

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

/ X / Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended **June 30, 2010**

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, Wisconsin 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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Small reporting company

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

Yes No

The number of shares outstanding of the issuer's common stock, \$0.01 par value per share, was 45,709,666 shares, at August 5, 2010.

BANK MUTUAL CORPORATION
FORM 10-Q QUARTERLY REPORT

Table of Contents

<u>Item</u>		<u>Page</u>
PART I		
Item 1.	Financial Statements	
	Unaudited Condensed Consolidated Statements of Financial Condition as of June 30, 2010, and December 31, 2009	3
	Unaudited Condensed Consolidated Statements of Income for the three and six months ended June 30, 2010 and 2009	4
	Unaudited Condensed Consolidated Statements of Equity for the three and six months ended June 30, 2010 and 2009	6
	Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009	7
	Notes to Unaudited Condensed Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	47
Item 4.	Controls and Procedures	50
PART II		
Item 1A.	Risk Factors	51
Item 2.	Unregistered Sale of Equity Securities and Use of Proceeds	51
Item 6.	Exhibits	51
SIGNATURES		52

PART I

Item 1. Financial Statements

Bank Mutual Corporation and Subsidiaries Unaudited Condensed Consolidated Statements of Financial Condition

	June 30 2010	December 31 2009
Assets	<i>(Dollars in thousands)</i>	
Cash and due from banks	\$22,014	\$37,696
Interest-earning deposits	138,768	189,962
Cash and cash equivalents	160,782	227,658
Securities available-for-sale, at fair value:		
Investment securities	861,854	614,104
Mortgage-related securities	734,030	866,848
Loans held for sale, net	21,207	13,534
Loans receivable, net	1,414,968	1,506,056
Foreclosed properties and repossessed assets	20,606	17,689
Goodwill	52,570	52,570
Mortgage servicing rights, net	6,606	6,899
Other assets	209,953	206,706
Total assets	\$3,482,576	\$3,512,064
Liabilities and equity		
Liabilities:		
Deposit liabilities	\$2,103,692	\$2,137,508
Borrowings	906,462	906,979
Advance payments by borrowers for taxes and insurance	20,919	2,508
Other liabilities	51,519	59,668
Total liabilities	3,082,592	3,106,663
Equity:		
Preferred stock – \$.01 par value:		
Authorized – 20,000,000 shares in 2010 and 2009		
Issued and outstanding – none in 2010 and 2009	–	–
Common stock – \$.01 par value:		
Authorized – 200,000,000 shares in 2010 and 2009		
Issued – 78,783,849 shares in 2010 and 2009		
Outstanding – 45,709,666 shares in 2010 and 46,165,635 in 2009	788	788
Additional paid-in capital	495,035	499,376
Retained earnings	268,960	272,518
Unearned ESOP shares	(174)	(347)
Accumulated other comprehensive loss	(262)	(2,406)
Treasury stock – 33,074,183 shares in 2010 and 32,618,214 in 2009	(367,288)	(367,452)
Total shareholders' equity	397,059	402,477
Non-controlling interest in real estate partnership	2,925	2,924
Total equity including non-controlling interest	399,984	405,401
Total liabilities and equity	\$3,482,576	\$3,512,064

Refer to Notes to Unaudited Condensed Consolidated Financial Statements

Bank Mutual Corporation and Subsidiaries
Unaudited Condensed Consolidated Statements of Income

	Three Months Ended June 30	
	2010	2009
	<i>(Dollars in thousands, except per share data)</i>	
Interest income:		
Loans	\$19,879	\$24,541
Investment securities	4,454	4,551
Mortgage-related securities	5,153	10,052
Interest-earning deposits	100	22
Total interest income	29,586	39,166
Interest expense:		
Deposit liabilities	7,426	11,520
Borrowings	9,764	9,778
Advance payments by borrowers for taxes and insurance	1	3
Total interest expense	17,191	21,301
Net interest income	12,395	17,865
Provision for loan losses	6,150	472
Net interest income after provision for loan losses	6,245	17,393
Non-interest income:		
Service charges on deposits	1,499	1,610
Brokerage and insurance commissions	991	856
Loan related fees and servicing revenue, net	94	39
Gain on loan sales activities, net	1,164	2,930
Gain on investments, net	6,687	610
Other non-interest income	1,955	1,599
Total non-interest income	12,390	7,644
Non-interest expenses:		
Compensation, payroll taxes, and other employee benefits	8,998	10,398
Occupancy and equipment	2,692	2,898
Federal insurance premiums and special assessment	1,010	2,364
Loss on foreclosed real estate, net	2,088	69
Other non-interest expense	2,954	2,939
Total non-interest expenses	17,742	18,668
Income before income taxes	893	6,369
Income tax expense	162	2,553
Net income before non-controlling interest	731	3,816
Net loss attributable to non-controlling interest	-	1
Net income	\$731	\$3,817
Per share data:		
Earnings per share – basic	\$0.02	\$0.08
Earnings per share – diluted	\$0.02	\$0.08
Cash dividends per share paid	\$0.07	\$0.09

Refer to Notes to Unaudited Condensed Consolidated Financial Statements

Bank Mutual Corporation and Subsidiaries
Unaudited Condensed Consolidated Statements of Income

	Six Months Ended June 30	
	2010	2009
	<i>(Dollars in thousands, except per share data)</i>	
Interest income:		
Loans	\$40,735	\$50,771
Investment securities	9,185	9,758
Mortgage-related securities	11,513	20,550
Interest-earning deposits	145	73
Total interest income	61,578	81,152
Interest expense:		
Deposit liabilities	15,636	24,634
Borrowings	19,430	19,456
Advance payments by borrowers for taxes and insurance	2	4
Total interest expense	35,068	44,094
Net interest income	26,510	37,058
Provision for loan losses	9,516	3,633
Net interest income after provision for loan losses	16,994	33,425
Non-interest income:		
Service charges on deposits	2,888	3,056
Brokerage and insurance commissions	1,577	1,518
Loan related fees and servicing revenue, net	252	(292)
Gain on loan sales activities, net	1,817	6,762
Gain on investments, net	11,072	2,672
Other non-interest income	3,752	3,209
Total non-interest income	21,358	16,925
Non-interest expenses:		
Compensation, payroll taxes, and other employee benefits	17,711	20,364
Occupancy and equipment	5,678	6,082
Federal insurance premiums and special assessment	2,021	2,726
Loss on foreclosed real estate, net	3,043	64
Other non-interest expense	5,851	5,887
Total non-interest expenses	34,304	35,123
Income before income taxes	4,048	15,227
Income tax expense	1,214	4,222
Net income before non-controlling interest	2,834	11,005
Net (income) attributable to non-controlling interest	(1)	-
Net income	\$2,833	\$11,005
Per share data:		
Earnings per share – basic	\$0.06	\$0.24
Earnings per share – diluted	\$0.06	\$0.23
Cash dividends per share paid	\$0.14	\$0.18

Refer to Notes to Unaudited Condensed Consolidated Financial Statements

Bank Mutual Corporations and Subsidiaries
Unaudited Condensed Consolidated Statements of Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-Controlling Interest in Real Estate Partnership	Total
<i>(Dollars in thousands, except per share data)</i>								
Balance at January 1, 2010	\$788	\$499,376	\$272,518	\$(347)	\$(2,406)	\$(367,452)	\$2,924	\$405,401
Comprehensive income:								
Net income	–	–	2,833	–	–	–	–	2,833
Net income attributable to non-controlling interest	–	–	–	–	–	–	1	1
Other comprehensive income:								
Change in net unrealized gain on securities available-for-sale, net of deferred income taxes of \$5,878	–	–	–	–	8,776	–	–	8,776
Reclassification adjustment for gain on securities included in income, net of income taxes of \$(4,440)	–	–	–	–	(6,632)	–	–	(6,632)
Total comprehensive income	–	–	–	–	–	–	–	4,978
Purchase of treasury stock	–	–	–	–	–	(5,029)	–	(5,029)
Issuance of management recognition plan shares	–	(184)	–	–	–	184	–	–
Committed ESOP shares	–	250	–	173	–	–	–	423
Exercise of stock options	–	(4,469)	–	–	–	5,009	–	540
Share based payments	–	62	–	–	–	–	–	62
Cash dividends (\$0.14 per share)	–	–	(6,391)	–	–	–	–	(6,391)
Balance at June 30, 2010	\$788	\$495,035	\$268,960	\$(174)	\$(262)	\$(367,288)	\$2,925	\$399,984
Balance at January 1, 2009	\$788	\$498,501	\$273,826	\$(1,247)	\$(16,404)	\$(355,853)	\$2,924	\$402,535
Comprehensive income:								
Net income	–	–	11,005	–	–	–	–	11,005
Net income attributable to non-controlling interest	–	–	–	–	–	–	–	–
Other comprehensive income:								
Change in net unrealized gain on securities available-for-sale, net of deferred income taxes of \$3,195	–	–	–	–	7,228	–	–	7,228
Reclassification adjustment for gain on securities included in income, net of income taxes of \$(1,071)	–	–	–	–	(1,601)	–	–	(1,601)
Total comprehensive income	–	–	–	–	–	–	–	16,632
Purchase of treasury stock	–	–	–	–	–	(10,564)	–	(10,564)
Committed ESOP shares	–	1,075	–	450	–	–	–	1,525
Exercise of stock options	–	(805)	–	–	–	1,091	–	286
Share based payments	–	815	–	–	–	–	–	815
Cash dividends (\$0.18 per share)	–	–	(8,479)	–	–	–	–	(8,479)
Balance at June 30, 2009	\$788	\$499,586	\$276,352	\$(797)	\$(10,777)	\$(365,326)	\$2,924	\$402,750

Refer to Notes to Unaudited Condensed Consolidated Financial Statements

Bank Mutual Corporation and Subsidiaries
Unaudited Condensed Consolidated Statements of Cash Flows

	Six Months Ended June 30	
	2010	2009
	<i>(Dollars in thousands)</i>	
Operating activities:		
Net income	\$2,833	\$11,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Net provision for loan losses	9,516	3,633
Net loss on foreclosed real estate	3,043	64
Provision for depreciation	1,294	1,244
Amortization of intangibles	203	202
Amortization of mortgage servicing rights	1,036	1,947
Increase (decrease) in valuation allowance on MSRs	206	(453)
Increase in non-controlling interest in real estate partnership	1	-
Stock-based compensation expense	485	2,340
Net premium amortization on securities	1,522	245
Loans originated for sale	(112,350)	(428,135)
Proceeds from loan sales	105,545	417,695
Net gain on loan sales activities	(1,817)	(6,762)
Net gain on sale of investments	(11,072)	(3,503)
Other-than-temporary impairment of available-for-sale securities	-	831
Accrued FDIC special assessment	-	1,550
Decrease in other liabilities	(8,149)	(7,522)
Increase in other assets	(3,180)	(10,344)
Decrease in accrued interest receivable	1,885	1,696
Net cash used in operating activities	<u>(8,999)</u>	<u>(14,267)</u>
Investing activities:		
Proceeds from maturities of investment securities	571,690	156,177
Purchases of investment securities	(814,367)	(125,389)
Purchases of mortgage-related securities	(476,562)	(457,340)
Principal repayments on mortgage-related securities	96,587	162,733
Proceeds from sale of investment securities	520,852	177,958
Net decrease in loans receivable	69,278	192,869
Proceeds from sale of foreclosed properties	2,564	2,167
Net purchases of premises and equipment	(1,117)	(819)
Net cash provided (used) in investing activities	<u>(31,075)</u>	<u>108,356</u>

(continued)

Bank Mutual Corporation and Subsidiaries
Unaudited Condensed Consolidated Statements of Cash Flows (Continued)

	Six Months Ended June 30	
	2010	2009
	<i>(Dollars in thousands)</i>	
Financing activities:		
Net decrease in deposits liabilities	\$(33,816)	\$(57,569)
Repayments of long-term borrowings	(517)	(491)
Net increase in advance payments by borrowers for taxes and insurance	18,411	19,416
Proceeds from exercise of stock options	205	249
Excess tax benefit from exercise of stock options	335	37
Cash dividends	(6,391)	(8,479)
Purchase of treasury stock	(5,029)	(10,564)
Net cash used in financing activities	(26,802)	(57,401)
Increase (decrease) in cash and cash equivalents	(66,876)	36,688
Cash and cash equivalents at beginning of period	227,658	112,893
Cash and cash equivalents at end of period	\$160,782	\$149,581
Supplemental information:		
Interest paid on deposit liabilities and borrowings	\$35,272	\$44,179
Income taxes paid	3,403	8,572
Loans transferred to foreclosed properties and repossessed assets	14,094	7,301

Refer to Notes to Unaudited Condensed Consolidated Financial Statements

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

1. Basis of Presentation

The Unaudited Condensed 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 Condensed Consolidated Financial Statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) 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 GAAP for complete financial information. However, in the opinion of management, all adjustments (consisting of normal recurring entries) necessary for a fair presentation of operations, cash flows, and financial position have been included in the accompanying financial statements. This report should be read in conjunction with the Company’s 2009 Annual Report on Form 10-K. Operating results for the three and six months ended June 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

In 2008 the FASB issued new accounting guidance related to employer’s disclosures about postretirement benefit plan assets. This new guidance was effective for fiscal years ending after December 15, 2009. The Company’s adoption of this new guidance had no impact on the Company’s financial condition, results of operations, or liquidity, although it affected how certain matters are presented in the financial statements.

In April 2009 the FASB issued new accounting guidance in three areas: recognition and presentation of other-than-temporary impairments (“OTTI”); determining fair value for assets or liabilities in markets that are not orderly; and interim disclosures about the fair value of financial instruments. The new guidance in all of these areas was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ended after March 15, 2009. The Company adopted the new guidance in all three of these areas during the second quarter of 2009. Application of this new guidance did not have a material impact on the Company’s financial condition, results of operations, or liquidity, although it affects how certain matters may be presented in the financial statements.

