for the respective NOL carry forwards.

Camco s rights offering did not cause an ownership change within the meaning of Section 382. However, Camco cannot ensure that our ability to use our NOLs to offset income will not become limited in the future. As a result, Camco could pay taxes earlier and in larger amounts than would be the case if our NOLs were available to reduce our federal income taxes without restriction.

Volatility in the economy may negatively impact the fair value of our stock.

The market price for Camco s common stock has been volatile in the past, and several factors could cause the price to fluctuate substantially in the future, including:

announcements of developments related to our business;

fluctuations in our results of operations;

sales of substantial amounts of our securities into the marketplace;

general conditions in our markets or the worldwide economy;

a shortfall in revenues or earnings compared to securities analysts expectations;

our inability to pay cash dividends

changes in analysts recommendations or projections; and

our announcement of other projects.

Changes in interest rates could adversely affect our financial condition and results of operations.

Our results of operations depend substantially on our net interest income, which is the difference between (i) interest income on interest-earning assets, principally loans and investment securities, and (ii) interest expense on deposit accounts and borrowings. These rates are highly sensitive to many factors beyond our control, including general economic conditions, inflation, recession, unemployment, money supply and the policies of various governmental and regulatory authorities. While Camco has taken measures intended to manage the risks of operating in a changing interest rate environment, there can be no assurance that these measures will be effective in avoiding undue interest rate risk.

Increases in interest rates can affect the value of loans and other assets, including our ability to realize gains on the sale of assets. Camco originates loans for sale and for our portfolio. Increasing interest rates may reduce the volume of origination of loans for sale and consequently the volume of fee income earned on such sales. Further, increasing interest rates may adversely affect the ability of borrowers to pay the principal or interest on loans and leases, resulting in an increase in non-performing assets and a reduction of income recognized.

In contrast, decreasing interest rates have the effect of causing clients to refinance mortgage loans faster than anticipated. This causes the value of assets related to the servicing rights on loans sold to be lower than originally anticipated. If this continues, Camco may need to write down the value of our servicing assets faster, which would accelerate our expenses and lower our earnings.

Credit risks could adversely affect our results of operations.

There are inherent risks associated with our lending activities, including credit risk, which is the risk that borrowers may not repay outstanding loans or that the value of the collateral securing loans may decrease. Camco extends credit to a variety of customers based on internally set standards and judgment. Camco attempts to manage credit risk through a program of underwriting standards, the review of certain credit decisions and an on-going process of assessment of the quality of the credit already extended. However, conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond our control may increase our credit risk. Such adverse changes in the economy may have a negative impact on the ability of borrowers to repay their loans. Because Camco has a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. In addition, substantially all of our loans are to individuals and businesses in Ohio. Consequently, any decline in the economy of this market area could have a material adverse effect on our financial condition and results of operations.

Camco operates in an extremely competitive market, and our business will suffer if Camco is unable to compete effectively.

In our market area, Camco encounters significant competition from other commercial banks, savings associations, savings banks, insurance companies, consumer finance companies, credit unions, other lenders and with the issuers of commercial paper and other securities, such as shares in money market mutual funds. Many of our competitors have substantially greater resources and lending limits than Camco does and may offer services that Camco does not or cannot provide. Further, increased competition among financial services companies due to the recent consolidation of certain competing financial institutions and the conversion of certain investment banks to bank holding companies, may adversely affect Camco s ability to market our products and services.

Our ability to pay cash dividends is subject to prior FRB approval.

The Written Agreement prohibits the Corporation from paying dividends without the FRB s prior approval. Camco does not know how long this restriction will remain in place. Even if Camco is permitted to pay a dividend, Camco is dependent primarily upon the earnings of the Bank for funds to pay dividends on our common stock. The payment of dividends by the Bank is subject to certain regulatory restrictions. Currently, Advantage is prohibited from paying any dividends to Camco without the prior approval of the FDIC and the Division. In addition, federal law generally prohibits a depository institution from making any capital distributions (including payment of a dividend) to its parent holding company if the depository institution would thereafter be undercapitalized. As a result, any payment of dividends in the future by Camco will be dependent, in large part, on Advantage s ability to satisfy these regulatory restrictions and its earnings, capital requirements, financial condition and other factors.

The preparation of financial statements requires management to make estimates about matters that are inherently uncertain.

Management s accounting policies and methods are fundamental to how Camco records and reports our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods in order to ensure that they comply with generally accepted accounting principles and reflect management s judgment as to the most appropriate manner in which to record and report our financial condition and results of operations. The most critical estimates are the level of the allowance of loan losses, the valuation of mortgage servicing rights, other real estate owned valuation and the valuation allowance on the deferred tax asset. Due to the inherent nature of these estimates, Camco cannot provide absolute assurance that it will not significantly increase the allowance for loan losses or sustain loan losses that are higher than the provided allowance, nor that it will not recognize a significant provision for the impairment of mortgage servicing rights.

Our organizational documents may have the effect of discouraging a third party from acquiring us.

Our certificate of incorporation and bylaws contain provisions that make it more difficult for a third party to gain control over or acquire us. These provisions also could discourage proxy contests and may make it more difficult for dissident stockholders to elect representatives as directors and take other corporate actions. These provisions of our governing documents may have the effect of delaying, deferring or preventing a transaction or a change in control that might be in the best interest of our stockholders.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to utilize alternative methods to complete financial transactions that historically have involved banks. For example, consumers can maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

We face significant operational risks which could lead to expensive litigation and loss of confidence by our customers, regulators, and capital markets.

We are exposed to many types of operational risks, including the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or outsiders, or operational errors by employees, including clerical or recordkeeping errors or those resulting from faulty or disabled computer or telecommunications systems. These operational risks could lead to expensive litigation and loss of confidence by our customers, regulators, and the capital markets.

Moreover, negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance, and acquisitions, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to attract and retain customers and can also expose us to litigation and regulatory action.

Financial institutions are under continuous threat of loss due to cyber-attacks especially as we continue to expand customer capabilities to utilize internet and other remote channels to transact business. The most significant cyber attack risks that we face are e-fraud, denial of service, and loss of sensitive customer data. Loss from e-fraud occurs when cybercriminals breach and extract funds directly from customer or our accounts. Loss can occur as a result of negative customer experience in the event of a successful denial of service attack that disrupts availability of our on-line banking services. The attempts to breach sensitive customer data, such as account numbers and social security numbers, could present significant reputational, legal and/or regulatory costs to us if successful. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of these threats from cybercriminals and hackers, our plans to continue to provide internet banking and mobile banking channels, and our plans to develop additional remote connectivity solutions to serve our customers.

Failure to maintain effective internal controls over financial reporting in the future could impair our ability to accurately and timely report our financial results or prevent fraud, resulting in loss of investor confidence and adversely affecting our business and stock price.

Effective internal controls over financial reporting are necessary to provide reliable financial reports and prevent fraud. As a Bank holding company, we are subject to regulation that focuses on effective internal controls and procedures. Such controls and procedures are modified, supplemented, and changed from time-to-time as necessitated by our growth and in reaction to external events and developments. Any failure to maintain, in the future, an effective internal control environment could impact our ability to report our financial results on an accurate and timely basis, which could result in regulatory actions, loss of investor confidence, and adversely impact our business and stock price.

Camco may be named as a defendant from time to time in a variety of litigation and other actions.

Camco or one of its subsidiaries may be named as a defendant from time to time in a variety of litigation arising in the ordinary course of their respective businesses. Such litigation is normally covered by errors and omissions or other appropriate insurance. However, significant litigation could cause Camco to devote substantial time and resources to defending its business or result in judgments or settlements that exceed insurance coverage, which could have a material adverse effect on Camco s financial condition and results of operation. Further, any claims asserted against Camco, regardless of merit or eventual outcome may harm Camco s reputation and result in loss of business. In addition, Camco may not be able to obtain new or different insurance coverage, or adequate replacement policies with acceptable terms.

22

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The following table provides the location of, and certain other information pertaining to, Camco s office premises as of December 31, 2012, with dollars in thousands:

Office Location	Year facility commenced operations	Leased or owned	Net book value (1)
134 E. Court Street Washington Court House, Ohio	1963	Owned	$ 414.8
1050 Washington Ave. Washington Court House, Ohio	1996	Owned	495.2
1 N. Plum Street Germantown, Ohio	1998	Owned	412.2
675 West Main Street New Lebanon, Ohio	1998	Owned	67.4
2 East High Street London, Ohio	2004	Owned	453.5
3002 Harrison Avenue Cincinnati, Ohio	2000	Owned	732.8
1111 St. Gregory Street Cincinnati, Ohio	2000	Leased(2)	0
226 Third Street Marietta, Ohio	1973	Owned	408.4
1925 Washington Boulevard Belpre, Ohio	1979	Owned	268.2
478 Pike Street Marietta, Ohio	1998	Leased(3)	457.2
814 Wheeling Avenue Cambridge, Ohio	1963	Owned	753.5
327 E. 3rd Street Uhrichsville, Ohio	1975	Owned	61.1
175 N. 11th Street Cambridge, Ohio	1981	Owned	245.3
209 Seneca Avenue Byesville, Ohio	1978	Leased(4)	7.7

Office Location	Year facility commenced operations	Leased or owned	Net book value (1)
547 S. James Street Dover, Ohio	2002	Owned	352.9
2497 Dixie Highway Ft. Mitchell, Kentucky	2001	Owned	479.0
401-7 Pike Street Covington, Kentucky	2001	Owned	67.8
7550 Dixie Highway Florence, Kentucky	2001	Owned	367.5
1500 Grand Central Ave.- Suite #102 Vienna, West Virginia	2004	Leased(5)	66.4
123 Southgate Parkway Cambridge, Ohio	2005	Leased(6)	98.6
6360 Tylersville Road Mason, Ohio	2006	Leased(7)	120.8
1104 Eagleton Blvd. London, Ohio	2006	Leased(8)	234.6
828 Wheeling Avenue Cambridge, Ohio	2007	Leased(9)	0
440 Polaris Parkway Westerville, Ohio	2009	Leased(10)	9.6
126 S. 9th Street Cambridge, Ohio	2011	Leased(11)	0

(1) Net book value amounts are for land, buildings, improvements and construction in progress.

