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# 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, 2013**

**OR**

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

**For the transition period from _________ to _________**

**Commission File Number 0-25196**

# CAMCO FINANCIAL CORPORATION

**(Exact name of registrant as specified in its charter)**

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

**814 Wheeling Avenue, Cambridge, Ohio 43725-9757**

**(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 November 6, 2013, the latest practicable date, 14,167,698 shares of the registrant s common stock, $1.00 par value, were outstanding.

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## PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

**Camco Financial Corporation**

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(In thousands, except share data)

| | September 30, 2013 (unaudited) | December 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 15,022 | $ 13,815 |
| Interest-bearing deposits in other financial institutions | 2,163 | 44,564 |
| Cash and cash equivalents | 17,185 | 58,379 |
| Securities available for sale, at market | 101,211 | 85,298 |
| Securities held to maturity, at cost | 725 | 903 |
| Loans held for sale at lower of cost or market | 1,831 | 6,544 |
| Loans receivable net | 577,003 | 554,575 |
| Office premises and equipment net | 7,813 | 8,105 |
| Real estate acquired through foreclosure | 5,632 | 10,581 |
| Federal Home Loan Bank stock at cost | 9,888 | 9,888 |
| Accrued interest receivable | 2,471 | 2,631 |
| Mortgage servicing rights at lower of cost or market | 4,106 | 3,245 |
| Prepaid expenses and other assets | 11,668 | 3,525 |
| Cash surrender value of life insurance | 21,066 | 20,585 |
| Total assets | **$ 760,599** | **$ 764,259** |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Deposits | $ 609,012 | $ 627,224 |
| Other Borrowings | 11,931 | 10,923 |
| Advances from the Federal Home Loan Bank | 59,477 | 53,297 |
| Advances by borrowers for taxes and insurance | 1,718 | 2,635 |
| Accounts payable and accrued liabilities | 11,181 | 10,453 |
| Total liabilities | 693,319 | 704,532 |
| 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; 15,282,352 and 14,911,949 shares issued at September 30, 2013 and December 31, 2012 respectively | 15,282 | 14,912 |
| Additional paid-in capital | 64,095 | 63,310 |
| Warrants 2,601,468 at September 30, 2013 and 2,857,107 at December 31, 2012 | 1,285 | 1,411 |
| Retained earnings | 11,893 | 4,513 |
| Accumulated other comprehensive income (loss) | (871) | 100 |
| Unearned compensation | (290) | (405) |
| Treasury stock 1,678,913 shares at September 30, 2013 and December 31, 2012, at cost | (24,114) | (24,114) |
| Total stockholders equity | 67,280 | 59,727 |

| | | | | |
|---|---|---|---|---|
| Total liabilities and stockholders equity | **$** | **760,599** | **$** | **764,259** |

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**Camco Financial Corporation**

**CONSOLIDATED STATEMENTS OF EARNINGS**

For the nine and three months ended September 30,

(In thousands, except per share data)

| (unaudited) | Nine months ended September 30, 2013 | Nine months ended September 30, 2012 | Three months ended September 30, 2013 | Three months ended September 30, 2012 |
|---|---|---|---|---|
| Interest and dividend income | | | | |
| Loans | $ 19,905 | $ 23,434 | $ 6,724 | $ 7,522 |
| Investment securities | 483 | 350 | 194 | 131 |
| Other interest-earning accounts | 379 | 330 | 108 | 112 |
| Total interest and dividend income | 20,767 | 24,114 | 7,026 | 7,765 |
| Interest Expense | | | | |
| Deposits | 3,012 | 4,191 | 979 | 1,235 |
| Borrowings | 1,241 | 1,836 | 386 | 545 |
| Total interest expense | 4,253 | 6,027 | 1,365 | 1,780 |
| Net interest income | 16,514 | 18,087 | 5,661 | 5,985 |
| Provision for losses on loans | (509) | 1,599 | (609) | 457 |
| Net interest income after provision for losses on loans | 17,023 | 16,488 | 6,270 | 5,528 |
| Other income | | | | |
| Late charges, rent and other | 692 | 872 | 223 | 321 |
| Loan servicing fees | 836 | 849 | 287 | 283 |
| Service charges and other fees on deposits | 1,480 | 1,513 | 501 | 515 |
| Gain on sale of loans | 1,486 | 1,714 | 251 | 633 |
| Mortgage servicing rights net | 861 | (78) | 405 | (117) |
| Gain on sale of investments | 61 | 1 | 0 | 0 |
| Loss on sale of fixed assets | (7) | (3) | 0 | 0 |
| Income on cash surrender value of life insurance | 633 | 642 | 214 | 216 |
| Total other income | 6,042 | 5,510 | 1,881 | 1,851 |
| General, administrative and other expenses | | | | |
| Employee compensation and benefits | 10,804 | 9,392 | 3,777 | 2,996 |
| Occupancy and equipment | 2,182 | 2,192 | 718 | 725 |
| Federal deposit insurance premiums | 1,310 | 1,380 | 428 | 457 |
| Data and transaction processing | 1,377 | 1,449 | 427 | 479 |
| Advertising | 405 | 296 | 133 | 101 |
| Franchise taxes | 675 | 583 | 218 | 199 |
| Postage, supplies and office expenses | 714 | 755 | 235 | 248 |
| Travel, training and insurance | 229 | 207 | 95 | 86 |
| Professional services | 1,089 | 1,357 | 372 | 468 |
| Real estate owned and other expenses | 2,153 | 2,195 | 704 | 959 |
| Loan expenses | 450 | 891 | 146 | 230 |
| Total general, administrative and other expense | 21,388 | 20,697 | 7,253 | 6,948 |
| Earnings before federal income taxes | 1,677 | 1,301 | 898 | 431 |

| | | | | |
|---|---|---|---|---|
| Federal income taxes | (5,703) | (78) | 171 | (53) |
| NET EARNINGS | **$ 7,380** | **$ 1,379** | **$ 727** | **$ 484** |
| EARNINGS PER SHARE | | | | |
| Basic | **$ 0.55** | **$ 0.19** | **$ 0.05** | **$ 0.07** |
| Diluted | **$ 0.50** | **$ 0.19** | **$ 0.05** | **$ 0.07** |

