CAMCO FINANCIAL CORP
Form 10-Q
August 13, 2003

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark One)

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

For the quarterly period ended June 30, 2003

OR

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

For the transition period from ____________ to _______________

Commission File Number 0-25196

CAMCO FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

6901 Glenn Highway, Cambridge, Ohio 43725-9757

(Address of principal executive office) (Zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Yes [X] No [ ]

As of August 8, 2003, the latest practicable date, 7,475,224 shares of the registrant's common stock, $1.00 par value, were issued and outstanding.

Camco Financial Corporation

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

ASSETS	JUNE 30, 2003
Cash and due from banks	$ 32,302
Interest-bearing deposits in other financial institutions	23,586
Cash and cash equivalents	55,888
Investment securities available for sale - at market	39,717
Investment securities held to maturity - at cost, approximate market value of $3,268 and $5,501 as of June 30, 2003 and December 31,	

2002, respectively	3,132
Mortgage-backed securities available for sale - at market	128,580
Mortgage-backed securities held to maturity - at cost, approximate market value of $12,459 and $20,634 as of June 30, 2003 and December 31, 2002, respectively	12,204
Loans held for sale - at lower of cost or market	14,385
Loans receivable - net	747,290
Office premises and equipment - net	14,008
Real estate acquired through foreclosure	1,461
Federal Home Loan Bank stock - at cost	24,008
Accrued interest receivable	4,669
Prepaid expenses and other assets	1,683
Cash surrender value of life insurance	17,353
Goodwill - net of accumulated amortization	2,953
Prepaid federal income taxes	--
Total assets	$ 1,067,331
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	$ 685,183
Advances from the Federal Home Loan Bank	273,800
Advances by borrowers for taxes and insurance	2,189
Accounts payable and accrued liabilities	4,265
Dividends payable	1,054
Accrued federal income taxes	72
Deferred federal income taxes	4,254
Total liabilities	970,817
Stockholders' equity	
Preferred stock - $1 par value; authorized 100,000 shares; no shares outstanding	--
Common stock - $1 par value; authorized 14,900,000 shares; 8,390,109 and 8,311,145 shares issued at June 30, 2003 and December 31, 2002, respectively	8,390
Additional paid-in capital	54,749
Retained earnings - substantially restricted	45,073
Accumulated other comprehensive income - unrealized gains on securities designated as available for sale, net of related tax effects	1,528
Less 914,885 and 622,260 shares of treasury stock at June 30, 2003 and December 31, 2002, respectively - at cost	(13,226)
Total stockholders' equity	96,514
Total liabilities and stockholders' equity	$ 1,067,331

CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	SIX MONTHS ENDED JUNE 30, 2003	2002
Interest income		
Loans	$24,702	$30,179
Mortgage-backed securities	2,039	1,806
Investment securities	711	491
Interest-bearing deposits and other	1,159	1,452
Total interest income	28,611	33,928
Interest expense		
Deposits	8,633	12,464
Borrowings	7,667	7,527
Total interest expense	16,300	19,991
Net interest income	12,311	13,937
Provision for losses on loans	675	414
Net interest income after provision for losses on loans	11,636	13,523
Other income		
Late charges, rent and other	1,998	1,467
Loan servicing fees	813	756
Service charges and other fees on deposits	569	442
Valuation of mortgage servicing rights - net	590	740
Gain on sale of loans	2,710	820
Gain (loss) on sale of real estate acquired through foreclosure	(62)	105
Gain on investment securities transactions	185	27
Total other income	6,803	4,357
General, administrative and other expense		
Employee compensation and benefits	5,717	5,151
Occupancy and equipment	1,856	1,698
Data processing	675	559
Advertising	364	482
Franchise taxes	597	286
Other operating	2,430	2,648
Restructuring charges (credits)	-	(112)
Total general, administrative and other expense	11,639	10,712
Earnings before federal income taxes	6,800	7,168
Federal income taxes		
Current	2,876	2,765
Deferred	(758)	(442)
Total federal income taxes	2,118	2,323
NET EARNINGS	$ 4,682	$ 4,845
EARNINGS PER SHARE		
Basic	$.62	$.61
Diluted	$.61	$.60

CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	SIX MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2002	THREE MO JUN 2003
Net earnings	$ 4,682	$ 4,845	$ 2,228
Other comprehensive income (loss), net of tax:			
Unrealized holding gains (losses) during the period, net of taxes (benefits) of $(231), $428, $(29) and $480 for the respective periods	(448)	831	(56)
Reclassification adjustment for realized gains included in earnings, net of taxes of $63 and $9 for each of the six and three month periods ended June 30, 2003 and 2002, respectively	(122)	(18)	(122)
Comprehensive income	$ 4,112	$ 5,658	$ 2,050
Accumulated comprehensive income	$ 1,528	$ 920	$ 1,528

CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2003
Cash flows from operating activities:	
Net earnings for the period	$ 4,682
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:	
Amortization of deferred loan origination fees	(243)

Amortization of premiums and discounts on investment and mortgage-backed securities - net	1,128
Amortization of purchase accounting adjustments - net	47
Depreciation and amortization	883
Provision for losses on loans	675
Federal Home Loan Bank stock dividends	(469)
(Gain) loss on sale of real estate acquired through foreclosure	62
Gain on investment securities transactions	(185)
Gain on sale of loans	(2,710)
Loans originated for sale in the secondary market	(163,855)
Proceeds from sale of loans in the secondary market	207,673
Increase (decrease) in cash due to changes in:	
Accrued interest receivable	253
Prepaid expenses and other assets	447
Accrued interest and other liabilities	(25)
Federal income taxes:	
Current	846
Deferred	(758)
Net cash provided by (used in) operating activities	48,451
Cash flows provided by (used in) investing activities:	
Proceeds from maturities of investment securities and interest-bearing deposits	11,000
Proceeds from disposition of investment securities	--
Proceeds from sale of mortgage-backed securities designated as available for sale	6,990
Purchase of investment securities designated as held to maturity	--
Purchase of investment securities designated as available for sale	(10,300)
Purchase of mortgage-backed securities designated as held to maturity	(256)
Purchase of mortgage-backed securities designated as available for sale	(78,600)
Principal repayments on mortgage-backed securities	47,202
Loan principal repayments	170,930
Loan disbursements	(172,321)
Purchase of loans	(6,212)
Additions to office premises and equipment	(399)
Additions to real estate acquired through foreclosure	--
Proceeds from sale of real estate acquired through foreclosure	1,394
Proceeds from sale of office premises and equipment	5
Proceeds from redemption of life insurance	422
Net increase in cash surrender value of life insurance	(403)
Net cash used in investing activities	(30,548)
Net cash provided by (used in) operating and investing activities (balance carried forward)	17,903

CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

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

	2003	20
Net cash provided by (used in) operating and investing activities (balance brought forward)	$ 17,903	$ (20,1
Cash flows provided by (used in) financing activities:		
Net decrease in deposits	(8,889)	(26,7
Proceeds from Federal Home Loan Bank advances	6,500	43,5
Repayment of Federal Home Loan Bank advances	(8,997)	(36,8
Dividends paid on common stock	(2,106)	(2,0
Purchase of treasury stock	(4,858)	(1,9
Proceeds from exercise of stock options	633	1,3
Decrease in advances by borrowers for taxes and insurance	(1,320)	(1,5
Net cash used in financing activities	(19,037)	(24,2
Net decrease in cash and cash equivalents	(1,134)	(44,3
Cash and cash equivalents at beginning of period	57,022	104,9
Cash and cash equivalents at end of period	$ 55,888	$ 60,5
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest on deposits and borrowings	$ 15,042	$ 20,0
Income taxes	$ 2,044	$ 1,9
Supplemental disclosure of noncash investing activities:		
Unrealized gains (losses) on securities designated as available for sale, net of related tax effects	$ (570)	$ 8
Recognition of mortgage servicing rights in accordance with SFAS No. 140	$ 2,563	$ 1,0
Transfers from loans to real estate acquired through foreclosure	$ 1,328	$ 1,1
Issuance of loans upon sale of real estate acquired through foreclosure	$ 621	$ 3
Supplemental disclosure of noncash financing activities:		
Treasury shares received from settlement of Columbia Financial's Employee Stock Ownership Plan	$ --	$ 6
Dividends declared but unpaid	$ 1,054	$ 1,0

CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six- and three-month periods ended June 30, 2003 and 2002

1. Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Camco Financial Corporation ("Camco" or the "Corporation") included in Camco's Annual Report on Form 10-K for the year ended December 31, 2002. However, all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements, have been included. The results of operations for the six and three month periods ended June 30, 2003, are not necessarily indicative of the results which may be expected for the entire year.

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Camco and two wholly-owned subsidiaries: Advantage Bank ("Advantage" or the "Bank") and Camco Title Insurance Agency, Inc., as well as a second tier subsidiary, Camco Mortgage Corporation. All significant intercompany balances and transactions have been eliminated.

