CAMCO FINANCIAL CORP
Form 10-Q
November 13, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 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	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**

814 Wheeling Avenue, Cambridge, Ohio 43725-9757

(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant 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 (§232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 checkmark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 31, 2012, the latest practicable date, 7,518,750 shares of the registrant s common stock, $1.00 par value, were outstanding.

Table of Contents

Camco Financial Corporation

INDEX

Table of Contents

Item 1. Financial Statements

Camco Financial Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$ 14,462	$ 16,420
Interest-bearing deposits in other financial institutions	12,458	21,954
Cash and cash equivalents	26,920	38,374
Securities available for sale, at market	79,709	17,845
Securities held to maturity, at cost	939	3,083
Loans held for sale - at lower of cost or fair value	6,341	8,090
Loans receivable net	579,522	639,177
Office premises and equipment net	8,066	8,645
Real estate acquired through foreclosure	11,886	10,888
Federal Home Loan Bank stock - at cost	9,888	9,888
Accrued interest receivable	2,742	2,945
Mortgage servicing rights at lower of cost or market	3,185	3,263
Prepaid expenses and other assets	4,647	4,927
Cash surrender value of life insurance	20,397	19,893
Total assets	$ **754,242**	$ **767,018**
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits	$ 630,304	$ 629,259
Other borrowings	11,095	16,681
Advances from the Federal Home Loan Bank	53,371	63,604
Advances by borrowers for taxes and insurance	1,553	2,100
Accounts payable and accrued liabilities	10,497	9,769
Total liabilities	706,820	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; 9,144,477 and 8,884,508 shares issued at September 30, 2012 and December 31, 2011 respectively	9,144	8,885
Unearned compensation	(457)	(31)
Additional paid-in capital	60,982	60,528
Retained earnings	1,729	350
Accumulated other comprehensive income (loss) net of related tax effects	138	(13)
Treasury stock 1,678,913 shares at September 30, 2012 and December 31, 2011, at cost	(24,114)	(24,114)
Total stockholders equity	47,422	45,605

Total liabilities and stockholders equity	$ **754,242**	$ **767,018**

3

Table of Contents

Camco Financial Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)	Nine months ended September 30, 2012	Nine months ended September 30, 2011	Three months ended September 30, 2012	Three months ended September 30, 2011
Interest and dividend income				
Loans	$ 23,434	$ 26,455	$ 7,522	$ 8,715
Investment securities	350	511	131	72
Other interest-earning accounts	330	602	112	99
Total interest and dividend income	24,114	27,568	7,765	8,886
Interest Expense				
Deposits	4,191	5,841	1,235	1,734
Borrowings	1,836	2,215	545	686
Total interest expense	6,027	8,056	1,780	2,420
Net interest income	18,087	19,512	5,985	6,466
Provision for losses on loans	1,599	3,038	457	228
Net interest income after provision for losses on loans	16,488	16,474	5,528	6,238
Other income				
Late charges, rent and other	872	901	321	336
Loan servicing fees	849	905	283	300
Service charges and other fees on deposits	1,513	1,580	515	548
Gain (loss) on sale of loans	1,714	(26)	633	85
Mortgage servicing rights net	(78)	(213)	(117)	(352)
Gain (loss) on sale of fixed assets	(3)	15	0	11
Gain (loss) on sale of investments	1	1,267	0	(9)
Income on cash surrender value of life insurance	642	659	216	222
Total other income	5,510	5,088	1,851	1,141
General, administrative and other expenses				
Employee compensation and benefits	9,392	9,565	2,996	3,034
Occupancy and equipment	2,192	2,219	725	767
Federal deposit insurance premiums and other insurance	1,380	1,541	457	444
Data processing	821	834	250	273
Advertising	296	277	101	95
Franchise taxes	583	514	199	166
Postage, supplies and office expenses	755	709	248	238
Travel, training and insurance	207	185	86	65
Professional services	1,357	1,093	468	391
Deposit and transaction processing	628	559	229	191
Real estate owned and other expenses	2,195	3,020	959	1,365
Loan expenses	891	1,152	230	182
Total general, administrative and other expense	20,697	21,668	6,948	7,211
Earnings (loss) before federal income taxes	1,301	(106)	431	168

Federal income taxes (benefit)		(78)		542		(53)		5
NET EARNINGS (LOSS)	**$**	**1,379**	**$**	**(648)**	**$**	**484**	**$**	**163**
EARNINGS (LOSS) PER SHARE								
Basic	**$**	**0.19**	**$**	**(0.09)**	**$**	**0.07**	**$**	**.02**
Diluted	**$**	**0.19**	**$**	**(0.09)**	**$**	**0.07**	**$**	**.02**

Table of Contents

Camco Financial Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(unaudited)	**Nine months ended September 30, 2012**	**2011**	**Three months ended September 30, 2012**	**2011**
Net earnings (loss)	$ 1,379	(648)	$ 484	$ 163
Other comprehensive income, net of tax:				
Unrealized holding gains (losses) on securities during the period, net of tax effects of $78 and $(103), $53 and $10 for the respective periods	152	(1,040)	103	3
Reclassification adjustment for realized gains included in net earnings, net of taxes of $0 and $(434), and $0 and $0 for the respective periods	(1)	1,267	(1)	(9)
Comprehensive income (loss)	**$ 1,530**	**$ (421)**	**$ 586**	**$ 157**

