CAMCO FINANCIAL CORP
Form 10-Q
August 14, 2012
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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 June 30, 2012

OR

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

For the transition period from to

Commission File Number 0-25196

CAMCO FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

814 Wheeling Avenue, Cambridge, Ohio 43725-9757

(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

As of August 13, 2012, the latest practicable date, 7,468,087 shares of the registrant s common stock, $1.00 par value, were outstanding.

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Item 1. Financial Statements

Camco Financial Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$ 15,460	$ 16,420
Interest-bearing deposits in other financial institutions	12,700	21,954
Cash and cash equivalents	28,160	38,374
Securities available for sale, at market	72,430	17,845
Securities held to maturity, at cost	2,917	3,083
Loans held for sale at lower of cost or fair value	2,532	8,090
Loans receivable net	599,605	639,177
Office premises and equipment net	8,365	8,645
Real estate acquired through foreclosure	11,966	10,888
Federal Home Loan Bank stock at cost	9,888	9,888
Accrued interest receivable	2,717	2,945
Mortgage servicing rights at lower of cost or market	3,302	3,263
Prepaid expenses and other assets	4,806	4,927
Cash surrender value of life insurance	20,228	19,893
Total assets	$ **766,916**	$ **767,018**
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits	$ 638,516	$ 629,259
Other Borrowings	10,755	16,681
Advances from the Federal Home Loan Bank	58,445	63,604
Advances by borrowers for taxes and insurance	869	2,100
Accounts payable and accrued liabilities	11,555	9,769
Total liabilities	720,140	721,413
Commitments		
Stockholders equity:		
Preferred stock $1 par value; authorized 100,000 shares; no shares outstanding		
Common stock $1 par value; authorized 29,900,000 shares; 9,147,000 and 8,884,508 shares issued at June 30, 2012 and December 31, 2011 respectively	9,147	8,885
Unearned compensation	(492)	(31)
Additional paid-in capital	60,954	60,528
Retained earnings	1,245	350
Accumulated other comprehensive income (loss) net of related tax effects	36	(13)
Treasury stock 1,678,913 shares at June 30, 2012 and December 31, 2011, at cost	(24,114)	(24,114)

Total stockholders equity	46,776	45,605
Total liabilities and stockholders equity	$ **766,916**	$ **767,018**

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Camco Financial Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)	**Six months ended June 30, 2012**	**Six months ended June 30, 2011**	**Three months ended June 30, 2012**	**Three months ended June 30, 2011**
Interest and dividend income				
Loans	$ 15,912	$ 17,740	$ 7,699	$ 8,839
Investment securities	219	439	132	84
Other interest-earning accounts	218	503	105	157
Total interest and dividend income	16,349	18,682	7,936	9,080
Interest Expense				
Deposits	2,956	4,107	1,405	1,918
Borrowings	1,291	1,529	618	726
Total interest expense	4,247	5,636	2,023	2,644
Net interest income	12,102	13,046	5,913	6,436
Provision for losses on loans	1,142	2,810	137	1,797
Net interest income after provision for losses on loans	10,960	10,236	5,776	4,639
Other income				
Late charges, rent and other	551	565	223	203
Loan servicing fees	566	605	285	298
Service charges and other fees on deposits	998	1,032	508	529
Gain (loss) on sale of loans	1,081		517	(92)
Mortgage servicing rights net	39	139	(63)	(132)
Gain (loss) on sale of investments & fixed assets	(2)	1,280	1	2
Income on cash surrender value of life insurance	426	437	208	220
Total other income	3,659	4,058	1,679	1,028
General, administrative and other expenses				
Employee compensation and benefits	6,396	6,531	3,249	3,153
Occupancy and equipment	1,467	1,452	756	691
Federal deposit insurance premiums and other insurance	923	1,097	469	494
Data processing	571	561	285	277
Advertising	195	182	108	96
Franchise taxes	384	348	201	178
Postage, supplies and office expenses	507	471	251	253
Travel, training and insurance	121	121	71	56
Professional services	889	702	351	320
Transaction processing	399	367	207	200
Real estate owned and other expenses	1,236	1,655	589	825
Loan expenses	661	1,081	498	598
Total general, administrative and other expense	13,749	14,568	7,035	7,141
Earnings (loss) before federal income taxes	870	(274)	420	(1,474)