In June 2009 the Company adopted new guidance issued by the FASB related to subsequent events. In February 2010 this guidance was updated. This new guidance established general standards and requirements for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Company evaluated subsequent events through the issuance date of the financial statements.

In June 2009 the FASB amended certain accounting guidance related to the transfer of financial assets. This amended guidance was effective for the first annual reporting period that began after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The amended guidance must be applied to transfers occurring on or after the effective date. Earlier application was prohibited. The Company’s adoption of this amended guidance did not have a material impact on its financial condition, results of operations, or liquidity.

In June 2009 the FASB amended certain accounting guidance related to the consolidation of variable interest entities. The amended guidance was effective as of the beginning of each entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

1. Basis of Presentation (continued)

reporting period, and for interim and annual reporting periods thereafter. Earlier application was prohibited. The Company's adoption of this amended guidance had no impact on its financial condition, results of operations, or liquidity.

In August 2009 the FASB issued new accounting guidance that clarified certain matters relating to the measurement of the fair value of liabilities. This guidance was effective for the first reporting period following its issuance, which for the Company was the fourth quarter of 2009. The Company's adoption of the new guidance had no impact on its financial condition, results of operations, liquidity, or fair value disclosures.

In January 2010 the FASB issued new accounting guidance related to certain disclosures about fair value measurements. Certain aspects of the new guidance are effective for reporting periods beginning after December 15, 2009, which for the Company was the first quarter of 2010. The Company's adoption of this new guidance had no impact on its financial condition, results of operations, or liquidity. Certain other aspects of the new guidance are not effective until the first reporting period after December 15, 2010, which will be the first quarter of 2011 for the Company. The Company's adoption of this portion of the new guidance is not expected to have an impact on its financial condition, results of operations, or liquidity, although it could affect the matters that will be disclosed in the financial statements.

In July 2010 the FASB issued new accounting guidance related to certain disclosures about the credit quality of financing receivables and allowances for credit losses. Certain aspects of the new guidance are effective for reporting periods ending after December 15, 2010, which for the Company will be the fourth quarter of 2010. Certain other aspects of the new guidance are not effective until the accounting periods beginning after December 15, 2010, which will be the first quarter of 2011 for the Company. The Company's adoption of this new guidance is not expected to have an impact on its financial condition, results of operations or liquidity, although it will affect the matters that will be disclosed in the financial statements.

The Company describes all of its critical and/or significant accounting policies, judgments, and estimates in Part II, Item 7, of its 2009 Annual Report on Form 10-K, as well as Note 1 of the Company's Audited Consolidated Financial Statements contained in the same Form 10-K.

Particular attention should be paid to the Company's allowance for losses on loans, which requires significant management judgments and/or estimates because of the inherent uncertainties surrounding this area and/or the subjective nature of the area. Information regarding the impact loss allowances have had on the Company's financial condition and results of operations for the three and six month periods ended June 30, 2010 and 2009, can be found in Part I, Item 2, of this Form 10-Q, under the headings entitled "Results of Operations—Provision for Loan Losses" and "Financial Condition—Asset Quality." In addition, refer to Note 3, "Loans Receivable," below.

Significant judgments and/or estimates are also made in accounting for the Company's goodwill and OTTI of its securities available-for-sale. Due to the continued decline in the price of the Company's common stock, the Company updated its impairment analysis as of June 30, 2010. In the judgment of management there was no impairment of the Company's goodwill as of June 30, 2010. Information regarding the impact OTTI has had on the Company's financial condition and results of operations for the

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

1. Basis of Presentation (continued)

three and six month periods ended June 30, 2010 and 2009, can be found in Note 2, “Securities Available-for-Sale,” below.

Management also makes judgments and estimates related to its assessment of the Company’s tax assets and liabilities. Information relating to the impact tax assets and liabilities have had on the Company's financial condition and results of operations for the three and six month periods ended June 30, 2010 and 2009, can be found in Part I, Item 2, of this Form 10-Q, under the heading entitled “Results of Operations—Income Taxes.”

2. Securities Available-for-Sale

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

	June 30, 2010			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Investment securities:				
U.S. government and federal obligations	\$836,788	\$2,444	\$(15)	\$839,217
Mutual funds	21,545	1,158	(66)	22,637
Total investment securities	858,333	3,602	(81)	861,854
Mortgage-related securities:				
Federal Home Loan Mortgage Corporation	267,440	384	(188)	267,636
Federal National Mortgage Association	271,568	1,837	(1,623)	271,782
Government National Mortgage Association	90,393	1,636	(24)	92,005
Private-label CMOs	106,517	857	(4,767)	102,607
Total mortgage-related securities	735,918	4,714	(6,602)	734,030
Total securities available-for-sale	\$1,594,251	\$8,316	\$(6,683)	\$1,595,884
December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment securities:				
U.S. government and federal obligations	\$594,024	\$128	\$(2,360)	\$591,792
Mutual funds	21,546	831	(65)	22,312
Total investment securities	615,570	959	(2,425)	614,104
Mortgage-related securities:				
Federal Home Loan Mortgage Corporation	291,318	4,180	(310)	295,188
Federal National Mortgage Association	220,437	5,044	(723)	224,758
Government National Mortgage Association	234,796	1,512	(1,188)	235,120
Private-label CMOs	120,780	104	(9,102)	111,782
Total mortgage-related securities	867,331	10,840	(11,323)	866,848
Total securities available-for-sale	\$1,482,901	\$11,799	\$(13,748)	\$1,480,952

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

2. Securities Available-for-Sale (continued)

As of June 30, 2010 the following schedule identifies securities by time in which the securities had a gross unrealized loss.

	Less Than 12 Months in an Unrealized Loss Position			Greater Than 12 Months in an Unrealized Loss Position			Gross Unrealized Loss Amount	Total Estimated Fair Value
	Unrealized Loss Amount	Number of Securities	Estimated Fair Value	Unrealized Loss Amount	Number of Securities	Estimated Fair Value		
Investment securities:								
U.S. Government and federal obligations	\$(15)	1	\$19,985	-	-	-	\$(15)	\$19,985
Mutual funds	-	-	-	\$(66)	1	\$642	(66)	642
Total investment securities	(15)	1	19,985	(66)	1	642	(81)	20,627
Mortgage-related securities:								
Federal Home Loan Mortgage Corporation	(119)	18	157,681	(69)	6	5,884	(188)	163,565
Federal National Mortgage Association	(1,578)	7	88,163	(45)	2	3,729	(1,623)	91,892
Government National Mortgage Association	(24)	3	4,899	-	-	-	(24)	4,899
Private label CMOs	-	-	-	(4,767)	21	64,460	(4,767)	64,460
Total mortgage-related securities	(1,721)	28	250,743	(4,881)	29	74,073	(6,602)	324,816
Total	\$(1,736)	29	\$270,728	\$(4,947)	30	\$74,715	\$(6,683)	\$345,443

As of December 31, 2009, the following schedule identifies securities by time in which the securities had a gross unrealized loss.

	Less Than 12 Months in an Unrealized Loss Position			Greater Than 12 Months in an Unrealized Loss Position			Gross Unrealized Loss Amount	Total Estimated Fair Value
	Unrealized Loss Amount	Number of Securities	Estimated Fair Value	Unrealized Loss Amount	Number of Securities	Estimated Fair Value		
Investment securities:								
U.S. Government and federal obligations	\$(2,360)	24	\$441,714	-	-	-	\$(2,360)	\$441,714
Mutual funds	-	-	-	\$(65)	1	\$644	(65)	644
Total investment securities	(2,360)	24	441,714	(65)	1	\$44	(2,425)	442,358
Mortgage-related securities:								
Federal Home Loan Mortgage Corporation	(122)	3	49,961	(188)	5	6,073	(310)	56,034
Federal National Mortgage Association	(668)	5	35,848	(55)	1	1,490	(723)	37,338
Government National Mortgage Association	(1,106)	5	84,135	(82)	3	7,039	(1,188)	91,174
Private label CMOs	-	-	-	(9,102)	25	88,860	(9,102)	88,860
Total mortgage-related securities	(1,896)	13	169,944	(9,427)	34	103,462	(11,323)	273,406
Total	\$(4,256)	37	\$611,658	\$(9,492)	35	\$104,106	\$(13,748)	\$715,764

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

2. Securities Available-for-Sale (continued)

The Company has determined that the unrealized losses reported for its investment and mortgage-related securities as of June 30, 2010, and December 31, 2009, were temporary. The Company believes it is probable that it will receive all future contractual cash flows related to these securities. The Company does not intend to sell these securities and it is unlikely that it will be required to sell the securities before the recovery of their amortized cost.

A portion of the Company's securities that were in an unrealized loss position at June 30, 2010, and December 31, 2009, consisted of U.S. government and federal agency obligations and mortgage-related securities issued by government sponsored entities. Accordingly, the Company determined that none of those securities were other-than-temporarily impaired as of those dates. The Company also determined that none of its private-label collateralized mortgage obligations ("CMOs") were other-than-temporarily impaired as of those dates. This determination was based on management's judgment regarding the nature of the loan collateral that supports the securities, a review of the current ratings issued on the securities by various credit rating agencies, a review of the actual delinquency and/or default performance of the loan collateral that supports the securities, and recent trends in the fair market values of the securities. In addition, as of June 30, 2010, the Company had eleven private-label CMOs, with an aggregate carrying value of \$40,789 and unrealized loss of \$2,727, that were rated less than investment grade. These eleven private-label CMOs were analyzed using modeling techniques that considered the priority of cash flows in the CMO structure and various default and loss rate scenarios that management considered appropriate given the nature of the loan collateral. Based on this analysis, management concluded that none of these eleven securities were other-than-temporarily impaired as of June 30, 2010, or December 31, 2009.

During the first quarter of 2009, the Company recorded an impairment of \$831 on one of its mutual fund investments. This impairment was included as a component of net gain (loss) on investments in the income statement for the six months ended June 30, 2009.

Results of operations included gross realized gains on the sale of securities available-for-sale of \$6,687, and \$610 for the three month periods ending June 30, 2010 and 2009, respectively, and \$11,072 and \$3,503 for the six month periods ending June 30, 2010, and 2009, respectively. None of these periods included gross realized losses on the sale of securities available-for-sale.

The amortized cost and fair values of securities by contractual maturity at June 30, 2010, 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
Due in one year or less	—	—
Due after one year through five years	\$511,074	\$512,528
Due after five years through ten years	241,745	242,427
Due after ten years	83,969	84,262
Mutual funds	21,545	22,637
Mortgage-related securities	735,918	734,030
Total securities available for sale	<u>\$1,594,251</u>	<u>\$1,595,884</u>

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

2. Securities Available-for-Sale (continued)

Investment securities with a fair value of approximately \$515,596 and \$394,789 at June 30, 2010 and December 31, 2009, respectively, were pledged to secure deposits, borrowings, and for other purposes as permitted or required by law.

3. Loans Receivable

Loans receivable consist of the following:

	June 30 2010	December 31 2009
Permanent mortgage loans:		
One- to four-family	\$593,708	\$656,018
Multi-family	221,335	190,377
Commercial real estate	280,147	285,764
Total permanent mortgages	1,095,190	1,132,159
Construction and development loans:		
One- to four-family	13,135	11,441
Multi-family	28,134	52,323
Commercial real estate	27,655	32,109
Total construction and development	68,924	95,873
Total real estate mortgage loans	1,164,114	1,228,032
Consumer loans:		
Fixed home equity	115,105	124,519
Home equity lines of credit	88,872	88,796
Student	18,841	19,793
Home improvement	27,062	28,441
Automobile	3,782	4,077
Other consumer	7,697	9,871
Total consumer loans	261,359	275,497
Commercial business loans	44,673	52,167
Total loans receivable	1,470,146	1,555,696
Undisbursed loan proceeds	(32,751)	(32,690)
Allowance for loan losses	(22,231)	(17,028)
Unearned loan fees and discounts	(196)	78
Total loans receivable, net	\$1,414,968	\$1,506,056

The Company's mortgage loans and home equity loans are primarily secured by properties that are located in the Company's local lending areas in Wisconsin, Minnesota, Michigan, and Illinois.

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

3. Loans Receivable (continued)

A summary of the activity in the allowance for loan losses follows:

	Six Months Ended June 30	
	2010	2009
	<i>(Dollars in thousands)</i>	
Balance at the beginning of the period	\$17,028	\$12,208
Provision for loan losses	9,516	3,633
Charge-offs:		
Mortgage loans	(3,801)	(1,383)
Consumer loans	(395)	(214)
Commercial business loans	(151)	(871)
Total charge-offs	(4,347)	(2,468)
Recoveries:		
Mortgage loans	20	-
Consumer loans	14	19
Commercial business loans	-	-
Total recoveries	34	19
Net charge-offs	(4,313)	(2,449)
Balance at the end of the period	<u>\$22,231</u>	<u>\$13,392</u>

4. Mortgage Servicing Rights

The following table presents the activity in the Company's mortgage servicing rights ("MSRs") for the periods indicated.

	Six Months Ended June 30	
	2010	2009
MSRs at beginning of the period	\$7,186	\$4,525
Additions	949	4,152
Amortization	(1,036)	(1,947)
MSRs at end of period	7,099	6,730
Valuation allowance at end of period	(493)	(369)
MSRs at end of the period, net	<u>\$6,606</u>	<u>\$6,361</u>

The projections of amortization expense shown below for MSRs are based on existing asset balances and the existing interest rate environment as of June 30, 2010. Future amortization expense may be significantly different depending upon changes in the mortgage servicing portfolio, mortgage interest rates, and market conditions.