Table of Contents

CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share data)

	Shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Unearned compensation	Treasury stock	Total stockholders equity
Balance at December 31, 2010	**7,205,595**	**$ 8,885**	**$ 60,260**	**$ 136**	**$ 1,030**	**$ (94)**	**$ (24,114)**	**$ 46,103**
Stock Option Expense	0	0	234	0	0	0	0	234
Net earnings for the nine months ended September 30, 2012	0	0	0	(648)	0	0	0	(648)
Restricted shares expense	0	0	0	0	0	55	0	55
Unrealized (losses) of securities designated as available for sale, net of related tax benefits	0	0	0	0	(1,040)	0	0	(1,040)
Balance at September 30, 2011	**7,205,595**	**$ 8,885**	**$ 60,494**	**$ (512)**	**$ (10)**	**$ (39)**	**$ (24,114)**	**$ 44,704**
Balance at December 31, 2011	**7,205,595**	**$ 8,885**	**$ 60,528**	**$ 350**	**$ (13)**	**$ (31)**	**$ (24,114)**	**$ 45,605**
Stock Option Expense	0	0	75	0	0	0	0	75
Net earnings for the nine months ended September 30, 2012	0	0	0	1,379	0	0	0	1,379
Restricted shares granted	259,968	259	379	0	0	(426)	0	212
Unrealized gains on securities designated as available for sale, net of related tax benefits	0	0	0	0	151	0	0	151
Balance at September 30, 2012	**7,465,563**	**$ 9,144**	**$ 60,982**	**$ 1,729**	**$ 138**	**$ (457)**	**$ (24,114)**	**$ 47,422**

Table of Contents

Camco Financial Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30,

(In thousands)

	2012	2011
	(unaudited)	
Cash flows from operating activities:		
Net earnings (loss) for the period	$ 1,379	$ (648)
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Amortization of deferred loan origination fees	(115)	(256)
Amortization of premiums and discounts on investment and mortgage-backed securities net	21	(56)
Amortization of mortgage servicing rights net	946	879
Depreciation and amortization	1,042	922
Provision for losses on loans	1,599	3,038
Stock based compensation expense	287	289
Provisions for losses on REO	910	627
(Gain) / loss on sale of real estate acquired through foreclosure	(99)	423
(Gain) on sale of investments	(1)	(1,267)
(Gain) on sale of loans	(1,714)	(129)
(Gain)/loss on sale of assets	3	(14)
Loans originated for sale in the secondary market	(77,424)	(51,557)
Proceeds from sale of loans in the secondary market	80,887	43,449
Net increase in cash surrender value of life insurance	(504)	(529)
Increase (decrease) in cash due to changes in:		
Accrued interest receivable	203	491
Prepaid expenses and other assets	202	(509)
Accrued interest and other liabilities	728	(446)
Net cash provided by (used in) operating activities	8,350	(5,293)
Cash flows provided by (used in) investing activities:		
Principal repayments, maturities on securities held to maturity	2,141	452
Principal repayments, maturities on securities available for sale	14,506	7,602
Purchases of investment securities designated as available for sale	(76,166)	(15,395)
Proceeds from sale of investments	8	27,205
Redemption of FHLB Stock	0	20,000
Loan principal repayments	207,291	153,194
Loan disbursements and purchased loans	(154,659)	(132,695)
Proceeds from sale of office premises and equipment	19	1,081
Proceeds from surrender of life insurance	0	199
Additions to office premises and equipment	(485)	(847)
Proceeds from sale of real estate acquired through foreclosure	2,862	6,205
Net cash provided by (used in) investing activities	(4,483)	67,001
Net cash provided by operating and investing activities balance carried forward	3,867	61,708

Table of Contents

Camco Financial Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the nine months ended September 30,

(In thousands)

	2012	**2011**
Net cash provided by operating and investing activities (balance brought forward)	$ 3,867	$ 61,708
Cash flows used in financing activities:		
Net increase (decrease) in deposits	1,045	(27,489)
Proceeds from Federal Home Loan Bank advances and other borrowings	113,401	149,659
Repayment of Federal Home Loan Bank advances and other borrowings	(129,220)	(142,265)
Decrease in advances by borrowers for taxes and insurance	(547)	(1,020)
Net cash used in financing activities	(15,321)	(21,115)
Increase (decrease) in cash and cash equivalents	(11,454)	40,593
Cash and cash equivalents at beginning of period	38,374	29,114
Cash and cash equivalents at end of period	**$ 26,920**	**$ 69,707**
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest on deposits and borrowings	$ 6,015	$ 8,074
Income taxes paid	25	475
Transfers from loans to real estate acquired through foreclosure	4,671	9,751

8

1. Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (US GAAP). Accordingly, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Camco Financial Corporation (Camco or the Corporation) included in Camco s Annual Report on Form 10-K for the year ended December 31, 2011. 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 nine-month period ended September 30, 2012, are not necessarily indicative of the results which may be expected for the entire year.

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Camco and its wholly-owned subsidiary, Advantage Bank (Advantage or the Bank). All significant intercompany balances and transactions have been eliminated.

