
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

Form 10-Q

/ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2008

OR

/ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 000-31207

BANK MUTUAL CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin

(State or other jurisdiction of
incorporation or organization)

39-2004336

(IRS Employer Identification No.)

**4949 West Brown Deer Road
Milwaukee, WI 53223
(414) 354-1500**

(Address, including Zip Code, and telephone number,
including area code, of registrant's principal executive offices)

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes 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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the issuer's common stock \$0.01 par value per share, was 48,221,500 shares, at August 1, 2008.

BANK MUTUAL CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

BANK MUTUAL CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30 2008	December 31 2007
<i>(In thousands, except per share data)</i>		
Assets		
Cash and due from banks	\$ 27,366	\$ 36,235
Federal funds sold	157,000	–
Interest-earning deposits	16,383	2,714
Total cash and cash equivalents	200,749	38,949
Securities available-for-sale, at fair value:		
Investment securities	343,233	99,450
Mortgage-related securities	902,685	1,099,922
Loans held for sale	5,923	7,952
Loans receivable, net	1,845,849	1,994,556
Goodwill	52,570	52,570
Other intangible assets	2,097	2,428
Mortgage servicing rights	4,885	4,708
Other assets	193,640	187,511
Total assets	\$3,551,631	\$3,488,046
Liabilities and shareholders' equity		
Liabilities:		
Deposits	\$2,176,290	\$2,112,968
Borrowings	910,956	912,459
Advance payments by borrowers for taxes and insurance	20,122	1,815
Other liabilities	29,317	27,859
Total liabilities	3,136,685	3,055,101
Minority interest in real estate development	2,924	2,910
Shareholders' equity:		
Preferred stock – \$.01 par value:		
Authorized– 20,000,000 shares in 2008 and 2007		
Issued and outstanding – none in 2008 and 2007	–	–
Common stock – \$.01 par value:		
Authorized– 200,000,000 shares in 2008 and 2007		
Issued – 78,783,849 shares in 2008 and 2007		
Outstanding – 48,201,500 in 2008 and 49,834,756 in 2007	788	788
Additional paid-in capital	497,369	498,408
Retained earnings	273,919	273,330
Unearned ESOP shares	(1,716)	(2,166)
Accumulated other comprehensive loss	(7,108)	(6,069)
Treasury stock – 30,582,349 shares in 2008 and 28,949,093 in 2007	(351,230)	(334,256)
Total shareholders' equity	412,022	430,035
Total liabilities and shareholders' equity	\$3,551,631	\$3,488,046

See Notes to Unaudited Consolidated Financial Statements.

**BANK MUTUAL CORPORATION
AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended June 30	
	2008	2007
	<i>(In thousands, except per share data)</i>	
Interest income:		
Loans	\$28,349	\$30,466
Investment securities	3,621	1,146
Mortgage-related securities	11,393	13,083
Interest-earning deposits	706	1,141
Total interest income	<u>44,069</u>	<u>45,836</u>
Interest expense:		
Deposits	16,149	19,140
Borrowings	9,827	9,331
Advance payments by borrowers for taxes and insurance	4	5
Total interest expense	<u>25,980</u>	<u>28,476</u>
Net interest income	18,089	17,360
Provision for loan losses	67	51
Net interest income after provision for loan losses	<u>18,022</u>	<u>17,309</u>
Noninterest income:		
Service charges on deposits	1,657	1,675
Brokerage and insurance commissions	852	686
Loan related fees	144	145
Loss on investments, net	(1,119)	-
Gain on sales of loans	494	432
Real estate investment partnership income	-	1,422
Other	2,036	2,150
Total noninterest income	<u>4,064</u>	<u>6,510</u>
Noninterest expenses:		
Compensation, payroll taxes and other employee benefits	9,559	9,551
Occupancy and equipment	2,917	2,934
Amortization of other intangible assets	166	166
Real estate investment partnership cost of sales	-	645
Other	3,084	3,090
Total noninterest expenses	<u>15,726</u>	<u>16,386</u>
Minority interest in income of real estate investment partnership	-	391
Income before income taxes	6,360	7,042
Income taxes	2,081	2,439
Net income	<u>\$ 4,279</u>	<u>\$ 4,603</u>
Per share data:		
Earnings per share – basic	<u>\$0.09</u>	<u>\$0.08</u>
Earnings per share – diluted	<u>\$0.09</u>	<u>\$0.08</u>
Cash dividends per share paid	<u>\$0.09</u>	<u>\$0.08</u>

See Notes to Unaudited Consolidated Financial Statements.

**BANK MUTUAL CORPORATION
AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**

	Six Months Ended June 30	
	2008	2007
	<i>(In thousands, except per share data)</i>	
Interest income:		
Loans	\$58,454	\$60,491
Investment securities	5,651	2,165
Mortgage-related securities	24,043	26,113
Interest-earning deposits	1,182	1,564
Total interest income	<u>89,330</u>	<u>90,333</u>
Interest expense:		
Deposits	34,548	37,771
Borrowings	19,665	18,034
Advance payments by borrowers for taxes and insurance	6	7
Total interest expense	<u>54,219</u>	<u>55,812</u>
Net interest income	35,111	34,521
Provision for (recovery of) loan losses	223	(878)
Net interest income after provision for loan losses	<u>34,888</u>	<u>35,399</u>
Noninterest income:		
Service charges on deposits	3,175	3,171
Brokerage and insurance commissions	1,507	1,299
Loan related fees	282	270
Gain on investments, net	351	-
Gain on sales of loans	1,268	762
Real estate investment partnership income	-	1,422
Other	3,779	4,449
Total noninterest income	<u>10,362</u>	<u>11,373</u>
Noninterest expenses:		
Compensation, payroll taxes and other employee benefits	18,877	19,194
Occupancy and equipment	5,854	5,761
Amortization of other intangible assets	331	331
Real estate investment partnership cost of sales	-	645
Other	6,265	6,331
Total noninterest expenses	<u>31,327</u>	<u>32,262</u>
Minority interest in income of real estate investment partnership	-	391
Income before income taxes	13,923	14,119
Income taxes	4,582	4,809
Net income	<u>\$ 9,341</u>	<u>\$ 9,310</u>
Per share data:		
Earnings per share – basic	<u>\$0.20</u>	<u>\$0.17</u>
Earnings per share – diluted	<u>\$0.19</u>	<u>\$0.16</u>
Cash dividends per share paid	<u>\$0.18</u>	<u>\$0.16</u>

See Notes to Unaudited Consolidated Financial Statements.

**BANK MUTUAL CORPORATION
AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
<i>(In thousands, except per share data)</i>							
For the Six Months Ended June 30, 2008							
Balance at January 1, 2008	\$788	\$498,408	\$273,330	\$(2,166)	\$(6,069)	\$(334,256)	\$430,035
Comprehensive income:							
Net income	—	—	9,341	—	—	—	9,341
Other comprehensive loss							
Change in net unrealized gain on securities available- for-sale, net of deferred income tax benefit of \$1,135	—	—	—	—	(1,039)	—	(1,039)
Total comprehensive income	—	—	—	—	—	—	8,302
Purchase of treasury stock	—	—	—	—	—	(22,692)	(22,692)
Issuance of management recognition plan shares	—	(143)	—	—	—	157	14
Committed ESOP shares	—	1,346	—	450	—	—	1,796
Exercise of stock options	—	(3,394)	—	—	—	5,561	2,167
Share based payments	—	1,152	—	—	—	—	1,152
Cash dividends (\$0.18 per share)	—	—	(8,752)	—	—	—	(8,752)
Balance at June 30, 2008	\$788	\$497,369	\$273,919	\$(1,716)	\$(7,108)	\$(351,230)	\$412,022
For the Six Months Ended June 30, 2007							
Balance at January 1, 2007	\$788	\$496,302	\$273,454	\$(3,066)	\$(15,426)	\$(218,273)	\$533,779
Comprehensive income:							
Net income	—	—	9,310	—	—	—	9,310
Other comprehensive loss							
Change in net unrealized loss on securities available- for-sale, net of deferred income tax benefit of \$3,358	—	—	—	—	(5,317)	—	(5,317)
Total comprehensive income	—	—	—	—	—	—	3,993
Purchase of treasury stock	—	—	—	—	—	(63,018)	(63,018)
Committed ESOP shares	—	1,461	—	450	—	—	1,911
Exercise of stock options	—	(2,463)	—	—	—	4,058	1,595
Share based payments	—	1,156	—	—	—	(109)	1,047
Cash dividends (\$0.16 per share)	—	—	(9,168)	—	—	—	(9,168)
Balance at June 30, 2007	\$788	\$496,456	\$273,596	\$(2,616)	\$(20,743)	\$(277,342)	\$470,139

See Notes to Unaudited Consolidated Financial Statements.

**BANK MUTUAL CORPORATION
AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six Months Ended June 30	
	2008	2007
	<i>(In thousands)</i>	
Operating activities:		
Net income	\$ 9,341	\$ 9,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Net provision for (recovery of) loan losses	223	(878)
Provision for depreciation	1,247	1,351
Amortization of intangibles	331	331
Amortization of mortgage servicing rights	(177)	(103)
Minority interest in real estate investment partnership	–	391
Amortization of cost of stock benefit plans	2,948	2,958
Net discount amortization on securities	(832)	(893)
Net gain on of investments	(351)	–
Net gain from real estate investment partnership	–	(777)
Loans originated for sale	(96,408)	(60,023)
Proceeds from loan sales	99,705	54,996
Gain from sales of loans originated for sale	(1,268)	(762)
Increase (decrease) in other liabilities	13,703	(16,619)
(Increase) decrease in other assets	(3,308)	16,737
(Increase) decrease in accrued interest receivable	(1,733)	290
Net cash from operating activities	<u>23,421</u>	<u>6,309</u>
Investing activities:		
Purchases of investment securities	(251,173)	(15,000)
Purchases of mortgage-related securities	(117,967)	(127,818)
Principal repayments on mortgage-related securities	110,756	116,352
Proceeds from sale of investments	210,846	–
Net decrease in loans receivable	146,978	37,025
Proceeds from real estate investment partnership	–	1,422
Proceeds from sale of foreclosed properties	868	341
Purchase of Federal Home Loan Bank stock	–	(216)
Net purchases of premises and equipment	(1,697)	(2,097)
Net cash from investing activities	<u>98,611</u>	<u>10,009</u>

**BANK MUTUAL CORPORATION
AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

	Six Months Ended June 30	
	2008	2007
	<i>(In thousands)</i>	
Financing activities:		
Net increase (decrease) in deposits	\$ 52,241	\$ (58,014)
Net decrease in short-term borrowings	–	(75,000)
Proceeds from long-term borrowings	–	457,950
Repayments of long-term borrowings	(1,503)	(275,069)
Net increase in advance payments by borrowers for taxes and insurance	18,307	19,667
Proceeds from exercise of stock options	1,939	1,220
Excess tax benefit from exercise of stock options	228	375
Cash dividends	(8,752)	(9,168)
Purchase of treasury stock	(22,692)	(63,018)
Net cash provided (used) by financing activities	<u>39,768</u>	<u>(1,057)</u>
Increase in cash and cash equivalents	161,800	15,261
Cash and cash equivalents at beginning of period	38,949	45,460
Cash and cash equivalents at end of period	<u><u>\$200,749</u></u>	<u><u>\$ 60,721</u></u>
Supplemental information:		
Cash paid for:		
Interest on deposits and borrowings	\$24,562	\$25,171
Income tax	5,919	4,462
Non-cash transaction:		
Interest credited on deposits	40,843	29,553
Issuance of management recognition plan shares	143	–
Loans transferred to foreclosed properties and repossessed assets	1,506	450

See Notes to Unaudited Consolidated Financial Statements.