(2) The lease expires in February 2016.

(3) The lease expires in November 2017. Advantage has the option to renew for one five-year terms. The lease is for land only.

(4) The lease expires in September 2015.

(5) The lease expires in October 2013. Advantage has the option to renew for three five-year terms.

(6) The lease expires in June 2014. Advantage has the option to renew for three one-year terms. Advantage has a first right of renewal and an option to purchase.

(7) The lease expires in October 2016. Advantage has the option to renew the lease for two five-year terms.

(8) The lease expires in May 2014. Advantage has the option to renew for one three-year term.

(9) The lease is month to month with a 90 day notice of intention to vacate the premises.

(10) The lease expires in March 2018. Advantage has the option to renew for two five-year terms. Advantage moved suites within the same building in December 2012 upon expiration of prior lease.

(11) The lease expires in March 2013. Advantage has the option to renew for one one-year extension. The lease includes office space, storage and parking.

Camco also owns furniture, fixtures and equipment. The net book value of Camco s investment in office premises and equipment totaled $1.5 million at December 31, 2012. See Note E of Notes to Consolidated Financial Statements in Item 8 below.

Item 3. Legal Proceedings.

In the ordinary course of their respective businesses or operations, Camco or the Bank may be named as a plaintiff, a defendant, or a party to a legal proceeding or any of their respective properties may be subject to various pending and threatened legal proceedings and various actual and potential claims. In view of the inherent difficulty of predicting the outcome of such matters, Camco cannot state what the eventual outcome of any such matters will be; however, based on current knowledge and after consultation with legal counsel, management believes that these proceedings will not have a material adverse effect on the consolidated financial position, results of operations or liquidity of Camco.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant s Common Equity Related Stockholder Matters and Issuer Purchases of Equity Securities.

At December 31, 2012, Camco had 13,233,036 shares of common stock with approximately 2,790 holders of record. Camco s common stock is listed on The Nasdaq Global Market (Nasdaq) under the symbol CAFI. The table below sets forth the high and low closing price for the common stock of Camco, per quarter, together with the dividends declared per share of common stock, for each quarter of 2012 and 2011.

	High	Low	Cash Dividends Declared
Year ended December 31, 2012 (1)			
Quarter ending:			
December 31, 2012	$ 2.34	$ 1.65	$ 0.00
September 30, 2012	2.50	1.83	0.00
June 30, 2012	2.70	2.01	0.00
March 31, 2012	2.80	1.27	0.00
Year ended December 31, 2011 (1)			
Quarter ending:			
December 31, 2011	$ 1.48	$ 1.10	$ 0.00
September 30, 2011	1.90	1.18	0.00
June 30, 2011	2.00	1.56	0.00
March 31, 2011	2.41	1.65	0.00

(1) See Liquidity and Capital Resources in Item 7 of this Form 10-K for discussion of restrictions that materially limit Camco s ability to pay dividends.

Camco did not repurchase any stock during the fourth quarter of 2012.

Item 6. Selected Consolidated Financial Data.

The following tables set forth certain information concerning the consolidated financial position and results of operations of Camco for the periods indicated. This selected consolidated financial data should be read in conjunction with the consolidated financial statements appearing elsewhere in this report.

SELECTED CONSOLIDATED FINANCIAL DATA:

As of December 31:	2012	2011	2010	2009	2008
			(In thousands)		
Total amount of:					
Assets	$ 764,259	$ 767,018	$ 814,966	$ 842,655	$ 1,000,446
Interest-bearing deposits in other financial institutions	44,564	21,954	15,971	17,663	35,272
Securities available for sale at market	85,298	17,845	30,768	55,950	85,352
Securities held to maturity	903	3,083	3,948	2,113	13,406
Loans receivable net[1]	561,119	647,267	670,048	659,497	758,826
Deposits	627,224	629,259	651,816	659,902	723,956
FHLB advances and other borrowings	64,220	80,285	104,464	109,232	183,833
Stockholders equity	59,727	45,605	46,103	60,514	71,700

SELECTED CONSOLIDATED OPERATING DATA:

For the year ended December 31:	2012	2011	2010	2009	2008
			(In thousands, except per share data)		
Total interest income	$ 31,623	$ 36,237	$ 40,821	$ 44,724	$ 56,783
Total interest expense	7,732	10,374	14,434	20,594	30,974
Net interest income	23,891	25,863	26,387	24,130	25,809
Provision for losses on loans	144	2,279	18,460	21,792	14,793
Net interest income after provision for losses on loans	23,747	23,584	7,927	2,338	11,016
Other income	7,999	6,498	7,364	8,261	3,708
General, administrative and other expense	27,641	29,324	29,332	28,113	28,481
Goodwill Impairment	0	0	0	0	6,683
Earnings (loss) before federal income taxes (credits)	4,105	758	(14,041)	(17,514)	(20,440)
Federal income taxes (credits)	(58)	544	518	(6,297)	(5,116)
Net earnings (loss)	$ 4,163	$ 214	$ (14,559)	$ (11,217)	$ (15,324)
Earnings (loss) per share:					
Basic	$ 0.50	$ 0.03	$ (2.02)	$ (1.56)	$ (2.14)
Diluted [2]	$ 0.50	$ 0.03	$ (2.02)	$ (1.56)	$ (2.14)
Dividends declared per share	$ 0.0000	$ 0.0000	$ 0.0000	$ 0.0200	$ 0.2625
Return on average assets [3]	0.54%	0.03%	(1.72)%	(1.20)%	(1.50)%
Return on average equity [3]	8.56%	0.47%	(26.39)%	(15.73)%	(17.93)%
Average equity to average assets [3]	6.32%	5.80%	8.29%	7.63%	8.34%
Dividend payout ratio [4]	N/A [5]	N/A [5]	N/A [5]	N/A [5]	N/A [5]

(1) Includes loans held for sale.

(2) Represents a pro-forma presentation based upon net earnings from operations divided by weighted-average basic and diluted shares outstanding.

(3) Ratios are based upon the mathematical average of the balances at the end of each month.

(4) Represents dividends per share divided by basic earnings per share.

(5) Not meaningful.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

General

Since its incorporation in 1970, Camco Financial Corporation (Camco or the Corporation) has evolved into a full-service provider of financial products through its subsidiary, Advantage Bank (Advantage or Bank). Utilizing a common marketing theme based on Camco s commitment to personalized customer service, Camco has grown from $22.8 million of consolidated assets in 1970 to $764.3 million of consolidated assets at December 31, 2012. Camco s rate of growth is largely attributable to its acquisitions and its expansion of product lines from the limited deposit and loan offerings which the Bank could offer in the heavily regulated environment of the 1970s to the wider array of financial service products that commercial banks traditionally offer.

Management believes that continued success in the financial services industry will be achieved by those institutions with a rigorous dedication to building value-added customer-oriented organizations. Toward this end, each of the Bank s regions has the ability to make local decisions for customer contacts and services, however back-office operations are consolidated and centralized. Based on consumer and business preferences, the Bank s management designs financial service products with a view towards differentiating each of the constituent regions from its competition. Management believes that the Bank regions ability to rapidly adapt to consumer and business needs and preferences is essential to them as community-based financial institutions competing against the larger regional and money-center bank holding companies.

Camco s profitability depends primarily on its level of net interest income, which is the difference between interest income on interest-earning assets, principally loans, mortgage-backed securities and investment securities, and interest expense on deposit accounts and borrowings. In recent years, Camco s operations have also been heavily influenced by its credit losses and the need for additional provision for loan losses, the level of other income, including mortgage banking income and other fee income. Camco s operations are also affected by general, administrative and other expenses, including employee compensation and benefits, occupancy expense, data processing, franchise taxes, advertising, other operating expenses and federal income tax expense.

Overview

During 2012, the economic environment for financial services companies improved slightly, but continued to be challenging. Bankruptcies, foreclosures and prolonged unemployment have continued and the oversupply of housing continues to depress property values. Due to the decreased property values, the government has expanded the Home Affordable Refinance Program (HARP) for borrowers that are current with payments on their mortgages. HARP enables them to refinance up to 125% loan to value. This coupled with interest rates decreasing in 2012, has created a higher loan application level, but has also decreased the value of our seasoned loans within our mortgage servicing rights asset.

We continued to execute our long-term strategic plan to diversify the balance sheet, and improve delinquency, loan quality and our funding mix by reducing borrowings and increasing transaction-based deposits.

In 2012, total deposits decreased $2.0 million or 0.3% as we continued our goal of decreasing higher yielding certificates of deposits while increasing core deposit growth related to a number of organizational and product development initiatives, which included our suite of commercial and small business checking accounts, online business cash management system, and remote deposit capture solutions. We have continued to build our deposits with these new products and believe these products will continue to help us be more competitive for business checking accounts. Competition for deposits continues to put pressure on marginal funding costs, despite continued low rates in 2012, but our goal is to continue our strategy and build core customer accounts that are normally a lower cost of funding.

