
**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, 2007

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, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 53,900,379 shares, at August 1, 2007.

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 2007 | December 31 2006 |
|-------------------------------------------------------------------|-------------------------|-----------------------------|
| <i>(In thousands, except per share data)</i> | | |
| Assets | | |
| Cash and due from banks | \$ 43,821 | \$ 44,438 |
| Federal funds sold | 14,500 | – |
| Interest-earning deposits | 2,400 | 1,022 |
| Cash and cash equivalents | 60,721 | 45,460 |
| Securities available-for-sale, at fair value: | | |
| Investment securities | 62,626 | 48,290 |
| Mortgage-related securities | 1,069,199 | 1,064,851 |
| Loans held for sale | 9,576 | 3,787 |
| Loans receivable, net | 1,987,728 | 2,024,325 |
| Goodwill | 52,570 | 52,570 |
| Other intangible assets | 2,758 | 3,089 |
| Mortgage servicing rights | 4,756 | 4,653 |
| Other assets | 187,759 | 204,360 |
| | \$3,437,693 | \$3,451,385 |
| Liabilities and shareholders' equity | | |
| Liabilities: | | |
| Deposits | \$2,101,441 | \$2,158,641 |
| Borrowings | 812,906 | 705,025 |
| Advance payments by borrowers for taxes and insurance | 21,866 | 2,199 |
| Other liabilities | 28,432 | 49,223 |
| | 2,964,645 | 2,915,088 |
| Minority interest in real estate development | 2,909 | 2,518 |
| Shareholders' equity: | | |
| Preferred stock – \$.01 par value: | | |
| Authorized– 20,000,000 shares in 2007 and 2006 | | |
| Issued and outstanding – none in 2007 and 2006 | – | – |
| Common stock – \$.01 par value: | | |
| Authorized– 200,000,000 shares in 2007 and 2006 | | |
| Issued – 78,783,849 shares in 2007 and 2006 | | |
| Outstanding – 55,194,679 in 2007 and 60,277,087 in 2006 | 788 | 788 |
| Additional paid-in capital | 496,456 | 496,302 |
| Retained earnings | 273,596 | 273,454 |
| Unearned ESOP shares | (2,616) | (3,066) |
| Accumulated other comprehensive losses | (20,743) | (15,426) |
| Treasury stock – 23,589,170 shares in 2007 and 18,506,762 in 2006 | (277,342) | (218,273) |
| Total shareholders' equity | 470,139 | 533,779 |
| | \$3,437,693 | \$3,451,385 |

See Notes to Unaudited Consolidated Financial Statements.

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

| | Three Months Ended June 30 | |
|-------------------------------------------------------------------|----------------------------------------------|-----------------|
| | 2007 | 2006 |
| | <i>(In thousands, except per share data)</i> | |
| Interest income: | | |
| Loans | \$30,346 | \$29,103 |
| Investment securities | 1,146 | 935 |
| Mortgage-related securities | 13,083 | 13,138 |
| Interest-earning deposits | 1,141 | 442 |
| Total interest income | <u>45,716</u> | <u>43,618</u> |
| Interest expense: | | |
| Deposits | 19,140 | 16,481 |
| Borrowings | 9,331 | 7,618 |
| Advance payments by borrowers for taxes and insurance | 5 | 6 |
| Total interest expense | <u>28,476</u> | <u>24,105</u> |
| Net interest income | <u>17,240</u> | <u>19,513</u> |
| Provision for loan losses | <u>51</u> | <u>56</u> |
| Net interest income after provision for loan losses | 17,189 | 19,457 |
| Noninterest income: | | |
| Service charges on deposits | 1,675 | 1,506 |
| Brokerage and insurance commissions | 686 | 593 |
| Loan related fees and servicing revenue | 375 | 373 |
| Gain on sales of loans | 432 | 292 |
| Real estate investment partnership income | 1,422 | - |
| Other | 2,040 | 1,353 |
| Total noninterest income | <u>6,630</u> | <u>4,117</u> |
| Noninterest expenses: | | |
| Compensation, payroll taxes and other employee benefits | 9,551 | 9,167 |
| Occupancy and equipment | 2,934 | 2,648 |
| Amortization of other intangible assets | 166 | 166 |
| Real estate investment partnership cost of sales | 645 | - |
| Other | 3,090 | 3,109 |
| Total noninterest expenses | <u>16,386</u> | <u>15,090</u> |
| Minority interest in income of real estate investment partnership | <u>391</u> | <u>-</u> |
| Income before income taxes | <u>7,042</u> | <u>8,484</u> |
| Income taxes | <u>2,439</u> | <u>3,005</u> |
| Net income | <u>\$ 4,603</u> | <u>\$ 5,479</u> |
| Per share data: | | |
| Earnings per share – basic | <u>\$0.08</u> | <u>\$0.09</u> |
| Earnings per share – diluted | <u>\$0.08</u> | <u>\$0.09</u> |
| Cash dividends paid | <u>\$0.08</u> | <u>\$0.07</u> |

See Notes to Unaudited Consolidated Financial Statements.

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

| | Six Months Ended June 30 | |
|-------------------------------------------------------------------|----------------------------------------------|-----------------|
| | 2007 | 2006 |
| | <i>(In thousands, except per share data)</i> | |
| Interest income: | | |
| Loans | \$60,289 | \$57,513 |
| Investment securities | 2,165 | 1,856 |
| Mortgage-related securities | 26,113 | 25,036 |
| Interest-earning deposits | 1,564 | 851 |
| Total interest income | <u>90,131</u> | <u>85,256</u> |
| Interest expense: | | |
| Deposits | 37,771 | 31,754 |
| Borrowings | 18,034 | 14,573 |
| Advance payments by borrowers for taxes and insurance | 7 | 8 |
| Total interest expense | <u>55,812</u> | <u>46,335</u> |
| Net interest income | <u>34,319</u> | <u>38,921</u> |
| Provision for (recovery of) loan losses | <u>(878)</u> | <u>119</u> |
| Net interest income after provision for loan losses | <u>35,197</u> | <u>38,802</u> |
| Noninterest income: | | |
| Service charges on deposits | 3,171 | 2,666 |
| Brokerage and insurance commissions | 1,299 | 1,134 |
| Loan related fees and servicing revenue | 757 | 699 |
| Gain on sales of investments | – | 694 |
| Gain on sales of loans | 762 | 512 |
| Real estate investment partnership income | 1,422 | – |
| Other | 4,164 | 2,788 |
| Total noninterest income | <u>11,575</u> | <u>8,493</u> |
| Noninterest expenses: | | |
| Compensation, payroll taxes and other employee benefits | 19,194 | 18,740 |
| Occupancy and equipment | 5,761 | 5,249 |
| Amortization of other intangible assets | 331 | 331 |
| Real estate investment partnership cost of sales | 645 | – |
| Other | 6,331 | 6,233 |
| Total noninterest expenses | <u>32,262</u> | <u>30,553</u> |
| Minority interest in income of real estate investment partnership | <u>391</u> | <u>–</u> |
| Income before income taxes | <u>14,119</u> | <u>16,742</u> |
| Income taxes | <u>4,809</u> | <u>5,897</u> |
| Net income | <u>\$ 9,310</u> | <u>\$10,845</u> |
| Per share data: | | |
| Earnings per share – basic | <u>\$0.17</u> | <u>\$0.18</u> |
| Earnings per share – diluted | <u>\$0.16</u> | <u>\$0.18</u> |
| Cash dividends paid | <u>\$0.16</u> | <u>\$0.14</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) | Unearned Deferred Compensation | Treasury Stock | Total |
|-------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------------------------|------------------------------|-------------------------------------|------------------------------------------------------------------|-----------------------------------------------|---------------------------|------------------|
| <i>(In thousands, except per share data)</i> | | | | | | | | |
| 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 income | | | | | | | | |
| 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 |
| For the Six Months Ended June 30, 2006 | | | | | | | | |
| Balance at January 1, 2006 | \$788 | \$497,589 | \$269,913 | \$(3,966) | \$(17,346) | \$ (6,955) | \$(195,649) | \$544,374 |
| Comprehensive income: | | | | | | | | |
| Net income | – | – | 10,845 | – | – | – | – | 10,845 |
| Other comprehensive income | | | | | | | | |
| Change in net unrealized loss on securities available- for-sale, net of deferred income tax benefit of \$7,145 | – | – | – | – | (12,033) | – | – | (12,033) |
| Total comprehensive income | | | | | | | | (1,188) |
| Purchase of treasury stock | – | – | – | – | – | – | (26,929) | (26,929) |
| Committed ESOP shares | – | 1,425 | – | 450 | – | – | – | 1,875 |
| Exercise of stock options | – | (1,222) | – | – | – | – | 2,595 | 1,373 |
| Share based payments | – | 1,719 | – | – | – | – | (26) | 1,693 |
| Impact of the adoption of SFAS No. 123(R) | – | (6,955) | – | – | – | 6,955 | – | – |
| Cash dividends (\$0.14 per share) | – | – | (7,803) | – | – | – | – | (7,803) |
| Balance at June 30, 2006 | \$788 | \$492,556 | \$272,955 | \$(3,516) | \$(29,379) | \$ – | \$(220,009) | \$513,395 |

See Notes to Unaudited Consolidated Financial Statements.