**BANK MUTUAL CORPORATION
AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Bank Mutual Corporation (the “Company”), its wholly-owned subsidiary Bank Mutual (the “Bank”) and the Bank’s subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, Rule 10-01 of Regulation S-X and the instructions to Form 10-Q and should be read in conjunction with the Company’s 2007 annual report on Form 10-K. The financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial information. In the opinion of the Company, all adjustments, which are of a normal recurring nature, necessary to present fairly, have been included in the results of operations, cash flows and financial position in the accompanying income statements, statement of cash flows and balance sheets. Operating results for the three and six months ended June 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

On September 15, 2006, Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 157 “Fair Value Measurements” which gives guidance for using fair value to measure assets and liabilities and expands disclosures about the use of fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 157 in the first quarter of 2008. There was no transition adjustment as a result of the Company’s adoption of SFAS No. 157. SFAS No. 157 also requires new disclosures regarding the level of pricing observability associated with financial instruments carried at fair value. The additional disclosures are provided in Note 3.

In February 2007, FASB issued SFAS No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities” which allows eligible assets and liabilities to be measured at fair value without having to apply complex hedge accounting provisions. SFAS No. 159 was effective for the Company as of January 1, 2008. The Company elected not to adopt SFAS No. 159 for any of its financial assets or financial liabilities.

Note 2 - Securities Available-for-Sale

The amortized cost and fair value of investment securities available -for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>(In thousands)</i>				
At June 30, 2008:				
Investment securities:				
U.S. government and federal obligations	\$ 302,423	\$ 362	\$ (4,385)	\$ 298,400
Mutual funds	44,411	36	(31)	44,416
Stock in federal agencies	1,442	21	(1,046)	417
Total investment securities	348,276	419	(5,462)	343,233
Mortgage-related securities:				
Federal Home Loan Mortgage Corporation	332,019	1,792	(1,324)	332,487
Federal National Mortgage Association	380,493	2,340	(4,326)	378,507
Private Placement CMOs	169,108	133	(6,187)	163,054
Government National Mortgage Association	28,997	5	(365)	28,637
Total mortgage-related securities	910,617	4,270	(12,202)	902,685
Total	\$1,258,893	\$4,689	\$(17,664)	\$1,245,918

The Company determined that one of the mutual fund investments that was determined to be impaired at December 31, 2007, had an additional impairment of \$2.1 million dollars at June 30, 2008. This additional impairment was recorded in net loss on investments in the unaudited consolidated statement of income for the three and six months ended June 30, 2008.

Securities with a gross unrealized loss in the above table were temporarily impaired at June 30, 2008. The unrealized losses reported for mortgage-related securities relate primarily to securities issued by the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC") and private institutions. These unrealized losses are primarily attributable to changes in interest rates and individually were 3% or less of their respective amortized cost basis. The Company has the intent and ability to hold these securities contained in the previous table for the time necessary to recover the amortized cost.

The amortized cost and fair values of securities by contractual maturity at June 30, 2008, are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
<i>(In thousands)</i>		
Due in one year or less	\$ —	\$ —
Due after one year through five years	—	—
Due after five years through ten years	36,271	36,633
Due after ten years	266,152	261,767
Mutual funds	44,411	44,416
FHLMC and FNMA stock	1,442	417
Mortgage-related securities	910,617	902,685

Total

\$1,258,893

\$1,245,918

Note 3 - Fair Value of Financial Instruments

On January 1, 2008, the Company adopted SFAS No. 157 as discussed in Note 1, which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value.

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as listed equities and U.S. government treasury securities.

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. The Company generally determines fair value utilizing vendors who apply matrix pricing for similar investments where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, to quoted prices for recent trading activity of assets with similar characteristics to the investments being valued. Such methods are generally classified as level 2. Instruments in this category include U.S. government agency obligations, residential mortgage-backed securities issued by U.S. government sponsored enterprises, residential mortgage-backed securities issued as private placement CMOs and loans held for sale.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. At each balance sheet date, the Company performs an analysis of all instruments subject to SFAS No. 157 and includes in level 3 all of those whose fair value is based on significant unobservable inputs. The Company currently has no level 3 measurements.

The following table sets forth by level within the fair value hierarchy the Company's financial assets that were accounted for at fair value on a recurring basis as of June 30, 2008. The Company's financial liabilities were a negligible amount as of June 30, 2008. As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
At June 30, 2008				
Securities available-for-sale:				
Investment securities	\$44,833	\$298,400	\$ –	\$343,233
Mortgage-related securities	\$ –	\$902,685	\$ –	\$902,685
Loans held for sale	\$ 5,923	\$ –	\$ –	\$ 5,923

Note 4 - Loans Receivable

Loans receivable consist of the following:

	<u>June 30</u>	<u>December 31</u>
	2008	2007
	(In thousands)	
Mortgage loans:		
One- to four-family	\$ 927,245	\$1,059,307
Multi-family	177,757	206,640
Commercial real estate	210,164	202,528
Construction and development	203,957	170,401
Total mortgage real estate loans	1,519,123	1,638,876
Consumer and other loans:		
Fixed equity	180,673	199,161
Home equity lines of credit	83,578	90,631
Student	22,353	21,845
Home improvement	33,903	33,604
Automobile	17,110	24,878
Other	8,597	9,439
Total consumer and other loans	346,214	379,558
Total commercial business loans	58,241	53,784
Total loans receivable	1,923,578	2,072,218
Less:		
Undisbursed loan proceeds	67,890	68,457
Allowance for loan losses	11,341	11,774
Unearned loan fees and discounts	(1,502)	(2,569)
	77,729	77,662
Total loans receivable, net	<u>\$1,845,849</u>	<u>\$1,994,556</u>

The Company's mortgage loans and home equity loans are primarily secured by properties housing one-to-four families which are generally located in the Bank's local lending areas in Wisconsin, Minnesota, Michigan, and Illinois.

Note 5 – Goodwill, Other Intangible Assets and Mortgage Servicing Rights

The carrying amount of mortgage servicing rights net of accumulated amortization and the associated valuation allowance at June 30, 2008 and December 31, 2007 are presented in the following table.

<u>Mortgage Servicing Rights</u>	<u>June 30 2008</u>	<u>December 31 2007</u>
	<i>(In thousands)</i>	
Mortgage servicing rights at beginning of the period	\$ 4,708	\$ 4,653
Additions	1,084	1,246
Amortization	(907)	(1,191)
Mortgage servicing rights at end of the period	<u>\$ 4,885</u>	<u>\$ 4,708</u>

The carrying amounts of the intangible assets, net of accumulated amortization and net carrying amounts of intangible assets at June 30, 2008 are presented in the following table.

<u>Intangible Assets</u>	<u>Intangible Asset Amount Net of Accumulated Amortization</u>	<u>Carrying Amount</u>
	<i>(In thousands)</i>	
Goodwill	\$52,570	\$52,570
Mortgage servicing rights	4,885	4,885
Deposit base intangibles	2,097	2,097
Total	<u>\$59,552</u>	<u>\$59,552</u>

The projections of amortization expense shown below for mortgage servicing rights are based on existing asset balances and the existing interest rate environment as of June 30, 2008. Future amortization expense may be significantly different depending upon changes in the mortgage servicing portfolio, mortgage interest rates and market conditions.

The following table shows the current period and estimated future amortization expense for amortizable intangible assets:

	Mortgage Servicing Rights	Deposit Base Intangibles	Total
Six months ended June 30, 2008 (actual)	\$ 907	(In thousands) \$ 331	\$ 1,238
Six months ending December 31, 2008 (estimate)	\$ 498	\$ 288	\$ 786
Estimate for year ending December 31,			
2009	\$ 996	\$ 405	\$ 1,401
2010	988	405	1,393
2011	819	405	1,224
2012	604	199	803
2013	453	140	593
Thereafter	527	255	782
Total	<u>\$4,885</u>	<u>\$2,097</u>	<u>\$ 6,982</u>

Note 6 - Other Assets

Other assets are summarized as follows:

	June 30 2008	December 31 2007
	(In thousands)	
Accrued interest:		
Mortgage-related securities	\$ 3,641	\$ 4,463
Investment securities	3,833	687
Loans receivable	8,884	9,475
Total accrued interest	<u>16,358</u>	<u>14,625</u>
Foreclosed properties and repossessed assets	4,316	3,687
Premises and equipment, net	52,002	51,628
Federal Home Loan Bank stock, at cost	46,092	46,092
Bank owned life insurance	50,080	48,871
Prepaid and other	24,792	22,608
Total other assets	<u>\$193,640</u>	<u>\$187,511</u>

Note 7 - Deposits

Deposits are summarized as follows:

	June 30 2008	December 31 2007
	<i>(In thousands)</i>	
Checking accounts:		
Noninterest-bearing	\$ 92,139	\$ 97,506
Interest-bearing	169,769	170,986
Total checking accounts	<u>261,908</u>	<u>268,492</u>
Money market accounts	357,970	280,442
Savings accounts	196,784	183,756
Certificate accounts:		
Due within one year	913,587	1,076,140
After one but within two years	349,266	261,556
After two but within three years	18,413	26,980
After three but within four years	6,944	8,971
After four but within five years	71,418	6,631
After five years	—	—
Total certificate accounts	<u>1,359,628</u>	<u>1,380,278</u>
Total deposits	<u><u>\$2,176,290</u></u>	<u><u>\$2,112,968</u></u>

Note 8 - Borrowings

Borrowings consist of the following:

	June 30 2008		December 31 2007	
	Balance	Weighted- Average Rate	Balance	Weighted- Average Rate
	<i>(Dollars in thousands)</i>		<i>(Dollars in thousands)</i>	
Federal Home Loan Bank advances maturing:				
2008	\$ —	—%	\$ 1,025	5.90%
2009	—	—	—	—
2010	—	—	—	—
2011	—	—	—	—
2012	100,000	4.52	100,000	4.52
Thereafter	810,956	4.24	811,434	4.24
Total borrowings	<u><u>\$910,956</u></u>		<u><u>\$912,459</u></u>	

Of the \$911.0 million in borrowings due after 2011, \$856.0 million have a quarterly call provision beginning after an initial period of six months to two years. Within the next twelve months, all of the callable

borrowings will be subject to the call options. In addition, all of our Federal Home Loan Bank borrowings have prepayment penalties if they are repaid prior to maturity or call.

The Bank is required to maintain unencumbered mortgage loans in its portfolio aggregating at least 167% of the amount of outstanding advances from the Federal Home Loan Bank of Chicago (“FHLB of Chicago”) as collateral. The Bank’s borrowings from the FHLB of Chicago are limited to the lesser of: 35% of total assets; 20 times the FHLB of Chicago capital stock owned by the Company; the total of 60% of the book value of certain multi-family mortgage loans and 75% of the book value of one-to four-family mortgage loans; and 97% of certain mortgage-related securities. Our advances are also collateralized by FHLB of Chicago stock of \$46.1 million at June 30, 2008 and December 31, 2007.

Note 9 - Shareholders' Equity

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators, that, if undertaken, could have a direct material effect on the Bank’s and the Company’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by federal regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital to risk-weighted assets (as these terms are defined in the applicable regulations), and of Tier I capital (as these terms are defined in the applicable regulations) to average assets (as these terms are defined in regulations). Management believes, as of June 30, 2008, that the Bank meets or exceeds all capital adequacy requirements to which it is subject.