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**Camco Financial Corporation**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

For the nine and three months ended September 30,

(In thousands)

| (unaudited) | Nine months ended September 30, 2013 | Nine months ended September 30, 2012 | Three months ended September 30, 2013 | Three months ended September 30, 2012 |
|---|---|---|---|---|
| Net earnings | $ 7,380 | $ 1,379 | $ 727 | $ 484 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized holding gains (losses) on securities during the period, net of tax effects of $(479) and $78, $161 and $53 for the respective periods | (931) | 152 | 312 | 102 |
| Reclassification adjustment for realized gains included in net earnings, net of taxes of $(21) and $0, and $0 and $0 for the respective periods | (40) | (1) | 0 | 0 |
| Comprehensive income | **$ 6,409** | **$ 1,530** | **$ 1,039** | **$ 586** |

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**Camco Financial Corporation**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the nine months ended September 30,

(In thousands)

| (unaudited) | **2013** | **2012** |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings for the period | $ 7,380 | $ 1,379 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | |
| Amortization of deferred loan origination fees | (137) | (115) |
| Amortization of premiums and discounts on investment and mortgage-backed securities net | (19) | 21 |
| Amortization of mortgage servicing rights | 102 | 868 |
| Change in valuation of capitalized mortgage servicing rights | (861) | 78 |
| Depreciation and amortization | 941 | 1,042 |
| Provision for losses on loans | (509) | 1,599 |
| Deferred taxes | 165 | (57) |
| Net stock based compensation expense | 607 | 287 |
| Provisions for losses on REO | 526 | 910 |
| (Gain)/loss on sale of real estate acquired through foreclosure | 405 | (99) |
| Gain on sale of investments | (61) | (1) |
| Gain on sale of loans | (1,486) | (1,714) |
| Loss on sale of assets | 7 | 3 |
| Loans originated for sale in the secondary market | (78,622) | (77,424) |
| Proceeds from sale of loans in the secondary market | 84,821 | 80,887 |
| Net increase in cash surrender value of life insurance | (481) | (504) |
| Increase (decrease) in cash due to changes in: | | |
| Accrued interest receivable | 160 | 203 |
| Prepaid expenses and other assets | (2,104) | 259 |
| Accrued other liabilities | (4,975) | 728 |
| Net cash provided by operating activities | 5,859 | 8,350 |
| Cash flows provided by (used in) investing activities: | | |
| Principal repayments, maturities on securities held to maturity | 176 | 2,141 |
| Principal repayments, maturities on securities available for sale | 31,130 | 14,506 |
| Purchases of investment securities designated as available for sale | (72,464) | (76,166) |
| Proceeds from sale of investments | 24,031 | 8 |
| Loan principal repayments | 158,633 | 207,291 |
| Loan disbursements | (179,960) | (154,659) |
| Proceeds from sale of office premises and equipment | 0 | 19 |
| Additions to office premises and equipment | (953) | (485) |
| Proceeds from sale of real estate acquired through foreclosure | 3,758 | 2,862 |
| Net cash used in investing activities | (35,649) | (4,483) |
| Net cash provided by (used in) operating and investing activities (balance carried forward) | (29,790) | 3,867 |

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**Camco Financial Corporation**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

For the nine months ended September 30,

(In thousands)

| (unaudited) | 2013 | 2012 |
|---|---|---|
| Net cash provided by (used in) operating and investing activities (balance brought forward) | $ (29,790) | $ 3,867 |
| Cash flows used in financing activities: | | |
| Net increase (decrease) in deposits | (18,212) | 1,045 |
| Proceeds from Federal Home Loan Bank advances and other borrowings | 106,537 | 113,401 |
| Repayment of Federal Home Loan Bank advances and other borrowings | (99,349) | (129,220) |
| Net proceeds from exercised warrants | 537 | 0 |
| Decrease in advances by borrowers for taxes and insurance | (917) | (547) |
| Net cash used in financing activities | (11,404) | (15,321) |
| Decrease in cash and cash equivalents | (41,194) | (11,454) |
| Cash and cash equivalents at beginning of period | 58,379 | 38,374 |
| Cash and cash equivalents at end of period | $ 17,185 | $ 26,920 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest on deposits and borrowings | $ 4,123 | $ 6,015 |
| Income taxes paid | 25 | 25 |
| Transfers from loans to real estate acquired through foreclosure | 2,360 | 4,671 |