Federal income taxes (benefit)	(25)	537	(62)	(11)
NET EARNINGS (LOSS)	**$ 895**	**$ (811)**	**$ 482**	**$ (1,463)**
EARNINGS (LOSS) PER SHARE				
Basic	**$ 0.12**	**$ (0.11)**	**$ 0.06**	**$ (0.20)**
Diluted	**$ 0.12**	**$ (0.11)**	**$ 0.06**	**$ (0.20)**

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Camco Financial Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(unaudited)	**Six months ended June 30, 2012**	**2011**	**Three months ended June 30, 2012**	**2011**
Net earnings (loss)	$ 895	(811)	$ 482	$ (1,463)
Other comprehensive income, net of tax:				
Unrealized holding gains (losses) on securities during the period, net of tax effects of $25 and $(103), $63 and $10 for the respective periods	50	(201)	123	20
Reclassification adjustment for realized gains included in net earnings, net of taxes of $0 and $(434), and $0 and $0 for the respective periods	(1)	(842)	(1)	
Comprehensive income (loss)	**$ 944**	**$ (1,854)**	**$ 604**	**$ (1,443)**

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CAMCO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except per share data)

	Shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Unearned compensation	Treasury stock	Total stockholders equity
Balance at December 31, 2010	**7,205,595**	**$ 8,885**	**$ 60,260**	**$ 136**	**$ 1,030**	**$ 94**	**$ (24,114)**	**$ 46,103**
Stock Option Expense			199					199
Net earnings for the year ended December 31, 2011				(811)				(811)
Restricted shares expense						47		47
Unrealized (losses) of securities designated as available for sale, net of related tax benefits					(1,043)			(1,043)
Balance at June 30, 2011	**7,205,595**	**$ 8,885**	**$ 60,459**	**$ (675)**	**$ (13)**	**$ (47)**	**$ (24,114)**	**$ 44,495**
Balance at December 31, 2011	**7,205,595**	**$ 8,885**	**$ 60,528**	**$ 350**	**$ (13)**	**$ (31)**	**$ (24,114)**	**$ 45,605**
Stock Option Expense			64					64
Net earnings for the six months ended June 30, 2012				895				895
Restricted shares granted	262,492	262	362			(461)		163
Unrealized gains on securities designated as available for sale, net of related tax benefits					49			49
Balance at June 30, 2012	**7,468,087**	**$ 9,147**	**$ 60,954**	**$ 1,245**	**$ 36**	**$ (492)**	**$ (24,114)**	**$ 46,776**

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Camco Financial Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30,

(In thousands)

	2012	2011
	(unaudited)	
Cash flows from operating activities:		
Net earnings (loss) for the period	$ 895	$ (811)
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Amortization of deferred loan origination fees	(71)	(159)
Amortization of premiums and discounts on investment and mortgage-backed securities net	16	30
Amortization of mortgage servicing rights net	453	72
Depreciation and amortization	690	668
Provision for losses on loans	1,142	2,810
Stock based compensation expense	227	484
Provisions for losses on REO	335	47
Gain on sale of real estate acquired through foreclosure	(91)	259
Gain on sale of investments	(1)	(1,276)
(Gain) on sale of loans	(1,081)	0
(Gain)/loss on sale of assets	3	(4)
Loans originated for sale in the secondary market	(48,100)	(34,614)
Proceeds from sale of loans in the secondary market	54,739	33,123
Net increase in cash surrender value of life insurance	(335)	(351)
Increase (decrease) in cash due to changes in:		
Accrued interest receivable	228	357
Prepaid expenses and other assets	97	(777)
Accrued interest and other liabilities	1,786	(818)
Net cash (used in) operating activities	10,932	(960)
Cash flows provided by (used in) investing activities:		
Principal repayments, maturities on securities held to maturity	165	282
Principal repayments, maturities on securities available for sale	9,423	4,971
Purchases of investment securities designated as available for sale	(63,955)	(12,615)
Proceeds from sale of investments	8	27,161
Redemption of FHLB Stock		20,000
Loan principal repayments	134,787	108,208
Loan disbursements and purchased loans	(100,046)	(90,452)
Proceeds from sale of office premises and equipment	19	4
Additions to office premises and equipment	(433)	(129)
Proceeds from sale of real estate acquired through foreclosure	1,945	2,876
Net cash provided by (used in) investing activities	(18,087)	60,306
Net cash provided by (used in) operating and investing activities balance carried forward	(7,155)	59,346