During 2012, Camco experienced improving trends in asset quality metrics. Nonperforming loans decreased $5.3 million, or 21.4% from $24.9 million at December 31, 2011 to $19.6 million at the end of 2012. Net charge offs totaled $2.5 million during 2012 compared to $4.6 million during 2011. These decreases demonstrate our continued diligence in managing our delinquencies and working with our loan customers in order to reduce losses for them, as well as our Corporation. Additionally, the amount of classified loans has decreased not only due to charge offs and sales of various assets, but also due to upgrading the loan quality ratings of various commercial loans related to improved borrower financial performance combined, in some cases, with restructured credit facilities, which has resulted in lower provisions for loan losses.

The Corporation engaged an investment banking firm in 2010 to evaluate capital plan initiatives such as balance sheet reduction, the sale of branches, and issuing common stock, preferred stock, debt or some combination of those issuances, or other financing alternatives that would be treated as capital. On November 8, 2012, Camco announced the successful and fully subscribed closing of a $10.0 million rights and private offering. Net proceeds of $9.4 million, net of offerings costs of $619,000 were invested in Advantage to improve its regulatory capital position. *See* Note-K for additional information.

We believe we are taking significant steps forward in managing our operational efficiency. In 2011, we launched online statements, a more convenient way of banking for many customers, and we are continuing our focus on improving noninterest income and controlling noninterest expense by refining our operations. We continue to analyze new products to deepen relationships with our core customers and improve the structure of our balance sheet and create efficiency throughout.

On March 4, 2011, Camco was notified by the FRB that by March 31, 2011 it must divest of activities conducted pursuant to section 4(k) of the BHC Act, which meant Camco Title Agency, and that it must decertify as a financial holding company. Camco complied with this request by liquidating Camco Title Agency and decertifying on March 31, 2011. After it decertified, Camco remained a bank holding company.

This Management Discussion and Analysis is intended to give stockholders a more comprehensive review of the issues facing management than could be obtained from an examination of the financial statements alone. This analysis should be read in conjunction with the consolidated financial statements and related footnotes and the selected financial data elsewhere in this annual report. As used herein and except as the context may otherwise require, references to Camco, the Corporation , we, us, or our means, collectively, Camco Financial Corporation and i wholly owned subsidiary, Advantage Bank.

Critical Accounting Policies

Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as disclosures found elsewhere in this annual 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, the fair value of other real estate owned and the valuation of deferred tax assets. Actual results could differ from those estimates.

Summary. We believe the accounting estimates related to the allowance for loan losses, the capitalization, amortization, and valuation of mortgage servicing rights, the value of other real estate owned and deferred income taxes are critical accounting estimates because: (1) the estimates are highly susceptible to change from period to period because they require us to make assumptions concerning the changes in the types and volumes of the portfolios, rates of future prepayments, and anticipated economic conditions, (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, (3) the value of real estate owned could change materially due to the current economy and unemployment rates, and (4) assumptions and conditions could be incorrect related to the valuation allowance and the amount of income taxes payable may need to be adjusted by way of a charge to expense.

Allowance for Loan Losses

The procedures for assessing the adequacy of the allowance for loan losses reflect management s evaluation of credit risk after careful consideration of all information available to management. In developing this assessment, management 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.

Each quarter, management analyzes the adequacy of the allowance for loan losses based on a review of the loans in the portfolio along with an analysis of external factors (including current housing price depreciation, homeowners loss of equity, etc) and historical delinquency and loss trends. The allowance is developed through specific components: 1) the specific allowance for loans subject to individual analysis, 2) the allowance for classified loans not otherwise subject to individual analysis and 3) the allowance for non-classified loans (primarily homogenous).

Classified loans with indication or acknowledgment of deterioration are subject to individual analysis. Loan classifications are those used by regulators consisting of Special Mention, Substandard, Doubtful and Loss. In evaluating these loans for impairment, the measure of expected loss is based on the present value of the expected future cash flows discounted at the loan s effective interest rate, a loan s observable market price or the fair value of the collateral if the loan is collateral dependent. All other classified assets and non-classified assets are combined with the homogenous loan pools and segregated into loan segments. The segmentation is based on grouping loans with similar risk characteristics (one-to-four family, home equity, etc.). Loss rate factors are developed for each loan segment, which are used to estimate losses and determine an allowance. The loss factors for each segment are derived from historical delinquency, classification, and charge-off rates adjusted for economic factors and an estimated loss scenario.

The allowance is reviewed by management to determine whether the amount is considered adequate to absorb probable losses to the loan portfolio. Management s evaluation of the adequacy of the allowance is an estimate based on management s current judgment about the credit quality of the loan portfolio. 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. Management also considers trends in delinquencies and loan losses for the bank specifically, the region, the nation, and other economic factors. 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 provides information representing loan information in each pooling period accompanied by escrow amounts to a third party valuation firm. The third party then evaluates the possible impairment of MSRs as described below.

MSRs are recognized as separate assets or liabilities when loans are sold with servicing retained. A pooling methodology, in which loans with similar characteristics are pooled together, is applied for valuation purposes. Once pooled, each group of loans is evaluated on a discounted earnings basis to determine the present value of future earnings that the Bank expects to realize from the portfolio. Earnings are projected from a variety of sources including loan service fees, net interest earned on escrow balances, miscellaneous income and costs to service the loans. The present value of future earnings is the estimated fair value for the pool, calculated using consensus assumptions that a third party purchaser would utilize in evaluating a potential acquisition of the MSR s.

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 net interest earned on escrow balances, 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 a third party provider utilizing the Economic Outlook as published by the Office of the 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 earnings are used to calculate the approximate 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 MSR s are marked to lower of amortized cost or fair value for the current quarter.

Deferred Income Taxes

Camco recognizes expense for federal income taxes currently payable as well as for deferred federal taxes for estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the consolidated balance sheets. Realization of a deferred tax asset is dependent upon generating sufficient taxable income in either the carry forward or the carry back periods to cover net operating losses generated by the reversal of temporary differences. A valuation allowance is provided by way of a charge to income tax expense if it is determined that it is more likely than not that some or all of the deferred tax asset will not be realized. If different assumptions and conditions were to prevail, the valuation allowance may not be adequate to absorb unrealized deferred taxes and the amount of income taxes payable may need to be adjusted by way of a charge to expense. Furthermore, income tax returns are subject to audit by the IRS. Income tax expense for current and prior periods is subject to adjustment based upon the outcome of such audits. Camco believes it has adequately accrued for all probable income taxes payable. Accrual of income taxes payable and valuation allowances against deferred tax assets are estimates subject to change based upon the outcome of future events. See Note I for additional information related to the current 100% valuation allowance and IRS appeals process.

Other Real Estate Owned

Assets acquired through or instead of foreclosure, primarily other real estate owned, are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. New real estate appraisals are generally obtained at the time of foreclosure and are used to establish fair value. If fair value declines, a valuation allowance is recorded through expense. Estimating the initial and ongoing fair value of these properties involves a number of factors and judgments including holding time, costs to complete, holding costs, discount rate, absorption and other factors.

Discussion of Financial Condition Changes from December 31, 2012 to December 31, 2011

At December 31, 2012, Camco s consolidated assets totaled $764.3 million, a decrease of $2.8 million, or 0.4%, from the December 31, 2011 total. The decrease in total assets was comprised primarily of decreases in loans receivable offset partially by increases in securities available for sale and interest bearing deposits in other financial institutions.

Loans receivable has decreased due to continued paydowns and refinancing from adjustable rate to fixed rate loans. Our strategy of selling fixed rate products continues to shift the loan portfolio toward commercial loans. Current and upcoming loan rates may slow or increase residential lending and the sale of fixed rate loans. Due to the continued low interest rate environment over the past few years, we believe that is not likely that the profits on gain on sale of mortgage loans will be as strong in 2013 as the margins continue to decrease and many customers have already refinanced into the lower available rates. Possible growth in deposits, related to our strategic planning would most likely be used to purchase investments or fund commercial loan growth. Management continues its overall focus on managing credit, reducing risk within the loan portfolio and enhancing liquidity and capital in the current economic environment. Continuous progress is being made on addressing these issues, but we expect the distressed economic environment to continue through 2013, which may slow expectations.

Cash and interest-bearing deposits in other financial institutions totaled $58.4 million at December 31, 2012, an increase of $20.0 million, or 52.1%, from December 31, 2011 levels. Cash has increased as we have begun to restructure the balance sheet by decreasing assets and liabilities when possible to improve our capital position in conjunction with ensuring loan concentration levels and on-hand liquidity as appropriate. Additionally, Federal Reserve balances have increased from $2.2 million at December 31, 2011 to $39.2 million at December 31, 2012 in relation to risk based capital considerations and higher yield on the excess cash.

Securities totaled $86.2 million at December 31, 2012, an increase of $65.3 million, or 311.9%, from December 31, 2011 due to securities purchases of $99.2 million, which were partially offset by the sale of $4.3 million in securities and principal repayments, calls and maturities of $29.8 million. New purchases were primarily investment securities at a weighted rate of 0.67%. The securities portfolio has a weighted maturity that is relatively short in order to minimize extension risk. We have purchased callable agencies to maximize yield and liquidity. Approximately $19.5 million or 22.6% of the portfolio has a callable option which management expects to be exercised during the year. If the investments are not called, final maturity dates range from January, 2013 to March, 2014.