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**Camco Financial Corporation**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(In thousands, except share data)

| | Shares outstanding | Common Stock | Additional paid-in capital | Warrants | Retained earnings | Accumulated other comprehensive income (loss) | Unearned compensation | Treasury stock | Total stockholders equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2011 | **7,205,595** | **$ 8,885** | **$ 60,528** | **$ 0** | **$ 350** | **$ (13)** | **$ (31)** | **$ (24,114)** | **$ 45,605** |
| Stock Option Expense | 0 | 0 | 75 | 0 | 0 | 0 | 0 | 0 | 75 |
| Net earnings for the nine months ended September 30, 2012 | 0 | 0 | 0 | 0 | 1,379 | 0 | 0 | 0 | 1,379 |
| Restricted shares granted (less forfeits) | 259,968 | 259 | 379 | 0 | 0 | 0 | (623) | 0 | 15 |
| Restricted shares expense | 0 | 0 | 0 | 0 | 0 | 0 | 197 | 0 | 197 |
| Other comprehensive income (loss) | 0 | 0 | 0 | 0 | 0 | 151 | 0 | 0 | 151 |
| Balance at September 30, 2012 | **7,465,563** | **$ 9,144** | **$ 60,982** | **$ 0** | **$ 1,729** | **$ 138** | **$ (457)** | **$ (24,114)** | **$ 47,422** |
| Balance at December 31, 2012 | **13,233,036** | **$ 14,912** | **$ 63,310** | **$ 1,411** | **$ 4,513** | **$ 100** | **$ (405)** | **$ (24,114)** | **$ 59,727** |
| Stock Option Expense | 0 | 0 | 93 | 0 | 0 | 0 | 0 | 0 | 93 |
| Stock issued related to exercise of warrants | 255,639 | 255 | 408 | (126) | 0 | 0 | 0 | 0 | 537 |
| Net earnings for the nine months ended September 30, 2013 | 0 | 0 | 0 | 0 | 7,380 | 0 | 0 | 0 | 7,380 |
| Restricted shares granted (less forfeits) | 114,763 | 115 | 284 | 0 | 0 | 0 | (361) | 0 | 38 |
| Restricted shares expense | 0 | 0 | 0 | 0 | 0 | 0 | 476 | 0 | 476 |
| Other comprehensive income (loss) | 0 | 0 | 0 | 0 | 0 | (971) | 0 | 0 | (971) |
| Balance at September 30, 2013 | **13,603,438** | **$ 15,282** | **$ 64,095** | **$ 1,285** | **$ 11,893** | **$ (871)** | **$ (290)** | **$ (24,114)** | **$ 67,280** |

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Notes to Consolidated Financial Statements

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 all the 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, 2012. However, all adjustments (consisting only of normal recurring accruals) that, 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, 2013, are not necessarily indicative of the results which may be expected for the entire year.

2. Plan of Merger

On October 9, 2013, Camco and Huntington Bancshares Incorporated ( Huntington ) entered into an Agreement and Plan of Merger ( Merger Agreement ) pursuant to which Camco will merge into Huntington. Immediately following the merger of Camco into Huntington, Advantage Bank, an Ohio bank wholly-owned by Camco ( Advantage or the Bank ), will be merged into The Huntington National Bank, a national bank wholly-owned by Huntington, with The Huntington National Bank as the surviving institution.

Under the terms of the Merger Agreement, Camco stockholders will be entitled to receive either 0.7264 shares of Huntington common stock or $6.00 in cash for each share of Camco common stock, subject to proration provisions specified in the Merger Agreement that provide for targeted aggregate split of total consideration of 80% common stock and 20% cash.

The transaction is expected to close in the first half of 2014, subject to the satisfaction of customary closing conditions, including regulatory approvals and the approval of Camco stockholders.

3. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Camco and Advantage. All significant intercompany balances and transactions have been eliminated.

4. Critical Accounting Policies

The preparation of these financial statements requires Camco to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. 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 and other real estate owned.

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.

We believe the accounting estimates related to the allowance for loan losses, the capitalization, amortization, and valuation of mortgage servicing rights, deferred income taxes and other real estate owned 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.

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Allowance for Loan Losses

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

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

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

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 utilized. 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 in estimating prepayment speeds and provides a specific scenario with each evaluation. Based on the assumptions discussed, pre-tax projections are prepared for each pool of loans serviced. These earnings are used to calculate the approximate cash flow that could be received from the servicing portfolio. Valuation results are presented quarterly to management. At that time, management reviews the information and MSRs are marked to lower of amortized cost or fair value for the current quarter.

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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 future tax deductions generated by the reversal of temporary differences. A valuation allowance is provided by way of a charge to income tax expense if it is determined that it is more likely than not that some or all of the deferred tax asset will not be realized. If different assumptions and conditions were to prevail, the valuation allowance may not be adequate to absorb unrealized deferred taxes and the amount of income taxes payable may need to be adjusted by way of a charge to expense. Accrual of income taxes payable and valuation allowances against deferred tax assets are estimates subject to change based upon the outcome of future events.

The Corporation reversed a $5.9 million valuation allowance on its deferred tax asset ( DTA ) in the second quarter of 2013. This reversal was the result of an analysis performed to determine the extent to which realization of future tax benefits could be considered more likely than not . The analysis considered projected future core earnings under various scenarios, possible tax planning strategies, and consideration of the expected timing of the reversal of existing temporary differences. As a result of the assessment, management decided to eliminate the entire valuation allowance. The difference from the Corporation s effective tax benefits for the nine month periods ended September 30, 2013, as compared to the Corporation s statutory tax rate of 34% is primarily due to the release of the valuation allowance on the deferred tax asset.