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>						
The Bank						
As of June 30, 2008:						
Total capital (to risk-weighted assets)	\$333,408	19.84%	\$134,439	8.00%	\$168,049	10.0%
Tier I capital (to risk-weighted assets)	322,067	19.17	67,219	4.00	100,829	6.00
Tier I capital (to average assets)	322,067	9.20	139,965	4.00	174,957	5.00

The Company is not aware of any conditions or events which would change the Bank’s status from well capitalized. There are no conditions or events that management believes have changed the Bank’s category.

Following are reconciliations of the Bank's equity under generally accepted accounting principles to capital as determined by regulatory requirements:

	The Bank	
	Risk- Based Capital	Tier I (Core) Capital
	<i>(In thousands)</i>	
As of June 30, 2008:		
Equity per Bank records	\$372,867	\$372,867
Unrealized losses on investments	7,884	7,884
FAS No. 158 adjustment reversal	(775)	(775)
Goodwill and intangibles, net of deferred taxes	(53,825)	(53,825)
Investment in "nonincludable" subsidiaries	(3,791)	(3,791)
Disallowed servicing assets	(293)	(293)
Allowance for loan losses	11,341	—
Regulatory capital	<u>\$333,408</u>	<u>\$322,067</u>

Note 10 – Earnings Per Share

The computation of basic and diluted earnings per share is presented in the following table:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
	<i>(Dollars in thousands, except per share data)</i>		<i>(Dollars in thousands, except per share data)</i>	
Basic Earnings Per Share				
Net Income	<u>\$4,279</u>	<u>\$4,603</u>	<u>\$9,341</u>	<u>\$9,310</u>
Weighted average shares outstanding, net of unallocated ESOP and unvested MRP shares	47,148,758	54,308,076	47,361,457	55,840,920
Allocated ESOP shares for period	81,812	81,813	163,625	163,626
Vested MRP shares for period	42,807	51,661	101,331	97,456
	<u>47,273,377</u>	<u>54,441,550</u>	<u>47,626,413</u>	<u>56,102,002</u>
Basic earnings per share	<u>\$0.09</u>	<u>\$0.08</u>	<u>\$0.20</u>	<u>\$0.17</u>
Diluted Earnings Per Share				
Net Income	<u>\$4,279</u>	<u>\$4,603</u>	<u>\$9,341</u>	<u>\$9,310</u>
Weighted average shares outstanding used in basic earnings per share	47,273,377	54,441,550	47,626,413	56,102,002
Dilutive effect of:				
Stock option shares	874,044	1,308,822	958,268	1,377,954
Unvested MRP shares	2,944	27,404	4,586	30,739
	<u>48,150,365</u>	<u>55,777,776</u>	<u>48,589,267</u>	<u>57,510,695</u>

Diluted earnings per share	<u>\$0.09</u>	<u>\$0.08</u>	<u>\$0.19</u>	<u>\$0.16</u>
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The company had additional stock options of 82,000 shares as of June 30, 2008 and 50,000 shares at June 30, 2007 that were not included in the computation of diluted earnings per share because they were anti-dilutive.

Note 11 – Employee Benefit Plans

The Company has a discretionary, defined contribution savings plan (the “Savings Plan”). The Savings Plan is qualified under Sections 401 and 401(k) of the Internal Revenue Code and provides employees meeting certain minimum age and service requirements the ability to make contributions to the Savings Plan on a pretax basis. The Company then matches a percentage of the employee’s contributions. Matching contributions made by the Company were \$36,000 in the second quarter of 2008 and \$34,000 in the second quarter of 2007, and \$79,000 in the first six months of 2008 and \$74,000 in the first six months of 2007.

The Company also has a qualified defined benefit pension plan covering employees meeting certain minimum age and service requirements and a non-qualified supplemental pension plan for certain qualifying employees. The supplemental pension plan is funded through a "rabbi trust" arrangement. The benefits are generally based on years of service and the employee’s average annual compensation for five consecutive calendar years in the last ten calendar years which produces the highest average. The Company’s funding policy for the qualified plan is to contribute annually the amount necessary to satisfy the requirements of the Employee Retirement Income Security Act of 1974.

The following tables set forth the plans’ net periodic benefit cost:

	Qualified Plan For the Three Months Ended June 30		Qualified Plan For the Six Months Ended June 30	
	2008	2007	2008	2007
	<i>(In thousands)</i>		<i>(In thousands)</i>	
Service cost	\$ 435	\$ 448	\$ 871	\$ 895
Interest cost	414	368	828	736
Expected return on plan assets	(488)	(449)	(976)	(898)
Amortization of prior service cost	5	7	11	15
Net periodic benefit cost	<u>\$ 366</u>	<u>\$ 374</u>	<u>\$ 734</u>	<u>\$ 748</u>

	Supplemental Plan For the Three Months Ended June 30		Supplemental Plan For the Six Months Ended June 30	
	2008	2007	2008	2007
	<i>(In thousands)</i>		<i>(In thousands)</i>	
Service cost	\$ 46	\$ 44	\$ 92	\$ 87
Interest cost	105	98	210	196
Amortization of prior service cost	–	13	–	27

Net periodic benefit cost	<u>\$151</u>	<u>\$ 155</u>	<u>\$302</u>	<u>\$310</u>
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The amount of the 2008 contribution range was determined based on a number of factors, including the results of an actuarial valuation report as of January 1, 2008. The contribution to the qualified plan in 2008 will be \$1,622,798 and no contribution is necessary to the supplemental plan.

Note 12 – Stock-Based Benefit Plans

The Company has two shareholder approved stock incentive plans. The 2001 Stock Incentive Plan provided for the grant of stock options up to 4,150,122 shares and restricted stock ("MRP") awards up to 1,226,977 shares. Of these, 1,210,630 MRP shares were granted in 2001, of which 124,737 shares were subsequently forfeited. Options to purchase 4,050,122 shares were granted in 2001 at an exercise price of \$3.2056, of which 236,257 shares were subsequently forfeited. No further grants may be made under the 2001 Stock Incentive Plan. The 2004 Stock Incentive Plan provides for the grant of stock options of up to 4,106,362 shares and MRP awards of up to 1,642,521 shares. In May 2004, options for 2,382,000 shares were granted, of which 82,200 shares were subsequently forfeited and 955,000 MRP shares were granted, of which 39,600 MRP shares were subsequently forfeited. The May 2004 options were granted at an exercise price of \$10.673. In 2006, options for an additional 50,000 shares were granted under the 2004 Stock Incentive Plan at an exercise price of \$12.234 per share. In 2008, options for an additional 32,000 shares were granted at an exercise price of \$11.160 and MRP shares for an additional 12,800 shares were granted.

In total, options for 3,591,790 shares remain outstanding at June 30, 2008, of which options for 3,114,190 shares were vested. In addition, since inception of the plans, options for 2,585,075 shares were exercised and options for 337,257 shares have been forfeited. A summary of stock option activity for the three months ended June 30, 2008 is provided in the following table:

	<u>Six Months ended June 30, 2008</u>	
	<u>Stock Options</u>	<u>Weighted Average Price</u>
Outstanding at beginning of period	4,090,628	\$ 7.365
Issued	32,000	11.160
Exercised	472,038	4.471
Forfeited	58,800	10.673
Outstanding at end of period	<u>3,591,790</u>	<u>\$ 7.731</u>

The estimated fair value of each option granted during the six months ended June 30, 2008 is calculated using the Black-Scholes option-pricing model. The following summarizes the weighted average assumptions used in the model:

	<u>For the Six Months Ended June 30, 2008</u>
Risk-free interest rate	3.18%
Dividend yield	3.00%
Expected stock volatility	11.76 – 26.30%
Expected years until exercise	5.00

The Black-Scholes option valuation model was developed for use in estimating the fair value of publicly traded options that have no vesting restrictions and are fully transferable. Option valuation models such as the Black-Scholes require the input of highly subjective assumptions including the expected stock price volatility. The Company's stock options have characteristics significantly different from traded options and, therefore, changes in the subjective input assumptions can materially affect the fair value estimate.

Total invested outstanding MRP grants had a fair value of \$1.8 million at June 30, 2008. The MRP grants are being amortized to compensation expense as participants become vested in the awarded shares

The amount of MRP awards amortized to expense was \$412,000 for the second quarter of 2008 as compared to \$421,000 for the same period in 2007, and \$761,000 for the first six months of 2008 and \$912,000 for the first six months of 2007.

Note 13 – Financial Instruments with Off-Balance Sheet Risk

Off-balance sheet financial instruments or obligations whose contract amounts represent credit and/or interest rate risk at June 30, 2008 and December 31, 2007 are as follows:

	June 30 2008	December 31 2007
	<i>(In thousands)</i>	
Unused consumer lines of credit	\$151,802	\$153,553
Unused commercial lines of credit	19,760	20,167
Commitments to extend credit:		
Fixed rate	44,831	21,487
Adjustable rate	35,498	16,353
Undisbursed commercial loans	1,680	6,131

Forward commitments to sell mortgage loans of \$7.9 million at June 30, 2008 represent commitments obtained by the Bank from a secondary market agency to purchase mortgages from the Bank. Commitments to sell loans expose the Bank to interest rate risk if market rates of interest decrease during the commitment period. Commitments to sell loans are made to mitigate interest rate risk on commitments to originate loans and loans held for sale. There were \$10.5 million of forward commitments at December 31, 2007.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Information

This document contains various forward-looking statements concerning the Company's prospects that are based on the current expectations and beliefs of management. Forward-looking statements may also be made by the Company from time to time in other reports and documents as well as oral presentations. When used in written documents or oral presentations, the words "anticipate," "believe," "estimate," "expect," "objective," "projection" and similar expressions or use of verbs in the future tense are intended to identify forward-looking statements, and any discussions of periods after the quarter for which this report is filed, are also forward-looking statements. The statements contained herein and such future statements involve or may involve certain assumptions, risks and uncertainties, many of which are beyond the Company's control, that could cause the Company's actual results and performance to differ materially from what is expected. In addition to the assumptions and other factors referenced specifically in connection with such statements, the following factors could impact the business and financial prospects of the Company: general economic conditions; softness and declines in the real estate market, which can affect both collateral values and loan activity; negative developments affecting particular borrowers; legislative and regulatory initiatives; monetary and fiscal policies of the federal government; deposit flows; disintermediation; the cost of funds and changes in those costs; general market rates of interest; interest rates or investment returns on competing investments; demand for loan products; demand for financial services; changes in accounting policies or guidelines; changes in the quality or composition of the Bank's loan and investment portfolios; changes in commodity prices; changes in real estate values; other general economic and political developments; the factors discussed in "Outlook" below; and other factors referred to in the reports filed by the Company with the Securities and Exchange Commission (particularly under "Risk Factors" in Item 1A of the Company's 2007 Annual Report on Form 10-K).

Comparison of Operating Results for the Three and Six Months Ended June 30, 2008 and 2007

General. Net income was \$4.3 million for the second quarter of 2008 as compared to \$4.6 million for the second quarter of 2007 and \$9.3 million for each of the six months ended June 30, 2008 and 2007. The decrease in the second quarter of 2008 over the prior year was primarily the result of a net loss of \$1.1 million on investments in 2008 and a net gain of \$585,000 on the sale of undeveloped land in 2007 with no comparable gain in 2008. Net income for the first six months of 2008 was unchanged as compared to the same period in 2007 due to the above mentioned items and a first quarter 2008 gain on investments of \$1.5 million in the first quarter of 2008, which was partially offset by significant recovery of a specific allowance for loan loss in the first quarter of 2007 with no comparable recovery in 2008.