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

| | Six Months Ended June 30 | |
|-----------------------------------------------------------------------------------|-------------------------------------|----------------|
| | 2007 | 2006 |
| | <i>(In thousands)</i> | |
| Operating activities: | | |
| Net income | \$ 9,310 | \$ 10,845 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for (recovery of) loan losses | (878) | 119 |
| Provision for depreciation | 1,351 | 1,306 |
| Amortization of intangibles | 331 | 331 |
| Net (increase) decrease in mortgage servicing rights | (103) | 110 |
| Minority interest in real estate investment partnership | 391 | – |
| Amortization of cost of stock benefit plans | 2,958 | 4,366 |
| Net discount amortization on securities | (893) | (246) |
| Net gain on sale of available-for-sale securities | – | (694) |
| Loans originated for sale | (60,023) | (42,980) |
| Net gain from real estate investment partnership | (777) | – |
| Proceeds from loan sales | 54,996 | 40,275 |
| Gains from sales of loans originated for sale | (762) | (512) |
| Increase (decrease) in other liabilities | (16,619) | 4,940 |
| Decrease (increase) in other assets | 16,737 | (4,198) |
| Decrease (increase) in accrued interest receivable | 290 | (1,066) |
| Net cash provided by operating activities | <u>6,309</u> | <u>12,596</u> |
| Investing activities: | | |
| Net purchases of mutual funds | – | (264) |
| Proceeds from maturities of investment securities | – | 14,720 |
| Purchases of investment securities | (15,000) | – |
| Purchases of mortgage-related securities | (127,818) | (171,797) |
| Principal repayments on mortgage-related securities | 116,352 | 110,926 |
| Proceeds from sale of investments | – | 702 |
| Net decrease (increase) in loans receivable | 37,025 | (46,851) |
| Proceeds from real estate investment partnership | 1,422 | – |
| Proceeds from sale of foreclosed properties | 341 | 97 |
| Purchase of Federal Home Loan Bank stock | (216) | – |
| Redemption of Federal Home Loan Bank stock | – | 2,661 |
| Net purchases of premises and equipment | <u>(2,097)</u> | <u>(2,331)</u> |
| Net cash provided (used in) by investing activities | 10,009 | (92,137) |

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

| | Six Months Ended June 30 | |
|-----------------------------------------------------------------------|-------------------------------------|-------------------------|
| | 2007 | 2006 |
| | <i>(In thousands)</i> | |
| Financing activities: | | |
| Net (decrease) increase in deposits | \$ (58,014) | \$ 11,250 |
| Net decrease in short-term borrowings | (75,000) | (200,000) |
| Proceeds from long-term borrowings | 457,950 | 277,375 |
| Repayments of long-term borrowings | (275,069) | (3,014) |
| Net increase in advance payments by borrowers for taxes and insurance | 19,667 | 19,212 |
| Proceeds from exercise of stock options | 1,220 | 1,263 |
| Excess tax benefit from exercise of stock options | 375 | 110 |
| Cash dividends | (9,168) | (8,601) |
| Purchase of treasury stock | (63,018) | (26,929) |
| Net cash (used in) provided by financing activities | <u>(1,057)</u> | <u>70,666</u> |
| Increase (decrease) in cash and cash equivalents | 15,261 | (8,875) |
| Cash and cash equivalents at beginning of period | <u>45,460</u> | <u>69,415</u> |
| Cash and cash equivalents at end of period | <u><u>\$ 60,721</u></u> | <u><u>\$ 60,540</u></u> |
| Supplemental information: | | |
| Interest paid or credited on deposits and borrowings | \$54,724 | \$44,693 |
| Income taxes paid | 4,462 | 6,209 |
| Loans transferred to foreclosed properties and repossessed assets | 450 | 438 |

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 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. 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, the accompanying Unaudited Consolidated Statements of Financial Condition, Unaudited Consolidated Statements of Income, Unaudited Consolidated Statements of Shareholders' Equity and Unaudited Consolidated Statements of Cash Flows contain all adjustments, which are of a normal recurring nature, necessary to present fairly the consolidated financial position of the Company and subsidiaries at June 30, 2007 and December 31, 2006, the results of their income for the three and six months ended June 30, 2007 and 2006, and their cash flows for the six months ended June 30, 2007 and 2006. The accompanying Unaudited Consolidated Financial Statements and related notes should be read in conjunction with the Company's 2006 Annual Report on Form 10-K. Operating results for the six months ended June 30, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

In 2006, the Company adopted Statement of Financial Accounting Standard (“SFAS”) No. 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans.” The transition effect of SFAS No. 158 was presented as a component of other comprehensive income in the 2006 Annual Report on Form 10-K. This will be reclassified and presented as an adjustment to the ending accumulated comprehensive income for the 2006 comparative amounts in our 2007 Annual Report on Form 10-K.

The Company adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 48 “Accounting for Uncertainty in Income Taxes” as of January 1, 2007. See Note 12 – Income Taxes.

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, 2007: | | | | |
| Investment securities: | | | | |
| U.S. government and federal obligations | \$ 15,000 | \$ – | \$ (393) | \$ 14,607 |
| Mutual funds | 47,776 | – | (1,289) | 46,487 |
| Stock in federal agencies | 1,442 | 90 | – | 1,532 |
| Total investment securities | 64,218 | 90 | (1,682) | 62,626 |
| Mortgage-related securities: | | | | |
| Federal Home Loan Mortgage Corporation | 490,595 | 17 | (15,343) | 475,269 |
| Federal National Mortgage Association | 379,677 | 437 | (11,806) | 368,308 |
| Private Placement CMOs | 194,034 | – | (3,568) | 190,466 |
| Government National Mortgage Association | 36,685 | 7 | (1,536) | 35,156 |
| Total mortgage-related securities | 1,100,991 | 461 | (32,253) | 1,069,199 |
| Total | \$1,165,209 | \$551 | \$(33,935) | \$1,131,825 |

The Company does not believe any individual unrealized loss as of June 30, 2007 represents an other-than-temporary impairment. The unrealized losses reported for mortgage-related securities relate primarily to securities issued by FNMA, FHLMC and private institutions. These unrealized losses are primarily attributable to changes in interest rates.

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|------------------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| <i>(In thousands)</i> | | | | |
| At December 31, 2006: | | | | |
| Investment securities: | | | | |
| Mutual funds | \$ 47,775 | \$ – | \$ (1,183) | \$ 46,592 |
| Stock in federal agencies | 1,442 | 256 | – | 1,698 |
| Total investment securities | 49,217 | 256 | (1,183) | 48,290 |
| Mortgage-related securities: | | | | |
| Federal Home Loan Mortgage Corporation | 453,452 | 89 | (12,137) | 441,404 |
| Federal National Mortgage Association | 382,197 | 779 | (9,582) | 373,394 |
| Private Placement CMOs | 209,659 | 182 | (1,939) | 207,902 |
| Government National Mortgage Association | 43,325 | 7 | (1,181) | 42,151 |
| Total mortgage-related securities | 1,088,633 | 1,057 | (24,839) | 1,064,851 |
| Total | \$1,137,850 | \$1,313 | \$(26,022) | \$1,113,141 |

The amortized cost and fair values of securities by contractual maturity at June 30, 2007, 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 | — | — |
| Due after ten years | 15,000 | 14,607 |
| Mutual funds | 47,776 | 46,487 |
| Federal Home Loan Mortgage Corporation stock | 1,442 | 1,532 |
| Mortgage-related securities | 1,100,991 | 1,069,199 |
| | <u>\$1,165,209</u> | <u>\$1,131,825</u> |

Note 3 - Loans Receivable

Loans receivable consist of the following:

| | June 30 2007 | December 31 2006 |
|----------------------------------|-------------------------|-----------------------------|
| | <i>(In thousands)</i> | |
| Mortgage loans: | | |
| One-to-four family | \$1,080,038 | \$1,123,905 |
| Multifamily | 187,856 | 157,768 |
| Commercial real estate | 163,463 | 167,089 |
| Construction and development | 183,818 | 187,323 |
| Total mortgage loans | <u>1,615,175</u> | <u>1,636,085</u> |
| Consumer loans and other loans: | | |
| Fixed home equity | 214,935 | 227,811 |
| Home equity lines of credit | 90,457 | 91,730 |
| Student | 21,001 | 20,404 |
| Home improvement | 33,140 | 33,287 |
| Automobile | 34,483 | 46,752 |
| Other | 10,036 | 11,262 |
| Total consumer loans | <u>404,052</u> | <u>431,246</u> |
| Total commercial business loans | 51,550 | 52,056 |
| Total loans receivable | <u>2,070,777</u> | <u>2,119,387</u> |
| Less: | | |
| Undisbursed loan proceeds | 74,377 | 85,897 |
| Allowance for loan losses | 11,523 | 12,574 |
| Unearned loan fees and discounts | (2,851) | (3,409) |
| | <u>83,049</u> | <u>95,062</u> |
| Total loans receivable, net | <u>\$1,987,728</u> | <u>\$2,024,325</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. In addition, the Bank has previously purchased some mortgage loans in other Midwest states.