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

4. Mortgage Servicing Rights (continued)

The following table shows the current period and estimated future amortization expense for MSRs:

		<u>Amount</u>
Six months ended June 30, 2010 (actual)		<u>\$1,036</u>
Estimate for six months ended December 31, 2010		\$619
Estimate for years ended December 31:	2011	1,141
	2012	1,011
	2013	929
	2014	864
	2015	817
	Thereafter	<u>1,225</u>
	Total	<u><u>\$6,606</u></u>

5. Other Assets

Other assets are summarized as follows:

	<u>June 30</u>	<u>December 31</u>
	2010	2009
Accrued interest:		
Mortgage-related securities	\$2,272	\$4,651
Investment securities	2,952	1,875
Loans receivable	6,212	6,795
Total accrued interest	<u>11,436</u>	<u>13,321</u>
Premises and equipment, net	51,538	51,715
Federal Home Loan Bank stock, at cost	46,092	46,092
Bank owned life insurance	54,349	53,295
Prepaid FDIC insurance premiums	10,618	12,521
Prepaid and other assets	35,920	29,762
Total other assets	<u><u>\$209,953</u></u>	<u><u>\$206,706</u></u>

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

6. Deposit Liabilities

Deposit liabilities are summarized as follows:

	June 30 2010	December 31 2009
Checking accounts:		
Non-interest-bearing	\$87,330	\$94,619
Interest-bearing	198,392	211,448
Total checking accounts	285,722	306,067
Money market accounts	340,259	345,144
Savings accounts	211,702	196,983
Certificates of deposit:		
Due within one year	940,065	992,752
After one but within two years	157,264	145,385
After two but within three years	101,835	23,370
After three but within four years	41,183	98,274
After four but within five years	25,662	29,533
After five years	-	-
Total certificates of deposits	1,266,009	1,289,314
Total deposit liabilities	\$2,103,692	\$2,137,508

7. Borrowings

Borrowings consist of the following:

	June 30, 2010		December 31, 2009	
	Balance	Weighted-Average Rate	Balance	Weighted-Average Rate
Federal Home Loan Bank advances maturing in:				
2012	\$100,000	4.52%	\$100,000	4.52%
2013	256	4.17	264	4.17
2016	200,000	4.25	200,000	4.25
2017	557,408	4.15	557,420	4.15
Thereafter	48,798	5.12	49,295	5.12
Total borrowings	\$906,462	4.26%	\$906,979	4.26%

Substantially all of the Company's advances from the Federal Home Loan Bank ("FHLB") of Chicago are subject to prepayment penalties if voluntarily repaid prior to their stated maturity. At June 30, 2010, \$856,000 of the Company's FHLB of Chicago advances were redeemable on a quarterly basis at the option of the FHLB of Chicago.

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

7. Borrowings (continued)

The Company is required to maintain certain unencumbered mortgage loans and certain mortgage-related securities as collateral against its outstanding advances from the FHLB of Chicago. Total advances from the FHLB of Chicago are limited to the lesser of: (1) 35% of the Bank's total assets; (2) 20 times the capital stock of the FHLB of Chicago that is owned by the Bank; or (3) the total of 60% of the book value of certain multi-family mortgage loans, 75% of the book value of one- to four-family mortgage loans, and 95% of certain mortgage-related securities. Advances are also collateralized by any capital stock of the FHLB of Chicago that is owned by the Bank, which amounted to \$46,092 at June 30, 2010.

The Bank has \$15,000 in aggregate lines of credit with unrelated financial institutions. At June 30, 2010, and December 31, 2009, no amounts were outstanding on these lines of credit.

8. Shareholders' Equity

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

Quantitative measures established by federal regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total capital and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to adjusted assets (as all of these terms are defined in the applicable regulations). Management believes, as of June 30, 2010, that the Bank met or exceeded all capital adequacy requirements to which it is subject.

The following table presents the Bank's actual and required regulatory capital amounts and ratios as of June 30, 2010:

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$346,465	21.84%	\$126,898	8.00%	\$158,623	10.00%
Tier 1 capital (to risk-weighted assets)	337,058	21.25	63,449	4.00	95,174	6.00
Tier 1 capital (to adjusted total assets)	337,058	9.85	136,822	4.00	171,028	5.00

The Company is not aware of any conditions or events which would change the Bank's status from "well capitalized."

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

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	
	2010	2009	2010	2009
Basic earnings per share:				
Net income	\$731	\$3,817	\$2,833	\$11,005
Weighted average shares outstanding	45,424,183	46,229,841	45,490,716	46,462,061
Allocated ESOP shares for period	15,772	81,813	31,544	163,626
Vested MRP shares for period	1,070	15,360	1,888	58,179
Basic shares outstanding	45,441,024	46,327,014	45,524,148	46,683,866
Basic earnings per share	\$0.02	\$0.08	\$0.06	\$0.24
Diluted Earnings Per Share:				
Net income	\$731	\$3,817	\$2,833	\$11,005
Weighted average shares used in basic earnings per share	45,441,024	46,327,014	45,524,148	46,683,866
Dilutive effect of:				
Stock option shares	346,324	665,012	390,037	663,383
Unvested MRP shares	-	-	-	-
Diluted shares outstanding	45,787,348	46,992,026	45,914,185	47,347,249
Diluted earnings per share	\$0.02	\$0.08	\$0.06	\$0.23

The Company had stock options for 2,034,000 shares outstanding as of June 30, 2010, and for 2,065,600 shares as of June 30, 2009, that were not included in the computation of diluted earnings per share because they were anti-dilutive. These shares had weighted average exercise prices of \$10.71 and \$10.75 per share as of those dates, respectively.

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 \$39 and \$41 during the three months ended June 30, 2010 and 2009, respectively, and \$76 and \$91 for the six months ended June 30, 2010 and 2009, respectively.

The Company also has a defined benefit pension plan covering employees meeting certain minimum age and service requirements and a non-qualified supplemental pension plan for certain qualifying employees. The supplemental pension plan is funded through a "rabbi trust" arrangement. The benefits are generally based on years of service and the employee's average annual compensation for five consecutive calendar years in the last ten calendar years that 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.

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

10. Employee Benefit Plans (continued)

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

	Qualified Plan For the Three Months Ended June 30		Qualified Plan For the Six Months Ended June 30	
	2010	2009	2010	2009
	Service cost	\$485	\$441	\$970
Interest cost	506	456	1,012	911
Expected return on plan assets	(573)	(430)	(1,146)	(860)
Amortization of prior service cost	–	139	–	279
Net periodic benefit cost	\$418	\$606	\$836	\$1,212

	Supplemental Plan For the Three Months Ended June 30		Supplemental Plan For the Six Months Ended June 30	
	2010	2009	2010	2009
	Service cost	–	\$49	–
Interest cost	\$107	107	\$214	215
Net periodic benefit cost	\$107	\$156	\$214	\$313

The 2010 contribution of \$5,000 made in the second quarter was determined based on a number of factors, including the results of the Actuarial Valuation Report as of January 1, 2010. No contribution is necessary to the Supplemental Plan.

11. Stock-Based Benefit Plans

In 2001 the Company's shareholders approved the 2001 Stock Incentive Plan (the "2001 Plan"), which provided for stock option awards of up to 4,150,122 shares. Options granted under the 2001 Plan vested over five years and had expiration terms of ten years. The 2001 Plan also provided for restricted stock ("MRP") awards of up to 1,226,977 shares. All options and MRPs awarded under the 2001 Plan are fully vested and no further awards may be granted under the 2001 Plan.

In 2004 the Company's shareholders approved the 2004 Stock Incentive Plan (the "2004 Plan"), which provided for stock option awards of up to 4,106,362 shares. Options granted under the 2004 Plan vest over five years and have expiration terms of ten years. The 2004 Plan also provided for MRP awards of up to 1,642,521 shares. MRP shares awarded under the 2004 Plan vest over five years. As of June 30, 2010, 639,721 MRP shares and options for 1,542,362 shares remain eligible for award under the 2004 Plan.

The Company has no stock compensation plans that have not been approved by shareholders.

MRP grants are amortized to compensation expense as the Company's employees and directors become vested in the granted shares. The amount amortized to expense was \$23 and \$176 for the three month periods ended June 30, 2010 and 2009, respectively, and \$42 and \$666 for the six month periods

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

11. Stock-Based Benefit Plans (continued)

ended June 30, 2010 and 2009, respectively. Outstanding non-vested MRP grants had a fair value of \$195 and an unamortized cost of \$334 at June 30, 2010. The cost of these shares is expected to be recognized over a weighted-average period of 1.8 years.

During the three months ended June 30, 2010 and 2009, the Company recorded stock option compensation expense of \$11 and \$58, respectively, and for the six months ended June 30, 2010 and 2009, the Company recorded stock option compensation expense of \$20 and \$150, respectively. As of June 30, 2010, there was \$169 in total unrecognized stock option compensation expense related to non-vested options. This cost is expected to be recognized over a weighted-average period of 1.9 years.

The following schedule reflects activity in the Company's stock options during the six month periods ended June 30, 2010 and 2009.

	Six Months Ended June 30			
	2010		2009	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding at beginning of period	3,129,398	\$8.1823	3,445,967	\$7.8763
Granted	50,000	7.2200	—	—
Exercised	(529,157)	3.2056	(92,660)	3.2056
Forfeited	(110,000)	10.6730	(68,200)	10.6730
Outstanding at end of period	<u>2,540,241</u>	<u>\$9.0921</u>	<u>3,285,107</u>	<u>\$7.9500</u>

The following table provides additional information regarding the Company's outstanding options as of June 30, 2010.

	Remaining Contractual Life	Non-Vested Options		Vested Options	
		Stock Options	Intrinsic Value	Stock Options	Intrinsic Value
Exercise Price:					
\$3.2056	.8 years	—	—	536,241	\$1,327
\$10.6730	3.8 years	—	—	1,822,000	—
\$12.2340	6.0 years	20,000	—	30,000	—
\$11.1600	7.8 years	19,200	—	12,800	—
\$12.0250	8.1 years	40,000	—	10,000	—
\$7.2200	9.8 years	50,000	—	—	—
Total		<u>129,200</u>	<u>—</u>	<u>2,411,041</u>	<u>\$1,327</u>
Weighted average remaining contractual life		<u>4.6 years</u>		<u>3.2 years</u>	
Weighted average exercise price		<u>\$10.0693</u>		<u>\$9.0398</u>	

The intrinsic value of options exercised during the six month periods ended June 30, 2010 and 2009, was \$1,754 and \$541, respectively. The weighted average grant date fair value of non-vested options at June 30, 2010, was \$3.00 per share. During the six month ended June 30, 2010, options for 50,000 shares were granted, options for 6,400 shares became vested, and there were no forfeitures of non-vested options.

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

11. Stock-Based Benefit Plans (continued)

The Company uses the Black-Scholes option-pricing model to estimate the fair value of granted options. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. However, the Company's stock options have characteristics significantly different from traded options and changes in the subjective input assumptions can materially affect the fair value estimate. Option valuation models such as Black-Scholes require the input of highly subjective assumptions including the expected stock price volatility, which is computed using five-years of actual price activity in the Company's stock. The Company uses historical data of employee behavior as a basis to estimate the expected life of the options, as well as forfeitures due to employee terminations. The Company also uses its actual dividend yield at the time of the grant, as well as actual U.S. Treasury yields in effect at the time of the grant to estimate the risk-free rate. The following assumptions were used to value 50,000 options granted during the six month period ended June 30, 2010: risk free rate of 3.00%, dividend yield of 3.00%, expected stock volatility of 25%, and expected term to exercise of 7.5 years. These options were valued at \$1.52 per option using these assumptions. There were no options granted during the six month period ended June 30, 2009.

12. Income Taxes

During first quarter of 2009 the Company recorded a \$1.8 million tax benefit related to the elimination of a valuation allowance it had established against a deferred tax asset in prior years. The deferred tax asset related to Wisconsin net operating loss carryovers for which the Company was unable to determine in prior periods whether it was more likely than not that the tax benefits would be realized in future periods. In the first quarter of 2009 Wisconsin law was amended from a system that taxed each affiliated entity separately to a form of combined reporting. As a result of this change, the Company determined that its Wisconsin net operating losses that had not been recognized in prior periods would be realizable, resulting in a one-time tax benefit of \$1.8 million in the first quarter of 2009.

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

13. Financial Instruments with Off-Balance Sheet Risk

Off-balance sheet financial instruments or obligations whose contract amounts represent credit and/or interest rate risk at June 30, 2010, and December 31, 2009, are as follows:

	June 30 2010	December 31 2009
Unused consumer lines of credit	\$148,948	\$150,424
Unused commercial lines of credit	16,728	18,904
Commitments to extend credit:		
Fixed rate	45,938	35,769
Adjustable rate	1,675	2,185
Undisbursed commercial loans	491	524
Standby letters of credit	147	111

The Company sells substantially all of its long-term, fixed-rate, one- to four-family loan originations in the secondary market. The Company uses derivative instruments to manage interest rate risk associated with these activities. Specifically, the Company enters into interest rate lock commitments (“IRLCs”) with borrowers, which are considered to be derivative instruments. The Company manages its exposure to interest rate risk in IRLCs (as well as interest rate risk in its loans held-for-sale) by entering into forward commitments to sell loans to the Federal National Mortgage Association (“Fannie Mae”). Commitments to sell loans expose the Company to interest rate risk if market rates of interest decrease during the commitment period. Such forward commitments are considered to be derivative instruments. These derivatives are not designated as accounting hedges as specified in GAAP. As such, changes in the fair value of the derivative instruments are recognized currently through earnings.