Loans receivable net and loans held for sale totaled $561.1 million at December 31, 2012, a decrease of $86.1 million, or 13.3%, from the total at December 31, 2011. The decrease resulted primarily from principal repayments of $290.4 million, loan sales of $109.2 million and $5.1 million of loans transferred to real estate owned, offset partially by loan funding totaling $318.5 million. Principal repayments are higher than 2011 related to our inability to originate certain types of commercial loans in early 2012 because of our concentration levels, which was coupled with large commercial payoffs in November and December of 2012. The commercial pipeline going into 2013 is strong and we expect originations to partially offset the payoffs that occurred in the fourth quarter of 2012. Additionally, the reduction in residential real estate loan balances was intensified by the secondary market offering historically low long-term fixed rates throughout 2012. Customers continue to refinance in 2012 to record low interest rates.

During 2012, the average yield on loans was 5.17% a decrease of 33 basis points as compared to 5.50% for 2011. The decrease in yield is due to lower average loan balances within our commercial and consumer loan portfolios, which are generally higher yielding assets. This was coupled with lower effective rates in the loan portfolio during 2012. Adjustable rate loans continued to re-price lower in 2012 due to the current low rate environment and new loans are also being originated at these lower market rates. Adjustable rate loans for home equity lines of credits and residential first mortgage have floors that range from 3-4% and 2.75-3% respectively after reaching the first adjustment period. In 2012 many of the higher rate commercial real estate loans were refinanced by other financial institutions and our new loans had to be priced at a lower competitive net interest margin that did not include floors on real estate projects like in previous years.

The allowance for loan losses totaled $12.1 million and $14.5 million at December 31, 2012 and 2011, respectively, representing 62.0% and 58.3% of nonperforming loans at those dates. Nonperforming loans (three monthly payments or more delinquent plus nonaccrual loans) totaled $19.6 million and $24.9 million at December 31, 2012 and 2011, respectively, constituting 3.5% and 3.8% of total net loans, including loans held for sale, at those dates. Net charge-offs totaled $2.5 million for 2012 and were primarily comprised of $2.6 million of residential real estate. *See* Note C to the financial statements for additional information.

The following table details delinquent and nonperforming loans at December 31, 2012 and 2011:

(in thousands)	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Non-Performing	Accruing Loans 90 or More Days Past Due	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Non-Performing	Accruing Loans 90 or More Days Past Due
	2012				2011			
Construction	$ 0	$ 0	$ 14	$ 0	$ 0	$ 0	$ 19	$ 0
Land, Farmland & Ag	65	32	709	0	103	0	367	0
Residential	4,825	2,087	16,347	0	6,018	2,086	22,277	0
Commercial	0	0	1,967	0	462	527	1,879	0
Consumer	100	1	491	0	54	77	113	0
Commercial and industrial	0	0	66	0	45	0	212	0
Multi Family	227	0	0	0	0	0	51	0
Total	$ 5,217	$ 2,120	$ 19,594	$ 0	$ 6,682	$ 2,690	$ 24,918	$ 0

The economy has a major effect on the unemployment rate which continues to be higher than normal. Joblessness can affect the capability of businesses and homeowners to pay for their loan payments and can lead to increased delinquencies. However, initial un-employment insurance claims remain steady nationwide, in Ohio and in the Bank s markets. As of the fourth quarter of 2012, Ohio s un-employment rate is 6.80% and the national un-employment rate is 7.80%. The average un-employment rate in the Bank s market areas decreased .07% to 6.67% when comparing third quarter 2012 to fourth quarter 2012. The labor force weighted un-employment rate in the Bank s markets is 6.03% which is below the Ohio average and the national average. The Ohio un-employment rate has declined for twenty consecutive months prior to August 2011 then continued the downward trend in December 2011 for another thirteen consecutive months.

The Corporation works with borrowers to avoid foreclosure if possible and we continue to aggressively work with borrowers to mitigate additional losses. If it becomes inevitable that a borrower will not be able to retain ownership of their property, the Corporation often seeks a deed in lieu of foreclosure in order to gain control of the property earlier in the recovery process. The strategy of pursuing deeds in lieu of foreclosure should result in a reduction in the holding period for nonperforming assets and ultimately reduce economic losses.

At December 31, 2012, the Corporation s real estate owned (REO) consisted of 150 repossessed properties with a net book value of $10.6 million compared to $10.9 million at December 31, 2011. When property is acquired through foreclosure or deed in lieu of foreclosure, it is initially recorded at the fair value of the related assets at the date of foreclosure, less estimated costs to sell the property. Initial loss is recorded as a charge to the allowance for loan losses within 90 days of being transferred to REO. Thereafter, if there is a further deterioration in value, a specific valuation allowance is established and charged to operations. The Corporation reflects costs to carry REO as period costs in operations when incurred.

Deposits totaled $627.2 million at December 31, 2012 a decrease of $2.0 million, or 0.32% from December 31, 2011. The following table details our deposit portfolio balances and the average rate paid on our deposit portfolio at December 31, 2012 and December 31, 2011:

	At December 31, 2012		2011		Change	
	Amount	Weighted-average rate	Amount	Weighted-average rate	Amount	Weighted-average rate
	(Dollars in thousands)					
Non-interest bearing demand	$ 76,490	0.00%	$ 62,881	0.00%	$ 13,609	0.00%
Interest-bearing demand	70,472	0.13	64,213	0.18	6,259	(0.05)
Money market demand accounts	121,437	0.24	114,503	0.45	6,934	(0.21)
Savings accounts	54,726	0.05	42,417	0.10	12,309	(0.05)
Total certificate accounts	304,099	1.28	345,245	1.65	(41,146)	(0.37)
Total deposits	$ 627,224	0.69%	$ 629,259	1.01%	$ (2,035)	(0.32)%

The decrease in deposits was primarily due to decreases in certificates of deposits offset partially by an increase in core relationships such as noninterest-bearing demand and money markets. We continue to focus and implement our strategy of improving the long-term funding mix of the Bank s deposit portfolio by developing deeper core relationships with small businesses, and adding commercial and retail checking accounts. In 2010, we implemented a number of organizational and product development initiatives including a new suite of commercial and small business checking accounts, enhancements to our online business cash management system, and the launch of a remote deposit capture solution. In 2011, we continued to build our deposits with these new products and believe these products will continue to help us be more competitive for acquiring new business checking accounts. See Liquidity and Capital Resources in this MD&A for further discussion on our deposit strategy and additional liquidity risks.

We continued to slightly reduce the rates offered on some of our accounts and feel we are competitive with current markets and are planning on continued strategic growth of core relationships . To reduce interest rate risk over the long term, we will continue our efforts to lengthen the duration of our deposit structure and our FHLB borrowings, but over the past few years it has not been the customers preference to lengthen deposits in such a low interest rate environment. Additionally, lengthening the cost of funds would add costs and reduce the current margin.

In 2011, all of our brokered deposits matured, which, coupled with our strategy to continue growing core deposits, helped decrease the cost of funds in 2012. We intend to continue our strategy of improving the long-term funding mix of the Bank s deposit portfolio by growing small business, commercial and retail checking accounts. In the future, we do not expect to use brokered deposits for liquidity position but they may be used, if needed, as contingency funding.

Advances from the FHLB and other borrowings decreased by $16.1 million, or 20.0%, to a total of $64.2 million at December 31, 2012. There are no advances expected to mature in 2013 but the Corporation will continue to review the possibilities of early payoff if it becomes reasonable related to early payoff fees offset by the decrease in yield paid over the life of the borrowing. The Corporation continues to focus on our strategy of growing and replacing a portion of these funding sources with core relationship deposits (checking, savings, money market and CD accounts).

Stockholders equity totaled $59.7 million at December 31, 2012, an increase of $14.1 million, or 31.0% from December 31, 2011. The increase resulted from additional capital raised during the offering of $9.4 million (net of expenses), net earnings of $4.2 million coupled with $465,000 of stock-based compensation expenses and an increase of $113,000 in accumulated other comprehensive income related to the fair value of our investment securities. *See* Consolidated Statements of Stockholders Equity on page 47 for additional information.

As a result of the 2012 Consent Order, the Bank must have Tier 1 leverage to average assets of 9.00% in order to be deemed adequately-capitalized . At December 31, 2012 the Bank s Tier 1 leverage to average assets was 8.19%. A failure to comply with the capital directive could result in additional enforcement actions by the FDIC or the Division.

Comparison of Results of Operations for the Years Ended December 31, 2012 and December 31, 2011

General. Camco s net earnings of $4.2 million, or $0.50 per share for the year ended December 31, 2012, increased from $214,000, or $0.03 per share for the year ended December 31, 2011. The increase in earnings was primarily attributable to decreased provision for losses on loans, increased gain on sale of loans, increased rent and other, decreased expenses related to other real estate owned, and loan expenses offset partially by decreased net interest income and decreased gain on sale of investments.

Net Interest Income. Net interest income for the year ended December 31, 2012, amounted to $23.9 million, a decrease of $2.0 million, or 7.6%, compared to 2011, generally reflecting the effects of re-pricing of assets in the current lower interest rate environment coupled with decreased average balances in higher yielding loans receivable. Net interest margin decreased 25 basis points to 3.41% for the twelve months ended December 31, 2012 compared to 3.66% for the comparable period in 2011. The decrease in net interest margin during the 2012 period, compared to the same period of 2011, was due primarily to a lower volume of higher interest-earning assets such as loans receivable and a lower yield on those assets offset partially by a lower average yield on deposits related to the increase in core deposits and decreased higher yielding certificates of deposits.

We have continued with our strategies and offset decreased interest earned by decreasing the balances of our borrowed funds when applicable. Additionally, we continue to re-price deposits on a year to year comparison, which helped reduce overall deposit funding costs by 33 basis points throughout 2012. Our strategy is to continue to maintain cost of funds by increasing deposits related to our commercial relationships instead of borrowing at higher yields.