Note 4 – 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, 2007 and December 31, 2006 are presented in the following table.

| <u>Mortgage Servicing Rights</u> | <u>June 30 2007</u> | <u>December 31 2006</u> |
|------------------------------------------------|-------------------------|-----------------------------|
| | <i>(In thousands)</i> | |
| Mortgage servicing rights at beginning of year | \$4,653 | \$ 4,771 |
| Capitalized servicing rights | 700 | 1,040 |
| Amortization of servicing rights | (597) | (1,158) |
| Mortgage servicing rights at end of period | 4,756 | 4,653 |
| Valuation allowance | – | – |
| Balance | <u>\$4,756</u> | <u>\$ 4,653</u> |

The carrying amounts of the intangible assets, net of accumulated amortization, valuation allowance and net carrying amounts of intangible assets at June 30, 2007 are presented in the following table.

| <u>Intangible Assets</u> | <u>Intangible Asset Amount Net of Accumulated Amortization</u> | <u>Valuation Allowance</u> | <u>Carrying Amount</u> |
|---------------------------|------------------------------------------------------------------------|--------------------------------|----------------------------|
| | <i>(In thousands)</i> | | |
| Goodwill | \$52,570 | \$– | \$52,570 |
| Mortgage servicing rights | 4,756 | – | 4,756 |
| Deposit base intangibles | 2,758 | – | 2,758 |
| Total | <u>\$60,084</u> | <u>\$–</u> | <u>\$60,084</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, 2007. 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, 2007 (actual) | \$ 597 | (In thousands) \$ 331 | \$ 928 |
| Six months ending December 31, 2007 (estimate) | \$ 447 | \$ 331 | \$ 778 |
| Estimate for year ending December 31, | | | |
| 2008 | 893 | 618 | 1,511 |
| 2009 | 893 | 405 | 1,298 |
| 2010 | 884 | 405 | 1,289 |
| 2011 | 700 | 405 | 1,105 |
| 2012 | 469 | 199 | 668 |
| Thereafter | 470 | 395 | 865 |
| | <u>\$4,756</u> | <u>\$2,758</u> | <u>\$7,514</u> |

Note 5 - Other Assets

Other assets are summarized as follows:

| | June 30 2007 | December 31 2006 |
|----------------------------------------------|-------------------------|-----------------------------|
| | (In thousands) | |
| Accrued interest: | | |
| Mortgage-related securities | \$ 4,313 | \$ 4,207 |
| Investment securities | 302 | 12 |
| Loans receivable | 8,602 | 9,288 |
| Total accrued interest | <u>13,217</u> | <u>13,507</u> |
| Foreclosed properties and repossessed assets | 1,246 | 1,231 |
| Premises and equipment | 51,261 | 50,515 |
| Federal Home Loan Bank stock, at cost | 46,092 | 45,876 |
| Bank owned life insurance | 47,680 | 46,430 |
| Other | 28,263 | 46,801 |
| | <u>\$187,759</u> | <u>\$204,360</u> |

Note 6 - Deposits

Deposits are summarized as follows:

| | June 30 2007 | December 31 2006 |
|-----------------------------------|-------------------------|-----------------------------|
| | <i>(In thousands)</i> | |
| Checking accounts: | | |
| Noninterest-bearing | \$ 97,197 | \$ 104,821 |
| Interest-bearing | 166,410 | 174,206 |
| | <u>263,607</u> | <u>279,027</u> |
| Money market accounts | 276,430 | 248,542 |
| Savings accounts | 199,332 | 200,016 |
| Certificate accounts: | | |
| Due within one year | 1,184,378 | 1,243,485 |
| After one but within two years | 89,768 | 82,273 |
| After two but within three years | 71,871 | 75,223 |
| After three but within four years | 9,698 | 20,889 |
| After four but within five years | 6,357 | 9,186 |
| After five years | - | - |
| | <u>1,362,072</u> | <u>1,431,056</u> |
| | <u>\$2,101,441</u> | <u>\$2,158,641</u> |

Note 7 - Borrowings

Borrowings consist of the following:

| | June 30 2007 | | December 31 2006 | |
|----------------------------------------------|-------------------------------|------------------------------|-------------------------------|------------------------------|
| | Balance | Weighted- Average Rate | Balance | Weighted- Average Rate |
| | <i>(Dollars in thousands)</i> | | <i>(Dollars in thousands)</i> | |
| Federal Home Loan Bank advances maturing: | | | | |
| 2007 | \$100,000 | 5.24% | \$279,650 | 4.79% |
| 2008 | 1,025 | 5.90 | 1,025 | 5.90 |
| 2009 | - | - | - | - |
| 2010 | - | - | - | - |
| 2011 | - | - | - | - |
| Thereafter | 711,881 | 4.27 | 424,350 | 4.24 |
| Open-line of credit | - | - | - | - |
| Other borrowings | - | - | - | - |
| | <u>\$812,906</u> | | <u>\$705,025</u> | |

Of the \$711.9 million borrowings due after 2011, \$656.0 million have a quarterly call provision beginning after an initial period of six months to 2 years.

The Bank is required to maintain unencumbered mortgage loans in its portfolio aggregating at least 167% of the amount of outstanding advances from the FHLB as collateral. The Bank's borrowings from the FHLB are limited to the lesser of: 35% of total assets; twenty (20) times the FHLB 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 stock of \$46.1 million at June 30, 2007 and \$45.9 million at December 31, 2006.

Note 8 - Shareholders' Equity

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. The OTS can initiate certain mandatory, and possible additional discretionary actions, which, if undertaken, could have a direct material effect on 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 classifications are also subject to qualitative judgments by the OTS 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 regulations), and of Tier I capital to total assets (as these terms are defined in regulations). Management believes, as of June 30, 2007, 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, 2007: | | | | | | |
| Total risk-based capital (to risk-weighted assets) | \$342,284 | 20.33% | \$134,711 | 8.00% | \$168,389 | 10.0% |
| Tier I capital (to risk-weighted assets) | 330,761 | 19.64 | 67,356 | 4.00 | 101,033 | 6.00 |
| Tier I capital (to average assets) | 330,761 | 9.70 | 136,394 | 4.00 | 170,492 | 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, 2007: | | |
| Equity per Bank records | \$368,352 | \$368,352 |
| Unrealized losses on investments | 20,870 | 20,870 |
| SFAS No. 158 – Employers' Accounting for Defined Benefits and Other Postretirement Plans | (127) | (127) |
| Goodwill and deposit base intangibles, net of deferred taxes | (54,222) | (54,222) |
| Investment in "nonincludable" subsidiaries | (3,827) | (3,827) |
| Disallowed servicing assets | (285) | (285) |
| Allowance for loan losses | 11,523 | - |
| Regulatory capital | <u>\$342,284</u> | <u>\$330,761</u> |

Note 9 – 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 | |
|-------------------------------------------------------------------------------------|------------------------------------------------------|-------------------|-------------------------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| | <i>(Dollars in thousands, except per share data)</i> | | | |
| Basic Earnings Per Share | | | | |
| Net Income | <u>\$4,603</u> | <u>\$5,479</u> | <u>\$9,310</u> | <u>\$10,845</u> |
| Weighted average shares outstanding net of unallocated ESOP and unvested MRP shares | 54,308,076 | 58,707,621 | 55,840,920 | 59,415,923 |
| Allocated ESOP shares for period | 81,813 | 81,798 | 163,626 | 163,597 |
| Vested MRP shares for period | 51,661 | 71,288 | 97,456 | 160,247 |
| | <u>54,441,550</u> | <u>58,860,707</u> | <u>56,102,002</u> | <u>59,739,767</u> |
| Basic earnings per share | <u>\$0.08</u> | <u>\$0.09</u> | <u>\$0.17</u> | <u>\$0.18</u> |
| Diluted Earnings Per Share | | | | |
| Net Income | <u>\$4,603</u> | <u>\$5,479</u> | <u>\$9,310</u> | <u>\$10,845</u> |
| Weighted average shares outstanding used in basic earnings per share | 54,441,550 | 58,860,707 | 56,102,002 | 59,739,767 |
| Dilutive effect of: | | | | |
| Stock option shares | 1,308,822 | 1,626,007 | 1,377,954 | 1,609,161 |
| Unvested MRP shares | 27,404 | 55,238 | 30,739 | 58,609 |
| | <u>55,777,776</u> | <u>60,541,952</u> | <u>57,510,695</u> | <u>61,407,537</u> |
| Diluted earnings per share | <u>\$0.08</u> | <u>\$0.09</u> | <u>\$0.16</u> | <u>\$0.18</u> |

Note 10 – 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 \$34,000 in the second quarter of 2007 and 2006, and \$74,000 in the first six months of 2007 and 2006.

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 (collectively, the “Plan”). 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 sets forth the net periodic benefit cost:

| | Qualified Plan | | | |
|------------------------------------|-----------------------------------------------|---------------|---------------------------------------------|---------------|
| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
| | 2007 | 2006 | 2007 | 2006 |
| | <i>(In thousands)</i> | | <i>(In thousands)</i> | |
| Service cost | \$ 448 | \$ 472 | \$ 895 | \$ 944 |
| Interest cost | 368 | 322 | 736 | 645 |
| Expected return on plan assets | (449) | (442) | (898) | (886) |
| Amortization of prior service cost | 7 | 7 | 15 | 15 |
| Net periodic benefit cost | <u>\$ 374</u> | <u>\$ 359</u> | <u>\$ 748</u> | <u>\$ 718</u> |

| | Supplemental Plans | | | |
|------------------------------------|-----------------------------------------------|---------------|---------------------------------------------|---------------|
| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
| | 2007 | 2006 | 2007 | 2006 |
| | <i>(In thousands)</i> | | <i>(In thousands)</i> | |
| Service cost | \$ 43 | \$ 43 | \$ 87 | \$ 85 |
| Interest cost | 98 | 90 | 196 | 180 |
| Amortization of prior service cost | 14 | 17 | 27 | 35 |
| Net periodic benefit cost | <u>\$ 155</u> | <u>\$ 150</u> | <u>\$ 310</u> | <u>\$ 300</u> |

Pension plan assets, which consist primarily of immediate participation guarantee contracts with an insurance company, are actively managed by investment professionals.