As of June 30, 2010 and December 31, 2009, net unrealized losses of \$71 and \$306, respectively, were recognized in net gain on loan sales activities on the derivative instruments specified in the previous paragraph. These amounts were exclusive of net unrealized gains (losses) of \$523 and \$(67) on loans held-for-sale as of those dates, respectively, which were also included in net gain on loan sales activities.

The following table summarizes the Company’s derivative assets and liabilities as of the dates indicated:

	June 30, 2010		December 31, 2009	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate lock commitments	\$41,395	\$667	\$15,433	\$(69)
Forward commitments	51,238	(738)	27,668	375
Net unrealized gain (loss)		\$(71)		\$(306)

The unrealized gains shown in the above table were included as a component of other assets as of the dates indicated. The unrealized losses were included in other liabilities as of the dates indicated.

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

14. Fair Value of Financial Instruments

Disclosure of fair value information about certain financial instruments, whether or not recognized in the consolidated financial statements, for which it is practicable to estimate the value, is summarized below. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques.

Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

Certain financial instruments and all nonfinancial instruments are excluded from this disclosure. Accordingly, the aggregate fair value of amounts presented does not represent the underlying value of the Company and is not particularly relevant to predicting the Company's future earnings or cash flows.

The following methods and assumptions are used by the Company in estimating its fair value disclosures of financial instruments:

Cash and Cash Equivalents The carrying amounts reported in the statements of financial condition for cash and cash equivalents approximate those assets' fair values.

Securities Available-for-Sale Fair values for these securities are based on quoted market prices or such prices of comparable instruments. These securities are recorded on the statement of financial condition at fair value; thus the carrying value equals fair value.

Loans Held-for-Sale The fair value of loans held-for-sale is based on the current market price for securities collateralized by similar loans. Loans held-for-sale are recorded on statement of financial condition at fair value; thus the carrying value equals fair value.

Loans Receivable Loans receivable are segregated by type such as one- to four-family, multi-family, and commercial real estate mortgage loans, consumer loans, and commercial business loans. The fair value of each type is calculated by discounting scheduled cash flows through the expected maturity of the loans using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan type.

The estimated maturity is based on the Company's historical experience with prepayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions.

Mortgage Servicing Rights The Company has calculated the fair market value of MSR for those loans that are sold with servicing rights retained. For valuation purposes, loans are stratified by product type and, within product type, by interest rates. The fair value of MSR is based upon the present value of estimated future cash flows using current market assumptions for prepayments, servicing cost and other factors.

Federal Home Loan Bank Stock FHLB of Chicago stock is carried at cost, which is its redeemable (fair) value, since the market for this stock is restricted.

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

14. Fair Value of Financial Instruments (continued)

Accrued Interest Receivable and Payable The carrying values of accrued interest receivable and payable approximate their fair value.

Deposit Liabilities and Advance Payments by Borrowers for Taxes and Insurance Fair value for demand deposits equal book value. Fair values for other deposits are estimated using a discounted cash flow calculation that applies current market borrowing interest rates to a schedule of aggregated expected monthly maturities on deposits. The advance payments by borrowers for taxes and insurance are equal to their carrying amounts at the reporting date.

Borrowings The fair value of long-term borrowings is estimated using discounted cash flow calculations with the discount rates equal to interest rates currently being offered for borrowings with similar terms and maturities. The carrying value on short-term borrowings approximates fair value.

The carrying values and fair values of the Company's financial instruments are presented in the following table as of the indicated dates.

	June 30 2010		December 31 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$160,782	\$160,782	\$227,658	\$227,658
Securities available-for-sale	1,595,884	1,595,884	1,480,952	1,480,952
Loans held-for-sale	21,207	21,207	13,534	13,534
Loans receivable, net	1,414,968	1,343,109	1,506,056	1,483,981
Mortgage servicing rights, net	6,606	7,052	6,899	7,720
Federal Home Loan Bank stock	46,092	46,092	46,092	46,092
Accrued interest receivable	11,436	11,436	13,321	13,321
Deposit liabilities	2,103,692	2,051,522	2,137,508	2,061,164
Borrowings	906,462	1,017,582	906,979	994,300
Advance payments by borrowers	20,919	20,919	2,508	2,508
Accrued interest payable	4,024	4,024	4,228	4,228

Excluded from the above table are off-balance-sheet items (refer to Note 13) as the fair value of these items is not significant.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing its financial assets and liabilities, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs. Accounting guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to prices based on models, methodologies, and/or management judgments that rely

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

14. Fair Value of Financial Instruments (continued)

on direct or indirect observable inputs (Level 2), and the lowest priority to prices derived from models, methodologies, and/or management judgments that rely on significant unobservable inputs (Level 3).

The following table sets forth by level within the fair value hierarchy (i.e., Level 1, 2, or 3) the Company's financial assets that were accounted for at fair value on a recurring basis as of the dates indicated. The Company's financial liabilities accounted for at fair value were a negligible amount as of these dates. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	At June 30, 2010			
	Level 1	Level 2	Level 3	Total
Loans held-for-sale	–	\$21,207	–	\$21,207
Securities available-for-sale:				
Investment securities	\$22,637	839,217	–	861,854
Mortgage-related securities	–	734,030	–	734,030
	At December 31, 2009			
	Level 1	Level 2	Level 3	Total
Loans held-for-sale	–	\$13,534	–	\$13,534
Securities available-for-sale:				
Investment securities	\$22,312	591,792	–	614,104
Mortgage-related securities	–	866,848	–	866,848

For purposes of the impairment testing of MSRs, the underlying mortgage loans are stratified into pools by product type and, within product type, by interest rates. Pools with an amortized cost basis greater than fair value are carried at fair value in the Company's financial statements (refer to Note 1 for additional discussion). Although not included in the above table, the Company considers the fair value of MSRs to be Level 3 in the fair value hierarchy. Pools determined to be impaired at June 30, 2010, had an amortized cost basis of \$2,936 and a fair value of \$2,442 as of that date. Pools determined to be impaired at December 31, 2009, had an amortized cost basis of \$2,286 and a fair value of \$1,999 as of that date. Accordingly, the Company established a valuation allowance of \$493 as of June 30, 2010, compared to \$287 as of December 31, 2009. Refer to Note 4 for additional disclosures related to MSRs.

For non-accrual loans greater than an established threshold and individually evaluated for impairment and all renegotiated loans, impairment is measured based on: (1) the fair value of the loan or the fair value of the collateral less estimated selling costs (collectively the "collateral value method") or (2) the present value of the estimated cash flows discounted at the loan's original effective interest rate (the "discounted cash flow method"). The resulting valuation allowance, if any, is a component of the allowance for loan losses. The discounted cash flow method is a fair value measure. For the collateral value method, the Company generally obtains appraisals to support the fair value of collateral underlying the loans. Appraisals incorporate measures such as recent sales prices for comparable properties and costs of construction. The Company considers these fair values to be Level 3 in the fair value hierarchy. For those loans individually evaluated for impairment using the collateral value method, a valuation

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2010

(Dollars in Thousands, Except Per Share Amounts)

14. Fair Value of Financial Instruments (continued)

allowance of \$12,824 was recorded for loans with a recorded investment of \$29,743 at June 30, 2010. These amounts were \$6,033 and \$16,299 at December 31, 2009, respectively.

Foreclosed properties acquired through, or in lieu of, loan foreclosure are recorded at the lower of cost or fair value less estimated costs to sell. In determining fair value, the Company generally obtains appraisals to support the fair value of foreclosed properties. The Company considers these fair values to be Level 3 in the fair value hierarchy. As of June 30, 2010, \$16,535 in foreclosed properties were valued at collateral value compared to \$10,442 at December 31, 2009.

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

Cautionary Statement

This report contains or incorporates by reference various forward-looking statements concerning the Company's prospects that are based on the current expectations and beliefs of management. Forward-looking statements may contain words such as "anticipate," "believe," "estimate," "expect," "objective," "projection" and similar expressions or use of verbs in the future tense, and are intended to identify forward-looking statements; any discussions of periods after the date 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, including high rates of unemployment and the significant instability in credit, lending, and financial markets; declines in the real estate market, which could affect both collateral values and loan activity; high unemployment and other factors which could affect borrowers' ability to repay their loans; negative developments affecting particular borrowers, which could adversely impact loan repayments and collection; illiquidity of financial markets and other negative developments affecting particular investment and mortgage-related securities, which could adversely impact the fair value of and/or cash flows from such securities; legislative and regulatory initiatives and changes, including action taken, or that may be taken, in response to difficulties in financial markets and/or which could negatively affect the right of creditors; monetary and fiscal policies of the federal government; increased competition and/or disintermediation within the financial services industry; the effects of further regulation and consolidation within the financial services industry, including substantial changes under the recently enacted Dodd-Frank Act; changes in regulators' expectations for financial institutions' capital levels; changes in tax rates, deductions and/or policies; changes in FDIC premiums and other governmental assessments; changes in deposit flows; changes in the cost of funds; fluctuations in general market rates of interest and/or yields or rates on competing loans, investments, and sources of funds; demand for loan or deposit products; demand for other financial services; changes in accounting policies or guidelines; natural disasters, acts of terrorism, or developments in the war on terrorism; and the factors discussed in the Company's filings with the Securities and Exchange Commission, particularly under Part I, Item 1A, "Risk Factors," of the Company's 2009 Annual Report on Form 10-K.

Results of Operations

Overview The Company's net income was \$731,000 or \$0.02 per diluted share in the second quarter of 2010 compared to \$3.8 million or \$0.08 per diluted share during the same period in 2009. Net income for the six month period ended June 30, 2010, was \$2.8 million or \$0.06 per diluted share compared to \$11.0 million or \$0.23 per diluted share in the same period last year. The Company's net income for the quarter periods represented a return on average assets ("ROA") of 0.08% and 0.44%, respectively, and a return on average equity ("ROE") of 0.73% and 3.78%, respectively. For the six month periods, net income represented an ROA of 0.16% and 0.63% in 2010 and 2009, respectively, and an ROE of 1.41% and 5.46% in the same periods, respectively.

Net income during the three months ended June 30, 2010, decreased by \$3.1 million or 80.8% compared to the same period in 2009. Net income during the 2010 period was impacted by the following unfavorable developments compared to the same period in 2009:

- a \$5.7 million increase in provision for loan losses;
- a \$5.5 million or 30.6% decrease in net interest income;
- a \$2.0 million increase in losses on foreclosed real estate; and
- a \$1.8 million or 60.3% decrease in gains on loan sales activities.

These unfavorable developments were partially offset by the following favorable developments relative to the same three months in 2009:

- a \$6.1 million increase in gains on investments;
- a \$2.4 million or 93.7% decrease in income tax expense;
- a \$1.4 million or 13.5% decrease in compensation-related expenses; and
- a \$1.4 million or 57.3% decrease in FDIC insurance premiums and special assessments.

Net income during the six months ended June 30, 2010, decreased by \$8.2 million or 74.7% compared to the same period in 2009. Net income during the 2010 period was impacted by the following unfavorable developments compared to the same period in 2009:

- a \$10.5 million or 28.5% decrease in net interest income;
- a \$5.9 million or 162% increase in provision for loan losses;
- a \$4.9 million or 73.1% decrease in gains on loan sales activities; and
- a \$3.0 million increase in losses on foreclosed real estate.

These unfavorable developments were partially offset by the following favorable developments relative to the same six months in 2009:

- an \$8.4 million increase in gains on investments;
- a \$3.0 million or 71.2% decrease in income tax expense;
- a \$2.7 million or 13.0% decrease in compensation-related expenses;
- a \$705,000 or 25.9% decrease in FDIC insurance premiums and special assessments;
- a \$544,000 increase in loan-related fees and servicing revenue compared to a loss in the previous year; and
- a \$543,000 or 16.9% increase in other non-interest income.

The following paragraphs describe these changes in greater detail, along with other matters affecting the Company's results of operations during the three and six month periods ended June 30, 2010 and 2009.

Net Interest Income Net interest income declined by \$5.5 million or 30.6% during the three months ended June 30, 2010, compared to the same period in 2009. Net interest income declined by \$10.5 million or 28.5% during the six months ended June 30, 2010, compared to the same period last year. These declines were primarily attributable a decrease in interest rate spread between the periods and, to a lesser extent, by a decrease in average earning assets between the periods. The Company's interest rate spread decreased by 59 and 56 basis points during the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. The Company's earning assets decreased by \$30.7 million or 0.9% and \$47.2 million or 1.4% during the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009.

In 2009 and 2010 the Company has experienced increased levels of liquidity due to reduced loan demand and increased repayment activity in its loan and securities portfolios. These developments were caused by a deterioration in economic conditions, as well as a historically low interest rate environment that has resulted in increased refinancing of adjustable-rate residential and home equity loans into fixed-rate residential loans, which the Company typically sells in the secondary market. In addition, in recent periods the Company has sold significant amounts of longer-term, higher-yielding mortgage-related securities at gains in an effort to position its balance sheet for higher interest rates. The Company has reinvested the cash flows from these sources in short- to medium-term fixed-rate securities and has increased its holding of overnight investments. Such investments typically have lower yields than longer-term, fixed-rate loans and securities. As a result of these developments, the Company's interest rate spread has declined in recent periods.

The Company has also managed its liquidity position over the past year by reducing the rates it offers on its certificates of deposits and certain other deposit accounts. This has resulted in a \$32.1 million or 1.6% decrease in average deposit liabilities during the six months ended June 30, 2010, compared to the same period in 2009. It has also resulted in an 86 basis point decline in the weighted average cost of interest-bearing deposit liabilities during the six month period in 2010 compared to the same period in 2009.

The following table presents certain details regarding the Company's average balance sheet and net interest income for the periods indicated. The tables present the average yield on interest-earning assets and the average cost of interest-bearing liabilities. The yields and costs are derived by dividing income or expense by the average balance of interest-earning 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 are 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 average interest-earning assets. No tax equivalent adjustments were made since the Company does not have any tax exempt investments.