Interest income on loans totaled $30.7 million for the year ended December 31, 2012, a decrease of $4.3 million, or 12.3%, from the comparable 2011 total. The decrease resulted primarily from a 33 basis point decrease in the average yield, from 5.50% in 2011, to 5.17% in 2012, coupled with a $43.1 million, or 6.8%, decrease in the average balance of loans outstanding year to year.

Interest income on securities totaled $484,000 for the year ended December 31, 2012, a $94,000, or 16.3% decrease from the 2011 period. The decrease was due primarily to the sale of $27.2 million of securities in 2011 at higher yields, which in turn decreased the current yield by 207 basis points, to 0.72% in 2012 from 2.79% in 2011. Interest income on FHLB stock decreased by $252,000 or 36.5%, due primarily to a 161 basis point decrease in the average yield, from 6.05% in 2011, to 4.44% in 2012. Interest income on other interest-bearing deposits increased by $14,000 or 116.7%, due to an $8.8 million or 22.4% increase in the average balance outstanding year to year.

Interest expense on deposits totaled $5.3 million for the year ended December 31, 2012, a decrease of $2.2 million, or 28.9%, compared to the year ended December 31, 2011. This was due primarily to the continued managed reduction in certificates of deposit and declines in interest rates paid on deposits during 2012. A decrease of 34 basis points in the average cost of deposits, to 0.94% for 2012, was coupled with a $17.3 million, or 3.0%, decrease in the average balance of interest-bearing deposits outstanding year to year. Interest expense on borrowings totaled $2.4 million for the year ended December 31, 2012, a decrease of $480,000, or 16.6%, from 2011. The decrease resulted primarily from a $4.7 million, or 6.1% decrease in the average balance outstanding year to year offset partially by a 7 basis point increase in the average rate to 3.37% in 2012.

Approximately $135.1 million, or 44.4%, of our certificate of deposit portfolio will mature during 2013. While this should present an opportunity to continue reducing our cost of funds (as these deposits are re-pricing into a slightly lower interest rate environment) most of the current certificates of deposits have already matured at least one time into the current low rate environment so little change will be attained. This is primarily due to customers preferring shorter term certificates in the current low rate environment. Additionally, we continue to experience competition for deposits in our market areas that could contribute to the ability to further reduce the marginal cost of deposits.

Continued decreases in interest rates could compress our net interest margin due to continued re-pricing between our loan and deposit portfolios. At the same time, the loan portfolio has not grown enough to offset these tighter spreads. As noted earlier, we plan to continue to diversify the loan portfolio which could slow net interest margin compression as loans are normally higher-yielding assets than investment securities and interest bearing cash accounts.

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 collectability of the Bank s loan portfolio. Higher provisions were reported 2008 through 2010 related to declines in commercial real estate values on impaired loans and loan downgrades. The higher provision in these years reflected the impact of distressed commercial real estate values and general economic conditions on specific reserves for impaired loans, while the elevated level of charge-offs in those years resulted in higher loss factors related to classified loans and carried over into 2011 and 2012. The allowance allocated to the real estate and consumer loan categories is based upon Camco s allowance methodology for homogeneous pools of loans. The decreased provision in 2012 related to higher recoveries on charged-off loans as well as the improvement in loan quality, loss experience and economic factors in each of the loan categories.

Nonperforming loans (three monthly payments or more delinquent plus nonaccrual loans) totaled $19.6 million at December 31, 2012, a decrease of $5.3 million from $24.9 million at December 31, 2011. Additionally, net charge offs decreased $2.1 million to $2.5 million for the year ended December 31, 2012 compared to $4.6 million for the year ended December 31, 2011.

The decrease in the allowance from December 31, 2011 to December 31, 2012 was significantly related to better loan quality and the decreased volume of classified assets that continued to improve throughout 2012 even though the economic recovery within the Company s markets continues to be sluggish. The overall reduction in the classified loan balances coupled with decreased loss rates led to a decrease in the provision related to the allowance for loan and lease losses in the fourth quarter of 2012. Additionally, qualitative factors related to sub-prime (credit scores below 660) lending decreased as the balances of the portfolio decreased from $57.6 million at December 31, 2011 to $50.8 million at December 31, 2012 of which 87.5% of the portfolio was current. Based upon an analysis of these factors and the continued decrease of nonperforming loans, $144,000 was recorded through the provision for loan losses for the twelve months ended December 31, 2012, compared to $2.3 million for the same period in 2011. We believe our loan loss reserve is adequate as of December 31, 2012. 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 in the future, understanding that all lending activity contains associated risks of loan losses. In addition, the mix and composition of both portfolio loans and nonperforming loans change from period to period. When the Corporation analyzes the allowance for loan losses, various ratios are considered. As of December 31, 2012, the ratio of allowance for loan losses to nonperforming loans decreased slightly from the prior year and our loan reserves also decreased, representing 2.14% of total net loans (does not include loans held for sale) versus 2.22% at December 31, 2011.

Other Income. Other income totaled $8.0 million for the year ended December 31, 2012, an increase of $1.5 million, or 23.1%, compared to 2011. The increase in other income was primarily attributable to a $2.0 million increase in the gain on sale of loans and an increase of $560,000 in the valuation of mortgage servicing rights offset partially by a decrease of a $1.1 million in gains on sales of investments.

The increase in gain on sale of loans was due to the sale of four portfolio loans in 2011 at a loss of $471,000 which was offset by the 2011 year to date gain on the sale of our mortgage banking activity of $977,000. Additionally, gain on sale increased due to a $41.4 million, or 61.2% increase in sales related to mortgage banking activity year to year.

General, Administrative and Other Expense. General, administrative and other expense totaled $27.6 million for the year ended December 31, 2012. The total expense year to year decreased $1.7 million, or 5.7%, from 2011 primarily due to decreases in real estate owned and loan expenses.

The decrease in real estate owned and other expenses is reflective of an increase in the number of properties and a golf course taken into real estate owned due to foreclosures in 2011 that resulted in increased expenses in 2011. In 2012, foreclosures continued to be high but improved management and marketing held the real estate owned portfolio around $10.0 million and with quicker sales helped to decrease expenses related to upkeep of properties.

The decrease in loan expenses was due to higher legal expenses incurred in 2011 relating to classified commercial assets and the costs of various consulting, legal and property management services necessary to properly assist management in the workout and/or foreclosure process and safeguarding of assets.

Franchise taxes are calculated utilizing equity levels and, in 2012, Camco successfully raised $10.0 million of additional capital. Due to the additional equity levels franchise taxes will increase in 2013.

Data processing systems are being reviewed as our current contract expires in 2013. We are working on increasing efficiencies and management reporting to better serve our customers and stockholders.

Federal Income Taxes. Federal income tax benefit totaled $58,000 for the year ended December 31, 2012, compared to income tax expense of $544,000 for the year ended December 31, 2011. This increase reflects the 2012 change in the valuation allowance against the Corporation s net deferred tax asset. In 2011, the Corporation sold available for sale investments that were no longer carrying a deferred position and recorded tax expense related to such transactions.

The Corporation recorded a 100% valuation allowance against the net deferred tax asset in 2010. Based on the available evidence, it was more-likely-than-not that some portion or the entire deferred tax asset would not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In making such judgments, significant weight is given to evidence that can be objectively verified. A cumulative tax loss position is considered significant negative evidence in assessing the realization of a net deferred tax asset, which is difficult to overcome. Reversal of the valuation allowance can be realized in the future based on estimates of projected taxable income.

The Corporation has a net operating loss carry forward for tax purposes of approximately $3.9 million at December 31, 2012. This compares to a net operating loss carry forward of approximately $4.5 million at December 31, 2011. The net operating loss carry forward was reduced during 2012 as the Corporation generated approximately $610,000 of taxable income during that period.

Discussion of Financial Condition Changes from December 31, 2011 to December 31, 2010

At December 31, 2011, Camco s consolidated assets totaled $767.0 million, a decrease of $47.9 million, or 5.8%, from the December 31, 2010 total. The decrease in total assets was comprised primarily of decreases in loans receivable, FHLB stock and securities available for sale which were offset partially by the increase in cash and loans held for sale.

Loans receivable decreased due to continued pay downs and refinancing from adjustable rate to fixed rate loans.

Cash and interest-bearing deposits in other financial institutions totaled $38.4 million at December 31, 2011 an increase of $9.3 million, or 31.8%, from December 31, 2010 levels. Cash increased as we began to restructure the balance sheet by decreasing assets and liabilities when possible to improve our capital position in conjunction with ensuring on-hand liquidity is adequate.

Securities totaled $20.9 million at December 31, 2011, a decrease of $13.8 million, or 39.7%, from December 31, 2010 due to the sale of $27.2 million in securities, principal repayments and maturities of $13.6 million offset partially by purchases of $27.4 million that were primarily investment securities at a weighted rate of 1.25%. Additionally, $20.0 million of FHLB stock was redeemed during the first quarter of 2011. The securities portfolio has a weighted maturity that is relatively short in order to minimize extension risk. We purchased callable agencies to maximize yield and liquidity. Approximately $16.3 million or 77.9% of the portfolio has a callable option which management expects to be exercised during the year. If the investments are not called, final maturity dates range from February, 2013 to June, 2014.

At December 31, 2011, other than $2.0 million of municipal bonds, all of our debt securities were issued and guaranteed by US Government sponsored enterprises such as Freddie Mac, Fannie Mae, Ginnie Mae and the FHLB. We held no private-label mortgage-backed securities or collateralized debt obligations.