On March 31, 2011, Camco Financial Corporation dissolved Camco Title Agency, Inc. and sold certain of its assets to a third party. The balance sheet and results of operations of Camco Title were not material to the Corporation s consolidated financial statements. For the three months ended March 31, 2011, Camco Title s operations resulted in net income of $15,000.

3. Critical Accounting Policies

Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as disclosures found elsewhere in this report, are based upon Camco s consolidated financial statements, which are prepared in accordance with US GAAP. The preparation of these financial statements require 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 valuation of deferred tax assets, other real estate owned and valuation of investments. 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, deferred income taxes, other real estate owned and securities 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, and (2) the impact of recognizing an impairment or loan loss could have a material effect on Camco s assets reported on the balance sheet as well as its net earnings.

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.

9

Table of Contents

Each quarter, management analyzes the adequacy of the allowance for loan losses based on review of the loans in the portfolio along with an analysis of external factors (including trends such as: 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 3) the allowance for non-classified loans (primarily homogeneous) and 4) qualitative analysis.

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 homogeneous 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 and adjusted for economic factors.

The allowance is reviewed by management to determine whether the amount is considered adequate to absorb probable, incurred 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. 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 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 to a third party valuation firm, representing loan information in each pooling period accompanied by escrow amounts. 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 grouping of loans is evaluated on a discounted earnings basis to determine the present value of future earnings that the Bank could expect 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 MSRs.

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 the third party provider utilizing the Economic Outlook as published by the Office of Chief Economist of Freddie Mac earnings 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 based on these earnings and presented quarterly to management. At that time, management reviews the information and MSRs are marked to lower of amortized cost or fair value for the current quarter.

Table of Contents

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 carry back periods to cover net operating losses and the reversal of temporary differences. A valuation allowance is provided for deferred tax assets 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. During 2011, the IRS began an examination of the Corporation s tax returns for the year ended December 31, 2009. Accrual of income taxes payable and valuation allowances against deferred tax assets are estimates subject to change based upon the outcome of future events.

Other Real Estate

Assets acquired through or in lieu 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 updated real estate appraisal, holding time, costs to complete, holding costs, discount rate, absorption and other factors.

Securities

The securities investment portfolio accounted for 10.7% of total assets at September 30, 2012, of which approximately 98.8% of the securities were classified as available-for-sale. Camco carries these securities at fair value on its Consolidated Balance Sheets, with any unrealized gain or loss recorded in stockholders equity as a component of accumulated other comprehensive income. As a result, both the investment and equity sections of Camco s Consolidated Balance Sheet are sensitive to changes in the overall market value of the investment portfolio, due to changes in market interest rates, investor confidence and other factors affecting market values.

While temporary changes in the fair value of available-for-sale securities are not recognized in earnings, Camco is required to evaluate all investment securities with an unrealized loss on a quarterly basis to identify potential other-than-temporary impairment (OTTI) losses. This analysis requires management to consider various factors that involve judgment and estimation, including duration and the decline in value, the financial condition of the issuer or pool of issuers and structure of the security.

Under current US GAAP, an OTTI loss is recognized in earnings only when (1) Camco intends to sell the debt security; (2) it is more likely than not that Camco will be required to sell the security before recovery of its amortized cost basis or (3) Camco does not expect to recover the entire amortized cost basis of the security. In situations where Camco intends to sell or when it is more likely than not that Camco will be required to sell the security, the entire OTTI loss must be recognized in earnings. In all other situations, only the portion of the OTTI losses representing the credit loss must be recognized in earnings, with the remaining portion being recognized in stockholders equity as a component of accumulated other comprehensive income.

For additional information regarding Investment Securities *see* Note 8. Investment Securities.

Table of Contents

4. Earnings Per Share

Basic earnings per common share is computed based upon the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed including the dilutive effect of additional potential shares issuable under outstanding stock options. Diluted earnings per share is not computed for periods in which an operating loss is sustained. The computations were as follows for the periods ended September 30, 2012 and 2011:

	For the nine months ended September 30,		For the three months ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share information)			
BASIC:				
Net Earnings	$ 1,379	$ (648)	$ 484	$ 163
Weighted average common shares outstanding	7,385	7,206	7,467	7,206
Basic earnings (loss) per share	**$ 0.19**	**$ (0.09)**	**$ 0.07**	**$ 0.02**
DILUTED:				
Net Earnings	$ 1,379	$ (648)	$ 484	$ 163
Weighted average common shares outstanding	7,385	7,206	7,467	7,206
Dilutive effect of stock options	3	0	6	0
Total common shares and dilutive potential common shares	7,388	7,206	7,473	7,206
Diluted earnings (loss) per share	**$ 0.19**	**$ (0.09)**	**$ 0.07**	**$ 0.02**

Anti-dilutive options to purchase 424,480 and 599,078 shares of common stock with respective weighted-average exercise prices of $5.54 and $4.85 were outstanding at September 30, 2012 and 2011, respectively, but were excluded from the computation of common stock equivalents for each of the three and nine month periods, because the exercise prices were greater than the average market price of the shares of common stock.

5. Stock Based Compensation

The Corporation follows a fair-value based method for valuing stock-based compensation that measures compensation cost at the grant date based on the fair value of the award.

