CAMCO FINANCIAL CORP
Form 10-Q
May 15, 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 March 31, 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 May 8, 2003, the latest practicable date, 7,527,063.10 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	MARCH 3 20
Cash and due from banks	$ 22,8
Interest-bearing deposits in other financial institutions	56,2
Cash and cash equivalents	79,1
Investment securities available for sale - at market	34,7
Investment securities held to maturity - at cost, approximate market	

value of $4,347 and $5,501 as of March 31, 2003 and December 31, 2002, respectively	4,2
Mortgage-backed securities available for sale - at market	113,6
Mortgage-backed securities held to maturity - at cost, approximate market value of $15,235 and $20,634 as of March 31, 2003 and December 31, 2002, respectively	14,8
Loans held for sale - at lower of cost or market	20,3
Loans receivable - net	745,8
Office premises and equipment - net	14,3
Real estate acquired through foreclosure	1,2
Federal Home Loan Bank stock - at cost	23,7
Accrued interest receivable	4,9
Prepaid expenses and other assets	1,6
Cash surrender value of life insurance	17,5
Goodwill - net of accumulated amortization	2,9
Prepaid federal income taxes	-
Total assets	$1,079,2
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	$ 694,3
Advances from the Federal Home Loan Bank	274,8
Advances by borrowers for taxes and insurance	2,2
Accounts payable and accrued liabilities	4,0
Dividends payable	1,0
Accrued federal income taxes	
Deferred federal income taxes	5,4
Total liabilities	982,1
Stockholders' equity	
Preferred stock - $1 par value; authorized 100,000 shares; no shares outstanding	-
Common stock - $1 par value; authorized 14,900,000 shares; 8,367,482 and 8,311,145 shares issued at March 31, 2003 and December 31, 2002, respectively	8,3
Additional paid-in capital	54,5
Retained earnings - substantially restricted	43,8
Accumulated other comprehensive income - unrealized gains on securities designated as available for sale, net of related tax effects	1,7
Less 800,321 and 622,260 shares of treasury stock at March 31, 2003 and December 31, 2002, respectively - at cost	(11,3
Total stockholders' equity	97,1
Total liabilities and stockholders' equity	$1,079,2

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CAMCO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS
For the three months ended March 31,
(In thousands, except per share data)

Interest income
  Loans
  Mortgage-backed securities
  Investment securities
  Interest-bearing deposits and other

Total interest income

Interest expense
  Deposits
  Borrowings

Total interest expense

Net interest income

Provision for losses on loans

Net interest income after provision for losses on loans

Other income
  Late charges, rent and other
  Loan servicing fees
  Service charges and other fees on deposits
  Gain on sale of loans
  Valuation of mortgage servicing rights - net
  Gain on sale of real estate acquired through foreclosure

Total other income

General, administrative and other expense
  Employee compensation and benefits
  Occupancy and equipment
  Data processing
  Advertising
  Franchise taxes (refunds)
  Other operating

Total general, administrative and other expense

Earnings before federal income taxes

Federal income taxes
  Current
  Deferred

Total federal income taxes

NET EARNINGS

EARNINGS PER SHARE
  Basic $

Diluted	$
Dividends declared per share	$

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

Net earnings

Other comprehensive loss, net of tax:
Unrealized holding losses during the period, net of tax benefits of $202 and $52 in 2003 and 2002, respectively

Comprehensive income

Accumulated comprehensive income

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Cash flows from operating activities:	
Net earnings for the period	$ 2

Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:	
Amortization of deferred loan origination fees	
Amortization of premiums and discounts on investment and mortgage-backed securities - net	
Depreciation and amortization	
Amortization of purchase accounting adjustments, net	
Provision for losses on loans	
Gain on sale of real estate acquired through foreclosure	
Federal Home Loan Bank stock dividends	
Gain on sale of loans	(1
Loans originated for sale in the secondary market	(56
Proceeds from sale of loans in the secondary market	93
Increase (decrease) in cash due to changes in:	
Accrued interest receivable	
Prepaid expenses and other assets	
Accrued interest and other liabilities	
Federal income taxes	
Current	
Deferred	
Net cash provided by operating activities	40
Cash flows provided by (used in) investing activities:	
Purchases of investment securities	(2
Proceeds from maturities of investment securities	7
Principal repayments on mortgage-backed securities	20
Purchases of mortgage-backed securities designated as available for sale	(33
Loan principal repayments	83
Loan disbursements	(85
Purchases of loans	(2
Additions to office premises and equipment	
Additions to real estate acquired through foreclosure	
Proceeds from sale of real estate acquired through foreclosure	
Net increase in cash surrender value of life insurance	
Net cash provided by (used in) investing activities	(11
Net cash provided by operating and investing activities (balance carried forward)	28