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

Other Real Estate

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

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5. Earnings Per Share

Basic earnings per common share is computed based upon the weighted-average number of common shares outstanding during the year. Diluted earnings per common share is computed including the dilutive effect of additional potential common shares issuable under outstanding stock options and warrants. 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:

| | For the nine months ended | | For the three months ended | |
|---|---|---|---|---|
| | September 30, | | September 30, | |
| (In thousands except earnings per share) | 2013 | 2012 | 2013 | 2012 |
| BASIC: | | | | |
| Net Earnings | $ 7,380 | $ 1,379 | $ 727 | $ 484 |
| Weighted average common shares outstanding | 13,506 | 7,385 | 13,584 | 7,467 |
| Basic earnings per share | $ 0.55 | $ 0.19 | $ 0.05 | $ 0.07 |
| DILUTED: | | | | |
| Net Earnings | $ 7,380 | $ 1,379 | $ 727 | $ 484 |
| Weighted average common shares outstanding | 13,506 | 7,385 | 13,584 | 7,467 |
| Dilutive effect of warrants | 1,059 | 0 | 1,251 | 0 |
| Dilutive effect of stock options | 153 | 3 | 193 | 16 |
| Total common shares and dilutive potential common shares | 14,718 | 7,388 | 15,028 | 7,473 |
| Diluted earnings per share | $ 0.50 | $ 0.19 | $ 0.05 | $ 0.07 |

Anti-dilutive options to purchase 94,683 and 424,480 shares of common stock with respective weighted-average exercise prices of $13.73 and $5.54 were outstanding at September 30, 2013 and 2012, respectively, but were excluded from the computation of common share equivalents for each of the three and nine month periods, because the exercise prices were greater than the average market price of the common shares.

6. 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 granted was estimated on the date of grant using the modified Black-Scholes options-pricing model.

In 2012 and 2013, no options were granted as the Corporation awarded restricted shares in lieu of options related to goals achieved within the 2011 and 2012 officer incentive plan.

A summary of the status of the Corporation s stock option plans as of September 30, 2013 and December 31, 2012, and changes during the periods ending on those dates is presented below:

| | Nine Months ended | | Year ended | |
|---|---|---|---|---|
| | September 30, 2013 | | December 31, 2012 | |
| | Shares | Weighted-average exercise price | Shares | Weighted-average exercise price |
| Outstanding at beginning of period | 581,888 | $ 4.62 | 587,342 | $ 4.68 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Granted | 0 | | 0 | 0 | | 0 |
| Exercised | 0 | | 0 | 0 | | 0 |
| Forfeited | (587) | | 2.40 | (5,454) | | 10.63 |
| Expired | (16,518) | | 16.13 | 0 | | 0 |
| Outstanding at end of period | 564,783 | $ | 4.29 | 581,888 | $ | 4.62 |
| Options exercisable at period end | 456,473 | $ | 4.76 | 395,233 | $ | 5.70 |
| Weighted-average fair value of options granted during the period | | $ | N/A | | $ | N/A |

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The following information applies to options outstanding at September 30, 2013:

| Range of Exercise Prices | Options Outstanding Number Outstanding | Weighted-Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value | Weighted-Average Exercise Price | Options Exercisable Number Exercisable | Aggregate Intrinsic Value | Weighted-Average Exercise Price |
|---|---|---|---|---|---|---|---|
| $1.90 $2.51 | 470,100 | 6.6 | | $ 2.39 | 361,790 | | $ 2.41 |
| $8.92 | 18,877 | 4.3 | | 8.92 | 18,877 | | 8.92 |
| $11.36 $12.35 | 43,473 | 2.6 | | 13.69 | 43,473 | | 13.69 |
| $16.51 $17.17 | 32,333 | 1.2 | | 16.60 | 32,333 | | 16.60 |
| | 564,783 | 5.9 | $ 773,157 | $ 4.29 | 456,473 | $ 586,638 | $ 4.76 |

(1) The intrinsic value is based on the difference of Camco s stock price on the grant date and the stock price at September 30, 2013.

A summary of unvested options as of, and changes during the period ended, September 30, 2013, were as follows:

| Unvested options: | Number | Intrinsic Value |
|---|---|---|
| Beginning of period | 186,655 | $ 193,447 |
| Granted | 0 | |
| Forfeited | (271) | |
| Vested during the period | (78,074) | |
| Unvested options at September 30, 2013 | 108,310 | $ 186,519 |

The total intrinsic value of options exercised during the nine months ended September 30, 2013 and for the year ended December 31, 2012, was $0 as no options were exercised.

As of September 30, 2013, there was $77,000 of total unrecognized compensation cost related to non-vested stock options. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 1.25 years.

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

In March 2012, Camco granted 262,492 shares of restricted stock 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 restricted stock vests over three years, 20% vested on the date of the award, 20% vested on the date that the Compensation Committee certified Camco s 2012 financial results and 60% will vest on the date that the Compensation Committee certifies Camco s 2013 financial results (such results are expected to be certified in the first quarter of 2014). However, if Camco s pre-tax earnings for the fiscal year ended December 31, 2013 are not equal to or greater than the pre-tax earnings for the fiscal year ended December 31, 2011, the participant will forfeit 25% of the equity award that is to vest on that date. The fair value per share of restricted stock is the stock price at close on the grant date, which value is expensed on a straight-line basis during the vesting period.