The investment objective is to minimize risk. Asset allocation strongly favors immediate participation contracts with an insurance company.

The amount of the 2007 contribution was determined based on a number of factors, including the results of an actuarial valuation report as of January 1, 2007. The contribution to the qualified plan in 2007 will be \$890,000 and the contribution to the supplemental plans will be \$506,000.

Bank Mutual has a deferred non-qualified retirement plan, which was formerly a Mutual Savings Bank plan, for non-officer directors who have provided at least five years of service. All eligible directors' benefits have vested. In the event a director dies prior to completion of these payments, payments will go to the director's heirs. Bank Mutual has funded these arrangements through "rabbi trust" arrangements.

First Northern Savings Bank, acquired by Bank Mutual in 2000, also had non-qualified supplemental retirement plans for several executives.

The Company has two shareholder approved stock incentive plans. The 2001 Stock Incentive Plan, provided for the grant of stock options up to 4,089,935 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 up to 4,106,362 shares and MRP awards up to 1,642,521 shares. In May 2004, options for 2,382,000 shares were granted of which 27,400 shares were subsequently forfeited and 955,000 MRP shares were granted of which 14,400 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. Total unvested outstanding MRP grants had a fair value of \$4.2 million at June 30, 2007. 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 \$421,000 for the second quarter of 2007 as compared to \$601,000 for the same period in 2006 and \$912,000 for the first six months of 2007 as compared to \$1.3 million for the same period in 2006.

In total, options for 4,176,103 shares remain outstanding at June 30, 2007, of which options for 3,227,303 shares were vested. In addition, since inception of the plans, options for 2,042,362 shares were exercised and options for 263,657 shares have been forfeited. A summary of stock option activity for the six months ended June 30, 2007 is provided in the following table:

| | Six Months ended June 30, 2007 | |
|------------------------------------|---------------------------------------|---------------------------------------|
| | Stock Options | Weighted Average Price |
| Outstanding at beginning of period | 4,525,238 | \$ 7.07 |
| Granted | — | — |
| Exercised | 331,935 | 3.75 |
| Forfeited | 17,200 | 10.67 |
| Outstanding at end of period | 4,176,103 | \$ 7.37 |

The estimated fair value of each option granted prior to January 1, 2007 is calculated using the Black-Scholes option-pricing model. The following summarizes the weighted average assumptions used in the model:

| | For the Three Months Ended | |
|-------------------------------|-----------------------------------|----------------|
| | June 30 | |
| | 2007 | 2006 |
| Risk-free interest rate | 4.81 – 5.30% | 4.81 – 5.30% |
| Dividend yield | 2.00% | 2.00% |
| Expected stock volatility | 11.76 – 26.30% | 11.76 – 26.30% |
| Expected years until exercise | 2.75 – 7.00 | 3.75 – 8.00 |

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.

Note 11 – 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, 2007 and December 31, 2006 are as follows:

| | June 30 | December 31 |
|-----------------------------------|-----------------------|--------------------|
| | 2007 | 2006 |
| | <i>(In thousands)</i> | |
| Unused consumer lines of credit | \$155,786 | \$156,378 |
| Unused commercial lines of credit | 26,089 | 25,941 |
| Commitments to extend credit: | | |
| Fixed rate | 12,304 | 19,891 |
| Adjustable rate | 42,425 | 23,330 |
| Undisbursed commercial loans | 10,928 | 4,258 |

Forward commitments to sell mortgage loans of \$9.6 million at June 30, 2007 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 \$10.0 million of forward commitments at December 31, 2006.

Note 12 – Income Taxes

In July, 2006, FASB issued its final interpretation on, “Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 clarifies and prescribes a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Bank Mutual adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not impact the financial condition, results of operations, or cash flows as Bank Mutual had no uncertain tax position(s) as defined by FIN 48.

Bank Mutual and its subsidiaries file income tax returns in the U.S. federal jurisdiction and Wisconsin and Minnesota. Bank Mutual is no longer subject to U.S. federal and Minnesota income tax examinations by tax authorities for years prior to 2003, and for Wisconsin, for years prior to 1997.

If any interest and/or penalties would be imposed by an appropriate taxing authority, Bank Mutual would report the interest component through miscellaneous operating expense and penalties through income tax expense.

Note 13 – Recent Accounting Developments

In March 2006, FASB issued Statement of Financial Accounting Standard (“SFAS”) No. 156 “Accounting for Servicing of Financial Assets – an amendment of SFAS No. 140.” SFAS No. 156 permits Bank Mutual to choose either the amortization method or fair value measurement method to measure servicing assets or liabilities. Bank Mutual will continue its current policy to amortize its servicing assets or liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and assess servicing assets or liabilities for impairment or increased obligations based on fair value at each reporting date. Bank Mutual adopted SFAS No. 156 as of January 1, 2007.

On September 15, 2006, FASB issued 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. Bank Mutual is continuing its evaluation of SFAS No. 157; however, currently it is anticipated that it will not have a material impact on the Company’s financial position, results of operations, or liquidity.

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. Bank Mutual has not completed its evaluation of SFAS No. 159 and is therefore unable to disclose the effects that adopting SFAS No. 159 will have on the Company’s financial position, results of operations or liquidity.

Note 14 – Reclassifications

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

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; 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 Bank Mutual's loan and investment portfolios; changes in petroleum prices; changes in real estate values; other general economic and political developments; 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 2006 Annual Report on Form 10-K).

Comparison of Financial Condition at June 30, 2007 and December 31, 2006

Total Assets. The Company's total assets decreased \$13.7 million in the first six months of 2007. Total assets at June 30, 2007 were \$3.44 billion as compared to \$3.45 billion at December 31, 2006. The decrease was largely attributed to a decrease in the loan portfolio and other assets.

Cash and Cash Equivalents. Cash and cash equivalents increased \$15.3 million in the first six months of 2007 primarily as a result of borrowing funds and investing funds on a short-term basis in anticipation of funding loan originations.

Securities Available-for-Sale. Investment securities increased \$14.3 million in the first six months of 2007 primarily as a result of purchasing a government agency security in March of 2007.

Mortgage-related securities increased \$4.3 million primarily as a result of the purchase of \$127.8 million of mortgage-related securities in the first quarter of 2007 offset by prepayments and repayments of the underlying mortgage loans and a decrease in market values of mortgage-related securities.

Loans Held for Sale. Loans held for sale increased \$5.8 million as a result of fixed rate mortgage loan originations exceeding the sales of fixed rate mortgage loans. Currently, we sell some of our 15 year fixed rate mortgage loan originations. In the second quarter of 2006, we began to 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. Most 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 \$36.6 million in the first six months of 2007, primarily as a result of a decrease in the one-to-four family mortgage loans, commercial real estate, construction and development mortgage loan and consumer loans partially offset by an increase in multi-family mortgage loans.

The mortgage loan portfolio decreased \$20.9 million in the first six months of 2007 primarily as a result of a decrease in the one-to-four family, commercial real estate and construction and development loan portfolios. The one-to-four family mortgage loans decreased \$43.9 million in the first six months of 2007 primarily as a result of increased mortgage loan sales and decreased mortgage loan purchases. We have supplemented our mortgage loan originations by purchasing mortgage loans (all are adjustable rate mortgage loans) from various Wisconsin 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 also have \$188.7 million of adjustable interest only mortgage loans in our one- to -four family mortgage loan portfolio at June 30, 2007. 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 increased \$30.1 million in the first six months of 2007 primarily as a result of the \$40.6 million multi-family originations and decreased prepayments. The construction and development mortgage loan portfolio decreased \$3.5 million in the six months ended June 30, 2007 primarily as the result of decreased originations and some existing construction and development loans completing their initial phase and receiving permanent financing.

The commercial real estate portfolio decreased \$3.6 million in the first six months of 2007 primarily as a result of prepayments of commercial real estate loans. The prepayments are a result of sales of properties, companies reducing their usage of borrowings, and some competitor institutions’ pricing and/or offering terms that we chose not to match.

The consumer loan portfolio decreased \$27.2 million in the first six months of 2007, primarily as a result of decreases in the fixed home equity, automobile, and home equity lines of credit portfolios, partially offset by an increase in the student loan portfolio. The home equity decreases were primarily the result of lower home equity originations. These originations were lower primarily as a result of increased interest rates offered on these products and a slow down in the housing market. In addition, in May of 2006, we discontinued indirect originations of automobile loans through Savings Financial Corporation, our 50% owned subsidiary, as a result of reduced profitability of these products.

The commercial business loan portfolio decreased \$506,000 primarily as a result of payoffs of existing commercial business loans partially offset by new originations.