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Camco Financial Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the six months ended June 30,

(In thousands)

	2012	2011
Net cash provided by (used in) operating and investing activities (balance brought forward)	$ (7,155)	$ 59,346
Cash flows used in financing activities:		
Net increase (decrease) in deposits	9,257	(20,169)
Proceeds from Federal Home Loan Bank advances and other borrowings	79,691	42,317
Repayment of Federal Home Loan Bank advances and other borrowings	(90,776)	(66,301)
Decrease in advances by borrowers for taxes and insurance	(1,231)	(1,925)
Net cash used in financing activities	(3,059)	(46,078)
Increase (decrease) in cash and cash equivalents	(10,214)	13,268
Cash and cash equivalents at beginning of period	38,374	29,114
Cash and cash equivalents at end of period	**$ 28,160**	**$ 42,382**
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest on deposits and borrowings	$ 4,246	$ 5,699
Income taxes paid	25	580
Transfers from loans to real estate acquired through foreclosure	3,268	7,540

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1. Basis of Presentation

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

2. Principles of Consolidation

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

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

3. Critical Accounting Policies

Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as disclosures found elsewhere in this report, are based upon Camco s consolidated financial statements, which are prepared in accordance with US GAAP. The preparation of these financial statements requires Camco to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Several factors are considered in determining whether or not a policy is critical in the preparation of financial statements. These factors include, among other things, whether the estimates are significant to the financial statements, the nature of the estimates, the ability to readily validate the estimates with other information including third parties or available prices, and sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be utilized under US GAAP.

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

Summary

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

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.

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

Classified loans with indication or acknowledgment of deterioration are subject to individual analysis. Loan classifications are those used by regulators consisting of Special Mention, Substandard, Doubtful and Loss. In evaluating these loans for impairment, the measure of expected loss is based on the present value of the expected future cash flows discounted at the loan s effective interest rate, a loan s observable market price or the fair value of the collateral if the loan is collateral dependent. All other classified assets and non-classified assets are combined with the homogeneous loan pools and segregated into loan segments. The segmentation is based on grouping loans with similar risk characteristics (one-to-four family, home equity, etc.). Loss rate factors are developed for each loan segment which 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 applied for valuation purposes. Once pooled, each grouping of loans is evaluated on a discounted earnings basis to determine the present value of future earnings that the Bank could expect to realize from the portfolio. Earnings are projected from a variety of sources including loan service fees, net interest earned on escrow balances, miscellaneous income and costs to service the loans. The present value of future earnings is the estimated fair value for the pool, calculated using consensus assumptions that a third party purchaser would utilize in evaluating a potential acquisition of the MSRs.