The fair value of each option grant is estimated on the date of grant using the modified Black-Scholes options-pricing model. In 2012 no options were granted. The following table details the fair value and assumptions used to value stock options as of the grant date that were granted during the nine months ended September 30, 2011:

	2011
Fair value, calculated	$ 1.49
Exercise Price	$ 2.14
Risk-free interest rate	3.58%
Expected stock price volatility	57.30%
Expected dividend yield	0
Expected Life	10 years

Table of Contents

A summary of the status of the Corporation s stock option plans as of September 30, 2012 and December 31, 2011, and changes during the periods ending on those dates is presented below:

	Nine Months ended September 30, 2012		Year ended December 31, 2011	
	Shares	**Weighted-average exercise price**	**Shares**	**Weighted-average exercise price**
Outstanding at beginning of period	587,342	$ 4.68	463,642	$ 5.84
Granted	0	0	161,538	2.14
Exercised	0	0	0	0
Forfeited	(5,454)	10.63	(29,338)	7.03
Expired	0	0	(8,500)	11.93
Outstanding at end of period	**581,888**	**$ 4.62**	**587,342**	**$ 4.68**
Options exercisable at period end	**395,233**	**$ 5.70**	**317,467**	**$ 6.58**
Weighted-average fair value of options granted during the period		**$ N/A**		**$ 1.49**

The following information applies to options outstanding at September 30, 2012:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$1.90 - $2.51	470,687	7.6	$ 2.39	284,032	$ 2.42
$8.92	18,877	5.3	8.92	18,877	8.92
$11.36 - $14.16	43,473	3.6	13.69	43,473	13.69
$16.13 - $17.17	48,851	1.5	16.44	48,851	16.44
	581,888	6.7	$ 4.62	395,233	$ 5.70

In 2009, Camco granted 50,000 restricted shares of stock out of the current authorized common stock related to an employment agreement. The 2009 issuance of restricted stock will vest in four equal annual increments beginning in 2010.

In March 2012, Camco granted 262,492 shares of restricted stock awards with an impact to unearned/deferred compensation of $625,000. The stock was granted under the Camco Financial Corporation 2010 Equity Plan to officers based on 2011 performance. The issuance of the restricted stock vests over three years, 20% on the date of the award, 20% on the date that the Compensation Committee certifies Camco s 2013 financial results and 60% on the date that the Compensation Committee certifies Camco s 2014 financial results (such results are expected to be certified in the first quarter of 2014 and 2015, respectively). However, if Camco s pre-tax earnings for the fiscal year ending December 31, 2013 or 2014 are not equal to or greater than the pre-tax earnings for the fiscal year ending December 31, 2012; the participant will forfeit 25% of the equity award that is to vest on such date. Additionally, the vested shares have restrictions that generally lapse after one year. The grant date fair value per share of restricted stock is the stock price at close on grant date, which is being expensed on a straight-line basis during the vesting period. The shares represented by restricted stock awards are considered outstanding at the grant date, as the recipients are entitled to voting rights and dividends if declared. A summary of restricted stock award activity for the period is presented below:

	Non-vested Number of Shares	Weighted Average Grant Date Fair Value
Non-vested balance at January 1, 2011	37,500	$ 2.50
Vested	(12,500)	2.50
Non-vested balance at December 31, 2011	25,000	$ 2.50
Granted	262,492	2.38
Vested	(64,979)	2.40
Forfeit	(2,524)	2.38
Non-vested balance at September 30, 2012	219,989	$ 2.39

Table of Contents

At September 30, 2012, there was approximately $422,000 of compensation cost that has not yet been recognized related to restricted stock awards. That cost is expected to be recognized over a remaining period of two years.

6. Fair Value

The fair value framework as disclosed in the Fair Value Measurements and Disclosure Topic of FASB ASC Topic 825, Financial Instruments (Fair Value Topic) includes a hierarchy which focuses on prioritizing the inputs used in valuation techniques. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), a lower priority to observable inputs other than quoted prices in active markets for identical assets and liabilities (Level 2), and the lowest priority to unobservable inputs (Level 3). When determining the fair value measurements for assets and liabilities, the Corporation looks to active markets to price identical assets or liabilities whenever possible and classifies such items in Level 1. When identical assets and liabilities are not traded in active markets, the Corporation looks to observable market data for similar assets and liabilities and classifies such items as Level 2. Certain assets and liabilities are not actively traded in observable markets and the Corporation must use alternative techniques, based on unobservable inputs, to determine the fair value and classifies such items as Level 3. The level within the fair value hierarchy is based on the lowest level of input that is significant in the fair value measurement.

As a financial services corporation, the carrying value of certain financial assets and liabilities is impacted by the application of fair value measurements, either directly or indirectly. In certain cases, an asset or liability is measured and reported at fair value on a recurring basis, such as available-for-sale investment securities. In other cases, management must rely on estimates or judgments to determine if an asset or liability not measured at fair value warrants an impairment write-down or whether a valuation reserve should be established. Given the inherent volatility, the use of fair value measurements may have a significant impact on the carrying value of assets or liabilities, or result in material changes to the financial statements, from period to period.

The following methods, assumptions, and valuation techniques were used by the Corporation to measure different financial assets and liabilities at fair value and in estimating its fair value disclosures for financial instruments.