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

LOAN ORIGINATIONS AND PURCHASES

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--------------------------------------|-------------------------------|-----------|-----------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| | <i>(In thousands)</i> | | | |
| Originations | | | | |
| Mortgage loans: | | | | |
| One-to-four family | \$ 57,700 | \$ 64,652 | \$101,684 | \$107,248 |
| Multi-family | 14,912 | 7,257 | 40,586 | 32,857 |
| Commercial real estate | 26,448 | 20,421 | 51,066 | 31,426 |
| Total mortgage loans | 99,060 | 92,330 | 193,336 | 171,531 |
| Consumer loans | 33,624 | 46,298 | 63,020 | 83,788 |
| Commercial business loans | 12,248 | 8,121 | 22,415 | 16,549 |
| Total loan originations | 144,932 | 146,749 | 278,771 | 271,868 |
| Purchases: | | | | |
| One-to-four family mortgage loans | 23,539 | 48,205 | 41,350 | 95,978 |
| Total loans purchased | 23,539 | 48,205 | 41,350 | 95,978 |
| Total loans originated and purchased | \$168,471 | \$194,954 | \$320,121 | \$367,846 |

Management will continue to emphasize consumer, multi-family and non-residential mortgage 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 decreased \$16.6 million, during the first six months of 2007. This decrease is primarily the result of funding a mortgage-related security that, at December 2006, was a commitment classified as an other asset.

Deposits. Deposits decreased \$57.2 million in the first six months of 2007 primarily as a result of management's decision to reduce the dollar amount of short-term wholesale deposits partially offset by the growth in money market core deposits. We continue to believe competition for retail deposits has been strong which has increased the cost of those deposits more than what deposits costs would have otherwise increased in the current interest rate environment. We also believe that deposit growth (or shrinkage) for the balance of 2007 and future periods will depend, in significant part, on the performance of other investment alternatives and world events.

Borrowings. Borrowings increased \$107.9 million in the first six months of 2007 primarily as a result of borrowing from the FHLB of Chicago and investing \$104.9 million in mortgage-related securities in the first quarter of 2007.

Of our borrowings, approximately \$711.9 million have a final maturity after 2011; however \$656.0 million contain quarterly call options after an initial period of 6 months to 2 years.

Advance Payments by Borrowers for Taxes and Insurance; Other Liabilities. Advance payments by borrowers for taxes and insurance ("escrow") increased \$19.7 million in the first six months of 2007. 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 2007 or January of the next year.

Other liabilities decreased \$20.8 million primarily as a result of a commitment to purchase a \$22.9 million mortgage-related security which was funded in early January of 2007.

Shareholders' Equity. Shareholders' equity decreased \$63.6 million in the first six months of 2007, primarily as a result of stock repurchases, cash dividends paid and a decrease in the market values of our securities, partially offset by net income, amortization of share based stock plans, exercise of stock options and the accrual for vesting of ESOP shares.

During the second quarter of 2007, we repurchased 2,291,048 shares at an average price of \$11.59 per share and 5,401,048 shares during the first six months of 2007 at an average price of \$11.67 per share. At June 30, 2007, 2,656,500 shares remain authorized to be repurchased under our fifth stock repurchase plan.

The stock repurchase programs have the effect of lowering capital. Management nonetheless 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.

Comprehensive losses (net of tax) decreased as a result of marking the available-for-sale investments to current market value; decreases in value resulted from recent decreases in mortgage-related securities prices.

In addition, a cash dividend of \$0.08 per share was paid June 1, 2007 to shareholders of record on May 17, 2007. The dividend payout ratio was 98.5% in the first six months of 2007.

ASSET QUALITY

The following table summarizes non-performing loans and assets:

| | At June 30 2007 | At December 31 2006 |
|-----------------------------------------------------------------------------------------------------|-------------------------------|--------------------------------|
| | <i>(Dollars in thousands)</i> | |
| Non-accrual mortgage loans | \$11,854 | \$11,504 |
| Non-accrual consumer loans | 1,096 | 803 |
| Non-accrual commercial business loans | 410 | 1,625 |
| Accruing loans delinquent 90 days or more | 653 | 565 |
| Total non-performing loans | 14,013 | 14,497 |
| Foreclosed properties and repossessed assets, net | 1,238 | 1,231 |
| Total non-performing assets | \$15,251 | \$15,728 |
| Non-performing loans to total loans | 0.70% | 0.72% |
| Non-performing assets to total assets | 0.44% | 0.46% |
| Additional interest income that would have been recognized if non-accrual loans had been current | \$ 1,014 | \$ 652 |
| Allowance for loan losses as a percent of non-performing assets | 75.56% | 79.95% |

Total non-performing loans decreased as of June 30, 2007, as compared to December 31, 2006, primarily as a result of one non-performing commercial business loan being paid off in the first quarter of 2007.

We believe, our non-accrual mortgage loans are at a low dollar amount when compared to other financial institutions. Currently, we believe that we have an adequate reserve established.

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

| | At and for the Six Months Ended June 30, 2007 | At and for the Year Ended December 31, 2006 |
|----------------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------|
| | <i>(Dollars in thousands)</i> | |
| Balance at the beginning of the period | \$12,574 | \$12,090 |
| Provisions (recoveries) for the period | (878) | 632 |
| Charge-offs: | | |
| Mortgage loans | – | (44) |
| Consumer loans | (189) | (271) |
| Commercial business loans | (32) | (52) |
| Total charge-offs | <u>(221)</u> | <u>(367)</u> |
| Recoveries: | | |
| Mortgage loans | – | – |
| Consumer loans | 48 | 81 |
| Commercial business loans | – | 138 |
| Total recoveries | <u>48</u> | <u>219</u> |
| Net recoveries (charge-offs) | <u>(173)</u> | <u>(148)</u> |
| Balance at the end of the period | <u><u>\$11,523</u></u> | <u><u>\$12,574</u></u> |
| Net charge-offs to average loans | <u><u>(0.02)%</u></u> | <u><u>(0.01)%</u></u> |
| Allowance as a percent of total loans | <u><u>0.58%</u></u> | <u><u>0.62%</u></u> |
| Allowance as a percent of non-performing loans | <u><u>82.23%</u></u> | <u><u>86.74%</u></u> |

The allowance for loan losses has been determined in accordance with accounting principles generally accepted (“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. 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 multifamily and commercial 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 the typical commercial real estate, development and commercial loan 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. Depending on the type of commercial loan, the collateral may appeal only to a specialized group of people or businesses and, therefore, limit the number of potential buyers of the collateral, or in the case of collateral that is comprised of inventory and equipment, the liquidation of the collateral may be more uncertain. 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; however, the Bank carefully monitors these factors and applies them consistently from period to period, which may lead to such results. To the extent required in the future, the Bank will make appropriate increases. See "Non-performing Loans" for factors affecting some particular loans which affected the loan loss provisions for the periods discussed. Also, see "Significant Accounting Policies" for a discussion on the use of judgment in determining the amount of the allowance 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, 2007 and 2006. 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 | | | | | |
|----------------------------------------------------------------------------|----------------------------|-----------------------------|---------------------------|--------------------|-----------------------------|---------------------------|
| | 2007 | | | 2006 | | |
| | 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) | \$2,013,555 | \$30,346 | 6.03% | \$2,030,601 | \$29,103 | 5.73% |
| Mortgage-related securities | 1,136,761 | 13,083 | 4.60 | 1,185,787 | 13,138 | 4.43 |
| Investment securities (2) | 110,310 | 1,146 | 4.16 | 105,686 | 935 | 3.54 |
| Interest-earning deposits | 8,202 | 100 | 4.88 | 13,669 | 147 | 4.30 |
| Federal funds | 78,401 | 1,041 | 5.31 | 24,489 | 295 | 4.82 |
| Total interest earning assets | 3,347,229 | 45,716 | 5.46 | 3,360,232 | 43,618 | 5.19 |
| Noninterest-earning assets | 192,829 | | | 152,097 | | |
| Total average assets | <u>\$3,540,058</u> | | | <u>\$3,512,329</u> | | |
| Liabilities and equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Savings deposits | \$ 200,895 | 236 | 0.47 | \$ 220,734 | 234 | 0.42 |
| Money market accounts | 265,586 | 2,095 | 3.16 | 259,550 | 1,894 | 2.92 |
| Interest-bearing demand accounts | 164,589 | 86 | 0.21 | 165,881 | 87 | 0.21 |
| Time deposits | 1,397,456 | 16,723 | 4.79 | 1,339,566 | 14,266 | 4.26 |
| Total deposits | 2,028,526 | 19,140 | 3.78 | 1,985,731 | 16,481 | 3.32 |
| Advance payments by borrowers for taxes and insurance | 17,187 | 5 | 0.12 | 17,287 | 6 | 0.14 |
| Borrowings | 871,946 | 9,331 | 4.28 | 843,998 | 7,618 | 3.61 |
| Total Interest-bearing liabilities | 2,917,659 | 28,476 | 3.90 | 2,847,016 | 24,105 | 3.39 |
| Noninterest-bearing liabilities: | | | | | | |
| Noninterest-bearing deposits | 94,111 | | | 98,659 | | |
| Other noninterest-bearing liabilities | 42,384 | | | 43,306 | | |
| Total noninterest-bearing liabilities | 136,495 | | | 141,965 | | |
| Total liabilities | 3,054,154 | | | 2,988,981 | | |
| Shareholders' equity | 485,904 | | | 523,348 | | |
| Total average liabilities and equity | <u>\$3,540,058</u> | | | <u>\$3,512,329</u> | | |
| Net interest income and net interest rate spread (3) | | \$17,240 | 1.57% | \$19,513 | | 1.80% |
| Net interest margin (4) | | | 2.06% | | | 2.32% |
| Average interest-earning assets to average interest-bearing liabilities | 1.15x | | | 1.18x | | |