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

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

Net cash provided by operating and investing activities (balance brought forward)	$28
Cash flows provided by (used in) financing activities:	
Net increase (decrease) in deposits	
Proceeds from Federal Home Loan Bank advances	1
Repayment of Federal Home Loan Bank advances	(2
Dividends paid on common stock	(1
Proceeds from exercise of stock options	
Purchase of treasury shares	(3
Decrease in advances by borrowers for taxes and insurance	(1

Net cash used in financing activities	(5

Increase (decrease) in cash and cash equivalents	22
Cash and cash equivalents at beginning of period	57

Cash and cash equivalents at end of period	$79
	===
Supplemental disclosure of cash flow information:	
Cash paid during the period for:	
Interest on deposits and borrowings	$ 7
	===
Income taxes	$
	===
Supplemental disclosure of noncash investing activities:	
Unrealized losses on securities designated as available for sale, net of related tax effects	$
	===
Recognition of mortgage servicing rights in accordance with SFAS No. 140	$ 1
	===
Transfers from mortgage loans to real estate acquired through foreclosure	$
	===
Supplemental disclosure of noncash financing activities:	
Treasury shares received from settlement of Columbia Financial's Employee Stock Ownership Plan	$
	===
Dividends declared but unpaid	$ 1
	===

CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month periods ended March 31, 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 three month period ended March 31, 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. Earnings Per Share

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

	FOR THE THREE MARCH
	2003
Weighted-average common shares outstanding (basic)	7,674,434
Dilutive effect of assumed exercise of stock options	95,112
Weighted-average common shares outstanding (diluted)	7,769,546

Options to purchase 7,088 and 68,416 shares of common stock with respective weighted-average exercise prices of $16.59 and $14.76 were outstanding at March 31, 2003 and 2002, respectively, but were excluded from the computation of common share equivalents for those respective periods because the exercise prices were greater than the average market price of the common shares.

CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three-month periods ended March 31, 2003 and 2002

4. 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. In connection with the 2000 acquisition of Westwood Homestead, 311,794 shares were reserved for issuance.

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 would have been reported as the pro forma amounts indicated below for the three months ended March 31:

		2003	2002
		(In thousands, except per share data)	
NET EARNINGS	As reported	$2,454	$2,375
	Stock-based compensation, net of tax	(20)	(1)
	Pro-forma	$2,434	$2,374
EARNINGS PER SHARE			
BASIC	As reported	$ .32	$ .30
	Stock-based compensation, net of tax	-	-

	Pro-forma	$ .32	$ .30
DILUTED	As reported	$ .32	$ .29
	Stock-based compensation, net of tax	(.01)	-
	Pro-forma	$ .31	$ .29

CAMCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three-month periods ended March 31, 2003 and 2002

4. Stock Option Plans (continued)

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 March 31, 2003 and December 31, 2002 and 2001, and changes during the periods ending on those dates is presented below:

	THREE MONTHS ENDED MARCH 31, 2003		YEAR ENDED DECEMBER 2002		
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHAR
Outstanding at beginning of period	323,291	$ 9.79	503,005	$ 10.16	688,
Granted	56,948	16.13	3,700	14.55	8,
Exercised	(56,336)	7.57	(174,106)	10.84	(115,
Forfeited	(4,103)	13.78	(9,308)	11.91	(78,
Outstanding at end of period	319,800	$ 11.27	323,291	$ 9.79	503,
Options exercisable at period-end	274,508	$ 10.47	323,291	$ 9.79	503,
Weighted-average fair value of options granted during the period		$ 2.60		$ 1.36	

The following information applies to options outstanding at March 31, 2003:

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

5. 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, 2002, without material effect on the Corporation's financial condition or results of operations.

5. Effects of Recent Accounting Pronouncements (continued)

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.

The maximum potential undiscounted amount of future payments of these letters of credit as of March 31, 2003 is $167,000. Such letters of credit have terms of one year. Amounts due under these letters of credit would be reduced by any proceeds that Camco would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

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.

CAMCO FINANCIAL CORPORATION

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

For the three-month periods ended March 31, 2003 and 2002

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

At March 31, 2003, Camco's consolidated assets totaled $1.079 billion, a decrease of $3.9 million, or .4%, from the December 31, 2002 total. The decrease in total assets was comprised primarily of a decrease in loans receivable and a decrease in investment securities, which were partially offset by increases in cash and cash equivalents and mortgage-backed securities.

Cash and interest-bearing deposits in other financial institutions totaled $79.1 million at March 31, 2003, an increase of $22.1 million, or 38.8%, over December 31, 2002 levels. Investment securities totaled $38.9 million at March 31, 2003, a decrease of $5.2 million, or 11.8%, from the total at December 31, 2002. Investment securities purchases, which were comprised primarily of $2.0 million of intermediate-term callable U.S. Government agency obligations with an average yield of 2.36%, were offset by $7.1 million of maturities.