3. Critical Accounting Policies

The "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as disclosures found elsewhere in this quarterly report, are based upon Camco Financial's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires Camco Financial 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. Management has discussed the development and the selection of critical accounting policies with the Company's audit committee.

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

ALLOWANCE FOR LOAN LOSSES

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

3. Critical Accounting Policies (continued)

ALLOWANCE FOR LOAN LOSSES (continued)

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

While the Company strives to reflect all known risk factors in its evaluations, judgment errors may occur. If different assumptions or conditions were to prevail, the amount and timing of loan losses could be materially different.

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on management's current judgment about the credit quality of the loan portfolio.

MORTGAGE SERVICING ASSETS

Servicing assets are recognized as separate assets when loans are sold with servicing retained. A pooling methodology to the servicing valuation, in which loans with similar characteristics were "pooled" together, is applied for valuation purposes. Once pooled, each grouping of loans is evaluated on a discounted earnings basis to determine the present value of future earnings that a purchaser could expect to realize from the portfolio. Earnings are projected from a variety of sources including loan service fees, interest earned on float, net interest earned on escrow balances, miscellaneous income and costs to service the loans. The present value of future earnings is the estimated market value for the pool. 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. If the fair value is less than carrying value, impairment is recognized through a valuation allowance for each impaired pool.

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

CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six- and three-month periods ended June 30, 2003 and 2002

4. Earnings Per Share

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

	FOR THE SIX MONTHS ENDED JUNE 30,		FOR
	2003	2002	
Weighted-average common shares outstanding (basic)	7,599,184	7,972,857	7,
Dilutive effect of assumed exercise of stock options	84,932	121,281	
Weighted-average common shares outstanding (diluted)	7,684,116	8,094,138	7,

Options to purchase 64,036 and 69,116 shares of common stock with respective weighted-average exercise prices of $16.18 and $14.82 were outstanding at June 30, 2003 and 2002, respectively, but were excluded from the computation of common share equivalents for each of the six and three month periods then ended, because the exercise prices were greater than the average market price of the common shares.

5. Stock Option Plans

Camco presently has options outstanding under four stock option plans. Under the 1995 Plan and the 2002 Plan, 161,488 and 400,000 shares, respectively, were reserved for issuance. Additionally, in connection with the 1996 acquisition of First Savings, 265,876 shares were reserved for issuance under the First Ashland stock option plan. In connection with the 2000 acquisition of Westwood Homestead, 311,794 shares were reserved for issuance under the Westwood stock option plan.

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

The Corporation utilizes APB Opinion No. 25 and related Interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized for the plans. Had compensation cost for the Corporation's stock option plans been determined based on the fair value at the grant dates for awards under the plans consistent with the accounting method utilized in SFAS No. 123, the Corporation's net earnings and earnings per share for the six- and three-month periods ended June 30, 2003 and 2002, would have been reported as the pro forma amounts indicated below:

CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six- and three-month periods ended June 30, 2003 and 2002

5. Stock Option Plans (continued)

		SIX MONTHS ENDED JUNE 30, 2003	2002
Net earnings (In thousands)	As reported	$4,682	$4,845

	Stock-based compensation, net of tax	(10)	(2)
	Pro-forma	$4,672	$4,843
Earnings per share			
Basic	As reported	$.62	$.61
	Stock-based compensation, net of tax	(.01)	-
	Pro-forma	$.61	$.61
Diluted	As reported	$.61	$.60
	Stock-based compensation, net of tax	-	-
	Pro-forma	$.61	$.60

The fair value of each option grant is estimated on the date of grant using the modified Black-Scholes options-pricing model with the following assumptions used for grants during 2003, 2002 and 2001: dividend yield of 3.50%, 3.84% and 4.07%, respectively; expected volatility of 16.88%, 16.34%, and 17.06%, respectively; a risk-free interest rate of 3.95%, 2.00% and 3.00%, respectively, and an expected life of ten years for all grants.