- (1) For the purposes of these computations, non-accruing loans and loans held for sale are included in the average loans outstanding.
- (2) Federal Home Loan Bank 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 | | | | | |
|----------------------------------------------------------------------------|--------------------------|-----------------------------|---------------------------|--------------------|-----------------------------|---------------------------|
| | 2007 | | | 2006 | | |
| | 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) | \$2,019,089 | \$60,289 | 5.97% | \$2,020,523 | \$57,513 | 5.69% |
| Mortgage-related securities | 1,138,666 | 26,113 | 4.59 | 1,150,535 | 25,036 | 4.35 |
| Investment securities (2) | 102,780 | 2,165 | 4.21 | 108,995 | 1,856 | 3.41 |
| Interest-earning deposits | 7,605 | 184 | 4.84 | 11,800 | 233 | 3.95 |
| Federal funds | 52,285 | 1,380 | 5.28 | 26,584 | 618 | 4.65 |
| Total interest earning assets | 3,320,425 | 90,131 | 5.43 | 3,318,437 | 85,256 | 5.14 |
| Noninterest-earning assets | 182,018 | | | 147,882 | | |
| Total average assets | <u>\$3,502,443</u> | | | <u>\$3,466,319</u> | | |
| Liabilities and equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Savings deposits | \$ 197,725 | 460 | 0.47 | \$ 220,882 | 466 | 0.42 |
| Money market accounts | 257,044 | 3,931 | 3.06 | 261,990 | 3,778 | 2.88 |
| Interest-bearing demand accounts | 162,397 | 170 | 0.21 | 164,156 | 171 | 0.21 |
| Time deposits | 1,407,035 | 33,210 | 4.72 | 1,330,789 | 27,339 | 4.11 |
| Total deposits | 2,024,201 | 37,771 | 3.73 | 1,977,817 | 31,754 | 3.21 |
| Advance payments by borrowers for taxes and insurance | 12,246 | 7 | 0.11 | 12,391 | 8 | 0.13 |
| Borrowings | 837,977 | 18,034 | 4.30 | 812,327 | 14,573 | 3.59 |
| Total Interest-bearing liabilities | 2,874,424 | 55,812 | 3.88 | 2,802,535 | 46,335 | 3.31 |
| Noninterest-bearing liabilities: | | | | | | |
| Noninterest-bearing deposits | 93,965 | | | 98,827 | | |
| Other noninterest-bearing liabilities | 31,703 | | | 32,563 | | |
| Total noninterest-bearing liabilities | 125,668 | | | 131,390 | | |
| Total liabilities | 3,000,092 | | | 2,933,925 | | |
| Shareholders' equity | 502,351 | | | 532,394 | | |
| Total average liabilities and equity | <u>\$3,502,443</u> | | | <u>\$3,466,319</u> | | |
| Net interest income and net interest rate spread (3) | | <u>\$34,319</u> | <u>1.55%</u> | <u>\$38,921</u> | | <u>1.83%</u> |
| Net interest margin (4) | | | <u>2.07%</u> | | | <u>2.35%</u> |
| Average interest-earning assets to average interest-bearing liabilities | <u>1.16x</u> | | | <u>1.18x</u> | | |

- (1) For the purposes of these computations, non-accruing loans and loans held for sale are included in the average loans outstanding.
- (2) Federal Home Loan Bank 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.

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

The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

| | Six Months Ended | | |
|-------------------------------------------------------|------------------------------------------------|-----------------|----------------|
| | June 30, 2007 Compared to June 30, 2006 | | |
| | Increase (Decrease) Due To: | | |
| | Volume (1) | Rate (2) | Net (3) |
| | <i>(In thousands)</i> | | |
| Interest-earning assets: | | | |
| Loans receivable | \$ (51) | \$ 2,827 | \$ 2,776 |
| Mortgage-related securities | (292) | 1,369 | 1,077 |
| Investment securities | (111) | 420 | 309 |
| Interest-earning deposits | (95) | 46 | (49) |
| Federal funds | 669 | 93 | 762 |
| Total | 120 | 4,755 | 4,875 |
| Interest-bearing liabilities: | | | |
| Savings deposits | (58) | 52 | (6) |
| Money market deposits | (72) | 225 | 153 |
| Interest-bearing demand deposits | (2) | 1 | (1) |
| Time deposits | 1,632 | 4,239 | 5,871 |
| Total deposits | 1,500 | 4,517 | 6,017 |
| Advance payments by borrowers for taxes and insurance | - | (1) | (1) |
| Borrowings | 473 | 2,988 | 3,461 |
| Total | 1,973 | 7,504 | 9,477 |
| Net change in net interest income | \$(1,853) | \$(2,749) | \$(4,602) |

Comparison of Operating Results for the Three and Six Months Ended June 30, 2007 and 2006

General. Net income was \$4.6 million for the second quarter of 2007 as compared to \$5.5 million for the second quarter of 2006 and \$9.3 million for the six months ended June 30, 2007 as compared to \$10.8 million for the six months ended June 30, 2006. The decrease was primarily the result of the net interest margin compression, partially offset by the gain on the sale of undeveloped land in the second quarter of 2007 and, for the six months ended June 30, 2007, a recovery of previous provisions for loan losses.

Short term interest rates being higher than or equal to long term interest rates, the increased competition for deposits and the increased costs of deposits and borrowings put pressure on our net interest margin.

Total Interest Income. Total interest income increased \$2.1 million, or 4.8%, to \$45.7 million in the second quarter of 2007 as compared to \$43.6 million for the same period in 2006 and increased \$4.9 million, or 5.7%, to \$90.1 million for the six months ended June 30, 2007 as compared to \$85.3 million for the same period in 2006. These increases were primarily the result of the increased yields on the loan and mortgage-related securities portfolio.

Interest income on loans increased \$1.2 million, or 4.3%, to \$30.3 million in the second quarter of 2007 as compared to \$29.1 million for the second quarter of 2006 and increased \$2.8 million, or 4.8%, to \$60.3 million in the first six months of 2007 as compared to \$57.5 million for the same period in 2006. The increase for both periods was the result of increased yields on the loan portfolio.

Total loan originations and purchases in the second quarter of 2007 were \$168.5 million as compared to \$195.0 million in the same quarter of 2006 and \$320.1 million in the first six months of 2007 as compared to \$367.8 million in the first six months of 2006. These decreases were primarily the result of reduced correspondent mortgage loan purchases and reduced consumer loan originations. Since we had other more profitable alternatives (securities and loan originations), we decreased the dollar amount of correspondent loan purchases. Consumer loan originations decreased as the result of increased interest rates offered on these loans, which decreased consumer demand for consumer loans.

Interest income on investments increased \$211,000 in the second quarter of 2007 and \$309,000 in the first six months of 2007 as a result of the increased yields on the portfolio and, for the six months ended June 30, 2007, partially offset by a decrease in the average dollar amount in the investment securities portfolio.

Interest income on mortgage-related securities decreased \$55,000 in the second quarter of 2007 and increased \$1.1 million in the first six months of 2007. The decrease for the second quarter of 2007 was the result of lower average mortgage-related securities outstanding partially offset by an increase in the yields on the portfolio. The increase for the first six months of 2007 was the result of increased yields on the portfolio partially offset by a decrease in the average balances outstanding.

Interest income on interest-earning deposits (which includes federal funds) increased \$699,000 for the second quarter of 2007 and \$713,000 for the six months ended June 30, 2007 as the result of increased average dollars outstanding and increased yield on those deposits. Short-term deposits were used to invest excess cash in anticipation of funding loan originations or to fund the decrease in wholesale deposits.

Total Interest Expense. Total interest expense increased \$4.4 million, or 18.1%, to \$28.5 million in the second quarter of 2007 and \$9.5, or 20.5%, to \$55.8 million in the first six months of 2007 as compared to the same periods in 2006. This increase was primarily the result of an increase in the interest rates paid and an increase in the average dollars outstanding on deposits and borrowings.

Interest expense on deposits increased \$2.7 million, or 16.1%, in the second quarter of 2007 and \$6.0 million, or 18.9%, in the first six months of 2006 as a result of increased cost of deposits and average deposits outstanding. As market rates increased and deposit interest rates offered by competitors increased, it was necessary to increase the interest rates we offered to retain existing deposits and attract new deposits. In addition, as deposit offering interest rates increase, deposits that were at lower interest rates moved, and will continue to move, to higher interest rate time deposits.

Interest expense on borrowings increased \$1.7 million, or 22.5%, in the second quarter of 2007 and \$3.5 million, or 23.7%, in the first six months of 2006 as compared to the same period in 2006. The increase was the result of increased borrowings outstanding and an increase in the cost of borrowings.