Mortgage-backed securities totaled $128.5 million at March 31, 2003, an increase of $11.2 million, or 9.5%, over December 31, 2002. Mortgage-backed securities purchases totaled $33.2 million, while principal repayments totaled $21.0 million during the three-month period ended March 31, 2003. Purchases of mortgage-backed securities during the period were comprised primarily of balloon and seven- to ten-year amortizing U.S. Government agency securities yielding 3.32%, which were classified as available for sale. Purchases of mortgage-backed securities were funded primarily with proceeds from loan principal repayments.

Loans receivable, including loans held for sale, totaled $766.2 million at March 31, 2003, a decrease of $30.7 million, or 3.9%, from December 31, 2002. The decrease resulted primarily from principal repayments of $83.0 million and loan sales of $91.7 million, which were partially offset by loan disbursements and purchases totaling $144.6 million. The volume of loans originated and purchased during the 2003 three-month period was greater than that of the comparable 2002 period by $48.3 million, or 50.1%, while the volume of loan sales increased by $39.2 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 three-month period ended March 31, 2003, were comprised primarily of $118.3 million of loans secured by one- to four-family residential real estate, $19.8 million in consumer and other loans and $6.5 million in loans secured by commercial real estate. Management intends 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 $5.7 million and $5.5 million at March 31, 2003 and December 31, 2002, respectively, representing 38.8% and 40.3% of nonperforming loans, respectively, at those dates. Nonperforming loans (90 days or more delinquent plus nonaccrual loans) totaled $14.6 million and $13.6 million at March 31, 2003 and December 31, 2002, respectively, constituting 1.90% and 1.71% of total net loans, including loans held for sale, at those dates. At March 31, 2003, nonperforming loans were comprised of $10.7 million in one- to four-family residential real estate loans, $2.5 million in nonresidential real estate loans, $879,000 in commercial real estate loans and $461,000 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 $12.5 million at March 31, 2003, compared to $10.5 million at December 31, 2002, an increase of $2.0 million, or 19.3%. Although management believes that its allowance for loan losses is adequate based upon the available facts and circumstances at March 31, 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 March 31, 2003 (continued)

Deposits totaled $694.4 million at March 31, 2003, an increase of $320,000, or ..1%, over 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 $97.1 million at March 31, 2003, a $1.5 million, or 1.5%, decrease from December 31, 2002. The decrease resulted primarily from dividends of $1.1 million, purchases of treasury shares totaling $3.0 million and a $392,000 decrease in the unrealized gains on available for sale securities, which were partially offset by net earnings of $2.5 million and proceeds from the exercise of stock options of $426,000. 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 March 31, 2003, the Bank's regulatory capital exceeded all regulatory capital requirements.

Comparison of Results of Operations for the Three Months Ended March 31, 2003 and 2002

General

Camco's net earnings for the three months ended March 31, 2003 totaled $2.5 million, an increase of $79,000, or 3.3%, over the $2.4 million of net earnings reported in the comparable 2002 period. The increase in earnings was primarily attributable to an increase in other income of $1.2 million, which was partially offset by a decrease of $247,000 in net interest income, an increase in the provision for losses on loans of $213,000, an increase in general, administrative and other expense of $640,000 and an increase in federal income tax expense of $23,000.

Net Interest Income

Total interest income amounted to $14.7 million for the three months ended March 31, 2003, a decrease of $2.2 million, or 13.0%, compared to the three-month period ended March 31, 2002, generally reflecting the effects of a decrease in yield on total interest-earning assets of 93 basis points, from 6.62% in the 2002 period to 5.69% in the 2003 period, which was partially offset by a $12.2 million, or 1.2%, increase in the average balance of interest-earning assets outstanding year to year.

Comparison of Results of Operations for the Three Months Ended March 31, 2003 and 2002 (continued)

Net Interest Income (continued)

Interest income on loans totaled $12.7 million for the three months ended March 31, 2003, a decrease of $2.6 million, or 17.1%, from the comparable 2002 period. The decrease resulted primarily from a $71.6 million, or 8.5%, decrease in the average balance outstanding and a 69 basis point decrease in the average yield, to 6.56% in the 2003 period. Interest income on mortgage-backed securities totaled $1.0 million for the three months ended March 31, 2003, a $479,000, or 84.2%, increase over the 2002 quarter. The increase was due primarily to a $70.3 million, or 145.1%, increase in the average balance outstanding, which was partially offset by a 117 basis point decrease in the average yield, to 3.53% in the 2003 period. Interest income on investment securities increased by $126,000, or 57.8%, due primarily to a $24.9 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 $170,000, or 22.7%, due primarily to a decrease in the average yield, to 2.39% in the 2003 period, coupled with a decrease of $11.4 million, or 10.5%, in the average balance outstanding year to year.