Total Interest Income. Total interest income decreased \$1.8 million, or 3.9%, to \$44.1 million in the second quarter of 2008 as compared to \$45.8 million for the same period in 2007 and decreased \$1.0 million, or 1.1%, to \$89.3 million for the six months ended June 30, 2008 as compared to \$90.3 million for the same period in 2007. The decrease in total interest income for the second quarter of 2008 was primarily the result of the decrease in the volume of the loans receivable portfolio, the decrease in yields on the loans receivable portfolio and the decrease in yields on federal funds outstanding, partially offset by the net increase in investment securities and the increase in yields on the securities portfolios. The decreased total interest income for the six months ended 2008 was primarily the result of the decrease in the loans receivable portfolio and the decrease in yields on federal funds outstanding, partially offset by the

net increase in the investment securities portfolios, the increase in federal funds outstanding and the increase in yields on the investment securities portfolios.

Interest income on loans decreased \$2.1 million, or 7.0%, to \$28.3 million in the second quarter of 2008 as compared to \$30.5 million for the second quarter of 2007 and decreased \$2.0 million, or 3.4%, to \$58.5 million in the first six months of 2008 as compared to \$60.5 million for the same period in 2007. The decrease in the second quarter of 2008 was primarily the result of the decrease in the volume of the loans receivable portfolio and a slight decrease in yields on the loans receivable portfolio. The decrease in the first six months of 2008 was the result of a reduction in the loans receivable portfolio due to repayments, partially offset by an increase in the yields on the loan portfolio.

Total loan originations and purchases in the second quarter of 2008 were \$184.2 million as compared to \$168.5 million in the same quarter of 2007 and \$316.0 million in the first six months of 2008 as compared to \$320.1 million in the first six months of 2007. The increase during the second quarter of 2008 was primarily due to increases in originations of one- to four-family, multi-family and commercial real estate loans, partially offset by decreased originations in commercial business loans, consumer loans and loan purchases. The decrease during the first six months of 2008 was primarily due to decreases in originations of multi-family, consumer and commercial business loans and decreased loan purchases, partially offset by increases in originations of one- to four-family and commercial real estate loans. Consumer loan originations were lower primarily as a result of declining demand due to slower growth, or declines, in homeowners' equity.

Interest income on investments increased \$2.5 million in the second quarter of 2008 and \$3.5 million in the first six months of 2008 as compared to the same periods in 2007. Both increases are due to an increase in the average dollar amount outstanding in the investment securities portfolio, which is a direct result of the sale of mortgage-related securities and the purchase of investment securities; we made these changes in our portfolio so we could realize a higher rate of return and a more predictable duration. Interest income on mortgage-related securities decreased \$1.7 million in the second quarter of 2008 and \$2.1 million in the first six months of 2008 as compared to the same periods in 2007. Both decreases are primarily due to the sale of mortgage-related securities discussed above.

The increase in interest income on investments was partially offset by the cessation of dividends from the FHLB of Chicago since October 1, 2007 (the third quarter in a row). The FHLB of Chicago indicated that it was working on a plan to strengthen its balance sheet so that it could continue to be a separate bank. The loss of income on the investment in the stock of the FHLB of Chicago negatively affects our net income by approximately \$322,000 per quarter. The FHLB of Chicago has indicated in recent correspondence that there may not be any dividends for the remainder of 2008.

Interest income on mortgage-related securities decreased \$1.7 million in the second quarter of 2008 and decreased \$2.1 million in the first six months of 2008 as compared to the same periods in 2007. Both decreases were the result of the sale of mortgage-related securities at a profit, partially offset by an increase in the yield on the portfolio.

Interest income on interest-earning deposits (which includes federal funds) decreased \$435,000 for the second quarter of 2008 and \$382,000 for the six months ended June 30, 2008 as compared to the same periods in 2007. Both decreases were the result of a decrease in the yields on interest-bearing deposits outstanding, partially offset by increased average dollar amount of outstanding balances. Short-term deposits were used to invest excess cash in anticipation of funding loan originations.

Total Interest Expense. Total interest expense decreased \$2.5 million, or 8.8%, to \$26.0 million in the second quarter of 2008 and \$1.6 million, or 2.9%, to \$54.2 million in the first six months of 2008 as compared to the same periods in 2007. The decrease in both periods was the result of a decrease in the cost of deposits, partially offset by an increase in average deposits.

Interest expense on deposits decreased \$3.0 million, or 15.6%, to \$16.1 million in the second quarter of 2008 and \$3.2 million, or 8.5%, to \$34.5 million in the first six months of 2008 as compared to the same periods in 2007 as a result of the decreased cost of deposits, partially offset by an increase in the average deposits outstanding. We were able to increase our average deposits outstanding because of the opening of new offices and our efforts to market deposit plans at rates that appealed to our customer base.

Interest expense on borrowings increased \$496,000, or 5.3%, to \$9.8 million in the second quarter of 2008 and \$1.6 million, or 9.0%, to \$19.7 million in the first six months of 2008 as compared to the same periods in 2007. The increase was primarily the result of increased average borrowings outstanding.

Net Interest Income. Net interest income increased \$729,000, or 4.2%, to \$18.1 million in the second quarter of 2008 and \$590,000, or 1.7%, to \$35.1 million in the first six months of 2008 as compared to the same periods in 2007. The primary reasons for the increases were the decrease in the cost of deposits, the increases in the yield and the average balances of the investment securities portfolios, the increase in average balance in interest-earning deposits and the increase in the average balance of federal funds, which was partially offset by the decrease in the average dollar amount of the loan portfolio and an increase in the average balances in the deposits and borrowings outstanding.

The net interest margin for the second quarter of 2008 was 2.19% as compared to 2.07% for the same period in 2007 and 2.12% for the first six months of 2008 as compared to 2.07% for the first six months of 2007. Our net interest-spread for the second quarter of 2008 increased to 1.83% as compared to 1.57% for the comparable period in 2007 and increased for the six months ended June 30, 2008 to 1.74% as compared to 1.55% for the comparable period in 2007. The increase in net interest margin and net interest spread was primarily the result of the increase in yield on average assets and the decrease in the cost of deposits, partially offset by the effects of our stock repurchase program. The funds used to repurchase stock resulted in a change from zero cost capital to reduced interest-earning assets.

Provision for Loan Losses. We provided \$67,000 for loan losses in the second quarter of 2008 as compared to \$51,000 for the same period in 2007 and \$223,000 for the first six months of 2008 as compared to a net recovery of \$878,000 for the comparable period in 2007. The total allowance for loan losses at June 30, 2008 was \$11.3 million, or 70.8%, of total non-performing loans as compared to \$11.8 million, or 91.0%, of non-performing loans at December 31, 2007. The loan loss allowance was 0.61% of total loans at June 30, 2008 and 0.59% of total loans at December 31, 2007. We believe that the provision for loan losses during the second quarter and the six month periods in 2008, and the resulting level of the allowance, was appropriate because the increase in non-performing loans has been analyzed separately and the loan loss allowance was determined in accordance with that analysis; also the balance in the total loan portfolio decreased during the quarter.

Noninterest Income. Total noninterest income decreased \$2.4 million in the second quarter of 2008 and decreased \$1.0 million in the first six months of 2008 as compared to the same periods in 2007. The decrease for the second quarter of 2008 was primarily the result of a net loss on investments, non-recurrence of real estate investment partnership income in the 2008 period, partially offset by increases in brokerage and insurance commissions and increase in gains on sales of loans.

Service charges on deposits decreased slightly in the second quarter of 2008 and increased slightly in the first six months of 2008 as compared to the same periods in 2007.

Brokerage and insurance commissions increased \$166,000 in the second quarter of 2008 and \$208,000 in the first six months of 2008 as compared to same periods in 2007. The increase in brokerage and insurance commissions in both periods of 2008 was primarily the result of increased commissions on annuity sales, partially offset by decreased commissions on other insurance and security sales. Also, in the second quarter of 2008, we continued to offer personal investment advisory services to our customers through our wholly-owned subsidiary BancMutual Financial. We are in the process of implementing this product, but we anticipate that this product will not substantially increase our noninterest income in 2008.

Loan related fees decreased slightly in the second quarter of 2008, and increased slightly in the first six months of 2008 as compared to the comparable periods in 2007, as a result of normal operating fluctuations.

Net gains on investments decreased \$1.1 million in the second quarter of 2008 and increased \$351,000 in the first six months of 2008 as compared to the same periods in 2007. In the second quarter we recorded an additional loss of \$2.1 million for other-than-temporary impairment on one of our mutual fund investments (which was written down in December 2007), which was partially offset by a gain on the sale of investments of \$1.0 million. We sold investments so that we could reinvest the proceeds in securities that had higher rates of returns and more predictable duration. The net gain on investments for the six months ended June 30, 2008 includes the above items and an additional net gain on investments of \$1.5 million in the first quarter of 2008.

Gains on the sales of loans increased \$62,000 in the second quarter of 2008 and \$506,000 in the first six months of 2008 as compared to the same periods in 2007. The increases in 2008 were primarily the result of increased fixed rate mortgage loan originations and subsequent sale of those loans. We sell some of our 15-year fixed rate mortgage loans to the secondary market. We retain certain 20- and 30-year fixed rate mortgage loans as those certain loans have characteristics which historically have indicated that these loans will be outstanding for a relatively short period. Most of the other 20- and 30-year fixed rate mortgage loan originations that do not have these characteristics are sold.

Other noninterest income decreased \$114,000 in the second quarter of 2008 and \$670,000 in the first six months of 2008 as compared to the comparable periods in 2007 primarily as a result of decreased income from bank owned life insurance due to a lower rate of return in 2008, decreased gains on the sale of real estate owned, decreased fees on debit card usage and from our agent check program and other reduced noninterest income items.

Noninterest Expense. Total noninterest expense decreased \$660,000 in the second quarter of 2008 and \$935,000 in the first six months of 2008 as compared to the same periods in 2007. The decrease for the second quarter of 2008 was primarily the result of the real estate investment partnership cost of sales in 2007, as there was no comparable cost in 2008. The decrease for the first six months of 2008 was primarily due to the decrease in cost of sales and decreased compensation and related expenses, and other expenses, partially offset by an increase in occupancy and equipment expenses.

Compensation, payroll taxes, and other employee benefits increased slightly in the second quarter of 2008 and decreased \$317,000 in the first six months of 2008 as compared to the same periods in 2007. This was primarily the result of decreased stock-based benefit plan expense, decreased health care insurance expense and decreased retirement plan expense, partially offset by normal increase in payroll expense.

Occupancy and equipment expense decreased slightly in the second quarter of 2008 and increased \$93,000 in the first six months of 2008 as compared to the same periods in 2007. The decrease in the second quarter of 2008 was the result of the reduction in depreciation expense due to assets becoming fully depreciated, partially offset by the addition of new offices, increased rent on a relocated existing office, and office repairs and maintenance. The increase in the first six months of 2008 was primarily as the result of increased snow removal and related expenses and the addition of new offices, partially offset by the decrease in depreciation expense mentioned above.

Other expenses decreased slightly in the second quarter of 2008 and \$66,000 in the first six months of 2008 as compared to the same periods in 2007 as a result of normal operating fluctuations.