Net Interest Income. Net interest income decreased \$2.3 million, or 11.6%, in the second quarter of 2007 and \$4.6 million, or 11.8%, in the first six months of 2007 compared to the same periods in 2006. The primary reason for the decrease was the result of the increased cost and average dollar amount of deposits and borrowings partially offset by an increase in the yield on the loan and mortgage-related securities portfolio.

The net interest margin for the second quarter of 2007 was 2.06% as compared to 2.32% for the same period in 2006 or 2.07% for the first six months of 2007 as compared to 2.35% for the first six months of 2006.

The decrease in net interest margin for both periods was primarily the result of the increasing deposit interest rate environment (in which deposits repriced more quickly than loans) and the effects of our stock repurchase program. The funds used to repurchase stock resulted in a change from zero cost capital to increased interest-bearing borrowings and/or reduced interest-earning assets.

The current market interest rate environment of short term interest rates being higher than long term interest rates places ongoing pressure on our net interest rate margin. Specifically, the flattened or inverted yield curve, reduces our ability to price our loan offerings at interest rates that would allow us to increase the yield on our loan portfolio faster than the increase in our cost of funds. In addition, increased competition for deposits and the increased cost of borrowings to fund our stock repurchases have also put pressure on our net interest margin. In the near term, we expect the interest rate yield curve to continue to remain flat or inverted.

Provision for Loan Losses. We provided \$51,000 for loan losses in the second quarter of 2007 and for the first six months of 2007, had a net recovery of \$878,000 of previous provisions for loan losses. The net recovery was the result of one non-performing commercial business loan of \$1.3 million being paid in full in March 2007. A related loan loss provision of \$1.3 million was previously allocated to this non-performing commercial business loan of which we recovered \$929,000. The difference of approximately \$420,000 was allocated for other probable loan losses within our loan portfolio. The total allowance for loan losses at June 30, 2007 was \$11.5 million, or 82.2%, of total non-performing loans as compared to \$12.6 million, or 86.7%, of non-performing loans at December 31, 2006. The loan loss allowance was 0.58% of total loans at June 30, 2007 as compared to 0.62% of total loans at December 31, 2006.

Noninterest Income. Total noninterest income increased \$2.5 million in the second quarter of 2007 and increased \$3.1 million in the first six months of 2007 as compared to the same period in 2006. The increase was primarily the result of income from the gain on sale of undeveloped land through our real estate investment partnership and an increase in bank owned life insurance income.

Service charges on deposits increased \$169,000 in the second quarter of 2007 and \$505,000 in the first six months of 2007 as a result of an increase in the number of checking account overdrafts, an increase in our overdraft fee and a change in our overdraft policy for transactions at ATMs and point of sale purchases.

Brokerage and insurance commissions increased \$93,000 in the second quarter of 2007 and \$165,000 in the first six months of 2006 primarily as a result of increased annuity and securities sales. As a result of our continued emphasis on annuity sales and with an increase in the interest rates offered on annuities, we experienced an increase in annuity sales. Also, in the first quarter of 2007, we made arrangements 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 and anticipate that it will take all of 2007 before this product begins to add to our non-interest income.

Loan related fees and servicing income increased slightly in the second quarter of 2007 and increased \$58,000 in the first six months of 2007 primarily as a result of an increase in commercial real estate loan fees and a reduction in the amortization of originated mortgage servicing rights on mortgage loans that are sold. As market interest rates increase, the average lives of these mortgage loans tend to increase, thereby reducing the amortization of mortgage servicing rights.

Gains on sales of investments decreased \$694,000 in the first six months of 2007 as compared to the same period in 2006 as a result of a gain on the sales of equity investments in the first quarter of 2006 and no comparable sales of investments in 2007.

Gains on the sales of loans increased \$140,000 in the second quarter of 2007 and \$250,000 in the first six months of 2007 as compared to the same periods in 2006 primarily as a result of increased fixed rate mortgage loan originations. Interest rate offerings on fixed rate mortgage loans are similar to the adjustable interest rate offerings on mortgage loans as a result of the inverted yield curve. As such, customers are more attracted to the fixed rate mortgage loan products. We sell some of our 15 year fixed rate mortgage loans to the secondary market. In the second quarter of 2006, we began to 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.

Real estate partnership income of \$1.4 million is the result of the sale by Arrowood Development, our 50% owned land development company, of approximately 30 acres of its total 318 acres of undeveloped land. We do not anticipate continued development or sales in 2007 due to a slow down in housing sales.

Other noninterest income increased \$687,000 in the second quarter of 2007 and \$1.4 million in the first six months of 2007 primarily as a result of increased bank owned life insurance income (we purchased an additional \$25.0 million of bank owned life insurance late in 2006), gains on the sale of real estate owned, fees on debit card usage, fees from our agent check program and other noninterest income items.

Noninterest Expense. Total noninterest expense increased \$1.3 million in the second quarter of 2007 and increased \$1.7 million in the first six months of 2007 as compared to the same period in 2006. The increases were primarily the result of the cost of land sales by Arrowood Development.

Compensation, payroll taxes, and other employee benefits increased \$384,000 in the second quarter of 2007 and \$454,000 in the first six months of 2007 as compared to the same periods in 2006 was primarily as a result of normal salary increases, additional personnel to staff new offices, and increased health care insurance costs.

Occupancy and equipment expense increased \$286,000 in the second quarter of 2007 and \$512,000 in the first six months of 2007 primarily as the result of the addition of new offices, office repairs and maintenance, increased utility costs and increased data processing costs.

Real estate investment partnership cost of sales of \$645,000 relates to the sale of approximately 30 acres of undeveloped land by Arrowood Development, described above.

Other expenses decreased slightly in the second quarter of 2007 and increased \$98,000 in the first six months of 2007. The increase for the first six months of 2007 was primarily as a result of increased debit card fees, legal fees, and marketing expenses partially offset by decreased costs associated with servicing the indirect automobile loan portfolio and reduced courier expense.

Minority Interest in Income of Real Estate Operations. The \$391,000 in the three and six months ended June 30, 2007 represents our 50% partner's interest in the net profit from the sale of approximately 30 acres of undeveloped land by Arrowwood Development, as described above.

Income Taxes. The effective tax rate for the second quarter of 2007 was 34.6% as compared to 35.4% for the second quarter of 2006 and 34.1% for the six months ended June 30, 2007 as compared to 35.2% for the same period in 2006. The decrease was primarily the result of investing an additional \$25.0 million in banked owned life insurance in late 2006.

Bank owned life insurance income is permanently tax deferred if the policy is held to the participant's death and other conditions are met. Therefore, the income earned on the life insurance is not included in taxable income for the calculation of tax expense.

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 Bank Mutual, 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 late July 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 include: 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 Bank Mutual Corporation. 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 Nevada

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, 2007 was \$4.6 million, a 16.0% decrease from the comparable period in 2006 and for the six months ended June 30, 2007 was \$9.3 million, a 14.2% decrease when compared to the six months ended June 30, 2006. Diluted earnings per share decreased 11.1% in the second quarter of 2007 as compared to 2006 and 11.1% in the first six months of 2007 as compared to the same period in 2006. Earnings per share decreased at a slower rate than net income due to the effects of the Company's stock repurchases which substantially reduced the average number of shares outstanding for the second quarter and the first six months of 2007.

Impact of Inflation and Changing Prices. The financial statements and accompanying notes of the Company have been prepared in accordance with the generally accepted accounting principles ("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)

Bank Mutual Corporation's management has identified a number of factors which may affect the Company's operations and results in the balance of 2007. They are as follows:

- There may be an environment of continued economic slow down and an inverted or flat interest rate yield curve throughout 2007. If that is the case, there are a number of effects that Bank Mutual, like other financial institutions, would likely experience.
 - Loan originations could continue to decrease, along with related interest and fee income.
 - A slow down in the appreciation of the value of real estate or even a decrease in value may occur. Reduced property prices could negatively affect the volume of home sales, which in turn could affect mortgage loan originations and prepayments. It may also impact the quality of some of our loans as a result of increased delinquencies.
 - A continuation of stabilizing and softening real estate values could 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. Also, if customer demand for real estate loans decreases, our profits may decrease because our alternative investments, primarily mortgage-related securities, earn less income than real estate loans.
- An inverted or flat yield curve will also likely continue to affect our net interest margin. The net interest margin would continue to be less than optimal as a result of the abnormally low difference between our cost of deposits and borrowings and the yield on loans. A low net interest margin would negatively affect our net income.
- Bank Mutual will continue to further emphasize commercial real estate and commercial business loans, all of which can present a higher risk than residential mortgages. Adding personnel to continue this emphasis will increase our costs. Market conditions and other factors may continue to affect our ability to increase our loan portfolio with these types of loans.

- We opened two new offices in first half of 2007 and anticipate opening one additional new office in 2007. The addition of new offices increases our occupancy and related personnel costs going forward, which will increase our costs for 2007.
- Like many Wisconsin financial institutions, Bank Mutual 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 a relatively predictable source 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 2007, 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 origination and purchase of one-to four-family real estate loans, multi-family and commercial real estate loans, home equity loans, other consumer loans, commercial business loans, the purchase of mortgage-related securities, and to a lesser extent, the purchase of investment securities. These investing activities are funded by principal payments on mortgage 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 \$15.3 million during the first six months of 2007. Investing activities provided \$8.6 million of cash, primarily as a result of reduced purchases of mortgage-related securities and a decrease in loans receivable. Cash used by financing activities of \$1.1 million resulted primarily from a decrease in deposits, repayments of long and short-term borrowings, the purchase of

treasury stock and payments of cash dividends on our stock partially offset by long-term borrowings. Net cash provided by operating activities of \$7.7 million consisted primarily of proceeds from loan sales, net income, amortization of cost of stock benefit plans and a decrease in other assets partially offset by the loans originated for sale.