Cash and Cash Equivalents: The carrying amounts reported in the consolidated statements of financial condition for cash and cash equivalents is deemed to approximate fair value and are classified as Level 1 of the fair value hierarchy.

Investment Securities: Fair values for investment securities are determined by quoted market prices if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using matrix pricing, which is a mathematical technique widely used in the industry to value investment securities without relying exclusively on quoted prices for the specific investment securities but rather relying on the investment securities relationship to other benchmark quoted investment securities (Level 2). Any investment securities not valued based upon the methods above is considered Level 3.

The Corporation utilizes information provided by a third-party investment securities portfolio manager in analyzing the investment securities portfolio in accordance with the fair value hierarchy of the Fair Value Topic. The portfolio manager s evaluation of investment security portfolio pricing is performed using a combination of prices and data from other sources, along with internally developed matrix pricing models. The third-party s month-end pricing process includes a series of quality assurance activities where prices are compared to recent market conditions, previous evaluation prices, and between the various pricing services. These processes produce a series of quality assurance reports on which price exceptions are identified, reviewed and where appropriate, securities are re-priced. In the event of a materially different price, the third party will report the variance and review the pricing methodology in detail. The results of the quality assurance process are incorporated into the selection of pricing providers by the third party.

Table of Contents

Loans Held for Sale: Mortgage loans held for sale are classified as Level 2 and are estimated using fair value which is determined using quoted prices and if available the contracted sales price of loans committed for delivery, which is determined on the date of sale commitment. Gains and losses on the sale of loans are recorded as net gains from sales of loans within noninterest income in the Consolidated Statements of Operations.

Loans Receivable: The loan portfolio has been segregated into categories with similar characteristics, such as one- to four-family residential real estate, multi-family residential real estate, installment and other. These loan categories were further delineated into fixed-rate and adjustable-rate loans. The fair values for the resultant loan categories were computed via discounted cash flow analysis, using current interest rates offered for loans with similar terms to borrowers of similar credit quality. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price and due to the significant judgment involved in evaluating credit quality, loans are classified within Level 3 classification.

Federal Home Loan Bank Stock: The carrying amount presented in the consolidated statements of financial condition is deemed to approximate fair value.

Accrued Interest Receivable and Payable: The carrying value for accrued interest is equal to the carrying amounts resulting in a Level 3 classification which is consistent with its underlying asset.

Deposits: The fair values of deposits with no stated maturity, such as money market demand deposits, savings and NOW accounts have been analyzed by management and assigned estimated maturities and cash flows which are then discounted to derive a value. The fair value of fixed-rate certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The Corporation classifies the estimated fair value of deposit liabilities as Level 2 in the fair value hierarchy.

Advances from the Federal Home Loan Bank: The fair value of these advances is estimated using the rates currently offered for similar advances of similar remaining maturities or, when available, quoted market prices.

Repurchase Agreements: The fair value of repurchase agreements is based on the discounted value of contractual cash flows using rates currently offered for similar maturities. The Corporation classifies the estimated fair value of short-term borrowings as Level 3 of the fair value hierarchy.

Subordinated Debentures: The fair value of subordinated debentures is based on the discounted value of contractual cash flows using rates currently offered for smaller maturities.

Advances by Borrowers for Taxes and Insurance: The carrying amount of advances by borrowers for taxes and insurance is is equial to the carrying amounts resulting in a Level 3 classification which is consistent with its underlying asset.

Commitments to Extend Credit: For fixed-rate and adjustable-rate loan commitments, the fair value estimate considers the difference between current levels of interest rates and committed rates. At September 30, 2012 and December 31, 2011, the fair value of loan commitments was not material.

Listed below are three levels of inputs that Camco uses to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Quoted prices on identical assets or liabilities that are not actively traded. Also consists of an observable market price for a similar asset or liability. This includes the use of matrix pricing used to value debt securities absent the exclusive use of quoted prices.

Table of Contents

Level 3: Consists of unobservable inputs that are used to measure fair value when observable market inputs are not available. This could include the use of internally developed models, financial forecasting, etc.

Fair value is defined as the price that would be received to sell an asset or transfer a liability between market participants at the balance sheet date. When possible, the Corporation looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Corporation looks to observable market data for similar assets and liabilities. However, certain assets and liabilities are not traded in observable markets and Camco must use other valuation methods to develop a fair value. The fair value of impaired loans is based on the fair value of the underlying collateral, which is estimated through third party appraisals or internal estimates of collateral values.

Based on the foregoing methods and assumptions, the carrying value and fair value of the Corporation s financial instruments are as follows:

(in thousands as of September 30, 2012)	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 26,920	$ 26,920	$ 26,920	$ 0	$ 0
Investment securities available for sale	79,709	79,709	0	79,665	44
Investment securities held to maturity	939	997	0	997	0
Loans held for sale	6,341	6,519	0	6,519	0
Loans receivable	579,522	574,682	0	0	574,682
Federal Home Loan Bank stock	9,888	9,888	0	0	9,888
Accrued interest receivable	2,742	2,742	0	0	2,742
Financial liabilities					
Deposits	$ 630,304	$ 625,293	$ 68,321	$ 556,972	$ 0
Advances from the Federal Home Loan Bank	53,371	56,684	0	56,684	0
Repurchase agreements	6,095	6,095	0	0	6,095
Subordinated debentures	5,000	4,938	0	0	4,938
Advances by borrowers for taxes and insurance	1,553	1,553	0	0	1,553
Accrued interest payable	1,704	1,704	0	0	1,704