Income Taxes. The effective tax rate for the second quarter of 2008 was 32.7% as compared to 34.6% for the second quarter of 2007 and 32.9% for the six months ended June 30, 2008 as compared to 34.1% for the same period in 2007. The decrease in 2008 is due to a non-recurring tax adjustment in 2007 and a higher estimate of non-deductible compensation in the six months ended June 30, 2007.

Like many Wisconsin financial institutions, we have non-Wisconsin subsidiaries which hold and manage investment assets and loans, the income on which has not been subject to Wisconsin tax. The Wisconsin Department of Revenue has instituted an audit program specifically aimed at out-of-state subsidiaries of Wisconsin banks. The Department has asserted the position that some or all of the income of the out-of-state subsidiaries is taxable in Wisconsin. The Department is conducting audits of many Wisconsin banks; its audit of the Bank has not yet been concluded, is not being actively pursued, and the Department has not asserted a claim against the Bank or its subsidiaries.

The Department sent letters in 2004 to Wisconsin financial institutions (whether or not they were undergoing an audit) reporting on settlements relating to these issues involving, at that time, 17 financial institutions and their out-of-state investment subsidiaries. The letter provided a summary of available settlement parameters. For prior periods they included: restrictions on the types of subsidiary income excluded from Wisconsin taxation; assessment of certain back taxes relating to a limited time period; limitations on net operating loss carry forwards; and interest on past-due taxes (but no penalties). For 2004 and going forward, the letter states similar provisions, including limits on subsidiaries' assets, which could be considered in determining income not subject to Wisconsin taxation. As outlined, the settlement would result in the rescission of prior Department letter rulings and purport to be binding going forward except for future legislation or change by mutual agreement. However, the letter appears to implicitly accept the general proposition that some out-of-state investment subsidiary income is not subject to Wisconsin taxes. The Department's positions may be challenged by one or more financial institutions in the state.

The Company has previously engaged in discussions with the Department and has asked the Department to consider some specific factors which the Company believes may distinguish it from many other institutions.

Depending upon the terms and circumstances or the outcome of potential litigation, an adverse resolution of these matters could result in additional Wisconsin tax obligations for prior periods and/or higher Wisconsin taxes going forward, with a substantial negative impact on the earnings of the Company. The Company currently has Wisconsin tax years open since 1997 under extensions with the Department in connection with the audit. The Company believes it has reported income and paid Wisconsin taxes in accordance with applicable legal requirements, and the Department's long standing interpretations thereof, and that the Company would likely prevail against the Department should it attempt to tax the income of

our out-of-state subsidiaries in Wisconsin. However, we can provide no assurances of this result. We also may incur further costs in the future to address these issues.

Net Income. As a result of the foregoing factors, net income for the three months ended June 30, 2008 was \$4.3 million, a 7.0% decrease from the comparable period in 2007, and was \$9.3 million for both the six months ended June 30, 2008 and 2007. Diluted earnings per share of \$0.09 increased 12.5% in the second quarter of 2008 as compared to the same period in 2007, and diluted net earnings of \$0.19 increased 18.8% in the first six months of 2008 as compared to the same period in 2007. Earnings per share increased in spite of a decline in or flat levels of absolute net income due to the effects of the Company's stock repurchases which substantially reduced the average number of shares of the Company's common stock outstanding for the second quarter and first six months of 2008 as compared to the comparable periods in 2007.

Comparison of Financial Condition at June 30, 2008 and December 31, 2007

Total Assets. The Company's total assets increased \$63.6 million in the first six months of 2008. Total assets at June 30, 2008 were \$3.6 billion as compared to \$3.5 billion at December 31, 2007. The increase was largely attributed to the increase in federal funds sold and the increase in investment securities portfolio, partially offset by the decrease in mortgage-related securities and loans receivable.

Cash and Cash Equivalents. Cash and cash equivalents increased \$161.8 million in the first six months of 2008 primarily as a result of investing funds on a short-term basis in anticipation of funding loan originations.

Securities Available -for-Sale. Investment securities increased \$243.8 million in the first six months of 2008 primarily as a result of purchasing government agency securities, partially offset by the decrease in market value of the investment securities portfolio.

Mortgage-related securities decreased \$197.2 million primarily as a result of the sale of mortgage-related securities and as a result of prepayments and repayments of the underlying mortgage loans, partially offset by the increase in market value of mortgage-related securities.

Loans Held for Sale. Loans held for sale decreased \$2.0 million as a result of sales of fixed rate mortgage loans exceeding the fixed rate mortgage loan originations. Currently, we sell some of our 15-year fixed rate mortgage loan originations. We retain certain 20- and 30-year fixed rate mortgage loans as those loans have characteristics which historically have indicated that they will be outstanding for a relatively short period of time. All of the other 20- and 30-year fixed rate mortgage loan originations that do not have these characteristics are sold.

Loans Receivable. Loans receivable decreased \$148.7 million in the first six months of 2008, primarily as a result of a decrease in the one- to four-family mortgage loans, multi-family mortgage loans and consumer loans partially offset by an increase in construction and development mortgage loans, commercial real estate and commercial business loans.

The mortgage loan portfolio decreased \$119.8 million in the first six months of 2008 primarily as a result of the decrease in one- to four-family mortgage loans. One- to four-family mortgage loans decreased \$132.1 million in the first six months of 2008 primarily as a result of increased mortgage loan sales of fixed rate loans due to a brief period of refinancing during the first half of the year and decreased purchases. We have supplemented our mortgage loan originations by purchasing mortgage loans (all are adjustable rate mortgage loans) from various sources. Currently, all of these purchased mortgage loans are in Wisconsin. These purchased loans are either individually underwritten by our staff or have received an "approve" from FNMA desktop underwriting standards and conform to our underwriting standards.

We had \$160.8 million of adjustable interest-only mortgage loans in our one- to four-family mortgage loan portfolio at June 30, 2008. These mortgage loans were either originated by our bank office network or purchased from our correspondents. The interest-only provision is only for the initial fixed rate period (normally three or five years) and after this initial period, principal payments begin. Underwriting standards for this type of loan are higher than for traditional amortizing mortgage loans.

Multi-family mortgage loans decreased \$28.9 million in the first six months of 2008 primarily as a result of the repayment of several large loans that were refinanced outside the Bank and normal repayments,

partially offset by \$36.5 million of multi-family loan originations. The construction and development mortgage loan portfolio increased \$33.6 million in the six months ended June 30, 2008 primarily as the result of increased originations, partially offset by some existing construction and development loans completing their initial phase and receiving permanent financing.

The commercial real estate loan portfolio increased \$7.6 million in the first six months of 2008 primarily as a result of \$66.3 million of commercial real estate loan originations, partially offset by repayment of loans that were refinanced outside of the Bank and normal repayments. The commercial real estate loan originations increased in the first six months of 2008 as compared to the comparable period in 2007 as a result of continued efforts by our loan personnel to develop and retain this portion of our loan portfolio.

The consumer loan portfolio decreased \$33.3 million in the first six months of 2008, primarily as a result of decreases in the fixed home equity, automobile, home equity lines of credit and other consumer loan portfolios, partially offset by an increase in the student loan and home improvement portfolios. The decrease was primarily the result of lower originations. The originations were lower primarily as a result of declining demand caused by slower growth, or decline, in homeowners' equity.

The commercial business loan portfolio increased \$4.5 million primarily as a result of level originations and reduced payoffs of existing commercial business loans.

The following table sets forth our mortgage, consumer and commercial loan originations and purchases:

LOAN ORIGINATIONS AND PURCHASES

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
	<i>(In thousands)</i>		<i>(In thousands)</i>	
Originations				
Mortgage loans:				
One- to four-family	\$ 59,375	\$ 57,700	\$126,020	\$101,684
Multi-family	28,977	14,912	36,512	40,586
Commercial real estate	45,553	26,448	66,258	51,066
Total mortgage loans	133,905	99,060	228,790	193,336
Consumer loans	33,236	33,624	54,240	63,020
Commercial business loans	10,863	12,248	21,689	22,415
Total loan originations	178,004	144,932	304,719	278,771
Purchases:				
One- to four-family mortgage loans	6,185	23,539	11,323	41,350
Total loans purchased	6,185	23,539	11,323	41,350
Total loans originated and purchased	\$184,189	\$168,471	\$316,042	\$320,121

Management will continue to emphasize multi-family loan, commercial real estate loan and commercial business loan originations, as we believe they will continue to add to the overall profitability and aid in the management of interest rate risk. However, these loans can present higher credit risks than residential mortgage loans. Further, we cannot assure that we will be able to increase this portfolio.

Other Assets. Other assets increased \$6.1 million during the first six months of 2008. This details of the increase are shown in the following table:

Other Assets			Change
	June 30	December 31	Increase/ (Decrease)
	2008	2007	
	<i>(In thousands)</i>		
Accrued interest:			
Mortgage-related securities	\$ 3,641	\$ 4,463	\$ (822)
Investment securities	3,833	687	3,146
Loans receivable	8,884	9,475	(591)
Total accrued interest	16,358	14,625	1,733
Foreclosed properties and repossessed assets	4,316	3,687	629
Premises and equipment, net	52,002	51,628	374
Federal Home Loan Bank stock, at cost	46,092	46,092	0
Bank owned life insurance	50,080	48,871	1,209
Prepaid and other	24,792	22,608	2,184
Total other assets	<u>\$193,640</u>	<u>\$187,511</u>	<u>\$6,129</u>

Deposits. Deposits increased \$63.3 million in the first six months of 2008 primarily as a result of opening new offices and our efforts to market deposit plans at rates and terms that appealed to our customer base. We continue to believe competition for retail deposits has been strong, which has maintained the cost of those deposits at a higher level than we would otherwise expect in the current interest rate environment. We also believe that deposit growth or reduction for the balance of 2008 and future periods will depend, in significant part, on the performance of other investment alternatives.

Borrowings. Borrowings decreased slightly by \$1.5 million in the first six months of 2008 at the FHLB of Chicago primarily as a result of the repayment of one advance that matured in the first quarter of 2008.

All of our borrowings have a stated final maturity after 2011; however, \$856.0 million contain quarterly call options that within the next twelve months are subject to call by the FHLB of Chicago.

Advance Payments by Borrowers for Taxes and Insurance. Advance payments by borrowers for taxes and insurance ("escrow") increased \$18.3 million in the first six months of 2008. The increase of escrow dollars was the result of payments received for customers' escrow accounts and is seasonally normal. These payments increase during the course of the calendar year until real estate tax obligations are paid out, primarily in December of each year or January of the next year.

Other Liabilities. Other liabilities increased \$1.5 million during the first six months of 2008. The details of the changes are presented in the following table.

	June 30	December	Change
	2008	31	Increase
	<u>2008</u>	<u>2007</u>	<u>/((Decrease)</u>
		<i>(In thousands)</i>	
Accrued expenses	\$15,936	\$14,684	\$1,252
Deferred compensation and other benefits	8,833	8,865	(32)
Payables and other liabilities	4,548	4,310	238
Total other liabilities	<u>\$29,317</u>	<u>\$27,859</u>	<u>\$1,458</u>

Shareholders' Equity. Shareholders' equity decreased \$18.0 million in the first six months of 2008, primarily as a result of stock repurchases totaling \$22.7 million and cash dividends and a decrease in other comprehensive loss, partially offset by net income and amortization of share based stock plans.