Loans receivable net and loans held for sale totaled $647.3 million at December 31, 2011, a decrease of $22.8 million, or 3.4%, from the total at December 31, 2010. The decrease resulted primarily from principal repayments of $196.7 million, loan sales of $67.7 million and $11.2 million of loans transferred to real estate owned offset partially by loan disbursements totaling $254.9 million. Principal repayments are slightly higher than 2010 on loans and our ability to originate new loans in 2011 was not as strong as 2010. The reduction in residential real estate loan balances was intensified by the secondary market offering historically low long-term fixed rates during most of 2010 and throughout 2011. Many customers refinanced in 2010 when the rates originally dropped to record lows.

During 2011, the average yield on loans was 5.50% a decrease of 22 basis points as compared to 5.72% for 2010. The decrease in yield was due to lower average loan balances within our commercial and consumer loan portfolios, which are generally higher yielding assets. This was coupled with lower effective rates in the loan portfolio during 2011. Adjustable rate loans re-priced lower in 2011 due to the current low rate environment and new loans are also being originated at these lower market rates.

The allowance for loan losses totaled $14.5 million and $16.9 million at December 31, 2011 and 2010, respectively, representing 58.3% and 49.9% of nonperforming loans at those dates. Nonperforming loans (three monthly payments or more delinquent plus nonaccrual loans) totaled $24.9 million and $33.8 million at December 31, 2011 and 2010, respectively, constituting 3.8% and 4.9% of total net loans, including loans held for sale, at those dates. Net charge-offs totaled $4.6 million for 2011 and were primarily comprised of $2.8 million of residential real estate and $1.7 million of commercial and non-residential. *See* Note C to the financial statements for additional information.

The following table details delinquent and nonperforming loans at December 31, 2011 and 2010:

(in thousands)	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Non-Performing	Accruing Loans 90 or More Days Past Due	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Non-Performing	Accruing Loans 90 or More Days Past Due
	2011				2010			
Construction	$ 0	$ 0	$ 19	$ 0	$ 75	$ 0	$ 1,791	$ 0
Land, Farmland & Ag	103	0	367	0	0	0	0	0
Residential	6,018	2,086	22,277	0	5,701	1,794	21,498	0
Commercial	462	527	1,879	0	0	2,766	7,717	0
Consumer	54	77	113	0	36	3	39	0
Commercial and industrial	45	0	212	0	85	0	706	0
Multi Family	0	0	51	0	85	0	2,028	0
Total	$ 6,682	$ 2,690	$ 24,918	$ 0	$ 5,982	$ 4,563	$ 33,779	$ 0

Initial un-employment insurance claims were down slightly nationwide, in Ohio and in our Bank markets. As of the fourth quarter of 2011, Ohio and the national un-employment rates were identical at 8.50%. The average un-employment rate in the Bank s market areas decreased 1.40% to 7.98% when comparing third quarter 2011 to fourth quarter 2011. The labor force weighted un-employment rate in the Bank s markets was 7.36% which was below the Ohio average and the national average.

At December 31, 2011, the Corporation s real estate owned (REO) consisted of 158 repossessed properties with a net book value of $10.9 million compared to $10.1 million at December 31, 2010.

Deposits totaled $629.3 million at December 31, 2011 a decrease of $22.6 million, or 3.5% from December 31, 2010. The following table details our deposit portfolio balances and the average rate paid on our deposit portfolio at December 31, 2011 and December 31, 2010:

	December 31, 2011		December 31, 2010 (In thousands)		Change	
	Balance	Rate	Balance	Rate	Balance	Rate
Noninterest-bearing demand	$ 62,881	0.00%	$ 46,597	0.00%	$ 16,284	0%
Interest-bearing demand	64,213	0.18	65,679	0.30	(1,466)	(0.12)
Money market	114,503	0.45	96,294	0.69	18,209	(0.24)
Savings	42,417	0.10	38,665	0.25	3,752	(0.15)
Certificates of deposit retail	345,245	1.65	392,098	1.93	(46,853)	(0.28)
Certificates of deposit brokered	0	0	12,483	3.60	(12,483)	(3.60)
Total deposits	$ 629,259	1.01%	$ 651,816	1.38%	$ (22,557)	(0.37)%

Advances from the FHLB and other borrowings decreased by $24.2 million, or 23.1%, to a total of $80.3 million at December 31, 2011.

Stockholders equity totaled $45.6 million at December 31, 2011, a decrease of $498,000, or 1.1% from December 31, 2010. The decrease resulted from net earnings of $214,000 coupled with $331,000 of stock-based compensation expenses related to FAS 123R which was offset by a $1.0 million decrease in accumulated other comprehensive income related to the fair value of our investment securities as an unrealized gain was realized through the sale of securities. *See* Consolidated Statements of Stockholders Equity on page 47 for additional information.

Comparison of Results of Operations for the Years Ended December 31, 2011 and December 31, 2010

General. Camco s net earnings of $214,000, or $0.03 per share for the year ended December 31, 2011, increased from the net loss of $14.6 million, or ($2.02) per share for the same period in 2010. The increase in earnings was primarily attributable to decreased provision for losses on loans, increased gain on sale of investments, increased rent and other offset partially by increased expenses related to other real estate owned, decreased gain on sale of loans and title fees.

Net Interest Income. Net interest income for the year ended December 31, 2011, amounted to $25.9 million, a decrease of $524,000, or 2.0%, compared to 2010, generally reflecting the effects of re-pricing of liabilities in the current lower interest rate environment. Net interest margin increased 16 basis points to 3.66% for the twelve months ending December 31, 2011 compared to 3.5% for the comparable period in 2010. The increase in net interest margin during the 2011 period, compared to the same period of 2010, was due primarily to a lower cost of interest-bearing liabilities in the 2011 period offset partially by a lower volume of interest-earning assets and a lower yield on those assets.

We continued our strategies and offset decreased interest earned by decreasing the balances of our borrowed funds when applicable. Additionally, we continued to re-price deposits on a year to year comparison, which helped reduce overall deposit funding costs by 43 basis points throughout 2011. Our strategy is to continue to maintain cost of funds by increasing deposits related to our commercial relationships instead of borrowing at higher yields.

Interest income on loans totaled $35.0 million for the year ended December 31, 2011, a decrease of $2.6 million, or 7.0%, from the comparable 2010 total. The decrease resulted primarily from a 22 basis point decrease in the average yield, from 5.72% in 2010, to 5.50% in 2011, coupled with a $21.3 million, or 3.2%, decrease in the average balance of loans outstanding year to year. Interest income on securities totaled $578,000 for the year ended December 31, 2011, a $1.3 million, or 69.7% decrease from the 2010 period. The decrease was due primarily to a $23.7 million, or 53.3% decrease in the average balance outstanding, coupled with a 150 basis point decrease in the average yield, to 2.79% in 2011. Interest income on FHLB stock decreased by $616,000 or 47.1%, due primarily to a decrease in the average balance outstanding of $18.5 million or 61.8% in 2011. Interest income on other interest-bearing deposits increased by $6,000 or 100.0%, due to a $15.8 million or 67.7% increase in the average balance outstanding year to year.

Interest expense on deposits totaled $7.5 million for the year ended December 31, 2011, a decrease of $3.1 million, or 29.3%, compared to the year ended December 31, 2010. This was due primarily to a 46 basis point decrease in the average cost of deposits, to 1.28% for 2011, coupled with a $24.1 million, or 4.0%, decrease in the average balance of interest-bearing deposits outstanding year to year. Interest expense on borrowings totaled $2.9 million for the year ended December 31, 2011, a decrease of $966,000, or 25.0%, from 2010. The decrease resulted primarily from a $36.1 million, or 29.1% decrease in the average balance outstanding year to year offset partially by a 19 basis point increase in the average rate to 3.30% in 2011.

36

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 collectability of the Bank s loan portfolio. Key drivers of 2009 and 2010 reported provisions related to declines in commercial real estate values on impaired loans and loan downgrades. The higher allocation in recent years primarily reflected the impact of distressed commercial real estate values and general economic conditions on specific reserves for impaired loans, while the elevated level of charge-offs in those years resulted in higher loss factors related to classified loans and has carried over into 2011. The allowance allocated to the real estate and consumer loan categories is based upon Camco s allowance methodology for homogeneous pools of loans. The decreased allowance for loan losses relates to fluctuations and changes in these allocations that are consistent with the improvement in loan quality, loss experience and economic factors in each of the loan categories.

Nonperforming loans (three monthly payments or more delinquent plus nonaccrual loans) totaled $24.9 million at December 31, 2011, a decrease of $8.9 million from $33.8 million at December 31, 2010. Additionally, net charge offs decreased $13.1 million to $4.6 million for the year ended December 31, 2011 compared to $17.7 million for the year ended December 31, 2010.

The decrease in the allowance from December 31, 2010 to December 31, 2011 was significantly related to charge offs recognized in 2011 that were specific to certain impaired loans. Based upon an analysis of these factors and the continued decrease of nonperforming loans, $2.3 million was added to the allowance for losses on loans for the twelve months ended December 31, 2011, compared to $18.5 million for the same period in 2010. We believe our loan loss reserve was adequate as of December 31, 2011. 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 in the future, understanding that all lending activity contains associated risks of loan losses. In addition, the mix and composition of both portfolio loans and nonperforming loans change from period to period. When the Corporation analyzes the allowance for loan losses various ratios are considered. As of December 31, 2011 the ratio of allowance for loan losses to nonperforming loans decreased slightly from the prior year and our loan reserves also decreased, representing 2.22% of total net loans versus 2.46% at December 31, 2010.

Other Income. Other income totaled $6.5 million for the year ended December 31, 2011, a decrease of $866,000, or 11.8%, compared to 2010. The decrease in other income was primarily attributable to a $1.4 million decrease in the gain on sale of loans and a $780,000 decrease in title fees offset partially by a $1.3 million increase in gains on sales of investments.