Events that may significantly affect the estimates used are changes in interest rates and the related impact on mortgage loan prepayment speeds and the payment performance of the underlying loans. The interest rate for net interest earned on escrow balances, which is supplied by management, takes into consideration the investment portfolio average yield as well as current short duration investment yields. Management believes this methodology provides a reasonable estimate. Mortgage loan prepayment speeds are calculated by the third party provider utilizing the Economic Outlook as published by the Office of Chief Economist of Freddie Mac 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 net operating losses generated by the reversal of temporary differences. A valuation allowance is provided for deferred tax assets if it is determined that it is more likely than not that some or all of the deferred tax asset will not be realized. If different assumptions and conditions were to prevail, the valuation allowance may not be adequate to absorb unrealized deferred taxes and the amount of income taxes payable may need to be adjusted by way of a charge to expense. Furthermore, income tax returns are subject to audit by the IRS. Income tax expense for current and prior periods is subject to adjustment based upon the outcome of such audits. During 2011, the IRS began an examination of the Corporation s tax returns for the year ended December 31, 2009. Accrual of income taxes payable and valuation allowances against deferred tax assets are estimates subject to change based upon the outcome of future events.

Other Real Estate

Assets acquired through or 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.

4. Earnings Per Share

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

	For the six months ended June 30,		**For the three months ended June 30,**	
	2012	**2011**	**2012**	**2011**
	(In thousands, except per share information)			
BASIC:				
Net Earnings	$ 895	$ (811)	$ 482	$ (1,463)
Weighted average common shares outstanding	7,344	7,206	7,468	7,206
Basic earnings (loss) per share	**$ 0.12**	**$ (0.11)**	**$ 0.06**	**$ (0.20)**
DILUTED:				
Net Earnings	$ 895	$ (811)	$ 482	$ (1,463)
Weighted average common shares outstanding	7,344	7,206	7,468	7,206
Dilutive effect of stock options			14	
Total common shares and dilutive potential common shares	7,344	7,206	7,482	7,206
Diluted earnings (loss) per share	**$ 0.12**	**$ (0.11)**	**$ 0.06**	**$ (0.20)**

Anti-dilutive options to purchase 580,900 and 604,583 shares of common stock with respective weighted-average exercise prices of $4.70 and $4.97 were outstanding at June 30, 2012 and 2011, respectively, but were excluded from the computation of common share equivalents for each of the six month periods, because the exercise prices were greater than the average market price of the common shares.

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Anti-dilutive options to purchase 428,286 and 609,583 shares of common stock with respective weighted-average exercise prices of $6.05 and $4.93 were outstanding at June 30, 2012 and 2011, respectively, but were excluded from the computation of common share equivalents for each of the three month periods, because the exercise prices were greater than the average market price of the common shares.

5. Stock Based Compensation

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

The fair value of each option grant is estimated on the date of grant using the modified Black-Scholes options-pricing model. The following table details the fair value and assumptions used to value stock options as of the grant date that were granted during the six months ended June 30, 2011:

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

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

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

	Six Months ended June 30, 2012		Year ended December 31, 2011	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of period	587,342	$ 4.68	463,642	$ 5.84
Granted			161,538	2.14
Exercised				
Forfeited	(1,442)	8.67	(29,338)	7.03
Expired			(8,500)	11.93
Outstanding at end of period	**585,900**	**$ 4.65**	**587,342**	**$ 4.68**
Options exercisable at period end	**399,033**	**$ 5.76**	**317,467**	**$ 6.58**
Weighted-average fair value of options granted during the period		**$**		**$ 1.49**

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

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 1.90 - $ 2.51	471,652	8.0	$ 2.39	284,785	$ 2.42
$ 8.92	19,260	5.6	8.92	19,260	8.92
$11.36 - $14.16	45,137	3.8	13.70	45,137	13.70
$16.13 - $17.17	49,851	1.8	16.44	49,851	16.44
	585,900	7.0	$ 4.67	399,033	$ 5.78

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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 vests in four equal increments beginning in 2010.