During the second quarter and first six months of 2008, we repurchased 64,200 shares and 2,092,300 shares, respectively, of Company common stock both at an average share price of \$10.80 per share for both periods. At June 30, 2008, 144,800 shares remained to be repurchased under our current stock repurchase plan.

The stock repurchase programs have the effect of lowering capital. Management determined that, at the price offered, it was appropriate to repurchase shares as a result of the Company's continuing strong capital position which had resulted from the sale of stock in connection with the Company's 2003 full conversion transaction.

Other comprehensive loss decreased as a result of marking the available-for-sale investments to current market value.

In addition, a cash dividend of \$0.09 per share was paid June 2, 2008 to shareholders of record on May 14, 2008. The dividend payout ratio was 93.7% in the first six months of 2008.

ASSET QUALITY

The following table summarizes non-performing loans and assets:

	At June 30 2008	At December 31 2007
	<i>(Dollars in thousands)</i>	
Non-accrual mortgage loans	\$12,207	\$11,251
Non-accrual consumer loans	831	930
Non-accrual commercial business loans	2,424	159
Accruing loans delinquent 90 days or more	563	602
Total non-performing loans	16,025	12,942
Foreclosed properties and repossessed assets, net	4,316	3,687
Total non-performing assets	\$20,341	\$16,629
Non-performing loans to total loans	0.87%	0.65%
Non-performing assets to total assets	0.57%	0.48%
Additional interest income that would have been recognized if non-accrual loans had been current	\$ 1,864	\$ 1,002
Allowance for loan losses as a percent of non-performing assets	55.75%	70.80%

Total non-performing loans increased \$3.1 million as of June 30, 2008, as compared to December 31, 2007, primarily due to several loans to one borrower being classified as non-performing due to cash flow problems in the business during the quarter. Also included in the increase in non-performing loans was an increase of \$1.0 million in the one- to four-family category that was due to normal fluctuations. After reviewing the estimated market values for the collateral securing the non-performing loans, we believe that we have established an adequate allowance for loan losses. However, changes in collateral valuations and/or general economic conditions could affect our loss experience and the adequacy of our allowance for loan losses.

A summary of the allowance for loan losses is shown below:

	At and for the Six Months Ended June 30, 2008	At and for the Year Ended December 31, 2007
	<i>(Dollars in thousands)</i>	
Balance at the beginning of the period	\$11,774	\$12,574
Provisions (recoveries) for the period	223	(272)
Charge-offs:		
Mortgage loans	(13)	–
Consumer loans	(194)	(412)
Commercial business loans	(477)	(211)
Total charge-offs	<u>(684)</u>	<u>(623)</u>
Recoveries:		
Mortgage loans	–	–
Consumer loans	28	95
Commercial business loans	–	–
Total recoveries	<u>28</u>	<u>95</u>
Net charge-offs	<u>(656)</u>	<u>(528)</u>
Balance at the end of the period	<u>\$11,341</u>	<u>\$11,774</u>
Net charge-offs to average loans	<u>0.07%</u>	<u>0.03%</u>
Allowance as a percent of total loans	<u>0.61%</u>	<u>0.59%</u>
Allowance as a percent of non-performing loans	<u>70.77%</u>	<u>90.98%</u>

The allowance for loan losses has been determined in accordance with GAAP in the United States. We are responsible for the timely and periodic determination of the amount of the allowance required. Future provisions for loan losses will continue to be based upon our assessment of the overall loan portfolio and the underlying collateral, trends in non-performing loans, current economic conditions and other relevant factors. As a result of applying the methodologies described above in accordance with GAAP, it is possible that there may be periods when the amount of the allowance and/or its percentage to total loans may decrease even though non-performing loans may increase. To the best of management's knowledge, all known and inherent losses have been provided for in the allowance for loan losses.

The establishment of the amount of the loan loss allowance inherently involves judgments by management as to the adequacy of the allowance, which ultimately may or may not be correct. Higher rates of loan defaults than anticipated would likely result in a need to increase provisions in future years. Also, as multi-family, commercial real estate, construction and development and commercial business loan portfolios increase, additional provisions would likely be added to the loan loss allowances as they carry a higher risk of loss. The dollar amount of these types of loans tends to be larger than our average single family loan and, therefore, any loss that we experience on these loans could be larger than what we have historically

experienced on our single family loans. Also, see “Comparison of Operating Results for the Three and Six Months Ended June 30, 2008 and 2007—Provision for Loan Losses.”

Average Balance Sheet and Yield/Rate Analysis

The following table presents certain information regarding the Company's financial condition and net interest income at and for the three and six months ended June 30, 2008 and 2007. The table presents the average yield on interest-earning assets and the average cost of interest-bearing liabilities for the periods indicated. The yields and costs are derived by dividing income or expense by the average balance of interest-earnings assets or interest-bearing liabilities, respectively, for the periods shown. The average balances are derived from daily balances over the periods indicated. Interest income includes fees, which we considered adjustments to yields. Net interest spread is the difference between the yield on interest-earning assets and the rate paid on interest-bearing liabilities. Net interest margin is derived by dividing net interest income by net interest-earning assets. No tax equivalent adjustments were made since we do not have any tax exempt investments.

AVERAGE BALANCE SHEET, INTEREST AND RATE PAID

Three Months Ended June 30

	2008			2007		
	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Paid	Average Yield/ Rate
<i>(Dollars in thousands)</i>						
Assets:						
Interest-earning assets:						
Loans receivable (1)	\$1,880,378	\$28,349	6.03%	\$2,013,555	\$30,466	6.05%
Mortgage-related securities	971,140	11,393	4.69	1,136,761	13,083	4.60
Investment securities (2)	319,700	3,621	4.53	110,310	1,146	4.16
Interest-earning deposits	33,257	168	2.02	8,202	100	4.88
Federal funds	104,396	538	2.06	78,401	1,041	5.31
Total interest earning assets	3,308,871	44,069	5.33	3,347,229	45,836	5.48
Noninterest-earning assets	244,629			192,829		
Total average assets	<u>\$3,553,500</u>			<u>\$3,540,058</u>		
Liabilities and equity:						
Interest-bearing liabilities:						
Savings deposits	\$ 193,410	152	0.31	\$ 200,895	236	0.47
Money market accounts	329,948	2,106	2.55	265,586	2,095	3.16
Interest-bearing demand accounts	171,923	99	0.23	164,589	86	0.21
Time deposits	1,343,841	13,792	4.11	1,397,456	16,723	4.79
Total deposits	2,039,122	16,149	3.17	2,028,526	19,140	3.78
Advance payments by borrowers for taxes and insurance	16,582	4	0.10	17,187	5	0.12
Borrowings	911,044	9,827	4.31	871,946	9,331	4.28
Total Interest-bearing liabilities	2,966,748	25,980	3.50	2,917,659	28,476	3.91
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	91,701			94,111		
Other noninterest-bearing liabilities	80,471			42,384		
Total noninterest-bearing liabilities	172,172			136,495		
Total liabilities	3,138,920			3,054,154		
Shareholders' equity	414,580			485,904		
Total average liabilities and equity	<u>\$3,553,500</u>			<u>\$3,540,058</u>		
Net interest income and net interest rate spread (3)		<u>\$18,089</u>	<u>1.83%</u>		<u>\$17,360</u>	<u>1.57%</u>
Net interest margin (4)	<u>\$ 342,123</u>		<u>2.19%</u>	<u>\$ 429,570</u>		<u>2.07%</u>
Average interest-earning assets to average interest-bearing liabilities	<u>1.12x</u>			<u>1.15x</u>		

- (1) For the purposes of these computations, non-accruing loans and loans held for sale are included in the average loans outstanding.
- (2) FHLB of Chicago stock and mutual funds are included in investment securities dollars outstanding and yields.
- (3) Interest rate spread is the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (4) Net interest margin is determined by dividing annualized net interest income by total interest-

earning assets.

AVERAGE BALANCE SHEET, INTEREST AND RATE PAID

	Six Months Ended June 30					
	2008			2007		
	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Paid	Average Yield/ Rate
<i>(Dollars in thousands)</i>						
Assets:						
Interest-earning assets:						
Loans receivable (1)	\$ 1,931,190	\$58,454	6.05%	\$2,019,089	\$60,491	5.97%
Mortgage-related securities	1,015,316	24,043	4.74	1,138,666	26,113	4.59
Investment securities (2)	258,838	5,651	4.37	102,780	2,165	4.21
Interest-earning deposits	21,701	248	2.29	7,605	184	4.84
Federal funds	80,425	934	2.32	52,285	1,380	5.28
Total interest earning assets	<u>3,307,470</u>	<u>89,330</u>	5.40	<u>3,320,425</u>	<u>90,333</u>	5.43
Noninterest-earning assets	<u>227,501</u>			<u>182,018</u>		
Total average assets	<u><u>\$3,534,971</u></u>			<u><u>\$3,502,443</u></u>		
Liabilities and equity:						
Interest-bearing liabilities:						
Savings deposits	\$ 188,396	334	0.35	\$ 197,725	460	0.47
Money market accounts	313,097	4,259	2.72	257,044	3,931	3.06
Interest-bearing demand accounts	167,541	186	0.22	162,397	170	0.21
Time deposits	1,367,675	29,769	4.35	1,407,035	33,210	4.72
Total deposits	<u>2,036,709</u>	<u>34,548</u>	3.39	<u>2,024,201</u>	<u>37,771</u>	3.73
Advance payments by borrowers for taxes and insurance	11,823	6	0.10	12,246	7	0.11
Borrowings	911,441	19,665	4.32	837,977	18,034	4.30
Total Interest-bearing liabilities	<u>2,959,973</u>	<u>54,219</u>	3.66	<u>2,874,424</u>	<u>55,812</u>	3.88
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	90,667			93,965		
Other noninterest-bearing liabilities	62,295			31,703		
Total noninterest-bearing liabilities	<u>152,962</u>			<u>125,668</u>		
Total liabilities	<u>3,112,935</u>			<u>3,000,092</u>		
Shareholders' equity	422,036			502,351		
Total average liabilities and equity	<u><u>\$3,534,971</u></u>			<u><u>\$3,502,443</u></u>		
Net interest income and net interest rate spread (3)		<u>\$35,111</u>	<u>1.74%</u>		<u>\$34,521</u>	<u>1.55%</u>
Net interest margin (4)	<u>\$ 347,497</u>		<u>2.12%</u>	<u>\$ 446,001</u>		<u>2.07%</u>
Average interest-earning assets to average interest-bearing liabilities	<u>1.12x</u>			<u>1.16x</u>		

- (5) For the purposes of these computations, non-accruing loans and loans held for sale are included in the average loans outstanding.
- (6) FHLB of Chicago stock and mutual funds are included in investment securities dollars outstanding and yields.
- (7) Interest rate spread is the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (8) Net interest margin is determined by dividing annualized net interest income by total interest-earning assets.

Rate Volume Analysis of Net Interest Income

The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense during the periods indicated. Information is provided in each category with respect to:

- (1) change attributable to change in volume (change in volume multiplied by prior rate);
- (2) change attributable to change in rate (change in rate multiplied by prior volume); and
- (3) the net change.