The decrease in gain on sale of loans was due to the sale of four portfolio loans at a loss of $471,000 which was offset by our current year to date gain on the sale of our mortgage banking activity of $977,000, which was a decrease of $905,000 from the 2010 period. The decrease in mortgage banking activity was due to a $20.9 million decrease in loan sales year to year.

General, Administrative and Other Expense. General, administrative and other expense totaled $29.3 million for the year ended December 31, 2011. The total expense year to year was primarily unchanged but there were decreases in loan expense, employee compensation and benefits, FDIC premiums and franchise taxes. These decreases were offset partially by increases in real estate owned expenses.

The decrease in loan expenses was due to higher than normal legal expenses incurred in 2010 relating to classified commercial assets and the costs of various consulting, legal and property management services necessary to properly assist management in the workout and/or foreclosure process and safeguarding of assets.

Employee compensation and benefits decreased primarily due to a decrease in the total number of employees, costs related to insurance benefit expenses and incentives related to decreased commercial originations year to year. The Corporation has made it a priority to identify cost savings opportunities throughout its operations and is committed to maintaining cost control measures, believing that the effort will play a major role in improving its performance.

Federal Income Taxes. Federal income taxes totaled $544,000 for the year ended December 31, 2011, an increase of $26,000 compared to the provision recorded in 2010. This increase reflected the 2011 change in the valuation allowance against the Corporation s net deferred tax asset. In 2011, the Corporation sold available for sale investments that were no longer carrying a deferred position and recorded tax expense related to such transactions.

The Corporation recorded a 100% valuation allowance against the net deferred tax asset in 2010. Based on the available evidence, it was more-likely-than-not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In making such judgments, significant weight is given to evidence that can be objectively verified. A cumulative tax loss position is considered significant negative evidence in assessing the realization of a net deferred tax asset, which is difficult to overcome. Reversal of the valuation allowance can be realized in the future based on estimates of projected taxable income.

The Corporation has a net operating loss carry forward for tax purposes of approximately $7.2 million at December 31, 2011. This compares to a net operating loss carry forward of approximately $13.0 million at December 31, 2010. The net operating loss carry forward was substantially reduced during 2011 as the Corporation generated approximately $12.0 million of taxable income during that period, primarily due to the redemption of the FHLB stock which resulted in taxable income of approximately $10.0 million.

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. Some items in the prior-year financial statements were reclassified to conform to the current year s presentation, including the reclassification of nonaccrual loans, mortgage servicing rights and the allowance for loan losses from loans receivable to noninterest-earning assets.

	Year Ended December 31,								
	2012			2011			2010		
	Average outstanding balance	**Interest earned / paid**	**Avg yield/ rate**	**Average outstanding balance**	**Interest earned / paid**	**Avg yield/ rate**	**Average outstanding balance**	**Interest earned / paid**	**Avg yield/ rate**
				(Dollars in thousands)					
Interest-earning assets:									
Loans receivable [1]	$ 592,921	$ 30,674	5.17%	$ 635,987	$ 34,956	5.50%	$ 657,296	$ 37,602	5.72%
Securities [2]	67,428	484	0.72%	20,751	578	2.79%	44,426	1,906	4.29%
FHLB Stock	9,888	439	4.44%	11,426	691	6.05%	29,888	1,307	4.37%
Interest-bearing deposits and other	30,325	26	0.09%	39,096	12	0.03%	23,311	6	0.03%
Total interest-earning assets	700,562	31,623	4.51%	707,260	36,237	5.12%	754,921	40,821	5.41%
Noninterest-earning assets [3]	69,222			75,610			89,823		
Total Average Assets	**$ 769,784**			**$ 782,870**			**$ 844,744**		
Interest-bearing liabilities:									
Deposits	$ 567,536	$ 5,319	0.94%	$ 584,833	$ 7,481	1.28%	$ 608,933	$ 10,575	1.74%
FHLB advances and other	71,542	2,413	3.37%	87,788	2,893	3.30%	123,899	3,859	3.11%
Total interest-bearing liabilities	639,078	7,732	1.21%	672,621	10,374	1.54%	732,832	14,434	1.97%
Noninterest-bearing deposits	69,263			53,814			43,658		
Noninterest-bearing liabilities	12,795			11,037			13,084		
Total Average Liabilities	721,136			737,472			789,574		
Total Average Stockholders equity	48,648			45,398			55,170		
Net interest income/Interest rate spread	**$ 769,784**	**$ 23,891**	3.30%	**$ 782,870**	**$ 25,863**	3.58%	**$ 844,744**	**$ 26,387**	3.44%

Net interest margin [4]	3.41%	3.66%	3.50%
Average interest-earning assets to average interest-bearing liabilities	109.6%	105.1%	103.01%

(1) Includes loans held for sale. Loan fees are immaterial.
(2) Includes securities designated as available for sale and held to maturity.
(3) Includes nonaccrual loans, mortgage servicing rights and allowance for loan losses.
(4) Net interest income as a percent of average interest-earning assets.

Rate/Volume Table

The following table describes the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected Camco s interest income and expense during the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (change in volume multiplied by prior year rate), (ii) changes in rate (change in rate multiplied by prior year volume) and (iii) total changes in rate and volume. The combined effects of changes in both volume and rate, that are not separately identified, have been allocated proportionately to the change due to volume and change due to rate.

	2012			2011		
	Increase/(decrease) due to			Increase/(decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
At December 31,						
Interest income attributable to:						
Loans receivable [1]	$ (2,293)	$ (1,989)	$ (4,282)	$ (1,197)	$ (1,449)	$ (2,646)
Securities	(140)	46	(94)	(801)	(527)	(1,328)
Interest-bearing deposits and other	(87)	(151)	(238)	(1,616)	1,006	(610)
Total interest income	(2,520)	(2,094)	(4,614)	(3,614)	(970)	(4,584)
Interest expense attributable to:						
Deposits	(215)	(1,947)	(2,162)	(404)	(2,690)	(3,094)
Borrowings	(550)	70	(480)	(1,206)	240	(966)
Total Interest expense	(765)	(1,877)	(2,642)	(1,610)	(2,450)	(4,060)
Increase (decrease) in net interest income	**$ (1,755)**	**$ (217)**	**$ (1,972)**	**$ (2,004)**	**$ 1,480**	**$ (524)**

(1) Includes loans held for sale.

Yields Earned and Rates Paid

The following table sets forth the weighted-average yields earned on Camco s interest-earning assets, the weighted-average interest rates paid on Camco s interest-bearing liabilities and the interest rate spread between the weighted-average yields earned and rates paid by Camco at the dates indicated. This does not reflect the spread that may eventually be achieved in 2013 or beyond due to possible changes in weighted-average yields earned on interest-earning assets and paid on interest-bearing liabilities in the upcoming year.

	2012	2011
At December 31,		
Weighted-average yield on:		
Loan portfolio [1]	4.95%	5.26%
Investment Portfolio [2]	0.58	2.25
Total interest-earning assets	4.38	5.12
Weighted-average rate paid on:		
Deposits	0.69	1.01
FHLB advances	3.46	3.63
Total interest-bearing liabilities	0.91	1.25
Interest rate spread	**3.47%**	**3.87%**

(1) Excludes loans held for sale and the allowance for loan losses.

(2) Includes earnings on FHLB stock and investment securities. Taxable equivalent yield used.

Liquidity and Capital Resources

Liquidity is the Corporation s ability to generate adequate cash flows to meet the demands of its customers and provide adequate flexibility for the Corporation to take advantage of market opportunities. Cash is used to fund loans, purchase investments, fund the maturity of liabilities, and at times to fund deposit outflows and operating activities. The Corporation s principal sources of funds are deposits; prepayments and sales of loans; maturities, sales and principal receipts from securities; borrowings; and operations. Managing liquidity entails balancing the need for cash or the ability to borrow against the objectives of maximizing profitability and minimizing interest rate risk. The most liquid types of assets typically carry the lowest yields.

Camco is a single bank holding company and its primary ongoing source of liquidity is from dividends received from the Bank. Currently, the 2012 Consent Order prohibits the Bank from paying a dividend to Camco without prior approval of the FDIC and Division. Further, as a result of entering into the Written Agreement with the FRB, we are prohibited from paying dividends to our stockholders without first obtaining the approval of the FRB. Camco currently has $5.0 million outstanding trust preferred securities with a maturity date of 2037. Camco s agreement regarding these securities provides for a deferment of interest payment for up to 20 consecutive quarters without default. Based on notification received from the FRB on April 30, 2009, Camco was required to exercise this provision to defer interest payments and has deferred a total of fifteen quarters as of December 31, 2012. See Note K to the Financial Statements in Item 8 below. If the Corporation desires to raise funds in the future, it may consider engaging in further offerings of preferred securities, debentures or other borrowings as well as issuance of capital stock, but any such strategic decisions would require regulatory approval. Our ability to pay dividends to stockholders is dependent on our net earnings.

We monitor and assess liquidity needs daily in order to meet deposit withdrawals, loan commitments and expenses. Camco s liquidity contingency funding plan identifies liquidity thresholds and red flags that may evidence liquidity concerns or future crises. The contingency plan details specific actions to be taken by management and the Board of Directors. It also identifies sources of emergency liquidity, both asset and liability-based, should we encounter a liquidity crisis. In conjunction with the Corporation s asset/liability and interest rate risk management activities, we actively monitor liquidity risk and analyze various scenarios that could impact or impair Camco s ability to access emergency funding during a liquidity crisis.