In October 2012, Camco granted 53,187 shares of restricted stock with an impact to unearned/deferred compensation of $94,150. The stock was granted under the Camco Financial Corporation 2010 Equity Plan based on achievement of a 2012 performance goal. The restricted stock vested immediately.

In February 2013, Camco granted 90,428 shares of restricted stock with an impact to unearned/deferred compensation of $313,785 of which $62,760 was expensed in the prior year related to shares which immediately vested. The stock was granted under the Camco Financial

Corporation 2010 Equity Plan to officers based on 2012 performance. Of the 90,428 shares granted, 7,378 shares were withheld for the payment of taxes. The restricted stock vests over three years, 20%, which equated to 10,700 shares, vested on the date of the award, 20% will vest on the date that the Compensation Committee certifies Camco s 2013 financial results and 60% will vest 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 budgeted pre-tax earnings for the fiscal year ended December 31, 2012, the participant will forfeit 25% of the equity award that is to vest on such date. Additionally, the shares may not be transferred for one year after vesting except for settlement of taxes. The fair value per share of restricted stock is the stock price at close on the grant date, which value is expensed on a straight-line basis during the vesting period.

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In February 2013, Camco granted 81,391 shares of restricted stock with an impact to unearned/deferred compensation of $282,427 of which $141,212 was expensed in the prior year related to shares which immediately vested. The stock was granted under the Camco Financial Corporation 2010 Equity Plan based on 2012 performance and 29,331 shares of the 81,391 shares granted were withheld for tax purposes related to an 83B election. The restricted stock vested 50%, or 11,364 shares, on the date of the award and 50% on the date that the Compensation Committee certifies Camco s 2013 financial results.

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 December 31, 2012 | 219,989 | $ | 2.39 |
| Granted | 171,819 | $ | 3.47 |
| Vested | (123,134) | $ | 2.91 |
| Forfeited | (951) | $ | 3.09 |
| Non-vested balance at September 30, 2013 | 267,723 | $ | 2.84 |

At September 30, 2013, there was approximately $276,000 of compensation cost that had not been recognized related to restricted stock awards. That cost is expected to be recognized over the next 15 months.

7. 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.

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.

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.

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 amount 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.

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 Earnings.

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: The fair value for accrued interest approximates its carrying amounts due. The valuation is a Level 3 classification that is consistent with its underlying asset or liability.

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.

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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 2 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 fair value of advances by borrowers for taxes and insurance approximates its carrying amounts due to the short duration before collection. The valuation is a Level 3 classification which is consistent with its underlying asset.

Accrued interest payable: The fair value of accrued interest payable approximates its carrying amounts due. The valuation is 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, 2013 and December 31, 2012, the fair value of loan commitments was not material.

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:

| | Carrying value | Fair value | Level 1 (In thousands) | Level 2 | Level 3 |
|---|---|---|---|---|---|
| September 30, 2013 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | $ 17,185 | $ 17,185 | $ 17,185 | $ 0 | $ 0 |
| Investment securities available for sale | 101,211 | 101,211 | 0 | 101,168 | 43 |
| Investment securities held to maturity | 725 | 760 | 0 | 760 | 0 |
| Loans held for sale | 1,831 | 1,903 | 0 | 1,903 | 0 |
| Loans receivable | 577,003 | 581,629 | 0 | 0 | 581,629 |
| Federal Home Loan Bank stock | 9,888 | 9,888 | 0 | 0 | 9,888 |
| Accrued interest receivable | 2,471 | 2,471 | 0 | 0 | 2,471 |
| Financial liabilities | | | | | |
| Deposits | $ 609,012 | $ 580,194 | $ 0 | $ 580,194 | $ 0 |
| Advances from the Federal Home Loan Bank | 59,477 | 61,249 | 0 | 61,249 | 0 |
| Repurchase agreements | 6,931 | 6,931 | 0 | 6,931 | 0 |
| Subordinated debentures | 5,000 | 4,863 | 0 | 0 | 4,863 |
| Advances by borrowers for taxes and insurance | 1,718 | 1,718 | 0 | 0 | 1,718 |
| Accrued interest payable | 1,823 | 1,823 | 0 | 0 | 1,823 |

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| | Carrying value | Fair value | Level 1 (In thousands) | Level 2 | Level 3 |
|---|---|---|---|---|---|
| December 31, 2012 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | $ 58,379 | $ 58,379 | $ 58,379 | $ 0 | $ 0 |
| Investment securities available for sale | 85,298 | 85,298 | 0 | 85,254 | 44 |
| Investment securities held to maturity | 903 | 957 | 0 | 957 | 0 |
| Loans held for sale | 6,544 | 6,759 | 0 | 6,759 | 0 |
| Loans receivable | 554,575 | 544,655 | 0 | 0 | 544,655 |
| Federal Home Loan Bank stock | 9,888 | 9,888 | 0 | 0 | 9,888 |
| Accrued interest receivable | 2,631 | 2,631 | 0 | 0 | 2,631 |
| Financial liabilities | | | | | |
| Deposits | $ 627,224 | $ 622,186 | $ 0 | $ 622,186 | $ 0 |
| Advances from the Federal Home Loan Bank | 53,297 | 56,310 | 0 | 56,310 | 0 |
| Repurchase agreements | 5,923 | 5,923 | 0 | 5,923 | 0 |
| Subordinated debentures | 5,000 | 4,976 | 0 | 0 | 4,976 |
| Advances by borrowers for taxes and insurance | 2,635 | 2,635 | 0 | 0 | 2,635 |
| Accrued interest payable | 1,692 | 1,692 | 0 | 0 | 1,692 |