The change attributable to the combined impact of volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

	Six Months Ended		
	June 30, 2008 Compared to June 30, 2007		
	Increase (Decrease) Due To:		
	Volume (1)	Rate (2)	Net (3)
	<i>(In thousands)</i>		
Interest-earning assets:			
Loans receivable	\$(2,837)	\$ 800	\$(2,037)
Mortgage-related securities	(2,902)	832	(2,070)
Investment securities	3,407	79	3,486
Interest-earning deposits	201	(137)	64
Federal funds	539	(985)	(446)
Total	<u>(1,592)</u>	<u>589</u>	<u>(1,003)</u>
Interest-bearing liabilities:			
Savings deposits	(12)	(114)	(126)
Money market deposits	795	(467)	328
Interest-bearing demand deposits	5	11	16
Time deposits	(910)	(2,531)	(3,441)
Total deposits	<u>(122)</u>	<u>(3,101)</u>	<u>(3,223)</u>
Advance payments by borrowers for taxes and insurance	-	(1)	(1)
Borrowings	<u>1,586</u>	<u>45</u>	<u>1,631</u>
Total	<u>1,464</u>	<u>(3,057)</u>	<u>(1,593)</u>
Net change in net interest income	<u><u>\$(3,056)</u></u>	<u><u>\$ 3,646</u></u>	<u><u>\$ 590</u></u>

Impact of Inflation and Changing Prices. The financial statements and accompanying notes of the Company have been prepared in accordance with GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than do the effects of inflation.

Outlook

(The following are forward looking statements; see “Cautionary Statements” below.) The Company’s management has identified a number of factors which may affect the Company’s operations and results in the balance of 2008. They are as follows:

- The recent general economic slowdown, and the softness and declines in the real estate market, may continue. If that is the case, there are a number of effects that we, like other financial institutions, would likely experience.
 - Loan originations could continue to fluctuate from period to period, along with related interest and fee income.
 - A continuing slowdown or decrease in the value of real estate may occur. Reduced property prices and a soft real estate market could negatively affect the volume of home sales, which, in turn, could affect mortgage and home equity loan originations and prepayments.
 - A continuation of soft or declining real estate values could also affect the value of the collateral securing our mortgage loans. A decrease in value could, in turn, lead to increased losses on loans in the event of foreclosures, which would affect our provisions for loan losses and profitability.
 - A general slowdown in the economy or a recession may affect our borrowers’ ability to repay their loan obligations, which could lead to increased loan losses and loan loss provisions and/or less revenue.
 - If customer demand for real estate loans decreases, our profits may decrease because our alternative investments, primarily mortgage-related securities generally earn less income than real estate loans.
 - The current unsettled markets may also affect the liquidity and/or value of our real estate-related investments.
- We will continue to further emphasize commercial real estate and commercial business loans, both of which can present a higher risk than residential mortgages. Adding personnel to continue this emphasis will increase our costs. However, market conditions and other factors may continue to affect our ability to increase our loan portfolio with these types of loans, and a weak economy could increase the risk that borrowers will not be able to repay these loans.
- The Bank anticipates opening two new offices in 2008. The addition of new offices increases our occupancy and related personnel costs going forward.
- Like many Wisconsin financial institutions, the Bank has non-Wisconsin subsidiaries that hold and manage investment assets, the income from which has not been subject to Wisconsin tax. The Wisconsin Department of Revenue has instituted an audit program specifically aimed at out-of-state investment subsidiaries. Depending upon the terms and circumstances, an adverse resolution of these matters could result in additional Wisconsin tax obligations for prior periods and/or higher Wisconsin taxes going forward, with a substantial negative impact on our earnings. Although we believe we have reported income and paid Wisconsin taxes in accordance with applicable legal requirements and the Department’s long-standing interpretations of them, our position may not prevail in court or other actions may occur which give rise to liabilities. We also may incur further costs in the future to address and defend these issues.

Liquidity and Capital Resources

The term "liquidity" refers to our ability to generate adequate amounts of cash to fund loan originations, loan purchases, deposit withdrawals and operating expenses. Our primary sources of funds are deposits, scheduled amortization and prepayments of loan principal and mortgage-related securities, maturities and calls of investment securities, borrowings from the FHLB of Chicago and funds provided by our operations. Historically, these sources of funds have been adequate to maintain liquidity, with the Bank borrowing correspondingly more in periods in which its operations generate less cash. In the event these sources of liquidity would become inadequate, we believe that we could access the wholesale deposit market, although there can be no assurances that wholesale deposits would be available if needed.

Loan repayments and maturing investment securities are relatively predictable sources of funds. However, deposit flows, calls of investment securities and prepayments of loans and mortgage-related securities are strongly influenced by interest rates, general and local economic conditions and competition in the marketplace. For example, during the first six months of 2008, mortgage-related securities prepayments increased because of the interest rate environment. Another very different interest rate environment could lead to a significantly different result. These factors reduce the predictability of the timing of these sources of funds.

We are committed to maintaining a strong liquidity position; therefore, we monitor our liquidity position on a daily basis. Based upon our historical experience and available sources of liquidity, we anticipate that we will have sufficient funds to meet current funding commitments. In recent periods, we have increased borrowings as a source of liquidity as a result of current market conditions; as a result of our capital structure, we believe this has been a prudent source of funds. See also "Qualitative and Quantitative Disclosures about Market Risk – Gap Analysis" in Item 3 hereof, which is incorporated herein by reference, which discusses maturities.

Our primary investing activities are the purchases and sales of investment securities and mortgage-related securities origination and purchase of one- to four-family real estate loans, the origination of multi-family real estate loans and commercial real estate loans and construction and development real estate loans and the origination of home equity loans, other consumer loans and commercial business loans. These investing activities are funded by principal payments on mortgage loans, consumer loans, commercial business loans and mortgage-related securities, calls and maturities on investment securities, borrowings, deposit growth and funds provided by our operating activities.

Cash and cash equivalents increased \$161.8 million during the first six months of 2008. Investing activities provided \$98.6 million of cash, primarily as a result of the proceeds from the sale of investments, the net decrease in loans receivable and principal repayments on mortgage-related securities partially offset by purchases of investment and mortgage-related securities. Cash provided by financing activities of \$39.8 million resulted primarily from an increase in deposits and advance payments by borrowers for taxes and insurance partially offset by the purchase of treasury stock and the payment of cash dividends on our stock. Net cash provided by operating activities of \$23.4 million consisted primarily of proceeds from loan sales, increase in other liabilities, net income and the amortization of the cost of stock benefit plans partially offset loans originated for sale, a decrease in other assets and an increase in accrued interest receivable.

At June 30, 2008, we exceeded each of the applicable regulatory capital requirements for the Bank. In order to be classified as "well-capitalized" by the FDIC we are required to have a leverage ratio (Tier I capital to average assets ratio) of at least 5.0%. To be classified as a well-capitalized bank by the FDIC, we must also have a total risk-based capital to risk-weighted assets ratio of at least 10.0%. At June 30, 2008, the Bank had a leverage ratio of 9.2% and a total risk-based capital ratio of 19.8%. See Notes to Unaudited Consolidated Financial Statements – "Note 9 - Shareholders' Equity."

From time to time, the Company repurchases shares of its common stock, and these repurchases have had the effect of reducing the Company's capital and increasing its dependence on borrowing; further repurchases will continue to have the same effect. Management believes that, at the price offered, the repurchases of shares in 2008 were appropriate in view of the Company's strong capital position as a result of the stock offering in connection with its 2003 full conversion transaction and its benefit to shareholders. In the second quarter of 2008, the Company repurchased 64,200 shares of Company common stock at an average price of \$10.80 per share. At June 30, 2008, 144,800 shares remained available for repurchase under the current stock repurchase program, which authorizes the repurchase of 5.0 million shares.

Contractual Obligations, Commitments, Contingent Liabilities, and Off-Balance Sheet Arrangements

The Company has various financial obligations, including contractual obligations and commitments that may require future cash payments.

The following table presents, as of June 30, 2008, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

	Payments Due In				Total
	One Year Or Less	One to Three Years	Three to Five Years	Over Five Years	
	<i>(In thousands)</i>				
Deposits without a stated maturity	\$ 816,662	\$ –	\$ –	\$ –	\$ 816,662
Certificates of deposits	913,587	367,679	78,362	–	1,359,628
Borrowed funds (a)	–	–	100,285	810,671	910,956
Operating leases	1,198	1,400	753	1,215	4,566
Purchase obligations	2,160	1,800	–	–	3,960
Non-qualified retirement plans and deferred compensation plans	760	2,045	1,959	9,667	14,431

(a) Excludes interest to be paid in the periods indicated.

The Company's operating lease obligations represent short- and long-term lease and rental payments for facilities, certain software and data processing and other equipment. Purchase obligations represent obligations under agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The purchase obligation amounts presented above primarily relate to certain contractual payments for services provided for information technology.

The Company also has obligations under its deferred retirement plan for executives and directors as described in Note 11 to the unaudited consolidated financial statements.

The following table details the amounts and expected maturities of significant commitments as of June 30, 2008.

	Payments Due In				Total
	One Year Or Less	One to Three Years	Three to Five Years	Over Five Years	
	<i>(In thousands)</i>				
Commitments to extend credit:					
Commercial	\$ 8,837	\$ –	\$ –	\$ –	\$ 8,837
Residential real estate	71,492	–	–	–	71,492
Revolving home equity and credit card lines	151,802	–	–	–	151,802
Standby letters of credit	50	–	–	60	110
Commercial lines of credit	19,760	–	–	–	19,760
Undisbursed commercial loans	1,680	–	–	–	1,680
Net commitments to sell mortgage loans	7,852	–	–	–	7,852

Commitments to extend credit, including loan commitments, standby letters of credit, unused lines of credit and commercial letters of credit do not necessarily represent future cash requirements, since these commitments often expire without being drawn upon.

Critical Accounting Policies

There are a number of accounting policies that we established which require us to use our judgment. Some of the more critical policies are as follows:

- Establishing the amount of the allowance for loan losses requires the use of our judgment. The allowance for loan losses is maintained at a level believed adequate by management to absorb losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in specific industries and geographical areas, including unemployment levels, and other pertinent factors, including regulatory guidance and general economic conditions. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more often if deemed necessary. If we misjudge a major component and experience a loss, it will likely affect our earnings. Developments affecting loans can also cause the allowance to vary significantly between quarters. We consistently challenge ourselves in the review of the risk components to identify any changes in trends and their cause.
- Another valuation that requires our judgment relates to mortgage servicing rights. Mortgage servicing rights are recorded as an asset when loans are sold with servicing rights retained. The

total cost of loans sold is bifurcated between the loan balance and the servicing asset based on their relative fair values. The capitalized value of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net future servicing revenue. Mortgage servicing rights are carried at the lower of the initial carrying value, adjusted for amortization, or estimated fair value. The carrying values are periodically evaluated for impairment. For purposes of measuring impairment, the servicing rights are stratified into pools based on term and interest rate. Impairment represents the excess of the remaining capitalized cost of a stratified pool over its fair value, and is recorded through a valuation allowance. The fair value of each servicing rights pool is calculated based on the present value of estimated future cash flows using a discount rate, given current market conditions. Estimates of fair value include assumptions about prepayment speeds, interest rates and other factors which are subject to change over time. Changes in these underlying assumptions could cause the fair value of mortgage servicing rights, and the related valuation allowance, if any, to change significantly in the future.