	Three Months Ended June 30					
	2010			2009		
	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Paid	Average Yield/ Rate
Assets:	<i>(Dollars in thousands)</i>					
Interest-earning assets:						
Loans receivable (1)	\$1,477,875	\$19,879	5.38%	\$1,732,909	\$24,541	5.66%
Mortgage-related securities	714,861	5,153	2.88	996,655	10,052	4.03
Investment securities (2)	850,360	4,454	2.10	379,771	4,551	4.79
Interest-earning deposits	185,170	100	.22	149,670	22	.06
Total interest-earning assets	<u>3,228,266</u>	<u>29,586</u>	<u>3.67</u>	<u>3,259,005</u>	<u>39,166</u>	<u>4.81</u>
Non-interest-earning assets	243,297			231,546		
Total average assets	<u>\$3,471,563</u>			<u>\$3,490,551</u>		
Liabilities and equity:						
Interest-bearing liabilities:						
Regular savings deposits	\$210,631	29	0.06	\$202,739	37	0.07
Money market accounts	340,474	520	0.61	331,313	635	.77
Interest-bearing demand accounts	200,562	29	.06	187,160	28	.06
Certificates of deposit	1,264,567	6,848	2.17	1,300,010	10,820	3.33
Total deposit liabilities	<u>2,016,234</u>	<u>7,426</u>	<u>1.47</u>	<u>2,021,222</u>	<u>11,520</u>	<u>2.28</u>
Advance payments by borrowers for taxes and insurance	17,000	1	0.02	17,089	3	0.07
Borrowings	906,557	9,764	4.31	907,569	9,778	4.31
Total interest-bearing liabilities	<u>2,939,791</u>	<u>17,191</u>	<u>2.34</u>	<u>2,945,880</u>	<u>21,301</u>	<u>2.89</u>
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	92,314			92,310		
Other non-interest-bearing liabilities	39,572			48,957		
Total non-interest-bearing liabilities	<u>131,886</u>			<u>141,267</u>		
Total liabilities	<u>3,071,677</u>			<u>3,087,147</u>		
Total equity	399,886			403,404		
Total average liabilities and equity	<u>\$3,471,563</u>			<u>\$3,490,551</u>		
Net interest income and net interest rate spread		<u>\$12,395</u>	<u>1.33%</u>		<u>\$17,865</u>	<u>1.92%</u>
Net interest margin			<u>1.54%</u>			<u>2.19%</u>
Average interest-earning assets to average interest-bearing liabilities	<u>1.10x</u>			<u>1.11x</u>		

- (1) For the purposes of these computations, non-accruing loans and loans held-for-sale are included in the average loans outstanding.
- (2) FHLB of Chicago stock and mutual funds are included in investment securities dollars outstanding and yields.

Six Months Ended June 30

	2010			2009		
	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 (3)	\$1,497,527	\$40,735	5.44%	\$1,782,772	\$50,771	5.70%
Mortgage-related securities	750,414	11,513	3.07	949,668	20,550	4.33
Investment securities (4)	778,369	9,185	2.36	404,853	9,758	4.82
Interest-earning deposits	190,280	145	0.15	126,532	73	0.12
Total interest-earning assets	3,216,590	61,578	3.83	3,263,825	81,152	4.97
Non-interest-earning assets	268,267			233,039		
Total average assets	<u>\$3,484,857</u>			<u>\$3,496,864</u>		
Liabilities and equity:						
Interest-bearing liabilities:						
Regular savings deposits	\$204,673	57	0.06	\$195,551	74	0.08
Money market accounts	335,203	1,009	0.60	333,323	1,647	0.99
Interest-bearing demand accounts	196,383	51	0.05	182,067	114	0.13
Certificates of deposit	1,267,765	14,519	2.29	1,325,189	22,799	3.44
Total deposit liabilities	2,004,024	15,636	1.56	2,036,130	24,634	2.42
Advance payments by borrowers for taxes and insurance	12,325	2	0.03	12,079	4	0.07
Borrowings	906,687	19,430	4.29	907,693	19,456	4.29
Total interest-bearing liabilities	2,923,036	35,068	2.40	2,955,902	44,094	2.98
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	89,938			88,539		
Other non-interest-bearing liabilities	70,380			49,566		
Total non-interest-bearing liabilities	160,318			138,105		
Total liabilities	3,083,354			3,094,007		
Total equity	401,503			402,857		
Total average liabilities and equity	<u>\$3,484,857</u>			<u>\$3,496,864</u>		
Net interest income and net interest rate spread		\$26,510	1.43%		\$37,058	1.99%
Net interest margin			<u>1.65%</u>			<u>2.27%</u>
Average interest-earning assets to average interest-bearing liabilities	<u>1.10x</u>			<u>1.10x</u>		

(3) For the purposes of these computations, non-accruing loans and loans held-for-sale are included in the average loans outstanding.

(4) FHLB of Chicago stock and mutual funds are included in investment securities dollars outstanding and yields.

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 the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to the change attributable to change in volume (change in volume multiplied by prior rate), the change attributable to change in rate (change in rate multiplied by prior volume), and the net change. The change attributable to the combined impact of volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

Three Months Ended June 30, 2010 Compared to June 30, 2009			
Increase (Decrease)			
	Volume	Rate	Net
<i>(Dollars in thousands)</i>			
Interest-earning assets:			
Loans receivable	\$(3,494)	\$(1,168)	\$(4,662)
Mortgage-related securities	(2,441)	(2,458)	(4,899)
Investment securities	3,457	(3,554)	(97)
Interest-earning deposits	6	72	78
Total interest-earning assets	(2,472)	(7,108)	(9,580)
Interest-bearing liabilities:			
Savings accounts	(3)	(5)	(8)
Money market accounts	18	(133)	(115)
Interest-bearing demand accounts	2	(1)	1
Certificates of deposit	(288)	(3,684)	(3,972)
Total deposit liabilities	(271)	(3,823)	(4,094)
Advance payments by borrowers for taxes and insurance	-	(2)	(2)
Borrowings	(11)	(3)	(14)
Total interest-bearing liabilities	(282)	(3,828)	(4,110)
Net change in net interest income	\$(2,190)	\$(3,280)	\$(5,470)

Six Months Ended June 30, 2010 Compared to June 30, 2009			
Increase (Decrease)			
	Volume	Rate	Net
<i>(Dollars in thousands)</i>			
Interest-earning assets:			
Loans receivable	\$(7,800)	\$(2,236)	\$(10,036)
Mortgage-related securities	(3,783)	(5,254)	(9,037)
Investment securities	6,044	(6,617)	(573)
Interest-earning deposits	45	27	72
Total interest-earning assets	(5,494)	(14,080)	(19,574)
Interest-bearing liabilities:			
Savings accounts	4	(21)	(17)
Money market accounts	9	(647)	(638)
Interest-bearing demand accounts	8	(71)	(63)
Certificates of deposit	(950)	(7,330)	(8,280)
Total deposit liabilities	(929)	(8,069)	(8,998)
Advance payments by borrowers for taxes and insurance	-	(2)	(2)
Borrowings	(22)	(4)	(26)
Total interest-bearing liabilities	(951)	(8,075)	(9,026)
Net change in net interest income	\$(4,543)	\$(6,005)	\$(10,548)

Provision for Loan Losses The Company's provision for loan losses was \$6.2 million during the three months ended June 30, 2010, compared to \$472,000 in the same period last year. During the six month periods ended as of these same dates, the Company's provision for loan losses was \$9.5 million and \$3.6 million, respectively. The losses in these periods have been affected by the continued weakness in economic conditions and elevated levels of unemployment since 2008, which have resulted in increased

stress on the Company's borrowers, increased loan delinquencies, and lower real estate values. These conditions have been particularly challenging for the Company's portfolio of multi-family and commercial real estate loans and commercial business loans. During the second quarter of 2010 the Company recorded \$4.1 million in loss provisions against seven unrelated loan relationships aggregating \$15.9 million. These loans defaulted and/or were determined to be collateral dependent in the second quarter or were determined to be collateral dependent in a prior period, but management determined that the collateral had deteriorated further in value during the second quarter based on updated, independent appraisals or internal management evaluations. These loans are secured by office, commercial, and retail buildings, developed land, and equipment and inventory. In addition, the Company recorded \$1.2 million in loss provisions on a number of smaller commercial business, residential, and consumer loans during the quarter. Finally, during the second quarter of 2010 the Company recorded nearly \$1.0 million in additional loss provisions that reflected management's general concerns related to continued declines in commercial real estate values, as well as continued weaknesses in economic conditions and employment.

During the six months ended June 30, 2010, the Company has recorded \$7.3 million in loss provisions against ten unrelated loan relationships aggregating \$33.0 million, including those mentioned in the previous paragraph. As noted in the previous paragraph, all of these losses were based on updated, independent appraisals or internal management evaluations. The collateral for two of these relationships which was valued at \$7.6 million in the aggregate was transferred to foreclosed real estate during 2010, net of an aggregate allowance for loan loss of \$3.0 million. In addition, during the six months ended June 30, 2010, the Company recorded \$1.7 million in loss provisions on a number of smaller commercial business, residential, and consumer loans.

During the six month period ended June 30, 2009, the Company recorded a \$1.3 million provision for loss against a \$9.1 million loan secured by a completed condominium development project and a \$476,000 loss on a \$3.4 million loan secured by an apartment building. The Company transferred both of these loans to foreclosed real estate in 2009. The Company also established \$1.2 million in specific loss allowances on a number of smaller commercial real estate and commercial business loans during the six month period in 2009 and experienced an overall increase in charge-off activity in its portfolio of residential and consumer loans. In addition to these losses, the Company recorded nearly \$600,000 in additional loan loss provisions during the period that reflected management's general concerns relating to deterioration in economic conditions, increased unemployment rates, and declines in real estate values.

For additional discussion related to the Company's non-performing loans, non-performing assets, and allowance for loan losses, refer to "Financial Condition—Asset Quality," below.

Non-Interest Income Total non-interest income increased by \$4.7 million or 62.1% and \$4.4 million or 26.2% during the three and six month periods ended June 30, 2010, compared to the same periods in 2009, respectively. Significant reasons for these increases are discussed in the following paragraphs.

Gains on investment activities for the three months ended June 30, 2010, were \$6.7 million compared to \$610,000 during the same three month period in 2009. These gains were \$11.1 million during the six months ended June 30, 2010, compared to \$2.7 million during the same six month period in 2009. Results for the 2009 periods were net of \$831,000 in OTTI charges related to a mutual fund investment. Excluding this charge, gains on investment activities during the first six months of 2009 were \$3.5 million. During the six months ended June 30, 2010 and 2009, the Company sold \$319.9 million and \$174.5 million, respectively, in longer-term, fixed-rate mortgage-related securities. In addition, the Company sold \$189.9 million in adjustable-rate mortgage-related securities during the first six months of 2010 compared to no sales of such securities in 2009. In recent periods the proceeds from these sales have been reinvested in medium-term government agency securities and short-term agency CMOs. Management considered these actions to be prudent in light of its expectations that interest rates may trend higher in the future. With respect to the adjustable-rate securities that were sold in 2010, management believed these securities were

over-valued relative to other investment alternatives and that such value would decline in a rising rate environment. As such, management elected to sell the securities.

The mutual fund described in the previous paragraph invests primarily in mortgage-related securities, none of which are secured by sub-prime mortgages, but a portion of which are secured by interest-only mortgages, option-payment mortgages, and other “Alt-A” mortgages. As a result of an increase in the fair value of this mutual fund, an additional impairment has not been recorded on this investment since the first quarter of 2009. However, given the uncertainty that exists in the markets for investments secured by these types of loans, as well as the possibility of continued deterioration in the performance of these types of loans, the Company may be required to record future impairment charges against this investment, although there can be no assurances. This investment had a carrying value of \$21.9 million at June 30, 2010, which included an unrealized gain of \$1.2 million based on the mutual fund’s fair value as of that date. This unrealized gain was recorded in accumulated other comprehensive income (net of related taxes), which is a component of shareholders’ equity.

Gains on sales of loans decreased by \$1.8 million or 60.3% and \$4.9 million or 73.1% during the three and six month periods ended June 30, 2010, compared to the same periods in 2009, respectively. During the three and six month periods ended June 30, 2010, sales of one- to four-family mortgage loans were \$173.4 million or 74.6% and \$310.2 million or 74.7% lower than they were during the same periods in 2009, respectively. Loan sales were substantially higher in early 2009 in response to a historically low interest rate environment that encouraged many fixed-rate borrowers to refinance existing loans at lower rates. In addition, adjustable-rate borrowers were motivated to refinance into fixed-rate loans. The Company sells substantially all of these loans in the secondary market. Slightly higher interest rates for mortgage loans during the latter half of 2009 and early 2010 resulted in lower originations and sales of mortgage loans during the first six months of 2010 compared to the same period in the previous year. Although interest rates on mortgage loans have again declined to historical lows in recent weeks, management is uncertain at this time whether loan origination and sale volumes during the rest of 2010 will approach the record levels experienced during the first half of 2009.