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, 2013 | | | | |
| Securities available for sale: | | | | |
| U.S. government sponsored enterprises | $ 101,100 | $ 0 | $ 101,100 | $ 0 |
| Corporate equity securities | 43 | 0 | 0 | 43 |
| Mortgage-backed securities | 68 | 0 | 68 | 0 |
| December 31, 2012 | | | | |
| Securities available for sale | | | | |
| U.S. government sponsored enterprises | $ 84,071 | $ 0 | $ 84,071 | $ 0 |
| Corporate equity securities | 44 | 0 | 0 | 44 |
| Mortgage-backed securities | 1,183 | 0 | 1,183 | 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, 2013 | | | | |
| Impaired loans | $ 22,262 | $ 0 | $ 0 | $ 22,262 |
| Real estate acquired through foreclosure | 5,632 | 0 | 0 | 5,632 |
| December 31, 2012 | | | | |
| Impaired loans | $ 22,727 | $ 0 | $ 0 | $ 22,727 |
| Real estate acquired through foreclosure | 10,581 | 0 | 0 | 10,581 |

A loan is considered impaired when, based on current information and events, it is probable the Corporation will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the original loan agreement. Loan impairment is measured using the present value of the loan s expected cash flows discounted at the loan s effective interest rate, using the loan s observable market value, or using the fair value of the collateral less costs to sell if the loan is collateral-dependent. Collateral may be in the form of real estate and/or business assets such as accounts receivable, inventory or business equipment. The majority of collateral is real estate. The value of real estate is based on observable market prices and market values provided by independent, licensed or certified appraisers. Collateral values may be discounted based on management s historical knowledge of the property and/or changes in market conditions from the time of valuation.

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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 deterioration in the regional economy and real estate market, as evidenced by, among other things, a net out migration of the local population, unemployment rates, increasing vacancy rates, borrower delinquencies, declining property values and rental prices, 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 incurred and are not included in the fair value estimate.

8. Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision that 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.

The current level of the allowance is directionally consistent with classified assets, non-accrual and delinquency. 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, the performance of the Corporation s loan portfolio, the economy, changes in interest rates and comments of the regulatory authorities toward loan classifications.

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.

Although we believe that the allowance for loan losses at September 30, 2013 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. Ohio in general has experienced higher unemployment and some decreases in home values over the past five years like many regions in the U.S., but has improved over the last year which should comparatively mitigate losses on loans. Nonetheless, these factors, compounded by a very uncertain national economic outlook, may continue to increase the level of future losses beyond our current expectations.

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

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Allowance for loan losses for the three and nine months period ending of September 30, 2013 and 2012 are summarized as follows:

| (in thousands) | Construction | Land, Farm & Ag Loans | Residential | Commercial & Non-Residential Real Estate | Consumer | Commercial & Industrial | Multi-Family | Total |
|---|---|---|---|---|---|---|---|---|
| Allowance for credit losses: | | | | | | | | |
| Beginning balance December 31, 2012 | $ 115 | $ 373 | $ 6,980 | $ 2,011 | $ 162 | $ 1,075 | $ 1,431 | $ 12,147 |
| Charge-offs | 0 | (9) | (1,854) | (293) | (394) | 0 | (5) | (2,555) |
| Recoveries | 0 | 10 | 480 | 9 | 83 | 6 | 0 | 588 |
| Provision | 49 | (77) | (220) | 11 | 504 | (667) | (109) | (509) |
| Ending balance September 30, 2013 | $ 164 | $ 297 | $ 5,386 | $ 1,738 | $ 355 | $ 414 | $ 1,317 | $ 9,671 |
| Beginning balance June 30, 2013 | $ 86 | $ 585 | $ 5,880 | $ 2,063 | $ 299 | $ 379 | $ 1,264 | $ 10,556 |
| Charge-offs | 0 | (9) | (425) | (2) | (99) | 0 | 0 | (535) |
| Recoveries | 0 | 8 | 244 | 7 | 0 | 0 | 0 | 259 |
| Provision | 78 | (287) | (313) | (330) | 155 | 35 | 53 | (609) |
| Ending balance September 30, 2013 | $ 164 | $ 297 | $ 5,386 | $ 1,738 | $ 355 | $ 414 | $ 1,317 | $ 9,671 |
| Beginning balance December 31, 2011 | $ 35 | $ 554 | $ 8,277 | $ 2,565 | $ 80 | $ 537 | $ 2,484 | $ 14,532 |
| Charge-offs | 0 | (358) | (1,931) | (79) | (130) | (58) | (11) | (2,567) |
| Recoveries | 0 | 5 | 164 | 684 | 17 | 65 | 9 | 944 |
| Provision | 502 | 273 | (168) | 406 | 134 | 861 | (409) | 1,599 |
| Ending balance September 30, 2012 | $ 537 | $ 474 | $ 6,342 | $ 3,576 | $ 101 | $ 1,405 | $ 2,073 | $ 14,508 |
| Beginning balance June 30, 2012 | $ 554 | $ 768 | $ 6,396 | $ 4,118 | $ 49 | $ 612 | $ 1,688 | $ 14,185 |
| Charge-offs | 0 | (2) | (704) | (14) | (128) | (7) | 0 | (855) |
| Recoveries | 0 | 2 | 54 | 648 | 16 | 1 | 0 | 721 |
| Provision | (17) | (294) | 596 | (1,176) | 164 | (799) | 385 | 457 |
| Ending balance September 30, 2012 | $ 537 | $ 474 | $ 6,342 | $ 3,576 | $ 101 | $ 1,405 | $ 2,073 | $ 14,508 |