A summary of the status of the Corporation's stock option plans as of June 30, 2003 and December 31, 2002 and 2001, and changes during the periods ending on those dates is presented below:

	SIX MONTHS ENDED JUNE 30, 2003		YEA DECE 2002	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of period	323,291	$ 9.79	503,005	$10.1
Granted	56,948	16.13	3,700	14.5
Exercised	(78,964)	8.01	(174,106)	10.8
Forfeited	(4,318)	13.75	(9,308)	11.9
Outstanding at end of period	296,957	$ 11.42	323,291	$ 9.7
Options exercisable at period-end	249,666	$ 13.59	323,291	$ 9.7
Weighted-average fair value of options granted during the period		$ 2.60		$ 1.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six- and three-month periods ended June 30, 2003 and 2002

5. Stock Option Plans (continued)

The following information applies to options outstanding at June 30, 2003:

Number outstanding
Range of exercise prices
Number outstanding
Range of exercise prices
Weighted-average exercise price
Weighted-average remaining contractual life

6. Effects of Recent Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 provides financial accounting and reporting guidance for costs associated with exit or disposal activities, including one-time termination benefits, contract termination costs other than for a capital lease, and costs to consolidate facilities or relocate employees. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. Management adopted SFAS No. 146 effective January 1, 2003, without material effect on the Corporation's financial condition or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002. The expanded annual disclosure requirements and the transition provisions are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Corporation adopted the disclosure provisions of SFAS No. 148 effective December 31, 2002, without material effect on the Corporation's financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. Camco has financial letters of credit which require

Camco to make payment if the customer's financial condition deteriorates, as defined in the agreements. FIN 45 requires Camco to record a liability generally equal to fees received for these letters of credit when guaranteeing obligations. FIN 45 applies prospectively to guarantees Camco issues or modifies subsequent to December 31, 2002. Camco had no letters of credit outstanding at June 30, 2003.

6. Effects of Recent Accounting Pronouncements (continued)

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities." FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns, or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Corporation adopted the disclosure requirements of FIN 46 effective January 31, 2003, without material effect on its financial statements.

In April 2003 the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" which clarifies certain implementation issues raised by constituents and amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to include the conclusions reached by the FASB on certain FASB Staff Implementation Issues that, while inconsistent with Statement 133's conclusions, were considered by the Board to be preferable; amends SFAS No. 133's discussion of financial guarantee contracts and the application of the shortcut method to an interest-rate swap agreement that includes an embedded option and amends other pronouncements.

The guidance in Statement 149 is effective for new contracts entered into or modified after June 30, 2003 and for hedging relationships designated after that date, except for the following:

- guidance incorporated from FASB Staff Implementation Issues that was effective for periods beginning prior to June 15, 2003 should continue to be applied according to the effective dates in those issues

- guidance relating to forward purchase and sale agreements involving when-issued securities should be applied to both existing contracts and new contracts entered into after June 30, 2003.

Management does not expect SFAS No. 149 to have a material effect on the Corporation's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", which changes the classification in the statement of financial position of certain common financial instruments from either equity or mezzanine presentation to liabilities and requires an issuer of those financial statements to recognize changes in fair value or redemption amount, as applicable, in earnings. SFAS No. 150 requires an issuer to classify certain financial instruments as liabilities, including mandatorily redeemable preferred and common stocks.

SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and, with one exception, is effective at the beginning of the first interim period beginning after June 15, 2003 (July 1, 2003 as to the Corporation). The effect of adopting SFAS No. 150 must be recognized as a cumulative effect of an accounting change as of the beginning of the period of adoption. Restatement of prior periods is not permitted. Management is continuing to evaluate the effect of the provisions of SFAS No. 150 on the Corporation's financial statements.

CAMCO FINANCIAL CORPORATION

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

For the six- and three-month periods ended June 30, 2003 and 2002

Discussion of Financial Condition Changes from December 31, 2002 to June 30, 2003

At June 30, 2003, Camco's consolidated assets totaled $1.067 billion, a decrease of $15.9 million, or 1.5%, from the December 31, 2002 total. The decrease in total assets was comprised primarily of decreases in loans held for sale and investment securities, which were partially offset by an increase in mortgage-backed securities.

Cash and interest-bearing deposits in other financial institutions totaled $55.9 million at June 30, 2003, a decrease of $1.1 million, or 2.0%, from December 31, 2002 levels. Investment securities totaled $42.8 million at June 30, 2003, a decrease of $1.3 million, or 3.0%, from the total at December 31, 2002. Investment securities purchases, which were comprised primarily of $10.3 million of intermediate-term callable U.S. Government agency obligations with an average yield of 2.95%, were offset by $11.0 million of maturities.

Mortgage-backed securities totaled $140.8 million at June 30, 2003, an increase of $23.5 million, or 20.0%, over December 31, 2002. Mortgage-backed securities purchases totaled $78.9 million, while principal repayments totaled $47.2 million and sales totaled $7.0 million during the six-month period ended June 30, 2003. Purchases of mortgage-backed securities during the period were comprised primarily of ten-year balloon amortizing U.S. Government agency securities yielding 3.27%, which were classified as available for sale. Purchases of mortgage-backed securities were funded primarily with proceeds from the sale of loans.