Net loan-related fees and servicing revenue was \$94,000 during the three months ended June 30, 2010, compared to \$39,000 in the same period of 2009. Net loan-related fees and servicing revenue was \$252,000 during the first six months of 2010 compared to a loss of \$292,000 during the same six months in 2009. The following table presents the primary components of net loan-related fees and servicing revenue for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
	<i>(Dollars in thousands)</i>			
Gross servicing fees	\$638	\$523	\$1,266	\$987
MSR amortization	(560)	(924)	(1,036)	(1,947)
MSR valuation (loss) recovery	(130)	333	(206)	453
Loan servicing revenue, net	(52)	(68)	24	(507)
Other loan fee income	146	107	228	215
Loan-related fees and servicing revenue, net	\$94	\$39	\$252	\$(292)

Gross servicing fees increased by \$115,000 or 22.0% and \$279,000 or 28.3% during the three and six month periods ended June 30, 2010, compared to the same periods in 2009. During the first six months of 2010 the Company serviced an average of \$1.0 billion in loans for third-party investors compared to \$797.8 million during the same period in the previous year. This increase was caused by a substantial increase in one- to four-family loans originated and sold in the secondary market due to historically low interest rates in 2009. Amortization of MSRs declined by \$364,000 or 39.4% and \$911,000 or 46.8% during the three and six months ended June 30, 2010, respectively, compared to the same periods in the previous year. Lower interest rates in 2009 caused an increase in mortgage loan prepayment activity, which in turn caused higher

levels of MSR amortization in the 2009 periods. Loan-related fees and servicing revenue is also impacted by changes in the valuation allowance that is established against MSRs. The change in this allowance is included in loan-related fees and servicing revenue as a recovery or charge, as the case may be, in the period in which the change occurs. During the three month and six month periods ended June 30, 2010, the valuation allowance increased by \$130,000 and \$206,000, respectively, due to a decline in mortgage rates near the end of June, which resulted in a lower valuation for the Company's MSRs. In contrast, by June 30 of the prior year mortgage interest rates had risen from lower levels earlier in that year, which resulted in a higher valuation for the Company's MSRs as of that date. This resulted in a recovery of previously established valuation allowances during the three and six month periods ended June 30, 2009, as shown in the table, above. As of June 30, 2010, the Company had a valuation allowance of \$493,000 against MSRs with a gross book value of \$7.1 million.

The valuation of MSRs, as well as the periodic amortization of MSRs, is significantly influenced by the level of market interest rates and loan prepayments. If market interest rates for one- to four-family loans increase and/or actual or expected loan prepayment expectations decrease in future periods, the Company could recover all or a portion of its previously established allowance on MSRs, as well as record reduced levels of MSR amortization expense. Alternatively, if interest rates decrease and/or prepayment expectations increase, the Company could potentially record charges to earnings related to increases in the valuation allowance on its MSRs. In addition, amortization expense could increase due to likely increases in loan prepayment activity.

Service charges on deposits declined by \$111,000 or 6.9% and \$168,000 or 5.5% during the three and six months ended June 30, 2010, respectively, compared to the same periods in 2009. These declines were due principally to a decrease in overdraft charges and ATM/debit card fees. Management attributes these declines to the economic recession, which has resulted in reduced spending by consumers in general, including deposit customers of the Company. Management expects that revenue from overdraft charges could decline further in the near term as a result of a recent federal regulation that reduces the circumstances in which such fees can be charged on customer debit card transactions. The Company is taking steps to mitigate the impact this new regulation may have on revenue, but is not able to determine the impact at this time.

Other non-interest income increased by \$356,000 or 22.3% and \$543,000 or 16.9% during the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. Most of these increases were due to an increase in earnings from the Company's investment in bank-owned life insurance ("BOLI").

Non-Interest Expense Total non-interest expense decreased by \$926,000 or 5.0% during the three months ended June 30, 2010, compared to the same period in 2009. Total non-interest expense also decreased by \$819,000 or 2.3% during the six months ended June 30, 2010, compared to the same six months in 2009. Significant reasons for these decreases are discussed in the following paragraphs.

Compensation and related expenses declined by \$1.4 million or 13.5% and \$2.7 million or 13.0% during the three and six months ended June 30, 2010, compared to the same periods in 2009. These declines were primarily caused by lower levels of stock-based compensation. ESOP expense has declined because 2010 is the last year of the Company's original commitment to the plan. Under the terms of the plan, the number of shares scheduled to be allocated to employees in the final year is substantially lower than it was in prior years. Management does not expect to continue ESOP contributions beyond its original commitment at this time. However, this decision is subject to review on a periodic basis and contributions may be increased in future periods. Also contributing to the decrease in stock-based compensation in the 2010 periods relative to 2009 was a large grant of stock options and restricted stock that was made in 2004 that became fully vested in mid-2009. No related amortization expense related to that grant has been recorded beyond that point.

Federal insurance premiums and special assessments decreased by \$1.4 million or 57.3% and \$705,000 or 25.9% during the three and six month periods ended June 30, 2010, respectively, compared to the same periods in the prior year. Results in 2009 included a \$1.6 million non-recurring special assessment from the FDIC that was charged to all insured financial institutions based on each institution's total assets, less its Tier 1 capital, as of June 30, 2009. Excluding this special assessment, the Company's FDIC insurance premiums increased by \$196,000 or 24.1% and \$845,000 or 71.9% during the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. In 2009 the FDIC raised its regular premium rates for all financial institutions. In addition, during the first quarter of 2009 the Company utilized the last of certain premium credits that had been available to offset deposit premium costs.

Occupancy and equipment costs during the three and six months ended June 30, 2010, were \$206,000 or 7.1% and \$404,000 or 6.6% lower than the same periods in 2009, respectively. These decreases were primarily caused by lower data processing costs, due to the negotiation of a new contract with the Company's third-party data processor in late 2009, as well as lower levels of repair and maintenance expense and rent expense in the 2010 periods.

Losses on foreclosed real estate were \$2.1 million during the three months ended June 30, 2010, compared to \$69,000 in the same period last year. During the six months ended June 30, 2010, these losses were \$3.0 million compared to \$64,000 during the same six months in 2009. In recent periods the Company has experienced an increase in losses on foreclosed real estate due to continued declines in real estate values and weak economic conditions. If these conditions persist, future losses on foreclosed real estate could remain elevated in the near term.

Income Tax Expense Income tax expense was \$162,000 during the three months ended June 30, 2010, compared to \$2.6 million in the same period of 2009. Income tax expense during the six months ended June 30, 2010, was \$1.2 million compared to \$4.2 million in the same period last year. In the first quarter of 2009 the Company recorded a \$1.8 million tax benefit related to the elimination of a valuation allowance it had established against a deferred tax asset in prior years. The deferred tax asset related to Wisconsin net operating loss carryovers for which management was unable to determine in prior periods whether it was more likely than not that the tax benefits would be realized in future periods. In the first quarter of 2009 Wisconsin law was amended from a system that taxed each affiliated entity separately to a form of combined reporting. As a result of this change, management determined that the Company's Wisconsin net operating losses that had not been recognized in prior periods would be realizable, resulting in a one-time tax benefit of \$1.8 million in the first quarter of 2009. Excluding the impact of this one-time tax benefit, the Company's effective tax rate ("ETR") for first six months of 2010 and 2009 was 30.0% and 39.5%, respectively. The ETR for the second quarters of 2010 and 2009 was 18.1% and 40.1%, respectively. The Company's ETR is lower in 2010 because non-taxable revenue, such as earnings from BOLI, comprises a larger percentage of pre-tax earnings in 2010 than it did in 2009.

Like many Wisconsin financial institutions, the Bank has non-Wisconsin subsidiaries that hold and manage investment assets, the income from which was not subject to Wisconsin tax prior to 2009. The Wisconsin Department of Revenue (the "Department") has instituted an audit program specifically aimed at financial institutions' out-of-state investment subsidiaries. The Department has asserted the position that some or all of the income of the out-of-state subsidiaries in years prior to 2009 was taxable in Wisconsin. In June 2010, the Department's auditor issued a Notice of Proposed Audit Report to the Bank which proposes to tax all of the income of the Bank's out-of-state investment subsidiaries for all periods that are still open under the statute of limitations, through and including the year 2006. This is merely a preliminary determination made by the auditor and does not represent a formal assessment. The Bank's outside legal counsel is planning to meet with representatives of the Department to discuss, and object to, the auditor's proposed adjustments. Management continues to believe that the Bank has reported income and paid Wisconsin taxes in prior periods in accordance with applicable legal requirements and the Department's long-standing interpretations of them and that the Bank's position will prevail in discussions with the Department, court proceedings, or other actions that may occur. Ultimately, however, an adverse

resolution of these matters could result in additional Wisconsin tax obligations for prior periods, which could have a substantial negative impact on the Bank's earnings in the period of the resolution. The Bank may also incur further costs in the future to address and defend these issues.

Financial Condition

Overview The Company's total assets decreased by \$29.5 million or 0.8% during the six months ended June 30, 2010. Total assets at June 30, 2010, were \$3.48 billion compared to \$3.51 billion at December 31, 2009. During the period the Company's cash and cash equivalents declined by \$66.9 million or 29.4% and its loan portfolio declined by \$91.1 million or 6.0%. These developments were partially offset by a \$114.9 million or 7.8% increase in the Company's securities available-for-sale. The Company's deposit liabilities decreased by \$33.8 million or 1.6% during the six months ended June 30, 2010. The Company's total shareholders' equity decreased from \$402.5 million at December 31, 2009, to \$397.1 million at June 30, 2010. Non-performing assets increased by \$18.0 million or 29.8% to \$78.2 million during the six months ended June 30, 2010.

The following paragraphs describe these changes in greater detail, along with other changes in the Company's financial condition during the six months ended June 30, 2010.

Cash and Cash Equivalents Cash and cash equivalents declined from \$227.7 million at December 31, 2009, to \$160.8 million at June 30, 2010. Although the Company continues to maintain a relatively high level of overnight investments for the reasons described earlier in this report, during the first six months of 2010 the Company reduced its holding of such investments to purchase securities available-for-sale and to fund declines in deposit liabilities.

Securities Available-for-Sale The Company's portfolio of securities available-for-sale increased by \$114.9 million or 7.8% during the six months ended June 30, 2010. This increase was primarily caused by the purchase of \$1.3 billion in securities consisting principally of medium-term government agency securities and short-term agency CMOs. These purchases were offset in part by \$509.8 million in sales of securities, as previously described, as well as \$571.1 million in securities that were called by their issuers during the period.

The Company classifies all of its securities as available-for-sale. Changes in the fair value of such securities are recorded through accumulated other comprehensive loss (net of deferred income taxes), which is a component of shareholders' equity. During the six months ended June 30, 2010, the fair value adjustment on the Company's available-for-sale securities improved from a net unrealized loss of \$1.9 million at December 31, 2009, to a net unrealized gain of \$1.6 million at June 30, 2010. This improvement was primarily due to an increase in the fair value of the Company's portfolio of private-label CMOs and, to a lesser extent, certain government agency securities. The Company's private-label CMOs were originally purchased from 2004 to early 2006 and are secured by prime residential mortgage loans. The securities were all rated "triple-A" by various credit rating agencies at the time of their original purchase. However, in 2009 and 2010 a number of the securities in the portfolio were downgraded. The following table presents the credit ratings, carrying values, and unrealized gains (losses) of the Company's private-label CMO portfolio as of the dates indicated (in instances of split-ratings, each security has been classified according to its lowest rating):

	June 30, 2010		December 31, 2009	
	Carrying Value	Unrealized Gain (Loss), Net	Carrying Value	Unrealized Gain (Loss), Net
Credit rating:	<i>(Dollars in thousands)</i>			
AAA/Aaa	\$16,349	\$384	\$22,959	\$(341)
AA/Aa	9,406	(124)	9,980	(483)
A	21,972	(1,109)	31,377	(3,260)
BBB/Baa	14,090	(334)	15,769	(2,151)
Less than investment grade	40,789	(2,727)	31,697	(2,763)
Total private-label CMOs	\$102,606	\$(3,910)	\$111,782	\$(8,998)

Although the net unrealized gain (loss) on the Company's private-label CMOs declined during the six months ended June 30, 2010, the market value for these securities has remained depressed due to a general deterioration in economic conditions and related declines in real estate values. However, management has determined that it is unlikely the Company will not collect all amounts due according to the contractual terms of these securities. As such, management has determined that none of the Company's private-label CMOs are other-than-temporarily impaired as of June 30, 2010. However, collection is subject to numerous factors outside of the Company's control and a future determination of OTTI could result in significant losses being recorded through earnings in future periods. For additional discussion relating to the Company's securities available-for-sale, refer to "Results of Operations—Non-Interest Income," above, as well as Note 2, "Securities Available-for-Sale," of the Company's Unaudited Condensed Consolidated Financial Statements, above.

Loans Held-for-Sale Loans held-for-sale increased from \$13.5 million at December 31, 2009, to \$21.2 million at June 30, 2010. The Company's policy is to sell substantially all of its fixed-rate, one- to four-family mortgage loan originations in the secondary market. Originations of such loans increased near the end of the second quarter of 2010 in response to lower interest rates on mortgage loans, which has resulted in increased refinance activity. As a result, management expects gains on sales of loans to increase in the near term, but cannot be certain whether such gains during the rest of 2010 will approach the record levels experienced during the first half of 2009.

Loans Receivable Loans receivable decreased by \$91.1 million or 6.0% as of June 30, 2010, compared to December 31, 2009. The Company's portfolio of one- to four-family loans declined from \$656.0 million at December 31, 2009, to \$593.7 million at June 30, 2010. This decline was caused by continued refinancing of adjustable-rate loans by borrowers (which the Company typically retains in portfolio) into fixed-rate loans (which the Company generally sells). As previously noted, market interest rates for mortgage loans have declined in recent weeks. As such, the Company expects borrowers to continue to prefer fixed-rate mortgage loans in the near term, which could impact its ability to increase its portfolio of one- to four-family loans in the near term.