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

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Ending balance September 30, 2013 | | | | | | | | |
| Individually evaluated for impairment | $ 0 | $ 32 | $ 608 | $ 246 | $ 113 | $ 8 | $ 708 | $ 1,715 |
| Collectively evaluated for impairment | 164 | 265 | 4,778 | 1,492 | 242 | 406 | 609 | 7,956 |
| Portfolio balances: | | | | | | | | |
| Individually evaluated for impairment | | | | | | | | |
| With no related allowance | $ 10 | $ 458 | $ 127 | $ 36 | $ 0 | $ 32 | $ 0 | $ 663 |
| With related allowance | 0 | 273 | 11,369 | 3,232 | 392 | 82 | 6,643 | 21,991 |
| Collectively evaluated for impairment | 22,255 | 16,377 | 257,773 | 136,270 | 4,979 | 54,756 | 71,610 | 564,020 |
| Ending balance September 30, 2013 | $ 22,266 | $ 17,108 | $ 269,267 | $ 139,538 | $ 5,371 | $ 54,871 | $ 78,253 | $ 586,674 |
| Ending balance September 30, 2012 | | | | | | | | |
| Individually evaluated for impairment | $ 1 | $ 100 | $ 595 | $ 524 | $ 39 | $ 34 | $ 406 | $ 1,699 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Collectively evaluated for impairment | 537 | 374 | 5,747 | 3,052 | 62 | 1,371 | 1,666 | 12,809 |
| Portfolio balances: | | | | | | | | |
| Individually evaluated for impairment | | | | | | | | |
| With no related allowance | 0 | 0 | 589 | 1,143 | 0 | 66 | 0 | 1,798 |
| With related allowance | 16 | 900 | 10,825 | 5,949 | 526 | 492 | 4,565 | 23,273 |
| Collectively evaluated for impairment | 29,635 | 13,241 | 272,680 | 143,589 | 3,550 | 38,092 | 68,172 | 568,959 |
| Ending balance September 30, 2012 | $ 29,651 | $ 14,141 | $ 284,094 | $ 150,681 | $ 4,076 | $ 38,650 | $ 72,737 | $ 594,030 |

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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 interest income will be recognized while the previous payments of interest (during non-accrual status) will be recognized over the life of the loan.

The following table details non-accrual loans at September 30, 2013 and December 31, 2012:

| (in thousands) | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Construction | $ 10 | $ 14 |
| Land, Farmland, Agriculture | 607 | 709 |
| Residential / prime | 6,215 | 7,152 |
| Residential / subprime | 6,519 | 9,195 |
| Commercial and non-residential | 1,080 | 1,967 |
| Consumer | 395 | 491 |
| Commercial and industrial | 34 | 66 |
| Multi Family | 0 | 0 |
| Total | $ 14,860 | $ 19,594 |

An age analysis of past due loans, segregated by class of loans were as follows:

| September 30, 2013 (in thousands) | Loans 30 - 59 Days Past Due | Loans 60 - 89 Days Past Due | Loans 90+ Days Past Due | Total Past Due | Current | Total Loans | Accruing Loans 90 Days Past Due |
|---|---|---|---|---|---|---|---|
| Construction | $ 0 | $ 0 | $ 0 | $ 0 | $ 22,266 | $ 22,266 | $ 0 |
| Land, Farmland, Ag Loans | 31 | 0 | 0 | 31 | 17,077 | 17,108 | 0 |
| Residential/prime | 1,233 | 648 | 3,584 | 5,465 | 211,237 | 216,702 | 0 |
| Residential/subprime | 1,606 | 533 | 3,554 | 5,693 | 46,872 | 52,565 | 0 |
| Commercial and non-residential | 58 | 0 | 778 | 836 | 138,702 | 139,538 | 0 |
| Consumer | 36 | 1 | 7 | 44 | 5,327 | 5,371 | 0 |
| Commercial and industrial | 7 | 0 | 2 | 9 | 54,862 | 54,871 | 0 |
| Multi Family | 614 | 0 | 0 | 614 | 77,639 | 78,253 | 0 |
| Total | $ 3,585 | $ 1,182 | $ 7,925 | $ 12,692 | $ 573,982 | $ 586,674 | $ 0 |

| December 31, 2012 (in thousands) | Loans 30 - 59 Days Past Due | Loans 60 - 89 Days Past Due | Loans 90+ Days Past Due | Total Past Due | Current | Total Loans | Accruing Loans 90 Days Past Due |
|---|---|---|---|---|---|---|---|
| Construction | $ 0 | $ 0 | $ 0 | $ 0 | $ 13,815 | $ 13,815 | $ 0 |
| Land, Farmland, Ag Loans | 65 | 32 | 119 | 216 | 13,786 | 14,002 | 0 |
| Residential / prime | 2,316 | 906 | 5,212 | 8,434 | 210,217 | 218,651 | 0 |
| Residential / subprime | 2,509 | 1,181 | 4,562 | 8,252 | 48,993 | 57,245 | 0 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Commercial and non-residential | 0 | 0 | 1,095 | 1,095 | 135,784 | 136,879 | 0 |
| Consumer | 100 | 1 | 28 | 129 | 3,919 | 4,048 | 0 |
| Commercial and industrial | 0 | 0 | 66 | 66 | 42,028 | 42,094 | 0 |
| Multi Family | 227 | 0 | 0 | 227 | 79,761 | 79,988 | 0 |
| Total | $ 5,217 | $ 2,120 | $ 11,082 | $ 18,419 | $ 548,303 | $ 566,722 | $ 0 |

**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 impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, of collateral if payment is expected solely from the collateral or at the present value of estimated future cash flows using the loan s existing rate or at the loan s fair sale value. Interest 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 loans for better understanding of our process and procedures relating to fair value of financial instruments:

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 Troubled Debt Restructuring ( TDR ). *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 asset quality 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.