Loans receivable, including loans held for sale, totaled $761.7 million at June 30, 2003, a decrease of $35.3 million, or 4.4%, from December 31, 2002. The decrease resulted primarily from principal repayments of $170.9 million and loan sales of $205.0 million, which were partially offset by loan disbursements and purchases totaling $342.4 million. The volume of loans originated and purchased during the first six months of 2003 was greater than that of the comparable 2002 period by $141.8 million, or 70.7%, while the volume of loan sales increased by $118.4 million year to year. As interest rates in the economy have remained low, consumer preference continues to favor long-term fixed-rate mortgage loans to fund home purchases and to refinance current loans. Camco will continue its interest-rate risk management strategy of selling low-yielding, long-term, fixed-rate loans. Loan originations during the six-month period ended June 30, 2003, were comprised primarily of $270.7 million of loans secured by one- to four-family residential real estate, $44.9 million in consumer and other loans and $26.8 million in loans secured by commercial real estate. Management will continue to expand its commercial real estate lending in future periods as a means of increasing the yield on its loan portfolio.

The allowance for loan losses totaled $5.8 million and $5.5 million at June 30, 2003 and December 31, 2002, respectively, representing 42.0% and 40.3% of nonperforming loans, respectively, at those dates. Nonperforming loans (90 days or more delinquent plus nonaccrual loans) totaled $13.7 million and $13.6 million at June 30, 2003 and December 31, 2002, respectively, constituting 1.80% and 1.71% of total net loans, including loans held for sale, at those dates. At June 30, 2003, nonperforming loans were comprised of $9.8 million in one- to four-family residential real estate loans, $2.2 million in nonresidential real estate loans, $1.0 in commercial real estate loans and $760,000 of consumer loans. Management believes all nonperforming loans are adequately collateralized and no loss is expected over and above allocated reserves on such loans. Loans delinquent greater than 30 days but less than 90 days totaled $9.5 million at June 30, 2003, compared to $10.5 million at December 31, 2002, a decrease of $1.0 million, or 9.5%. Although management believes that its allowance for loan losses is adequate based upon the available facts and circumstances at June 30, 2003, there can be no assurance that increased provisions will not be necessary in future periods, which could adversely affect Camco's results of operations.

Discussion of Financial Condition Changes from December 31, 2002 to June 30, 2003 (continued)

Deposits totaled $685.2 million at June 30, 2003, a decrease of $8.9 million, or 1.3%, from the total at December 31, 2002. While management has generally pursued a strategy of moderate growth in the deposit portfolio, Advantage has not historically engaged in sporadic increases or decreases in interest rates offered, nor has it offered the highest interest rates available in its market areas.

Stockholders' equity totaled $96.5 million at June 30, 2003, a decrease of $2.1 million, or 2.1%, from December 31, 2002. The decrease resulted primarily from dividends of $2.1 million, purchases of treasury shares totaling $4.9 million and a $570,000 decrease in the unrealized gains on available for sale securities, which were partially offset by net earnings of $4.7 million and proceeds from the exercise of stock options of $633,000. The increase in treasury shares represented purchases under the 5% stock repurchase plan that was announced in October 2002.

Advantage is required to maintain minimum regulatory capital pursuant to federal regulations. At June 30, 2003, the Bank's regulatory capital exceeded all regulatory capital requirements.

Comparison of Results of Operations for the Six Months Ended June 30, 2003 and 2002

General

Camco's net earnings for the six months ended June 30, 2003 totaled $4.7 million, a decrease of $163,000, or 3.4%, from the $4.8 million of net earnings reported in the comparable 2002 period. The decrease in earnings was primarily attributable to a decrease of $1.6 million in net interest income, an increase in the provision for losses on loans of $261,000 and an increase in general, administrative and other expense of $927,000, which were partially offset by an increase in other income of $2.4 million and a decrease in federal income tax expense of $205,000.

Net Interest Income

Total interest income amounted to $28.6 million for the six months ended June 30, 2003, a decrease of $5.3 million, or 15.7%, compared to the six-month period ended June 30, 2002, generally reflecting the effects of a decrease in yield on total interest-earning assets of 103 basis points, from 6.62% in the 2002 period to 5.59% in the 2003 period, coupled with a $2.0 million, or .2%, decrease in the average balance of interest-earning assets outstanding year to year.