The Company's multi-family and commercial real estate mortgage loan originations were \$26.7 million in the aggregate during the first six months of 2010 compared to \$33.8 million for the same period in 2009. In addition, its commercial business loan originations during the first six months of 2010 were \$7.4 million compared to \$11.8 million during the same period in 2009. Although the Company continues to emphasize originations of these types of loans, originations have declined in recent periods due to a general deterioration in economic conditions, as well as the Company's conservative underwriting standards. Despite this decline, the Company's aggregate portfolio of multi-family and commercial real estate mortgage loans increased from \$476.1 million at December 31, 2009, to \$501.5 million at June 30, 2010. This increase was due to fewer loan repayments and maturities in recent periods, as well as construction and development loans that were transferred to permanent financing during the quarter. As a result of this latter development, the Company's portfolio of construction and development loans declined

by \$26.9 million or 28.1% during the six months ended June 30, 2010. The Company's portfolio of commercial business loans decreased from \$52.0 million at December 31, 2009, to \$44.7 million at June 30, 2010.

The Company's consumer loan originations, including fixed-term home equity loans and lines of credit, were \$38.4 million for the six months ended June 30, 2010, compared to a similar amount in the same period last year. The Company's consumer loan portfolio declined from \$275.5 million at December 31, 2009, to \$261.4 million at June 30, 2010. This decline was due in part to an interest rate environment in recent periods that has encouraged many borrowers to refinance their home equity loans or lines of credit and other consumer loans into first mortgage loans. Many of these borrowers reestablished home equity lines of credit with the Company in accordance with its established lending standards, but had not drawn substantial amounts on these lines as of June 30, 2010.

The following table sets forth the Company's mortgage, consumer, and commercial loan originations and purchases for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
Mortgage loans:	<i>(Dollars in thousands)</i>			
One- to four-family	\$78,665	\$240,329	\$133,276	\$457,514
Multi-family	18,592	832	22,453	6,318
Commercial real estate	1,082	10,860	4,271	27,530
Total mortgage loans	98,339	252,021	160,000	491,362
Consumer loans	23,255	19,120	38,420	38,389
Commercial business loans	3,044	6,151	7,445	11,808
Total loan originations	124,638	277,292	205,865	541,559
One- to four-family mortgage loans purchased	-	1,088	-	2,658
Total loans originated and purchased	\$124,638	\$278,380	\$205,865	\$544,217

In light of current economic conditions and recent loan origination activity, management expects growth in all categories of the Company's loan portfolio to be slow or negative in the near term, although there can be no assurances.

Goodwill The Company analyzes goodwill annually for impairment or more frequently when, in the judgment of management, an event has occurred that may indicate that additional analysis is required. If goodwill is determined to be impaired, it will be expensed in the period in which it becomes impaired.

The Company performed an annual impairment analysis during the third quarter of 2009 and determined that its goodwill was not impaired at that time. As a result of a continued decline in the price of the Company's common stock, the Company has updated its impairment analysis each quarter and continues to conclude that its goodwill is not impaired. In each of these instances, the Company's analysis consisted of a "Step 1" evaluation (as defined in GAAP). Management has noted, however, that the estimated fair value of the Company, which consists of a single reporting unit, has declined since the third quarter of 2009. As such, management believes it is possible that a future "Step 1" evaluation may indicate that a "Step 2" evaluation (as defined in GAAP) must be performed. Management has performed a "Step 2" evaluation in anticipation of this possibility and concludes that goodwill would not be impaired in a "Step 2" evaluation. However, there can be no assurances that future circumstances and/or conditions will not change that could result in an impairment of the Company's goodwill, which could have a material adverse affect on the Company's results of operations in a future period.

Mortgage Servicing Rights The carrying values of the Company's MSR's were \$6.6 million at June 30, 2010, compared to \$6.9 million at December 31, 2009, net of valuation allowances of \$493,000 and

\$287,000, respectively. As of June 30, 2010, and December 31, 2009, the Company serviced \$1.0 billion in loans for third-party investors.

Other Assets As a condition of membership in the FHLB of Chicago, the Company holds shares of the common stock of the FHLB of Chicago that had a carrying value of \$46.1 million at both June 30, 2010, and December 31, 2009, and which is included as a component of other assets. In 2007, the FHLB of Chicago was required to suspend payment of dividends on its stock. If there are any further developments that impair the value of the common stock of the FHLB of Chicago, the Company may be required to write down the value of the shares it holds, which in turn would affect the Company's net income in the period of the write down and shareholders' equity.

Deposit Liabilities Deposit liabilities decreased by \$33.8 million or 1.6% during the six months ended June 30, 2010, to \$2.10 billion compared to \$2.14 billion at December 31, 2009. Core deposits, consisting of checking, savings, and money market accounts, decreased by \$10.5 million or 1.2% during the period while certificates of deposit declined by \$23.3 million or 1.8%. The Company has reduced the rates it offers on its certificates of deposit in recent periods in an effort to manage its overall liquidity position, which has resulted in a decline in certificates of deposit. As a result of these efforts, the weighted average cost of deposits declined by 86 basis points during the six months ended June 30, 2010, compared to the same period in the previous year.

Borrowings Borrowings, which consisted of advances from the FHLB of Chicago, declined slightly during the six months ended June 30, 2010. The following table presents the Company's FHLB advances by contractual maturities as of that date.

	Amount	Rate
FHLB advances maturing in:	<i>(Dollars in thousands)</i>	
2012	\$100,000	4.52%
2013	256	4.17
2016	200,000	4.25
2017	557,408	4.15
Thereafter	48,798	5.12
Total FHLB advances	<u>\$906,462</u>	<u>4.26%</u>

A substantial portion of these advances contain quarterly redemption options that are subject to potential exercise by the FHLB of Chicago. As of June 30, 2010, substantially all of the Company's FHLB of Chicago advances were subject to significant prepayment penalties if voluntarily repaid prior to their stated maturity.

Advance Payments by Borrowers for Taxes and Insurance Advance payments by borrowers for taxes and insurance (i.e., escrow deposits) were \$20.9 million at June 30, 2010, compared to \$2.5 million at December 31, 2009. Escrow deposits typically increase during the course of the calendar year until real estate tax obligations are paid, generally in December of each year or January of the following year.

Shareholders' Equity The Company's shareholders' equity decreased from \$402.5 million at December 31, 2009, to \$397.1 million at June 30, 2010. During this period the positive effects of the Company's earnings and a decline in its accumulated other comprehensive loss were offset by dividend payments and stock repurchases. The Company's ratio of total shareholders' equity to total assets was 11.40% at June 30, 2010, compared to 11.46% at December 31, 2009.

From time to time, the Company has repurchased shares of its common stock. Such repurchases have had the effect of reducing the Company's capital and increasing its borrowings as a percent of total funding sources; further repurchases would continue to have the same effect. During the first quarter of 2010 the Company repurchased 690,800 shares of Company common stock at an average price of \$6.55 per share, which completed the purchases authorized under its latest repurchase program. During the second quarter

of 2010 the Company did not repurchase on the market any shares of its common stock nor did its board of directors authorize a new program for the purchase of additional shares. For additional discussion, refer to “Liquidity and Capital Resources—Capital Resources,” below.

A quarterly cash dividend of \$0.07 per share was paid in each of the first and second quarters of 2010. The dividend payout ratio during the first six months of 2010 was 226% of net income. On August 2, 2010, the Company’s board of directors announced that it had declared a \$0.03 per share dividend payable on September 1, 2010, to shareholders of record on August 12, 2010. The Company’s board of directors determined that it was prudent to reduce the dividend payment in view of the Company’s recent earnings trends and the current regulatory and economic climate. For additional discussion, refer to “Liquidity and Capital Resources—Capital Resources,” below.

Asset Quality The following table summarizes non-performing loans and assets as of the dates indicated:

	At June 30 2010	At December 31 2009
<i>(Dollars in thousands)</i>		
Non-accrual mortgage loans:		
One- to four-family	\$14,307	\$12,126
Multi-family	11,099	3,357
Commercial real estate	27,504	23,699
Construction and development	—	—
Total non-accrual mortgage loans	<u>52,910</u>	<u>39,182</u>
Non-accrual consumer loans:		
Secured by real estate	1,290	1,433
Other consumer loans	152	212
Total non-accrual consumer loans	<u>1,442</u>	<u>1,645</u>
Non-accrual commercial business loans	<u>2,755</u>	<u>923</u>
Total non-accrual loans	<u>57,107</u>	<u>41,750</u>
Accruing loans delinquent 90 days or more	513	834
Total non-performing loans	<u>57,620</u>	<u>42,584</u>
Foreclosed properties and repossessed assets	20,606	17,689
Total non-performing assets	<u>\$78,226</u>	<u>\$60,273</u>
Non-performing loans to loans receivable, net	4.07%	2.83%
Non-performing assets to total assets	2.25%	1.72%
Additional interest income that would have been recognized if non-accrual loans had been current	\$3,275	\$2,671

The Company’s non-performing loans were 4.07% of loans receivable as of June 30, 2010, compared to 2.83% as of December 31, 2009. The ratios of non-performing assets to total assets were 2.25% and 1.72% as of these same dates, respectively. During the six months ended June 30, 2010, the Company’s non-performing loans increased by \$15.0 million or 35.3%. This increase was caused by the economic recession and increased unemployment over the past year that resulted in increased stress on borrowers and increased loan delinquencies. The increase in non-performing loans in the first half of 2010 was principally caused by the default of \$24.6 million in loans to nine borrowers. These loan relationships are secured by office, commercial, and retail buildings, apartment buildings, residential mortgages, developed land, and equipment and inventory. One of these relationships consists of a \$6.6 million loan secured by a 100-unit apartment project located in the Twin Cities area. Management does not expect to incur a loss on this loan at this time, although there can be no assurances.

The increase in non-performing loans described in the previous paragraph was partially offset by the transfer of the collateral for two loans with an aggregate balance of \$7.6 million to foreclosed real estate

during the period, net of an aggregate allowance for loan loss of \$3.0 million, which was charged-off. These loans were secured by an office building and a retail center.

Foreclosed real estate increased from \$17.7 million at December 31, 2009, to \$20.6 million at June 30, 2010. This increase was due to the transfers described in the previous paragraph, as well as other smaller foreclosures during the period. The impact of these developments was partially offset by the sale during the period of one large property that had a carrying value of \$2.3 million. The proceeds from the sale of this property approximated its carrying value. In addition, the Company recorded \$3.0 million in write-offs on certain foreclosed properties during the six months ended June 30, 2010. These write-offs were included as a component of non-interest expense, as previously described in this report.

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

	Six Months Ended June 30	
	2010	2009
	<i>(Dollars in thousands)</i>	
Balance at the beginning of the period	\$17,028	\$12,208
Provision for loan losses	9,516	3,161
Charge-offs:		
Mortgage loans	(3,801)	(1,785)
Consumer loans	(395)	(81)
Commercial business loans	(151)	—
Total charge-offs	(4,347)	(1,866)
Recoveries:		
Mortgage loans	20	—
Consumer loans	14	11
Commercial business loans	—	—
Total recoveries	34	11
Net charge-offs	(4,313)	(1,855)
Balance at the end of the period	\$22,231	\$13,514
	June 30	December 31
	2010	2009
Allowance as a percent of total loans	1.57%	1.13%
Allowance as a percent of non-performing loans	38.58%	39.99%
Net charge-offs to average loans (1)	0.58	0.45%

(1) Annualized rates for the six months ended June 30, 2010, and twelve months ended December 31, 2009, respectively.

The Company's allowance for loan losses increased to \$22.2 million or 1.57% of total loans at June 30, 2010, compared to \$17.0 million or 1.13% at December 31, 2009. As a percent of non-performing loans, the Company's allowance for loan losses was 38.6% at June 30, 2010, compared to 40.0% at December 31, 2009. The dollar increase in the allowance was caused by the additional loss allowances that were established during the first six months of 2010, as described earlier in this report. This development was partially offset by loan charge-offs during the period, the most significant of which were the charge-offs related to the two transfers to foreclosed real estate that were described earlier.

The allowance for loan losses has been determined in accordance with GAAP. Management is 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 management's 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.

Refer to "Operating Results—Provision for Loan Losses," above, for additional discussion.

Liquidity and Capital Resources

Liquidity The term "liquidity" refers to the Company's ability to generate cash flow to fund loan originations, loan purchases, deposit withdrawals, and operating expenses. The Company's primary sources of funds are deposit liabilities, scheduled payments, prepayments, and maturities of loans and securities available-for-sale, sales of one- to four-family loans in the secondary market, occasional sales of securities available-for-sale, borrowings from the FHLB of Chicago, and cash flow provided by the Company's operations. Historically, these sources of funds have been adequate to maintain liquidity, with the Company borrowing correspondingly more in periods in which its operations generate less cash. In the event these sources of liquidity would become inadequate, management believes that the Company could access the wholesale deposit market, although there can be no assurances that wholesale deposits would be available if needed.

Scheduled payments and maturities of loans and securities available-for-sale are relatively predictable sources of funds. However, cash flows from deposit liabilities, 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 six months ended June 30, 2010, prepayments in the Company's mortgage-related securities, prepayments in its one- to four-family mortgage loan portfolio, and calls of certain investment securities remained elevated because of the interest rate environment. A different interest rate environment could lead to a significantly different result. These factors reduce the predictability of the timing of these sources of funds.

The Company is committed to maintaining a strong liquidity position; therefore, management monitors the Company's liquidity position on a daily basis. Based upon historical experience and available sources of liquidity, management anticipates that the Company will have sufficient funds to meet current funding commitments. For additional discussion refer to "Financial Condition," above, and "Qualitative and Quantitative Disclosures about Market Risk" in Part I, Item 3, below.

Capital Resources At June 30, 2010, the Bank exceeded each of the applicable regulatory capital requirements (refer to Note 8, "Shareholders' Equity," of the Unaudited Condensed Consolidated Financial Statements, above). In order to be classified as "well-capitalized" by the FDIC, the Bank is required to have Tier 1 (leverage) capital to total adjusted assets of at least 5.0% and total risk-based capital to risk-weighted assets of at least 10.0%. At June 30, 2010, the Bank had a Tier 1 capital ratio of 9.85% and a total risk-based capital ratio of 21.84%.