At June 30, 2007, 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 (Tier I) capital to average assets ratio of at least 5.00%. 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 10.00%. At June 30, 2007, the Bank had a total risk-based capital ratio of 20.33% and a leverage ratio of 9.7%. See Notes to Unaudited Consolidated Financial Statements – "Note 8 - Shareholders' Equity."

From time to time, the Company repurchases shares of 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 the repurchases of shares were appropriate in view of the Company's very 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 2007, the Company repurchased 2,291,048 at an average price of \$11.59 per share and for the six months ended June 30, 2007, 5,401,048 shares were purchased at an average price of \$11.67 per share. At June 30, 2007, 2,656,500 shares remain available for repurchase under the fifth stock repurchase program that was adopted in May 2007 to authorize 3.0 million shares to be repurchased.

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, 2007, 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 | \$ 739,369 | \$ – | \$ – | \$ – | \$ 739,369 |
| Certificates of deposits | 1,184,378 | 161,639 | 16,055 | – | 1,362,072 |
| Borrowed funds (a) | 101,025 | – | – | 711,881 | 812,906 |
| Operating leases | 1,156 | 1,648 | 954 | 1,479 | 5,237 |
| Purchase obligations | 2,160 | 3,960 | – | – | 6,120 |
| Non-qualified retirement plans and deferred compensation plans | 675 | 2,036 | 2,625 | 9,355 | 14,691 |

(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 directors as described in Note 10 to the unaudited consolidated financial statements.

The following table details the amounts and expected maturities of significant commitments as of June 30, 2007.

| | 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 | \$ 8,796 | \$— | \$— | \$— | \$ 8,796 |
| Residential real estate | 45,934 | — | — | — | 45,934 |
| Revolving home equity and credit card lines | 155,786 | — | — | — | 155,786 |
| Standby letters of credit | 135 | — | — | 3 | 138 |
| Commercial lines of credit | 26,089 | — | — | — | 26,089 |
| Undisbursed commercial loans | 10,928 | — | — | — | 10,928 |
| Net commitments to sell mortgage loans | 9,614 | — | — | — | 9,614 |

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, 2007, based on the assumptions below, our interest-bearing liabilities maturing or repricing within one year exceeded our interest-earning assets maturing or repricing within the same period by \$1.0 billion. For additional information, see "Comparisons of Financial Condition at June 30, 2007 and December 31, 2006 – Borrowings." This represents a negative cumulative one-year interest rate sensitivity gap of 29.4%, and a ratio of interest-earning assets maturing or repricing within one year to interest-bearing liabilities maturing or repricing within one year of 55.6%.

The following table presents the amounts of our interest-earning assets and interest-bearing liabilities outstanding at June 30, 2007, 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. Does not include non-accrual loans.
- iv) Deposits - based upon contractual maturities and historical decay rates.
- v) Borrowings - based upon final maturity or call dates, whichever is earlier.

| At June 30, 2007 | | | | | | |
|------------------------------------------------------------------------------------|------------------------------------|---------------------------------------|------------------------------------------------------|--------------------------------------------------------|----------------------------|-------------------|
| | 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 | \$ 33,388 | \$ 92,887 | \$ 203,372 | \$ 93,974 | \$147,380 | \$ 571,001 |
| Adjustable | 168,529 | 346,288 | 362,714 | 88,588 | 1,123 | 967,242 |
| Consumer loans | 74,828 | 96,744 | 140,249 | 51,914 | 39,521 | 403,256 |
| Commercial business loans | 14,288 | 17,382 | 16,793 | 2,506 | 172 | 51,141 |
| Interest-earning deposits | 16,900 | – | – | – | – | 16,900 |
| Investment securities | 49,218 | – | 15,000 | – | – | 64,218 |
| Mortgage-related securities: | | | | | | |
| Fixed | 50,591 | 145,843 | 288,969 | 158,608 | 342,368 | 986,379 |
| Adjustable | 114,612 | – | – | – | – | 114,612 |
| Other interest-earning assets | 46,092 | – | – | – | – | 46,092 |
| Total interest-earning assets | <u>568,446</u> | <u>699,144</u> | <u>1,027,097</u> | <u>395,590</u> | <u>530,564</u> | <u>3,220,841</u> |
| Noninterest-bearing and interest-bearing liabilities: | | | | | | |
| Noninterest-bearing demand accounts | 3,541 | 9,868 | 21,522 | 15,992 | 46,274 | 97,197 |
| Interest-bearing liabilities: | | | | | | |
| Deposits: | | | | | | |
| Interest-bearing demand accounts | 6,066 | 16,902 | 36,863 | 27,390 | 79,175 | 166,396 |
| Savings accounts | 8,449 | 23,138 | 48,308 | 33,841 | 85,596 | 199,332 |
| Money market accounts | 276,091 | – | – | – | – | 276,091 |
| Time deposits | 472,897 | 732,212 | 131,443 | 15,942 | – | 1,352,494 |
| Advance payments by borrowers for taxes and insurance | – | 21,866 | – | – | – | 21,866 |
| Borrowings | 276,220 | 431,729 | 52,064 | 2,286 | 50,607 | 812,906 |
| Total interest-bearing and noninterest-bearing liabilities | <u>1,043,264</u> | <u>1,235,715</u> | <u>290,200</u> | <u>95,451</u> | <u>261,652</u> | <u>2,926,282</u> |
| Interest rate sensitivity gap | <u>\$ (474,818)</u> | <u>\$ (536,571)</u> | <u>\$ 736,897</u> | <u>\$300,139</u> | <u>\$268,912</u> | <u>\$ 294,559</u> |
| Cumulative interest rate sensitivity gap | <u>\$ (474,818)</u> | <u>\$(1,011,389)</u> | <u>\$(274,492)</u> | <u>\$ 25,647</u> | <u>\$294,559</u> | |
| Cumulative interest rate sensitivity gap as a percentage of total assets | <u>(13.81)%</u> | <u>(29.42)%</u> | <u>(7.98)%</u> | <u>0.75%</u> | <u>8.57%</u> | |
| Cumulative interest-earning assets as a percentage of interest bearing liabilities | <u>54.49%</u> | <u>55.62%</u> | <u>89.32%</u> | <u>100.96%</u> | <u>110.07%</u> | |

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, 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, 2007. 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 | \$276,352 | \$(206,988) | (42.8)% | 8.90% | (38.2)% |
| +200 | 350,589 | (132,751) | (27.5) | 10.98 | (23.7) |
| +100 | 418,806 | (64,534) | (13.4) | 12.78 | (11.2) |
| 0 | 483,340 | 0 | 0.0 | 14.39 | 0.0 |
| -100 | 534,123 | 50,783 | 10.5 | 15.54 | 8.0 |
| -200 | 533,846 | 50,506 | 10.4 | 15.29 | 6.3 |
| -300 | 486,673 | 3,333 | 0.7 | 13.78 | (4.2) |

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 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 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 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 annual report on Form 10-K for the year ended December 31, 2006. 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 shares by the Company during the second quarter of 2007.

| 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, 2007 | 1,167,000 | \$11.35 | 1,167,000 | 780,548 |
| May 1 – May 30, 2007 | 780,548 | 11.95 | 780,548 | 3,000,000 |
| June 1 – June 30, 2007 | 343,500 | 11.56 | 343,500 | 2,656,500 |
| Total | <u>2,291,048</u> | <u>\$11.59</u> | | |

In May 7, 2007, a fifth stock repurchase plan was authorized which allows for 3.0 million shares to be repurchased.

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

Information relating to the 2007 Annual Meeting of Shareholders was included in Part II, Item 4 of the Company's Form 10-Q for the quarter ended March 31, 2007, which Item is incorporated 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 6, 2007

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

Date: August 6, 2007

/s/Rick B. Colberg
Rick B. Colberg
Chief Financial Officer

EXHIBIT INDEX

BANK MUTUAL CORPORATION

Form 10-Q for Quarter Ended June 30, 2007

| <u>Exhibit No.</u> | <u>Description</u> | <u>Filed Herewith</u> |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| 31.1 | Sarbanes-Oxley Act Section 302 Certification signed by the Chairman and Chief Executive Officer of Bank Mutual Corporation | X |
| 31.2 | Sarbanes-Oxley Act Section 302 Certification signed by the 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 Chairman and 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 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, 2007 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 6, 2007

/s/Michael T. Crowley, Jr.

Michael T. Crowley, Jr.

Chairman, President and Chief Executive Officer

CERTIFICATION

I, Rick B. Colberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2007 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 6, 2007

/s/Rick B. Colberg
Rick B. Colberg
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, 2007 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 6, 2007

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, 2007 as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Rick B. Colberg, 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/Rick B. Colberg

Rick B. Colberg
Chief Financial Officer
August 6, 2007

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.