Interest income on loans totaled $24.7 million for the six months ended June 30, 2003, a decrease of $5.5 million, or 18.1%, from the comparable 2002 period. The decrease resulted primarily from a $63.2 million, or 7.6%, decrease in the average balance outstanding and an 83 basis point decrease in the average yield, to 6.44% in the 2003 period. Interest income on mortgage-backed securities totaled $2.0 million for the six months ended June 30, 2003, a $233,000, or 12.9%, increase year to year. The increase was due primarily to a $46.3 million, or 60.3%, increase in the average balance outstanding, which was partially offset by a 139 basis point decrease in the average yield, to 3.32% in the 2003 period. Interest income on investment securities increased by $220,000, or 44.8%, due primarily to a $20.5 million increase in the average balance outstanding, which was partially offset by a decline in the average yield year to year. Interest income on other interest-earning assets decreased by $293,000, or 20.2%, due primarily to a decrease in the average yield, to 2.52% in the 2003 period, coupled with a decrease of $5.5 million, or 5.7%, in the average balance outstanding year to year.

Comparison of Results of Operations for the Six Months Ended June 30, 2003 and 2002 (continued)

Net Interest Income (continued)

Interest expense on deposits totaled $8.6 million for the six months ended June 30, 2003, a decrease of $3.8 million, or 30.7%, compared to the 2002 period, due primarily to a 104 basis point decrease in the average cost of deposits, to 2.61%, and a $20.8 million, or 3.0%, decrease in average deposits outstanding year to year. Interest expense on borrowings totaled $7.7 million for the six months ended June 30, 2003, an increase of $140,000, or 1.9%, over the 2002 six-month period. The increase resulted primarily from a $20.7 million, or 8.1%, increase in the average balance outstanding year to year, partially offset by a 35 basis point decrease in the average cost to 5.58%. Decreases in the level of average yields on interest-earning assets and average costs of interest-bearing liabilities were due primarily to the overall decrease in interest rates in the economy.

As a result of the foregoing changes in interest income and interest expense, net interest income decreased by $1.6 million, or 11.7%, to a total of $12.3 million for the six months ended June 30, 2003. The interest rate spread decreased to approximately 2.11% at June 30, 2003, from 2.35% at June 30, 2002, while the net interest margin decreased to approximately 2.41% for the six months ended June 30, 2003, compared to 2.72% for the 2002 period.

Provision for Losses on Loans

A provision for losses on loans is charged to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Bank, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to the Bank's market areas, and other factors related to the collectibility of the Bank's loan portfolio. Based upon an analysis of these factors, management recorded a provision for losses on loans totaling $675,000 for the six months ended June 30, 2003, an increase of $261,000, or 63.0%, over the comparable period in 2002. The current period provision was predicated primarily on the increased percentage of loans secured by commercial real estate within the loan portfolio and the increase in the level of classified loans. Management believes all classified loans are adequately collateralized, however, there can be no assurance that the loan loss allowance will be adequate to absorb losses on known classified assets or that the allowance will be adequate to cover losses on classified assets in the future.

Other Income

Other income totaled $6.8 million for the six months ended June 30, 2003, an increase of $2.4 million, or 56.1%, over the comparable 2002 period. The increase in other income was primarily attributable to a $1.9 million increase in the gain on sale of loans and a $531,000, or 36.2%, increase in late charges, rent and other. The increase in the gain on sale of loans was due to the $118.4 million, or 136.7%, increase in sales volume, as Advantage continued to sell fixed-rate loans originated in the current low interest rate environment, as well as an increase in prices on such sales. The increase in late charges, rent and other was due primarily to an increase in title premiums and other fees on loans, an increase in ATM fees and proceeds of $175,000 from a life insurance policy due to the death of an officer of the Bank.

Comparison of Results of Operations for the Six Months Ended June 30, 2003 and 2002 (continued)

General, Administrative and Other Expense

General, administrative and other expense totaled $11.6 million for the six months ended June 30, 2003, an increase of $927,000, or 8.7%, over the comparable period in 2002. The increase in general, administrative and other expense was due primarily to a $566,000, or 11.0%, increase in employee compensation and benefits, an increase of $311,000, in franchise taxes, an increase of $158,000 or 9.3%, in occupancy and equipment and an increase of $116,000, or 20.8%, in data processing, which were partially offset by a $118,000 or 24.5%, decrease in advertising and a $106,000, or 4.2%, decrease in other operating costs. The increase in employee compensation and benefits was due primarily to an increase in incentive compensation and 401(k) plan costs, as well as normal merit increases, which were partially offset by an increase in deferred loan origination costs related to the increase in loan volume year to year. The increase in franchise tax expense reflects the effects of refund claims recorded in 2002. The increase in occupancy and equipment was due primarily to an increase in office repairs and maintenance expenses, as well as costs associated with the new Dover office location. The increase in data processing was due primarily to costs associated with special processing services and an increase in the cost of the annual contract with the Bank's data processing provider. The decrease in advertising was due primarily to cost savings realized from implementation of a plan to centralize the purchase of advertising contracts. The decrease in other operating costs was due primarily to a decrease in long distance telephone costs following a change in service providers and a decrease in FHLB charges due to use of bonds as pledged collateral versus letters of credit.