In March 2012, Camco granted 262,500 shares of restricted stock awards with an impact to unearned/deferred compensation of $625,000, $262,500 of common stock and additional paid in capital of $362,500. The stock was granted under the Camco Financial Corporation 2010 Equity Plan to officers based on 2011 performance. The restrictions on the shares that were granted and have vested generally lapse after one year. The grant date fair value per share of restricted stock is the stock price at close on grant date, which is expensed on a straight-line basis during the vesting period. The shares represented by restricted stock awards are considered outstanding at the grant date, as the recipients are entitled to voting rights and dividends if declared. A summary of restricted stock award activity for the period is presented below:

	Non-vested Number of Shares	Weighted Average Grant Date Fair Value
Non-vested balance at January 1, 2011	37,500	$ 2.50
Vested	(12,500)	2.50
Non-vested balance at December 31, 2011	25,000	$ 2.50
Granted	262,492	2.38
Vested	(64,979)	2.40
Non-vested balance at June 30, 2012	222,513	$ 2.39

At June 30, 2012, there was approximately $458,000 of compensation cost that has not yet been recognized related to restricted stock awards. That cost is expected to be recognized over a remaining period of two years.

6. Fair Value

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

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

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

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

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

The Corporation utilizes information provided by a third-party investment securities portfolio manager in analyzing the investment securities portfolio in accordance with the fair value hierarch 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 repriced. 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 Operations.

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

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

Accrued Interest Receivable and Payable: The carrying value for accrued interest approximates fair value.

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 1 of the fair value hierarchy.

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

Advances by Borrowers for Taxes and Insurance: The carrying amount of advances by borrowers for taxes and insurance is deemed to approximate fair value.

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 June 30, 2012 and December 31, 2011, the fair value of loan commitments was not material.

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

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

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

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

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

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

(in thousands as of June 30, 2012)	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 28,160	$ 28,160	$ 28,160	$ 0	$ 0
Investment securities available for sale	72,430	72,430	0	72,386	44
Investment securities held to maturity	2,917	2,972	0	2,972	0
Loans held for sale	2,532	2,627	0	2,627	0
Loans receivable	599,605	607,189	0	0	607,189
Federal Home Loan Bank stock	9,888	9,888	0	0	9,888
Accrued interest receivable	2,717	2,717	2,717	0	0
Financial liabilities					
Deposits	$ 638,516	$ 632,635	$ 65,996	$ 566,639	$ 0
Advances from the Federal Home Loan Bank	58,445	61,856	0	61,856	0
Repurchase agreements	5,755	5,755	5,755	0	0
Subordinated debentures	5,000	4,928	0	0	4,928

Advances by borrowers for taxes and insurance	869	869	869	0	0
Accrued interest payable	1,694	1,694	1,694	0	0

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

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
June 30, 2012				
Securities available for sale:				
U.S. government sponsored enterprises	$ 71,028	$ 0	$ 71,028	$ 0
Corporate equity securities	44	0	0	44
Mortgage-backed securities	1,358	0	1,358	0
December 31, 2011				
Securities available for sale:				
U.S. government sponsored enterprises	$ 16,292	$ 0	$ 16,292	$ 0
Corporate equity securities	52	0	0	52
Mortgage-backed securities	1,501	0	1,501	0

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

(in thousands)		Fair Value Measurements at Reporting Date Using		
	Balance	Level 1	Level 2	Level 3
June 30, 2012				
Impaired loans	$ 25,587	$ 0	$ 0	$ 25,587
Real estate acquired through foreclosure	11,966	0	0	11,966
December 31, 2011				
Impaired loans	$ 22,956	0	0	$ 22,956
Real estate acquired through foreclosure	10,888	0	0	10,888

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

Fair value for real estate acquired through foreclosure is generally determined by obtaining recent appraisals on the properties. Other types of valuing include broker price opinions and valuations pertaining to the current and anticipated deterioration in the regional economy and real estate market, as evidenced by, among other things, changes in 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 occurred and are not included in the fair value estimate.