Interest expense on deposits totaled $4.5 million for the three months ended March 31, 2003, a decrease of $2.1 million, or 31.4%, compared to the same quarter in 2002, due primarily to a 112 basis point decrease in the average cost of deposits, to 2.70% in the current quarter, and a $44.3 million, or 6.2%, decrease in average deposits outstanding. Interest expense on borrowings totaled $3.8 million for the three months ended March 31, 2003, an increase of $114,000, or 3.1%, over the 2002 three-month period. The increase resulted primarily from a $29.9 million, or 12.1%, increase in the average balance outstanding year to year, partially offset by a 49 basis point decrease in the average cost to 5.57%. Decreases in the level of average yields on interest-earning assets and average cost 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 $247,000, or 3.7%, to a total of $6.4 million for the three months ended March 31, 2003. The interest rate spread decreased to approximately 2.15% at March 31, 2003, from 2.21% at March 31, 2002, while the net interest margin decreased to approximately 2.47% for the three months ended March 31, 2003, compared to 2.59% 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 $420,000 for the three months ended March 31, 2003, an increase of $213,000, or 102.9%, over the comparable period in 2002. The current period provision was predicated primarily on the increase in the level of nonperforming loans and the increased percentage of loans secured by commercial real estate within the loan portfolio. Management believes all nonperforming loans are adequately collateralized, however, there can be no assurance that the loan loss allowance will be adequate to absorb losses on known nonperforming assets or that the allowance will be adequate to cover losses on nonperforming assets in the future.

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

For the three-month periods ended March 31, 2003 and 2002

Comparison of Results of Operations for the Three Months Ended March 31, 2003 and 2002 (continued)

Other Income

Other income totaled $3.5 million for the three months ended March 31, 2003, an increase of $1.2 million, or 53.4%, over the comparable 2002 period. The increase in other income was primarily attributable to a $999,000 increase in gain on sale of loans and a $154,000, or 22.2%, increase in late charges, rent and other. The increase in gain on sale of loans was due to the $39.2 million, or 74.6%, increase in sales volume, as Advantage continued to sell fixed-rate loans originated in the low interest rate environment. Additionally, the loan sales resulted in a greater gain recognition in the 2003 period, both from an increase in sales prices and a higher fair value in appraised mortgage servicing rights year to year. The increase in late charges, rent and other was due primarily to an increase in title fees and other fees on loans.

General, Administrative and Other Expense

General, administrative and other expense totaled $5.8 million for the three months ended March 31, 2003, an increase of $640,000, or 12.5%, over the comparable period in 2002. The increase in general, administrative and other expense was due primarily to a $317,000, or 12.2%, increase in employee compensation and benefits, an increase of $299,000, in franchise tax and an increase of $128,000 or 15.8%, in occupancy and equipment, which were partially offset by an $80,000, or 6.4%, 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 franchise tax expense reflects the effects of refund claims 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 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 $1.2 million for the three months ended March 31, 2003, an increase of $23,000, or 2.0%, compared to the three months ended March 31, 2002. This increase was primarily attributable to a $102,000, or 2.9%, increase in pre-tax earnings. The Corporation's effective tax rates amounted to 32.3% and 32.5% for the three-month periods ended March 31, 2003 and 2002, respectively.

CAMCO FINANCIAL CORPORATION

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

For the three-month periods ended March 31, 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

(a) 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 a date within ninety days of the filing date of 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.

(b) There were no significant changes in the Corporation's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Camco Financial Corporation

PART II

ITEM 1. Legal Proceedings

Not applicable

ITEM 2. Changes in Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

Not applicable

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

On April 22, 2003, Camco held its Annual Meeting of Stockholders. The only matter that was submitted to stockholders was the election of three directors with terms expiring in 2006, as follows:

	FOR	WITHHELD
Richard C. Baylor	6,418,801	140,849
Robert C. Dix	6,419,070	140,580
Paul D. Leake	6,387,630	172,020

ITEM 5. Other Information

Not applicable

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

99.1	Certification of Chief Executive Officer
99.2	Certification of Chief Financial Officer

(b) Reports on Form 8-K: On January 27, 2003, a Form 8-K was filed to report earnings for the year and fourth quarter ended December 31, 2002.

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SIGNATURES

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

Date: May 13, 2003

By: /s/ Richard C. Baylor

Richard C. Baylor
Chief Executive Officer

Date: May 13, 2003

By: /s/ Mark A. Severson

Mark A. Severson
Chief Financial Officer

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CERTIFICATION

I, Richard C. Baylor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Camco Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ Richard C. Baylor

Richard C. Baylor, Chief Executive Officer

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CERTIFICATION

I, Mark A. Severson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Camco Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ Mark A. Severson

Mark A. Severson, Chief Financial Officer