Camco s policies dictate that an impaired loan subject to a possible charge off will remain in a nonperforming status until it is paid current and completes a period of on-time payments that demonstrate that the loan can perform and/or there is some certainty 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 circumstances do not allow for an updated appraisal or Camco determines that an appraisal is not needed, the underlying collateral s fair market value is estimated in the following ways:

- Camco s personnel property inspections combined with an internally or externally prepared valuation,
- Broker price opinions, or
- Various on-line fair market value estimation programs (i.e. Freddie Mac, Fannie Mae, etc).

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Impaired loans are set forth in the following table:

| (in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|---|---|---|---|---|---|---|
| | September 30, 2013 | | | December 31, 2012 | | |
| With no related allowance recorded: | | | | | | |
| Construction | $ 11 | $ 11 | $ 0 | $ 14 | $ 14 | $ 0 |
| Land, Farmland, Ag Loans | 458 | 872 | 0 | 558 | 972 | 0 |
| Residential | 126 | 172 | 0 | 0 | 0 | 0 |
| Commercial and non-residential | 36 | 222 | 0 | 1,572 | 1,619 | 0 |
| Commercial and industrial | 32 | 32 | 0 | 0 | 0 | 0 |
| Multi Family | 0 | 661 | 0 | 1 | 661 | 0 |
| Total | $ 663 | $ 1,970 | $ 0 | $ 2,145 | $ 3,266 | $ 0 |
| With a related specific allowance recorded: | | | | | | |
| Land, Farmland, Ag Loans | $ 273 | $ 273 | $ 32 | $ 230 | $ 230 | $ 68 |
| Residential | 11,369 | 11,552 | 608 | 11,107 | 11,473 | 500 |
| Commercial and non-residential | 3,232 | 3,281 | 246 | 3,674 | 3,700 | 369 |
| Consumer | 392 | 392 | 113 | 491 | 518 | 40 |
| Commercial and industrial | 82 | 82 | 8 | 539 | 539 | 25 |
| Multi Family | 6,643 | 6,643 | 708 | 4,541 | 4,541 | 416 |
| Total | $ 21,991 | $ 22,223 | $ 1,715 | $ 20,582 | $ 21,001 | $ 1,418 |

| (in thousands) | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|
| | 3 Months Ended September 30, 2013 | | 3 Months Ended September 30, 2012 | |
| With no related allowance recorded: | | | | |
| Construction | $ 11 | $ 0 | $ 0 | $ 0 |
| Land, Farmland, Ag Loans | 458 | 7 | 0 | 0 |
| Residential | 138 | 0 | 619 | 1 |
| Commercial and non-residential | 153 | 0 | 1,170 | 36 |
| Consumer | 0 | 0 | 0 | 0 |
| Commercial and industrial | 49 | 0 | 66 | 0 |
| Multi Family | 0 | 0 | 0 | 0 |
| Total | $ 809 | $ 0 | $ 1,855 | $ 37 |
| With a related specific allowance recorded: | | | | |
| Construction | $ 0 | $ 0 | $ 16 | $ 0 |
| Land, Farmland, Ag Loans | 275 | 3 | 902 | 25 |
| Residential | 11,494 | 107 | 10,954 | 186 |
| Commercial and non-residential | 3,249 | 36 | 5,544 | 163 |
| Consumer | 397 | 1 | 553 | 12 |
| Commercial and industrial | 86 | 2 | 308 | 4 |
| Multi Family | 6,667 | 75 | 4,577 | 107 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | $ 22,168 | $ | 224 | $ 22,854 | $ | 497 |

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| (in thousands) | Average Recorded Investment 9 Months Ended September 30, 2013 | Interest Income Recognized 9 Months Ended September 30, 2013 | Average Recorded Investment 9 Months Ended September 30, 2012 | Investment Income Recognized 9 Months Ended September 30, 2012 |
|---|---|---|---|---|
| With no related allowance recorded: | | | | |
| Construction | $ 11 | $ 0 | $ 0 | $ 0 |
| Land, Farmland, Ag Loans | 483 | 10 | 0 | 0 |
| Residential | 129 | 1 | 551 | 0 |
| Commercial and non-residential | 95 | 0 | 504 | 0 |
| Consumer | 0 | 0 | 0 | 0 |
| Commercial and industrial | 33 | 0 | 102 | 0 |
| Multi Family | 0 | 0 | 0 | 0 |
| Total | $ 751 | $ 11 | $ 1,157 | $ 0 |
| With a related specific allowance recorded: | | | | |
| Construction | $ 0 | $ 0 | $ 18 | $ 0 |
| Land, Farmland, Ag Loans | 276 | 10 | 243 | 9 |
| Residential | 11,468 | | | |