7. Allowance for Loan Losses

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

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

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

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

(in thousands)	Construction	Consumer	Multi-Family	Land, Farm & Ag Loans	Residential	Commercial & Non-Residential	Commercial and Industrial	Total
Allowance for credit losses:								
Beginning balance December 31, 2011	$ 35	$ 80	$ 2,484	$ 554	$ 8,277	$ 2,565	$ 537	$ 14,532
Charge-offs	0	(2)	(11)	(356)	(1,227)	(65)	(51)	(1,712)
Recoveries	0	1	9	3	110	36	64	223
Provision	519	(30)	(794)	567	(764)	1,582	62	1,142
Ending balance June 30, 2012	$ 554	$ 49	$ 1,688	$ 768	$ 6,396	$ 4,118	$ 612	$ 14,185
Beginning balance March 31, 2012	$ 428	$ 48	$ 1,548	$ 1,043	$ 6,966	$ 4,356	$ 565	$ 14,954
Charge-offs	0	(2)	0	(356)	(593)	(65)	(5)	(1,021)
Recoveries	0	1	1	2	60	26	25	115
Provision	126	2	139	79	(37)	(199)	27	137

Ending balance June 30, 2012	$ 554	$ 49	$ 1,688	$ 768	$ 6,396	$ 4,118	$ 612	$ 14,185
Beginning balance December 31, 2010	$ 166	$ 246	$ 2,860	$ 849	$ 8,050	$ 3,638	$ 1,061	$ 16,870
Charge-offs	0	(57)	(33)	(107)	(1,447)	(579)	(9)	(2,232)
Recoveries	0	2	116	204	383	109	89	903
Provision	(141)	(77)	(10)	(318)	1,988	1,934	(566)	2,810
Ending balance June 30, 2011	$ 25	$ 114	$ 2,933	$ 628	$ 8,974	5,102	$ 575	$ 18,351
Beginning balance March 31, 2011	$ 164	$ 278	$ 2,355	$ 782	$ 7,962	$ 5,428	$ 441	$ 17,410
Charge-offs	0	(55)	(33)	(107)	(737)	(313)	0	(1,245)
Recoveries	0	1	110	9	248	21	0	389
Provision	(139)	(110)	501	(56)	1,501	(34)	134	1,797
Ending balance June 30, 2011	$ 25	$ 114	$ 2,933	$ 628	$ 8,974	$ 5,102	$ 575	$ 18,351

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

At June 30, 2012 (in thousands)	Construction	Consumer	Multi-Family	Land, Farm & Ag Loans	Residential	Commercial & Non-Residential	Commercial and Industrial	Total
Individually evaluated for impairment	$ 4	$ 18	$ 406	$ 25	$ 481	$ 540	$ 59	$ 1,533
Collectively evaluated for impairment	$ 550	$ 31	$ 1,282	$ 743	$ 5,915	$ 3,578	$ 553	$ 12,652
Portfolio balances:								
Collectively evaluated for impairment	$ 24,589	$ 3,663	$ 71,963	$ 15,579	$ 285,028	$ 150,145	$ 35,703	$ 586,670
Individually evaluated for impairment								
With no related allowance	0	0	0	666	507	504	100	1,777
With related allowance	17	259	4,588	238	11,651	8,232	358	25,343
Ending balance	$ 24,606	$ 3,922	$ 76,551	$ 16,483	$ 297,186	$ 158,88	$ 36,161	$ 613,790

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

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

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

(in thousands)	Non-Accrual June 30, 2012	Non-Accrual December 31, 2011
Construction	$ 17	$ 19
Land, Farmland, Ag Loans	1,005	367
Residential	20,482	22,277
Commercial	1,648	1,879
Consumer	357	113
Commercial and industrial	144	212
Multi Family	0	51
Total	$ 23,653	$ 24,918

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

June 30, 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	$ 24,606	$ 24,606	$ 0
Land, Farmland, Ag Loans	13	279	136	428	16,055	16,483	0
Residential / prime	1,862	1,101	6,119	9,082	227,630	236,712	0
Residential / subprime	1,951	827	5,428	8,206	52,268	60,474	0
Commercial	0	0	714	714	158,167	158,881	0
Consumer	78	0	150	228	3,694	3,922	0
Commercial and industrial	0	0	100	100	36,061	36,161	0
Multi Family	0	0	0	0	76,551	76,551	0
Total	$ 3,904	$ 2,207	$ 12,647	$ 18,758	$ 595,032	$ 613,790	$ 0