Federal Income Taxes

The provision for federal income taxes totaled $2.1 million for the six months ended June 30, 2003, a decrease of $205,000, or 8.8%, compared to the six months ended June 30, 2002. This decrease was primarily attributable to a $368,000, or 5.1%, decrease in pre-tax earnings and the non-taxable redemption of a life insurance policy. The Corporation's effective tax rates amounted to 31.1% and 32.4% for the six-month periods ended June 30, 2003 and 2002, respectively.

Comparison of Results of Operations for the Three Months Ended June 30, 2003 and 2002

General

Camco's net earnings for the three months ended June 30, 2003 totaled $2.2 million, a decrease of $242,000, or 9.8%, from the $2.5 million of net earnings reported in the comparable 2002 period. The decrease in earnings was primarily attributable to a decrease of $1.4 million in net interest income, an increase in the provision for losses on loans of $48,000 and an increase in general, administrative and other expense of $287,000, which were partially offset by an increase in other income of $1.2 million and a decrease in federal income tax expense of $228,000.

Net Interest Income

Total interest income amounted to $13.9 million for the three months ended June 30, 2003, a decrease of $3.1 million, or 18.4%, compared to the three-month period ended June 30, 2002, generally reflecting the effects of a decrease in yield on total interest-earning assets of 118 basis points, from 6.66% in the 2002 period to 5.48% and an $8.5 million, or .8%, decrease in the average balance of interest-earning assets outstanding year to year.

Comparison of Results of Operations for the Three Months Ended June 30, 2003 and 2002 (continued)

Net Interest Income (continued)

Interest income on loans totaled $12.0 million for the three months ended June 30, 2003, a decrease of $2.9 million, or 19.3%, from the comparable 2002 period.

The decrease resulted primarily from a $52.9 million, or 6.5%, decrease in the average balance outstanding and a 100 basis point decrease in the average yield, to 6.32% in the 2003 period. Interest income on mortgage-backed securities totaled $991,000 for the three months ended June 30, 2003, a $246,000, or 19.9%, decrease from the 2002 quarter. The decrease was due primarily to a 176 basis point decrease in the average yield, to 3.08% for the 2003 period, which was partially offset by a $26.5 million, or 26.0%, increase in the average balance outstanding in the 2003 period. Interest income on investment securities increased by $94,000, or 34.4%, due primarily to a $17.2 million increase in the average balance outstanding, which was partially offset by a 99 basis point decrease in the average yield, to 3.54% in the 2003 period. Interest income on other interest-earning assets decreased by $123,000, or 17.5%, due primarily to a decrease in the average yield, to 2.63% in the 2003 period.

Interest expense on deposits totaled $4.2 million for the three months ended June 30, 2003, a decrease of $1.8 million, or 30.0%, compared to the same quarter in 2002, due primarily to a 98 basis point decrease in the average cost of deposits, to 2.52% in the current quarter, and a $19.1 million, or 2.8%, decrease in average deposits outstanding. Interest expense on borrowings totaled $3.8 million for the three months ended June 30, 2003, an increase of $25,000, or .7%, over the same 2002 three-month period. The increase resulted primarily from a $15.1 million, or 5.8%, increase in the average balance outstanding year to year, partially offset by a 28 basis point decrease in the average cost to 5.60%. Decreases in the level of average yields on interest-earning assets and average costs of interest-bearing liabilities were due primarily to the overall decrease in interest rates in the economy.

As a result of the foregoing changes in interest income and interest expense, net interest income decreased by $1.4 million, or 18.7%, to a total of $6.0 million for the three months ended June 30, 2003. The interest rate spread decreased to approximately 2.06% at June 30, 2003, from 2.50% at June 30, 2002, while the net interest margin decreased to approximately 2.34% for the three months ended June 30, 2003, compared to 2.86% for the 2002 period.