Liquid assets consist of cash and interest-bearing deposits in other financial institutions, investments and mortgage-backed securities. Approximately $19.5 million, or 22.6%, of our investment portfolio is expected to mature, prepay or be called during 2013. These maturities could provide an additional source of liquidity. State and local political subdivision investments equaled $8,000 at December 31, 2012, and $2.0 million at December 31, 2011.

Additional sources of liquidity include deposits, borrowings and principal and interest repayments on loans. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan and security prepayments are more influenced by interest rates, general economic conditions, and competition and are difficult to predict.

Diversified and reliable sources of wholesale funds are utilized to augment core deposit funding. Borrowings may be used to compensate for reduction in other sources of funds or to support lending activities. The Bank utilizes certain loans and FHLB stock to provide collateral to support its borrowing needs. However, depositor or counterparty behavior could change in response to competition, economic or market situations or other unforeseen circumstances, which could have liquidity implications that may require different strategic or operational actions. One source of wholesale funding is brokered deposits. Consistent with its risk management policy and in response to the general tightening of credit and liquidity conditions in the financial markets at large, in the past, the Bank has utilized brokered deposits. However, at December 31, 2012, Camco did not have any such deposits.

Approximately $135.1 million of the Corporation s certificate of deposit portfolio is scheduled to mature during 2013. Depositors continue a preference toward short-term certificates or other issuances with maturities of less than 18 months. This places additional liquidity pressure on the Corporation as competition for deposits is very strong in Ohio, Kentucky and West Virginia. A material loss of these short-term deposits could force us to seek funding through contingency sources, which may negatively impact earnings.

FHLB advances are another funding source. In the past, Camco has depended heavily on borrowings to fund balance sheet growth. While significant strategic and tactical focus is currently being placed on deposit growth, borrowings and additional borrowing capacity at the FHLB are vital sources of liquidity. We have approximately $117.6 million of additional borrowing capacity available as of December 31, 2012. However, our total borrowing capacity at the FHLB is dependent on the level of eligible collateral assets held by the Bank and the Bank s credit rating with the FHLB. Our total borrowing capacity with the FHLB has increased to $170.9 million at December 31, 2012, from $160.3 million at December 31, 2011. This capacity is based on the pledging of our one- to four- family, multi-family mortgage, commercial real estate and home equity lines of credit.

We plan to continue to monitor our funding sources, but recognize that our current credit risk profile may restrict these sources. Our Funds Management Group will monitor deposit rates in our markets to allow for competitive pricing to raise funds while also monitoring loan activity to provide for the liquidity needs of the Bank.

The following table sets forth information regarding the Bank s obligations and commitments to make future payments under contract as of December 31, 2012.

	Payments due by period				
	Less than 1 year	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
			(In thousands)		
Contractual obligations:					
Operating lease obligations	$ 343	$ 628	$ 443	$ 37	$ 1,451
Advances from the Federal Home Loan Bank	30	47,299	5,000	968	53,297
Repurchase agreements	5,993	0	0	0	5,993
Certificates of deposit	135,149	134,365	34,585	0	304,099
Subordinated debentures[(1)]	0	1,379	0	5,000	6,379
Ohio Equity Funds for Affordable Housing	96	196	246	6	544
Deferred compensation	226	444	431	1,084	2,185
Amount of commitments per period					
Commitments to originate loans:					
Revolving, open-end lines	37,169	0	0	0	37,169
1-4 family residential construction	2,603	0	0	0	2,603
Commercial real estate, other construction loan and land development loans	19,493	0	0	0	19,493
Commercial and industrial	23,206	0	0	0	23,206
Other unused commitments	7,463	0	0	0	7,463
Stand-by letters of credit	299	0	0	0	299
Total contractual obligations	$ 232,070	$ 184,311	$ 40,705	$ 7,095	$ 464,181

(1) The subordinated debentures are redeemable at par. The debentures mature on September 15, 2037. Interest is currently deferred and due in 2014.

We anticipate that we will have sufficient funds available to meet our current loan commitments. Based upon historical deposit flow data, the Bank s competitive pricing in its market and management s experience, we believe that a significant portion of our core maturing certificates of deposit in 2013 will remain with the Bank, but recognize the significance of the risks discussed above. Additionally, as of December 31, 2012 the Bank had approximately $135.0 million of liquid assets which is 17.66% of total assets. Our current policy requires 5% of liquid assets to total assets, which calculated to excess liquidity of $96.8 million or 12.7% at December 31, 2012.

41

Liquidity management is both a daily and long-term management process. In the event that we should require funds beyond our ability to generate them internally, additional funds are available through the use of FHLB advances, internet deposits, and through the sales of loans and/or securities.

Off-Balance Sheet Arrangements

We engage in off-balance sheet credit-related activities that could require us to make cash payments in the event that specified future events occur. The contractual amounts of these activities represent the maximum exposure to the Bank (as further described in financial statement footnote Note J Commitments). However, certain off-balance sheet commitments are expected to expire or be only partially used; therefore, the total amount of commitments does not necessarily represent future cash requirements. These off-balance sheet activities are necessary to meet the financing needs of the Bank s customers.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

Management s Annual Report on Internal Control over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting, (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act that is designed to produce reliable financial statements in conformity with accounting principles generally accepted in the United States. The Corporation s internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation s assets that could have a material effect on the financial statements.

The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden, and misstatements resulting from error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

The Corporation s management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Corporation s internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework. Based on the assessment, management believes that the Corporation s internal control over financial reporting was effective as of December 31, 2012.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Camco Financial Corporation

We have audited the accompanying consolidated balance sheets of Camco Financial Corporation (the Corporation) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2012. These financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Camco Financial Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note K, the Corporation s bank subsidiary is not in compliance with revised minimum regulatory capital requirements under a formal regulatory agreement with the banking regulators. Failure to comply with the regulatory agreement may result in additional regulatory enforcement actions.

/s/ Plante & Moran PLLC

March 18, 2013

Auburn Hills, Michigan

CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31, 2012 and 2011

(In thousands, except share data)

	2012	2011
ASSETS		
Cash and due from banks	$ 13,815	$ 16,420
Fed funds	39,199	2,155
Interest-bearing deposits in other financial institutions	5,365	19,799
Cash and cash equivalents	58,379	38,374
Securities available-for-sale, at market	85,298	17,845
Securities held-to-maturity, at cost	903	3,083
Loans held for sale at lower of cost or market	6,544	8,090
Loans receivable net	554,575	639,177
Office premises and equipment net	8,105	8,645
Real estate acquired through foreclosure	10,581	10,888
Federal Home Loan Bank stock at cost	9,888	9,888
Accrued interest receivable	2,631	2,945
Mortgage servicing rights at lower of cost or market	3,245	3,263
Prepaid expenses and other assets	3,525	4,927
Cash surrender value of life insurance	20,585	19,893
Total assets	**$ 764,259**	**$ 767,018**
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits	$ 627,224	$ 629,259
Other borrowings	10,923	16,681
Advances from the Federal Home Loan Bank	53,297	63,604
Advances by borrowers for taxes and insurance	2,635	2,100
Accounts payable and accrued liabilities	10,453	9,769
Total liabilities	704,532	721,413
Commitments	$ 0	$ 0
Stockholders equity		
Preferred stock $1 par value; authorized 100,000 shares; no shares outstanding	0	0
Common stock $1 par value; authorized 29,900,000 shares; 14,911,949 shares issued at December 31, 2012 and 8,884,508 shares at December 31, 2011	14,912	8,885
Additional paid-in capital	63,310	60,528
Warrants; 2,857,107 at December 31, 2012 and 0 at December 31, 2011	1,411	
Retained earnings	4,513	350
Accumulated other comprehensive income	100	(13)
Unearned compensation	(405)	(31)
Treasury stock; 1,678,913 shares at December 31, 2012 and 2011, at cost	(24,114)	(24,114)
Total stockholders equity	59,727	45,605
Total liabilities and stockholders equity	**$ 764,259**	**$ 767,018**

CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2012, 2011 and 2010

(In thousands, except earnings per share data)

	2012	2011	2010
Interest and dividend income			
Loans	$ 30,674	$ 34,956	$ 37,602
Investment securities	484	578	1,906
Other interest-bearing accounts	465	703	1,313
Total interest income	31,623	36,237	40,821
Interest expense			
Deposits	5,319	7,481	10,575
Borrowings	2,413	2,893	3,859
Total interest expense	7,732	10,374	14,434
Net interest income	23,891	25,863	26,387
Provision for losses on loans	144	2,279	18,460
Net interest income after provision for losses on loans	23,747	23,584	7,927
Other income			
Gain on sale of loans	2,484	506	1,882
Service charges and other fees on deposits	2,041	2,110	2,276
Other	1,356	933	702
Loan servicing fees	1,133	1,195	1,269
Income on cash surrender value life insurance	879	880	877
Gain on sale of investment securities	126	1,267	0
Gain (loss) on sale of premises and equipment	(2)	15	1
Title fees	0	170	950
Mortgage servicing rights net	(18)	(578)	(593)
Total other income	7,999	6,498	7,364
General, administrative and other expense			
Employee compensation and benefits	12,600	12,337	12,935
Occupancy and equipment	2,964	2,940	3,003
Federal deposit insurance premiums and insurance	1,816	1,986	2,260
Data and transaction processing	1,975	1,867	1,867
Advertising	373	363	358
Franchise taxes	765	668	928
Postage, supplies and office expenses	1,046	984	1,129
Travel, training and insurance	314	253	260
Professional services	1,351	1,454	1,281
Real estate owned and other expenses	3,264	4,896	3,077
Loan expenses	1,173	1,576	2,234