December 31, 2011 (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	$ 23,876	$ 23,876	$ 0
Land, Farmland, Ag Loans	103	0	136	239	17,583	17,822	0
Residential / prime	638	269	4,139	5,046	235,502	240,548	0
Residential / subprime	5,380	1,818	9,499	16,697	60,679	77,376	0
Commercial	462	527	638	1,627	162,137	163,764	0
Consumer	54	76	18	148	3,382	3,530	0
Commercial and industrial	45	0	114	159	38,704	38,863	0
Multi Family	0	0	51	51	87,879	87,930	0

Total	$ 6,682	$ 2,690	$ 14,595	$ 23,967	$ 629,742	$ 653,709	$ 0

Although we believe that the allowance for loan losses at June 30, 2012 is adequate to cover losses inherent in the loan portfolio at that date based upon the available facts and circumstances, there can be no assurance that additions to the allowance for loan losses will not be necessary in future periods, which could adversely affect our results of operations. Unemployment rates in our markets and Ohio in general, are close to the national average, but we are still experiencing some decline in values of residential real estate. Ohio in general has experienced some decreases in home values over the past five years like many regions in the U.S., 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.

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

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

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

Camco s credit risk management process consistently monitors key performance metrics across both the performing and non-performing assets to identify any further degradation of credit quality. Additionally, impaired credits are monitored in weekly loan committee 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 partial charge off will remain in a nonperforming status until it is brought current. Typically, this occurs when a loan is paid current and completes a period of on-time payments that demonstrate that the loan can perform and/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 original appraisal review

County Auditor values

Broker price opinions

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 June 30, 2012	Related Allowance
With no related allowance recorded:			
Construction	$ 0	$ 0	$ 0
Land, Farmland, Ag Loans	666	1,022	0
Residential	507	641	0
Commercial	504	1,507	0
Consumer	0	0	0
Commercial and industrial	100	101	0
Multi Family	0	661	0
Total	$ 1,777	$ 3,932	$ 0
With a related specific allowance recorded:			
Construction	$ 17	$ 17	$ 4
Land, Farmland, Ag Loans	238	238	25
Residential	11,651	12,013	481
Commercial	8,232	8,232	540
Consumer	259	301	18
Commercial and industrial	358	358	59
Multi Family	4,588	4,588	406
Total	$ 25,343	$ 25,747	$ 1,533

(in thousands)	Average Recorded Investment 3 Months Ended June 30, 2012	Interest Income Recognized 3 Months Ended June 30, 2012	Average Recorded Investment 3 Months Ended June 30, 2011	Interest Income Recognized 3 Months Ended June 30, 2011	Average Recorded Investment 6 Months Ended June 30, 2012	Interest Income Recognized 6 Months Ended June 30, 2012	Average Recorded Investment 6 Months Ended June 30, 2011	Investment Income Recognized 6 Months Ended June 30, 2011
With no related allowance recorded:								
Construction	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Land, Farmland, Ag Loans	1,024	1	1,207	12	667	16	1,095	23
Residential	567	0	401	0	551	0	398	0
Commercial	504	0	902	0	504	0	901	0
Consumer	0	0	0	0	0	0	0	0
Commercial and industrial	103	0	0	0	102	0	0	0
Multi Family	0	0	66	0	0	0	66	0
Total	$ 2,198	$ 1	$ 2,576	$ 12	$ 1,824	$ 16	$ 2,460	$ 23
With a related specific allowance recorded:								
Construction	$ 19	$ 0	$ 0	$ 0	$ 18	$	$	$
Land, Farmland, Ag Loans	246	2	200	18	243	9	165	22
Residential	11,856	94	5,984	40	11,756	194	5,624	63
Commercial	8,104	127	8,172	51	8,361	253	8,149	106