As noted in "Financial Condition—Shareholders' Equity," above, the Company did not repurchase shares of its common stock on the market during the second quarter of 2010 nor did its board of directors authorize a new program for the purchase of additional shares. In addition, on August 2, 2010, the board of directors reduced the regular quarterly dividend from \$0.07 per share that was paid in the second quarter of 2010 to \$0.03 per share payable in the third quarter of this year. In view of the Company's recent earnings trends and the current regulatory and economic climate, the board of directors determined that it would be prudent to continue the suspension of stock repurchases and to reduce the Company's quarterly dividend payment.

The payment of dividends or the repurchase of common stock by the Company is highly dependent on the ability of the Company's bank subsidiary to pay dividends or otherwise distribute capital to the Company. Although the capital of the Company's bank subsidiary remains strong, regulators and lawmakers have

increased their focus in recent periods on the earnings and capital levels of regulated financial institutions. The Company is unable to determine at this time when stock repurchases might resume or whether future operating results will enable the Company to maintain its dividend at the current level. Furthermore, future changes in regulatory requirements and/or new legislation could affect required capital levels and/or the percentage of income that such institutions may use for dividends, which could have an adverse impact on the Company's ability to maintain its dividend and/or repurchase shares of its stock in future periods. Refer to Part I, Item 1, "Business—Regulation and Supervision," of the Company's 2009 Annual Report on Form 10-K for additional discussion.

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

Contractual Obligations The following table presents, as of June 30, 2010, significant fixed and determinable contractual obligations to third parties by payment date (excluding interest payments due in the future on deposits and borrowed funds).

	Payments Due In				Total
	One Year Or Less	One to Three Years	Three to Five Years	Over Five Years	
	<i>(Dollars in thousands)</i>				
Deposits with no stated maturity	\$837,683	–	–	–	\$837,683
Certificates of deposits	940,065	\$259,099	\$66,845	–	1,266,009
Borrowed funds (1)	–	100,000	260	\$806,460	906,720
Operating leases	949	1,305	1,176	2,494	5,924
Purchase obligations	1,680	3,360	3,360	6,300	14,700
Non-qualified retirement plans and deferred compensation plans	936	2,172	2,691	8,192	13,991

(1) Includes \$856.0 million in advances that are redeemable on a quarterly basis at the option of the FHLB of Chicago.

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

The Company also has obligations under its deferred retirement plan for executives and directors as described in Note 10, "Employee Benefit Plans," to the Unaudited Condensed Consolidated Financial Statements, above.

Commitments to Extend Credit The following table details the amounts and expected maturities of approved commitments as of June 30, 2010.

	Payments Due In				Total
	One Year Or Less	One to Three Years	Three to Five Years	Over Five Years	
	<i>(Dollars in thousands)</i>				
Commercial loans	\$1,914	–	–	–	\$1,914
Residential real estate loans	45,699	–	–	–	45,699
Revolving home equity and credit card lines	148,948	–	–	–	148,948
Standby letters of credit	96	–	\$41	\$10	147
Commercial lines of credit	16,728	–	–	–	16,728
Undisbursed commercial loans	491	–	–	–	491

Approved 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.

Off-Balance Sheet Arrangements At June 30, 2010, the Company had forward commitments to sell one- to four-family mortgage loans of \$51.2 million to Fannie Mae. As described in Note 13, “Financial Instruments with Off-Balance Sheet Risk,” to the Company’s Unaudited Condensed Consolidated Financial Statements, the Company uses forward commitments to sell loans to mitigate interest rate risk on one- to four-family IRLCs and loans held-for-sale.

Contingent Liabilities The Company did not have a material exposure to contingent liabilities as of June 30, 2010.

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 same 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.

The following table presents the amounts of the Company's interest-earning assets and interest-bearing liabilities outstanding at June 30, 2010, which management anticipates will reprice or mature in each of the future time periods shown. The information presented in the following table is based on the following assumptions:

- Investment securities—based upon contractual maturities and if applicable, call dates. \$836.8 million in investment securities with maturities beyond one year have been classified as due within one year based on their call dates. These investments may or may not be called prior to their stated maturities.
- Mortgage-related securities—based upon known repricing dates (if applicable) and an independent outside source for determining estimated repayment speeds. Actual cash flows may differ from these assumptions.
- Loans receivable—based upon contractual maturities, repricing dates (if applicable), scheduled repayments of principal, and projected prepayments of principal based upon the Company's historical experience or anticipated prepayments. Actual cash flows may differ from these assumptions.
- Deposit liabilities—based upon contractual maturities and historical decay rates. Actual cash flows may differ from these assumptions.
- Borrowings—based upon stated maturity. However, \$856.0 million of borrowings classified as due beyond one year contain a redemption option which has not been reflected in the analysis. These borrowings could be redeemed at the option of the lender prior to their stated maturity (refer to "Financial Condition—Borrowings" in Part I, Item 2, above).

	At June 30, 2010					
	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
Interest-earning assets:	<i>(Dollars in thousands)</i>					
Loans receivable:						
Mortgage loans:						
Permanent:						
Fixed	\$66,740	\$114,956	\$157,011	\$82,476	\$89,106	\$510,289
Adjustable	76,592	256,122	186,341	23,211	614	542,880
Construction:						
Fixed	–	11,935	1	–	4,316	16,252
Adjustable	22,838	2,523	–	2,066	–	27,427
Consumer loans	104,479	44,468	60,932	26,593	23,593	260,065
Commercial business loans	21,774	9,355	10,275	464	35	41,903
Interest-earning deposits	138,768	–	–	–	–	138,768
Investment securities	509,003	349,330	–	–	–	858,333
Mortgage-related securities:						
Fixed	51,027	124,997	241,286	154,411	115,809	687,530
Adjustable	48,388	–	–	–	–	48,388
Other interest-earning assets	46,092	–	–	–	–	46,092
Total interest-earning assets	<u>1,085,701</u>	<u>913,686</u>	<u>655,846</u>	<u>289,221</u>	<u>233,473</u>	<u>3,177,927</u>
Non-interest-bearing and interest-bearing liabilities:						
Non-interest-bearing demand accounts	833	2,449	6,175	5,690	72,183	87,330
Interest-bearing liabilities:						
Deposit liabilities:						
Interest-bearing demand accounts	2,071	6,089	15,353	14,148	160,731	198,392
Savings accounts	2,554	7,463	18,517	16,680	166,488	211,702
Money market accounts	340,259	–	–	–	–	340,259
Certificates of deposit	338,762	637,291	223,110	66,846	–	1,266,009
Advance payments by borrowers for taxes and insurance	–	20,919	–	–	–	20,919
Borrowings	261	810	102,521	2,528	800,342	906,462
Total interest-bearing and non-interest-bearing liabilities	<u>684,740</u>	<u>675,021</u>	<u>365,676</u>	<u>105,892</u>	<u>1,199,744</u>	<u>3,031,073</u>
Interest rate sensitivity gap	<u>\$400,961</u>	<u>\$238,665</u>	<u>\$290,170</u>	<u>\$183,329</u>	<u>\$(966,271)</u>	<u>\$146,854</u>
Cumulative interest rate sensitivity gap	<u>\$400,961</u>	<u>\$639,626</u>	<u>\$929,796</u>	<u>\$1,113,125</u>	<u>\$146,854</u>	
Cumulative interest rate sensitivity gap as a percentage of total assets	<u>11.51%</u>	<u>18.37%</u>	<u>26.70%</u>	<u>31.96%</u>	<u>4.22%</u>	
Cumulative interest-earning assets as a percentage of interest bearing liabilities	<u>158.56%</u>	<u>147.04%</u>	<u>153.89%</u>	<u>160.78%</u>	<u>104.84%</u>	

Based on the above gap analysis, at June 30, 2010, the Company's interest-earning assets maturing or repricing within one year exceeded its interest-bearing liabilities maturing or repricing within the same period by \$639.6 million. This represented a positive cumulative one-year interest rate sensitivity gap of 18.4%, and a ratio of interest-earning assets maturing or repricing within one year to interest-bearing liabilities maturing or repricing within one year of 147.0%. Based on this information, management anticipates that over the course of the next year the Company's net interest income could benefit from an increase in market interest rates. Alternatively, the Company's net interest income could be adversely

affected by a decline in market interest rates. However, it should be noted that the Company's future net interest income is affected by more than just future market interest rates. Net interest income is also affected by absolute and relative levels of earning assets and interest-bearing liabilities, the level of non-performing loans and other investments, and by other factors outlined in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Cautionary Statement," above, as well as Part I, Item 1A, "Risk Factors," of the Company's 2009 Annual Report on Form 10-K.

In addition to not anticipating all of the factors that could impact future net interest income, gap analysis has certain 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.

Present Value of Equity

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

The following table presents the estimated PVE over a range of interest rate change scenarios at June 30, 2010. The present value ratio shown in the table is the PVE as a percent of the present value of total assets in each of the different rate environments. For purposes of this table, management has 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>				
+300	\$304,140	\$(83,639)	(21.6)%	9.17%	(16.4)%
+200	360,662	(27,115)	(7.0)	10.59	(3.6)
+100	410,883	22,106	6.0	11.73	6.9
0	387,777	—	—	10.98	—
-100	340,750	(47,027)	(12.1)	9.55	(13.0)

Based on the above analysis, management anticipates that generally the Company's PVE may be adversely affected by an increase in interest rates. The decline in the PVE as a result of an increase in rates is attributable to the combined effects of a decline in the present value of the Company's earning assets (which is further impacted by an extension in duration in rising rate environments due to slower loan prepayments and reduced likelihood of security calls), partially offset by a decline in the present value of FHLB

advances. However, at higher interest rate scenarios (i.e., +300), management has assumed the Company's FHLB advances will be redeemed, which reduces the positive impact of this offset in higher interest rate scenarios. Based on the above analysis, management anticipates that the Company's PVE may also be adversely impacted by a decrease in interest rates. This decline is due to shorter earning asset durations in lower interest rate scenarios which reduces the positive impact decreases in interest rates normally have on the present value of earning assets. It should be noted that the Company's PVE is impacted by more than changes in market interest rates. Future PVE is also affected by management's decisions relating to reinvestment of future cash flows, decisions relating to funding sources, and by other factors outlined in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Cautionary Statement," above, as well as Part I, Item 1A, "Risk Factors," of the Company's 2009 Annual Report on Form 10-K.

As is the case with gap analysis, PVE analysis also has certain shortcomings. PVE modeling requires management to make assumptions about future changes in market interest rates that are unlikely to occur, such as parallel or equal changes in all market rates across all maturity terms. PVE modeling also requires that management make assumptions which may not reflect the manner in which actual yields and costs respond to changes in market interest rates. For example, management makes 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. Management also assumes that decay rates on core deposits will accelerate in a rising rate environment and the reverse in a falling rate environment. The model assumes that the Company will take no action in response to the changes in interest rates, when in practice rate changes on certain products, such as savings deposits, may lag behind market changes. In addition, prepayment estimates and other assumptions within the model are subjective in nature, involve uncertainties, and therefore cannot be determined with precision. Accordingly, although the PVE model may provide an estimate of the Company's 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 the Company's PVE.

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

Item 1A. Risk Factors

Refer to "Risk Factors" in Part I, Item 1A, of the Company's 2009 Annual Report on Form 10-K. Refer also to "Management's Discussion and Analysis of Financial Condition and Results of Operations—Cautionary Statement" in Part I, Item 2, above.

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

The following table provides the specified information about the repurchases by the Company of its common shares during the three months ended June 30, 2010.

Month:	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plans
April	3,923	\$6.945	—	—
May	—	—	—	—
June	305,403	6.435	—	—
Total purchased	309,326	\$6.441	—	—

- (1) All such shares were existing owned shares used by option holders in payment of the purchase price and/or tax withholding obligations in connection with the exercise of stock options under the Company's stock incentive plans. The average price "paid" per share for these purposes was the fair market price on the date of the exercise.

Item 6. Exhibits

Refer to Exhibit Index, which follows the signature page hereof.

SIGNATURES

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

BANK MUTUAL CORPORATION
(Registrant)

Date: August 5, 2010

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

Date: August 5, 2010

/s/ Michael W. Dosland
Michael W. Dosland
Senior Vice President and
Chief Financial Officer

EXHIBIT INDEX

BANK MUTUAL CORPORATION

Form 10-Q for Quarter Ended June 30, 2010

<u>Exhibit No.</u>	<u>Description</u>	<u>Incorporated Herein by Reference To</u>	<u>Filed Herewith</u>
10.1	Employment Agreement between Bank Mutual and David A. Baumgarten dated as of April 5, 2010 (with an effective date of April 12, 2010)	Exhibit 10.1 to the Company's Report on Form 8-K dated April 5, 2010	
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 Senior Vice President and Chief Financial Officer of Bank Mutual Corporation		X
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by the Chief Executive Officer of Bank Mutual Corporation		X
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by the 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 period ended June 30, 2010, of Bank Mutual Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ Michael T. Crowley, Jr.

Michael T. Crowley, Jr.

Chairman and Chief Executive Officer

CERTIFICATION

I, Michael W. Dosland, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2010, of Bank Mutual Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ Michael W. Dosland

Michael W. Dosland
Senior Vice President and 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, 2010, as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Michael T. Crowley, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael T. Crowley, Jr.
Michael T. Crowley, Jr.
Chief Executive Officer
August 5, 2010

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, 2010, as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Michael W. Dosland, 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/ Michael W. Dosland

Michael W. Dosland
Chief Financial Officer
August 5, 2010

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.