- We also use our judgment in the valuation of other intangible assets (core deposit base intangibles). Core deposit base intangible assets have been recorded for core deposits (defined as checking, money market and savings deposits) that have been acquired in acquisitions that were accounted for as purchase business combinations. The core deposit base intangible assets have been recorded using the assumption that they provide a more favorable source of funding than more expensive wholesale borrowings. An intangible asset has been recorded for the present value of the difference between the expected interest to be incurred on these deposits and interest expense that would be expected if these deposits were replaced by wholesale borrowings, over the expected lives of the core deposits. We currently estimate the underlying core deposits have lives of seven to fifteen years. If we find these deposits have a shorter life, we will have to write down the asset by expensing the amount that is impaired.
- We review goodwill at least annually for impairment, which requires the use of our judgment. Goodwill has been recorded as a result of two acquisitions in which the purchase price exceeded the fair value of tangible net assets acquired. If goodwill is determined to be impaired, it would be expensed in the period in which it became impaired.
- The assessment of our tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions, regulatory actions or interpretations, or changes in positions of federal and state taxing authorities will not differ from management's current assessment. The impact of these matters could be significant to the consolidated results of operations and reported earnings.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Gap Analysis. Repricing characteristics of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring a financial institution's interest rate sensitivity "gap." An asset or liability is said to be "interest rate sensitive" within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that same time period.

A gap is considered positive when the amount of interest-earning assets maturing or repricing within a specific time period exceeds the amount of interest-bearing liabilities maturing or repricing within that specific time period. A gap is considered negative when the amount of interest-bearing liabilities maturing or repricing within a specific time period exceeds the amount of interest-earning assets maturing or repricing within the same period. During a period of rising interest rates, a financial institution with a negative gap position would be expected, absent the effects of other factors, to experience a greater increase in the costs of its liabilities relative to the yields of its assets and thus a decrease in the institution's net interest income. An institution with a positive gap position would be expected, absent the effect of other factors, to experience the opposite result. Conversely, during a period of falling interest rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to reduce net interest income.

At June 30, 2008, based on the assumptions below, our interest earning assets maturing or repricing within one year exceeded our interest-bearing liabilities maturing or repricing within the same period by \$275.0 million. For additional information, see "Comparisons of Financial Condition at June 30, 2008 and December 31, 2007 – Borrowings" in Item 2 hereof. This represents a positive cumulative one-year interest rate sensitivity gap of 7.7%, and a ratio of interest-earning assets maturing or repricing within one year to interest-bearing liabilities maturing or repricing within one year of 120.6%.

The following table presents the amounts of our interest-earning assets and interest-bearing liabilities outstanding at June 30, 2008, which we anticipate to reprice or mature in each of the future time periods shown. The information presented in the following table is based on the following assumptions:

- i) Investment securities - based upon contractual maturities and if applicable, call dates.
- ii) Mortgage-related securities - based upon an independent outside source for determining estimated cash flows (expected prepayment speeds).
- iii) Loans - based upon contractual maturities, repricing dates, if applicable, scheduled repayments of principal and projected prepayments of principal based upon our historical experience or anticipated prepayments and does not include non-accrual loans.
- iv) Deposits - based upon contractual maturities and historical decay rates.
- v) Borrowings - based upon final maturity. \$856.0 million of borrowings due over five years contain a call option.

At June 30, 2008						
	Within Three Months	Three to Twelve Months	More Than One Year To Three Years	More Than Three Years To Five Years	Over Five Years	Total
<i>(Dollars in thousands)</i>						
Interest-earning assets:						
Loans receivable:						
Mortgage loans:						
Fixed	\$ 53,730	\$135,670	\$221,963	\$ 93,283	\$ 108,504	\$ 613,150
Adjustable	157,040	321,538	297,364	55,309	273	831,524
Consumer loans	85,220	95,520	111,101	33,931	19,904	345,676
Commercial business loans	36,063	18,484	1,255	14	1	55,817
Interest-earning deposits	173,383	–	–	–	–	173,383
Investment securities	88,345	168,160	91,771	–	–	348,276
Mortgage-related securities:						
Fixed	37,511	96,041	263,710	115,671	299,113	812,046
Adjustable	98,571	–	–	–	–	98,571
Other interest-earning assets	46,092	–	–	–	–	46,092
Total interest-earning assets	775,955	835,413	987,164	298,208	427,795	3,324,535
Noninterest-bearing and interest-bearing liabilities:						
Noninterest-bearing demand accounts						
	1,565	4,537	11,017	9,605	65,415	92,139
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand accounts	2,887	8,368	20,321	17,716	120,464	169,756
Savings accounts	4,203	12,008	28,067	23,223	129,283	196,784
Money market accounts	357,676	–	–	–	–	357,676
Time deposits	331,031	592,946	349,630	77,894	–	1,351,501
Advance payments by borrowers for taxes and insurance	–	20,122	–	–	–	20,122
Borrowings – See comments above.	245	761	2,175	102,617	805,158	910,956
Total interest-bearing and noninterest-bearing liabilities	697,607	638,742	411,210	231,055	1,120,320	3,098,934
Interest rate sensitivity gap	\$ 78,348	\$196,671	\$575,954	\$ 67,153	\$ (692,525)	\$ 225,601
Cumulative interest rate sensitivity gap	\$ 78,348	\$275,019	\$850,973	\$918,126	\$ 225,601	
Cumulative interest rate sensitivity gap as a percentage of total assets	2.21%	7.74%	23.96%	25.85%	6.35%	
Cumulative interest-earning assets as a percentage of interest bearing liabilities	111.23%	120.58%	148.69%	146.40%	107.28%	

The methods used in the previous table have some shortcomings. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Certain assets, such as adjustable-rate loans, have features which limit changes in interest rates on a short-term basis and over the life of the loan. If interest rates change, prepayment, and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Finally, the ability of borrowers to make payments on their adjustable-rate loans may decrease if interest rates increase.

Net Equity Sensitivity

In addition to the gap analysis table, we also use simulation models to monitor interest rate risk. The models report the present value of equity in different interest rate environments, assuming an instantaneous and permanent interest rate shock to all interest rate-sensitive assets and liabilities. The present value of equity is the difference between the present value of expected cash flows of interest rate-sensitive assets and liabilities. The changes in market value of assets and liabilities due to changes in interest rates reflect the interest rate sensitivity of those assets and liabilities as their values are derived from the characteristics of the asset or liability (i.e., fixed rate, adjustable rate, caps, and floors) relative to the current interest rate environment. For example, in a rising interest rate environment the fair market value of a fixed rate asset will decline, whereas the fair market value of an adjustable rate asset, depending on its repricing characteristics, may not decline. Increases in the market value of assets will increase the present value of equity whereas decreases in market value of assets will decrease the present value of equity. Conversely, increases in the market value of liabilities will decrease the present value of equity whereas decreases in the market value of liabilities will increase the present value of equity.

The following table presents the estimated present value of equity over a range of interest rate change scenarios at June 30, 2008. The present value ratio shown in the table is the present value of equity as a percent of the present value of total assets in each of the different rate environments. For purposes of this table, we have made assumptions such as prepayment rates and decay rates similar to those used for the gap analysis table.

Change in Interest Rates (Basis Points)	Present Value of Equity			Present Value of Equity as a Percent of Present Value of Assets	
	Dollar Amount	Dollar Change	Percent Change	Present Value Ratio	Percent Change
	<i>(Dollars in thousands)</i>			<i>(Dollars in thousands)</i>	
+300	\$324,385	\$(184,924)	(36.3)%	9.69%	(31.1)%
+200	412,748	(96,561)	(19.0)	11.96	(15.0)
+100	489,725	(19,584)	(3.8)	13.81	(1.8)
0	509,309	0	0.0	14.06	0.0
-100	461,634	(47,675)	(9.4)	12.56	(10.7)
-200	381,324	(127,985)	(25.1)	10.29	(26.9)
-300	282,031	(227,278)	(44.6)	7.58	(46.1)

As in the case of the gap analysis table, the methods we used in the previous table have some shortcomings. This type of modeling requires that we make assumptions which may not reflect the

manner in which actual yields and costs respond to changes in market interest rates. For example, we make assumptions regarding the acceleration rate of the prepayment speeds of higher yielding mortgage loans. Prepayments will accelerate in a falling rate environment and the reverse will occur in a rising rate environment. We also assume that decay rates on core deposits will accelerate in a rising rate environment and the reverse in a falling rate environment. The table assumes that we will take no action in response to the changes in interest rates, when in practice rate changes on certain products, such as savings deposits, may lag behind market changes. In addition, prepayment estimates and other assumptions within the model are subjective in nature, involve uncertainties, and therefore cannot be determined with precision. Accordingly, although the present value of equity model may provide an estimate of our interest rate risk at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in interest rates on our present value of equity.

Item 4. Controls and Procedures

Disclosure Controls and Procedures: The Company's management, with the participation of the Company's Chief Executive Officer and Interim Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Interim Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

Internal Control Over Financial Reporting: There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors.

See “Risk Factors” in Item 1A of the Company’s 2007 Annual Report on Form 10-K. See also “Outlook” in Part I, Item 2 hereof.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds.

The following table provides the specified information about the repurchases of the Company shares by the Company during the second quarter of 2008.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1 – April 30, 2008	–	–	–	209,000
May1 – May 31, 2008	53,700	\$10.7781	53,700	155,300
June 1 – June 30, 2008	10,500	10.9107	10,500	144,800
Total	64,200	\$10.7998	64,200	

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

Information relating to the 2008 Annual Meeting of Shareholders was included in Part II, Item 4 of the Company's Form 10-Q for the quarter ended March 31, 2008, which Item is incorporated herein by reference.

Item 6. Exhibits

- (a) Exhibits: See Exhibit Index, which follows the signature page hereof.

Signatures

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

BANK MUTUAL CORPORATION
(Registrant)

Date: August 5, 2008

/s/Michael T. Crowley, Jr.
Michael T. Crowley, Jr.
Chairman, President and Chief Executive Officer

Date: August 5, 2008

/s/Eugene H. Maurer, Jr.
Eugene H. Maurer, Jr.
Interim Chief Financial Officer

EXHIBIT INDEX

BANK MUTUAL CORPORATION

Form 10-Q for Quarter Ended June 30, 2008

<u>Exhibit No.</u>	<u>Description</u>	<u>Filed Herewith</u>
31.1	Sarbanes-Oxley Act Section 302 Certification signed by the Chairman, President and Chief Executive Officer of Bank Mutual Corporation	X
31.2	Sarbanes-Oxley Act Section 302 Certification signed by the Interim Chief Financial Officer of Bank Mutual Corporation	X
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by the Chief Executive Officer of Bank Mutual Corporation	X
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by the Interim Chief Financial Officer of Bank Mutual Corporation	X

CERTIFICATION

I, Michael T. Crowley, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2008 of Bank Mutual Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2008

/s/Michael T. Crowley, Jr.

Michael T. Crowley, Jr.

Chairman, President and Chief Executive Officer

CERTIFICATION

I, Eugene H. Maurer, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2008 of Bank Mutual Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2008

/s/Eugene H. Maurer, Jr. _____
Eugene H. Maurer, Jr.
Interim Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Bank Mutual Corporation (the “Company”) on Form 10-Q for the period ended June 30, 2008 as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Michael T. Crowley, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Michael T. Crowley, Jr.

Michael T. Crowley, Jr.

Chief Executive Officer

August 5, 2008

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Bank Mutual Corporation and will be retained by Bank Mutual Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Bank Mutual Corporation (the “Company”) on Form 10-Q for the period ended June 30, 2008 as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Eugene H. Maurer, Jr., Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Eugene H. Maurer, Jr.

Eugene H. Maurer, Jr.

Interim Chief Financial Officer

August 5, 2008

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Bank Mutual Corporation and will be retained by Bank Mutual Corporation and furnished to the Securities and Exchange Commission or its staff upon request.