(in thousands as of December 31, 2011)	Carrying value	Fair value
Financial assets		
Cash and cash equivalents	$ 38,374	$ 38,374
Investment securities available for sale	17,845	17,845
Investment securities held to maturity	3,083	3,135
Loans held for sale	8,090	8,250
Loans receivable	639,177	639,477
Federal Home Loan Bank stock	9,888	9,888
Accrued interest receivable	2,945	2,945
Financial liabilities		
Deposits	$ 629,259	$ 623,145
Advances from the Federal Home Loan Bank	63,604	67,951
Repurchase agreements	11,681	11,681
Subordinated debentures	5,000	4,928
Advances by borrowers for taxes and insurance	2,100	2,100
Accrued interest payable	1,693	1,693

Table of Contents

The following table presents financial assets and liabilities measured on a recurring basis:

		Fair Value Measurements at Reporting Date Using		
(in thousands)	Balance	Level 1	Level 2	Level 3
September 30, 2012				
Securities available for sale:				
U.S. government sponsored enterprises	$ 74,083	$ 0	$ 74,083	$ 0
Corporate equity securities	44	0	0	44
Corporate bonds	4,307	0	4,307	0
Mortgage-backed securities	1,275	0	1,275	0
December 31, 2011				
Securities available for sale:				
U.S. government sponsored enterprises	$ 16,292	$ 0	$ 16,292	$ 0
Corporate equity securities	52	0	0	52
Mortgage-backed securities	1,501	0	1,501	0

The following table presents financial assets and liabilities measured on a non-recurring basis:

		Fair Value Measurements at Reporting Date Using		
(in thousands)	Balance	Level 1	Level 2	Level 3
September 30, 2012				
Impaired loans	$ 25,071	$ 0	$ 0	$ 25,071
Real estate acquired through foreclosure	11,886	0	0	11,886
December 31, 2011				
Impaired loans	$ 22,956	$ 0	$ 0	$ 22,956
Real estate acquired through foreclosure	10,888	0	0	10,888

Impaired loans are measured and reported at fair value when management believes collection of contractual interest and principal payments is doubtful. Management s determination of the fair value for these loans represents the estimated net proceeds to be received from the sale of the collateral based on observable market prices and market value provided by independent, licensed or certified appraisers.

Fair value for real estate acquired through foreclosure is generally determined by obtaining recent appraisals on the properties. Other types of valuing include broker price opinions and valuations pertaining to the current and anticipated regional economy and real estate market, as evidenced by, among other things, changes in the local population, unemployment rates, vacancy rates, borrower delinquencies, property values and rental price trends, differences between foreclosure appraisals and real estate owned sales prices, and an increase in concessions and other forms of discounting or other items approved by our asset classification committee. The fair value under such appraisals is determined by using one of the following valuation techniques: income, cost or comparable sales. The fair value is then reduced by management s estimate for the direct costs expected to be incurred in order to sell the property. Holding costs or maintenance expenses are recorded as period costs when occurred and are not included in the fair value estimate.

7. Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision which is charged to expense and represents management s best estimate of probable losses that could be incurred within the existing portfolio of loans. The allowance is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Corporation s allowance for possible loan loss methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools and specific loss allocations, with adjustments for current events and conditions. The provision for possible loan losses reflects loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors. The amount of the provision reflects not only the necessary allowance for possible loan losses related to newly identified criticized loans, but it also reflects actions taken related to other loans including, among other things, any necessary increases or decreases in required allowances for specific loans or loan pools. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Corporation s control, including, among other things, changes in market interest rates and other factors in the local economies that we serve, such as unemployment rates and real estate market values.

Table of Contents

The Corporation s allowance for possible loan losses consists of three elements: (i) specific valuation allowances on probable losses on specific loans; (ii) historical valuation allowances based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) general valuation allowances based on general economic conditions and other qualitative risk factors both internal and external to the Corporation.

Loans identified as losses by management are charged-off. Furthermore, consumer loan accounts are charged-off automatically based on past due history and regulatory requirements.

Allowance for loan losses for the three and nine months period ending September 30, 2012 and 2011 are summarized as follows:

(in thousands)	Construction	Consumer	Multi-Family	Land, Farm & Ag Loans	Residential	Commercial & Non-Residential	Commercial and Industrial	Total
Allowance for credit losses:								
Beginning balance December 31, 2011	$ 35	$ 80	$ 2,484	$ 554	$ 8,277	$ 2,565	$ 537	$ 14,532
Charge-offs	0	(130)	(11)	(358)	(1,931)	(79)	(58)	(2,567)
Recoveries	0	17	9	5	164	684	65	944
Provision	502	134	(409)	273	(168)	406	861	1,599
Ending balance September 30, 2012	$ 537	$ 101	$ 2,073	$ 474	$ 6,342	$ 3,576	$ 1,405	$ 14,508
Beginning balance June 30, 2012	$ 554	$ 49	$ 1,688	$ 768	$ 6,396	$ 4,118	$ 612	$ 14,185
Charge-offs	0	(128)	0	(2)	(704)	(14)	(7)	(855)
Recoveries	0	16	0	2	54	648	1	721
Provision	(17)	164	385	(294)	596	(1,176)	799	457
Ending balance September 30, 2012	$ 537	$ 101	$ 2,073	$ 474	$ 6,342	$ 3,576	$ 1,405	$ 14,508
Beginning balance December 31, 2010	$ 166	$ 246	$ 2,860	$ 849	$ 8,050	$ 3,638	$ 1,061	$ 16,870
Charge-offs	0	(60)	(85)	(107)	(2,000)	(1,066)	(48)	(3,366)
Recoveries	0	3	156	210	488	118	98	1,073
Provision	(142)	(66)	113	(183)	2,420	1,395	(499)	3,038
Ending balance September 30, 2011	$ 24	$ 123	$ 3,044	$ 769	$ 8,958	$ 4,085	$ 612	$ 17,615
Beginning balance June 30, 2011	$ 25	$ 114	$ 2,933	$ 628	$ 8,974	$ 5,102	$ 575	$ 18,351
Charge-offs	0	(3)	(52)	0	(553)	(487)	(39)	(1,134)
Recoveries	0	1	40	6	105	9	9	170
Provision	(1)	11	123	135	432	(539)	67	228
Ending balance September 30, 2011	$ 24	$ 123	$ 3,044	$ 769	$ 8,958	$ 4,085	$ 612	$ 17,615

Allocation of the allowance for loan loss by segment to loans individually and collectively evaluated for impairment as follows:

At September 30, 2012 (in thousands)	Construction	Consumer	Multi-Family	Land, Farm & Ag Loans	Residential	Commercial & Non-Residential	Commercial and Industrial	Total

Individually evaluated for impairment	$ 1	$ 39	$ 406	$ 100	$ 595	$ 524	$ 34	$ 1,699
Collectively evaluated for impairment	$ 537	$ 62	$ 1,666	$ 374	$ 5,747	$ 3,052	$ 1,371	$ 12,809
Portfolio balances:								
Collectively evaluated for impairment	$ 29,635	$ 3,550	$ 68,172	$ 13,241	$ 272,680	$ 143,589	$ 38,092	$ 568,959
Individually evaluated for impairment								
With no related allowance	0	0	0	0	589	1,143	66	1,798
With related allowance	16	526	4,565	900	10,825	5,949	492	23,273
Ending balance	$ 29,651	$ 4,076	$ 72,737	$ 14,141	$ 284,094	$ 150,681	$ 38,650	$ 594,030

Table of Contents

At December 31, 2011 (in thousands)	Construction	Consumer	Multi-Family	Land, Farm & Ag Loans	Residential	Commercial & Non-Residential	Commercial and Industrial	Total
Individually evaluated for impairment	$ 3	$ 41	$ 426	$ 208	$ 720	$ 335	$ 27	$ 1,760
Collectively evaluated for impairment	$ 32	$ 39	$ 2,058	$ 346	$ 7,557	$ 2,230	$ 510	$ 12,772
Portfolio balances:								
Collectively evaluated for impairment	$ 23,857	$ 3,402	$ 83,246	$ 16,619	$ 307,057	$ 156,457	$ 38,355	$ 628,993
Individually evaluated for impairment								
With no related allowance	0	0	51	0	1,945	695	112	2,803
With related allowance	19	128	4,633	1,203	8,922	6,612	396	21,913
Ending balance	$ 23,876	$ 3,530	$ 87,930	$ 17,822	$ 317,924	$ 163,764	$ 38,863	$ 653,709

Non-accrual and Past Due Loans. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when the loan is more than three payments past due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is recognized when the loan is returned to accrual status and all the principal and interest amounts contractually due are brought current (minimum of six months), or future payments are reasonably assured. Future payments of interest income will be recognized while the previous payments of interest (during non-accrual status) will not be recognized until loan is paid off.

The following table details non-accrual loans at September 30, 2012 and December 31, 2011:

(in thousands)	Non-Accrual September 30, 2012	Non-Accrual December 31, 2011
Construction	$ 16	$ 19
Land, Farmland, Ag Loans	986	367
Residential	19,152	22,277
Commercial and non-residential	2,068	1,879
Consumer	499	113
Commercial and industrial	66	212
Multi Family	0	51
Total	$ 22,787	$ 24,918

Detailed below is an age analysis of past due loans, segregated by class. Total past due has decreased $7.3 million, or 30.5% since December 31, 2011 to $16.7 million at September 30, 2012. The majority of the decrease relates to a decrease in subprime residential loans of $8.9 million, or 53.0%. This decrease is significant, because subprime refers to the credit quality of particular borrowers, who have weakened credit histories and are characterized with a higher risk of loan default than prime borrowers.