Provision for Losses on Loans

A provision for losses on loans is charged to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Bank, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to the Bank's market areas, and other factors related to the collectibility of the Bank's loan portfolio. Based upon an analysis of these factors, management recorded a provision for losses on loans totaling $255,000 for the three months ended June 30, 2003, an increase of $48,000, or 23.2%, over the comparable period in 2002. The current period provision was predicated primarily on the increased percentage of loans secured by commercial real estate within the loan portfolio, the level of charge-offs recorded during the period and the increase in the level of classified loans. Management believes all classified loans are adequately collateralized, however, there can be no assurance that the loan loss allowance will be adequate to absorb losses on known classified assets or that the allowance will be adequate to cover losses on classified assets in the future.

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

For the six- and three-month periods ended June 30, 2003 and 2002

Comparison of Results of Operations for the Three Months Ended June 30, 2003 and 2002 (continued)

Other Income

Other income totaled $3.3 million for the three months ended June 30, 2003, an increase of $1.2 million, or 59.1%, over the comparable 2002 period. The increase in other income was primarily attributable to an $891,000 increase in gain on sale of loans and a $377,000, or 48.8%, increase in late charges, rent and other. The increase in gain on sale of loans was due primarily to the $93.6 million, or 89.8%, increase in sales volume, as Advantage continued to sell fixed-rate loans originated in the low interest rate environment. The increase in late charges, rent and other was due primarily to an increase in title premiums and other fees on loans, an increase in ATM fees and proceeds of $175,000 from a life insurance policy due to the death of an officer of the Bank.

General, Administrative and Other Expense

General, administrative and other expense totaled $5.9 million for the three months ended June 30, 2003, an increase of $287,000, or 5.2%, over the comparable period in 2002. The increase in general, administrative and other expense was due primarily to a $345,000, or 10.8%, increase in employee compensation and benefits, an increase of $132,000, or 55.0%, in data processing expense and an increase of $30,000 or 3.4%, in occupancy and equipment, which were partially offset by a $110,000, or 37.0%, decrease in advertising and a $122,000, or 8.8%, decrease in other operating costs. The increase in employee compensation and benefits was due primarily to an increase in incentive compensation and 401(k) plan costs, as well as normal merit increases. The increase in data processing expense was primarily due to costs associated with special processing services and an increase in the cost of the annual contract with the Bank's data processing provider. The increase in occupancy and equipment was due primarily to an increase in office repairs and maintenance expenses, as well as costs associated with the new Dover office location. The decrease in advertising was primarily due to cost savings realized from implementation of a plan to centralize advertising contracts purchased, and the decrease in other operating costs was due primarily to a decrease in long distance telephone costs following a change in service providers and a decrease in FHLB charges due to use of bonds as pledged collateral versus letters of credit.

Federal Income Taxes

The provision for federal income taxes totaled $950,000 for the three months ended June 30, 2003, a decrease of $228,000, or 19.4%, compared to the three months ended June 30, 2002. This decrease was primarily attributable to a $470,000, or 12.9%, decrease in pre-tax earnings and the effect of a non-taxable redemption of a life insurance policy. The Corporation's effective tax rates amounted to 29.9% and 32.3% for the three-month periods ended June 30, 2003 and 2002, respectively.

CAMCO FINANCIAL CORPORATION

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

For the six- and three-month periods ended June 30, 2003 and 2002

ITEM 3: Quantitative and Qualitative Disclosures about Market Risk

There has been no material change in the Corporation's market risk since the Corporation's Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2002.

ITEM 4: Controls and Procedures

The Corporation's Chief Executive Officer and Chief Financial Officer evaluated the disclosure controls and procedures (as defined under Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective.

There were no significant changes in the Corporation's internal controls or in other factors that materially affected, or are reasonably likely to materially affect, these controls.

Camco Financial Corporation

PART II

ITEM 1. Legal Proceedings

Not applicable

ITEM 2. Changes in Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

Not applicable

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

Not applicable

ITEM 5. Other Information

Not applicable

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

31.1 Written Statement of Chief Executive Officer furnished Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

31.2 Written Statement of Chief Financial Officer furnished Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

32.1 Written Statement of Chief Executive Officer furnished Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

32.2 Written Statement of Chief Financial Officer furnished Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

(b) Reports on Form 8-K: On April 25, 2003, a Form 8-K was filed to report earnings for the quarter ended March 31, 2003.

On May 27, 2003, a Form 8-K was filed to report quarterly cash dividend and announce a 5% stock repurchase.

SIGNATURES

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

Date: August 11, 2003 By: /s/ Richard C. Baylor

Richard C. Baylor
Chief Executive Officer

Date: August 11, 2003 By: /s/ Mark A. Severson

Mark A. Severson
Chief Financial Officer