Consumer	298	2	0	0	280	8		
Commercial and industrial	389	5	415	4	377	12	406	10
Multi Family	4,622	54	4,061	48	4,611	107	4,046	95
Total	$ 25,534	$ 284	$ 18,832	$ 161	$ 25,646	$ 583	$ 18,390	$ 296

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December 31, 2011 (in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Construction	$	$	$
Land, Farmland, Ag Loans			
Residential	1,945	3,579	
Commercial	695	2,015	
Consumer			
Commercial and industrial	112	151	
Multi Family	51	971	
Total	$ 2,803	$ 6,716	$
With a related specific allowance recorded:			
Construction	$ 19	$	$ 3
Land, Farmland, Ag Loans	1,203	1,216	208
Residential	8,922	9,033	720
Commercial	6,612	6,612	335
Consumer	128	100	41
Commercial and industrial	396	396	27
Multi Family	4,633	4,633	426
Total	$ 21,913	$ 21,990	$ 1,760

The Corporation categorizes loans and leases into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans and leases individually by classifying the loans and leases as to credit risk. The loans monitored utilizing the risk categories listed below refer to commercial, commercial and industrial, construction, land, farmland and agriculture loans. All non-homogeneous loans are monitored through delinquency reporting. This analysis is performed on a quarterly basis. The Corporation uses the following definitions for risk ratings:

Un-criticized Assets (Grade 1-3)

Un-criticized assets exhibit no material problems, credit deficiencies or payment problems. These assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral. Such credits are graded as follows: Excellent (1), Good (2) or Satisfactory (3).

Watch (Grade 4)

Watch rated credits are of acceptable credit quality, but exhibit one or more characteristics which merit closer monitoring or enhanced structure. Such characteristics include higher leverage, lower debt service coverage, industry issues or a construction loan without preleasing commitments (generally multifamily projects).

Special Mention Assets (Grade 5)

Special Mention Assets have potential weaknesses or pose financial risk that deserves management s close attention. If left uncorrected, these weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank s credit position at some future date. Special Mention Assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard Assets (Grade 6)

An asset classified Substandard is protected inadequately by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Assets so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. The possibility that liquidation would not be timely requires a substandard classification even if there is little likelihood of total loss.

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Assets classified as Substandard may exhibit one or more of the following weaknesses:

The primary source of repayment is gone or severely impaired and the Bank may have to rely upon a secondary source.

Loss does not seem likely but sufficient problems have arisen to cause the Bank to go to abnormal lengths to protect its position in order to maintain a high probability of repayment.

Obligors are unable to generate enough cash flow for debt reduction.

Collateral has deteriorated.

The collateral is not subject to adequate inspection and verification of value (if the collateral is expected to be the source of repayment).

Flaws in documentation leave the Bank in a subordinated or unsecured position if the collateral is needed for the repayment of the loan.

For assets secured by real estate, the appraisal does not conform to FDIC appraisal standards or the assumptions underlying the appraisal are demonstrably incorrect.

Doubtful Assets (Grade 7)
An asset classified Doubtful has all the weaknesses inherent in one classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss Assets (Grade 8)
An asset, or portion thereof, classified loss is considered uncollectible and of such little value that its continuance on the books is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value; rather, it is not practical or desirable to defer writing off an essentially worthless asset (or portion thereof), even though partial recovery may occur in the future.

Loans and leases not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans and leases.

Based on the most recent analysis performed, the risk category of non-homogeneous loans and leases is as follows:

	(Dollars in Thousands)				
June 30, 2012	**Pass**	**Watch**	**Special Mention**	**Substandard**	**Total(1)**
Construction	$ 11,750	$ 12,839	$ 0	$ 17	$ 24,606
Land, Farmland, Ag Loans	15,131	0	280	1,072	16,483
Commercial	120,391	21,500	7,064	9,926	158,881

Commercial and industrial	30,666	5,182	90	223	36,161
Multi Family	49,424	19,203	4,421	3,503	76,551
Total	$ 227,362	$ 58,724	$ 11,855	$ 14,741	$ 312,682