September 30, 2012 (in thousands)	Loans 30-59 Days Past Due	Loans 60 - 89 Past Due	Loans 90+ Days Past Due	Total Past Due	Current	Total Loans	Accruing Loans 90 Days Past Due
Construction	$ 0	$ 0	$ 0	$ 0	$ 29,651	$ 29,651	$ 0
Land, Farmland, Ag Loans	0	0	119	119	14,022	14,141	0
Residential / prime	1,136	685	5,462	7,283	218,153	225,436	0
Residential / subprime	1,576	677	5,593	7,846	50,812	58,658	0
Commercial and non-residential	118	816	326	1,260	149,421	150,681	0
Consumer	34	24	35	93	3,983	4,076	0

Commercial and industrial	0	0	66	66	38,584	38,650	0
Multi Family	0	0	0	0	72,737	72,737	0
Total	$ 2,864	$ 2,202	$ 11,601	$ 16,667	$ 577,363	$ 594,030	$ 0

Table of Contents

December 31, 2011 (in thousands)	Loans 30-59 Days Past Due	Loans 60 - 89 Past Due	Loans 90+ Days Past Due	Total Past Due	Current	Total Loans	Accruing Loans 90 Days Past Due
Construction	$ 0	$ 0	$ 0	$ 0	$ 23,876	$ 23,876	$ 0
Land, Farmland, Ag Loans	103	0	136	239	17,583	17,822	0
Residential / prime	638	269	4,139	5,046	235,502	240,548	0
Residential / subprime	5,380	1,818	9,499	16,697	60,679	77,376	0
Commercial and non-residential	462	527	638	1,627	162,137	163,764	0
Consumer	54	76	18	148	3,382	3,530	0
Commercial and industrial	45	0	114	159	38,704	38,863	0
Multi Family	0	0	51	51	87,879	87,930	0
Total	$ 6,682	$ 2,690	$ 14,595	$ 23,967	$ 629,742	$ 653,709	$ 0

Although we believe that the allowance for loan losses at September 30, 2012 is adequate to cover losses inherent in the loan portfolio at that date based upon the available facts and circumstances, there can be no assurance that additions to the allowance for loan losses will not be necessary in future periods, which could adversely affect our results of operations. Unemployment rates in our markets and Ohio in general, are close to the national average. Ohio did experience decreased values of residential real estate from 2008 through 2011 but the decline in values has stabilized in 2012. Nonetheless, these factors, compounded by an uncertain national economic outlook, may continue to increase the level of future losses beyond our current expectations.

Impaired loans. Loans are considered impaired when, based on current information and events, it is probable Advantage will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other larger commercial credits. If a loan is collateral dependent and payment is expected solely from the collateral, or is less than the present value of estimated future cash flows using the loan s existing rate and the calculated value is not sufficient it is considered impaired. If it is impaired a specific valuation allowance is allocated, so that the loan is reported net, or at the loan s fair sale value. All payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured in which case interest is recognized on an accrual basis. Impaired loans or portions of loans are charged off when deemed uncollectible.

We have included the following information with respect to impairment measurements relating to collateral-dependent loans for better understanding of our process and procedures relating to fair value of loans:

Based on policy, a loan is typically deemed impaired/non-performing once it has gone over three payments or 90 days delinquent or is considered a modification. *See* the **Modifications** section below. Our management of the troubled credit will vary as will the timing of valuations, loan loss provision and charge offs based on a multitude of factors such as: cash flow of the business/borrower, responsiveness of the borrower, communication with the commercial banker, property inspections, property deterioration, and delinquency. Typically, a nonperforming, non-homogeneous collateral dependent loan will be valued and adjusted (if needed) within a time frame as short as 30 days or as many as 180 days after determination of impairment. If impaired, the collateral is then evaluated and an updated appraisal is most typically ordered. Upon receipt of an appraisal or other valuation, we complete an analysis to determine if the impaired loan requires a specific reserve or to be charged down to estimated net realizable value. The time frame may be as short as 30 days or as much as 180 days, when an appraisal is ordered.

Camco s credit risk management process consistently monitors key performance metrics across both the performing and non-performing assets to identify any further degradation of credit quality. Additionally, impaired credits are monitored in weekly loan committee discussions, monthly Asset Classification Committee meetings and quarterly loan loss reserve reviews. Strategy documents and exposure projections are completed on a monthly basis to ensure that the current status of the troubled asset is clearly understood and reported.

The Asset Classification Committee oversees the management of all impaired loans and any subsequent loss provision or charge off that is considered. When a loan is deemed impaired, the valuation is obtained to determine any existing loss that may be present as of the valuation date. Policy dictates that any differences from fair market value, less costs to sell, are to be recognized as loss during the current period (loan loss provision or charge off). Any deviations from this policy will be identified by amount and contributing reasons for the policy departure during our quarterly reporting process.

Table of Contents

Camco s policies dictate that an impaired loan subject to partial charge off will remain in a nonperforming status until it is brought current. Typically, this occurs when a loan is paid current and completes a period of on-time payments that demonstrate that the loan can perform and there is some certainty that payments will continue. Camco monitors through various system reports any loan whose terms have been modified. These reports identify troubled debt restructures, modifications, and renewals.

When property values are below a set threshold they are not subject to an updated appraisal; Camco will use the underlying collateral s fair market value as estimated in the following ways:

Camco s personnel property inspections combined with original appraisal review

County Auditor values

Broker price opinions

Various on-line fair market value estimation programs (i.e. Freddie Mac, Fannie Mae, etc.).

Impaired loans are set forth in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
(in thousands)		September 30, 2012	
With no related allowance recorded:			
Construction	$ 0		