

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

FORM 10-Q

/ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended **September 30, 2011**

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 46,228,984 shares, at November 8, 2011.

BANK MUTUAL CORPORATION
FORM 10-Q QUARTERLY REPORT

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PART I

Item 1. Financial Statements

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

	September 30 2011	December 31 2010
<i>(Dollars in thousands)</i>		
Assets		
Cash and due from banks	\$38,185	\$48,393
Interest-earning deposits	65,177	184,439
Cash and cash equivalents	103,362	232,832
Securities available-for-sale, at fair value:		
Investment securities	20,026	228,023
Mortgage-related securities	763,221	435,234
Loans held-for-sale, net	28,606	37,819
Loans receivable, net	1,307,853	1,323,569
Foreclosed properties and repossessed assets	28,858	19,293
Goodwill	—	52,570
Mortgage servicing rights, net	6,618	7,769
Other assets	241,497	254,709
Total assets	\$2,500,041	\$2,591,818
Liabilities and equity		
Liabilities:		
Deposit liabilities	\$2,009,145	\$2,078,310
Borrowings	153,385	149,934
Advance payments by borrowers for taxes and insurance	30,182	2,697
Other liabilities	32,650	44,999
Total liabilities	2,225,362	2,275,940
Equity:		
Preferred stock – \$.01 par value:		
Authorized – 20,000,000 shares in 2011 and 2010		
Issued and outstanding – none in 2011 and 2010	—	—
Common stock – \$.01 par value:		
Authorized – 200,000,000 shares in 2011 and 2010		
Issued – 78,783,849 shares in 2011 and 2010		
Outstanding – 46,228,984 shares in 2011 and 45,769,443 in 2010	788	788
Additional paid-in capital	490,089	494,377
Retained earnings	139,833	191,238
Accumulated other comprehensive income (loss)	1,623	(6,897)
Treasury stock – 32,554,865 shares in 2011 and 33,014,406 in 2010	(360,590)	(366,553)
Total shareholders' equity	271,743	312,953
Non-controlling interest in real estate partnership	2,936	2,925
Total equity including non-controlling interest	274,679	315,878
Total liabilities and equity	\$2,500,041	\$2,591,818

Refer to Notes to Unaudited Condensed Consolidated Financial Statements

Bank Mutual Corporation and Subsidiaries
Unaudited Condensed Consolidated Statements of Income

	Three Months Ended September 30	
	2011	2010
	<i>(Dollars in thousands, except per share data)</i>	
Interest income:		
Loans	\$17,468	\$19,780
Investment securities	219	4,071
Mortgage-related securities	4,303	4,528
Interest-earning deposits	27	62
Total interest income	22,017	28,441
Interest expense:		
Deposit liabilities	4,731	6,865
Borrowings	1,798	9,863
Advance payments by borrowers for taxes and insurance	2	2
Total interest expense	6,531	16,730
Net interest income	15,486	11,711
Provision for loan losses	1,093	6,163
Net interest income after provision for loan losses	14,393	5,548
Non-interest income:		
Service charges on deposits	1,683	1,624
Brokerage and insurance commissions	765	738
Loan related fees and servicing revenue, net	(1,036)	(291)
Gain on loan sales activities, net	2,288	3,669
Gain on investment sales	–	5,220
Other non-interest income	1,774	2,003
Total non-interest income	5,474	12,963
Non-interest expense:		
Compensation, payroll taxes, and other employee benefits	9,642	9,002
Occupancy and equipment	2,781	2,822
Federal insurance premiums	756	1,036
Loss on foreclosed real estate, net	1,134	1,162
Other non-interest expense	3,607	3,256
Total non-interest expense	17,920	17,278
Income before income taxes	1,947	1,233
Income tax expense	610	307
Net income before non-controlling interest	1,337	926
Net loss attributable to non-controlling interest	12	–
Net income	\$1,349	\$926
Per share data:		
Earnings per share – basic	\$0.03	\$0.02
Earnings per share – diluted	\$0.03	\$0.02
Cash dividends per share paid	\$0.01	\$0.03

Refer to Notes to Unaudited Condensed Consolidated Financial Statements

Bank Mutual Corporation and Subsidiaries
Unaudited Condensed Consolidated Statements of Income

	Nine Months Ended September 30	
	2011	2010
	<i>(Dollars in thousands, except per share data)</i>	
Interest income:		
Loans	\$52,887	\$60,515
Investment securities	2,843	13,256
Mortgage-related securities	12,131	16,040
Interest-earning deposits	125	207
Total interest income	<u>67,986</u>	<u>90,018</u>
Interest expense:		
Deposit liabilities	15,210	22,501
Borrowings	5,359	29,293
Advance payments by borrowers for taxes and insurance	3	4
Total interest expense	<u>20,572</u>	<u>51,798</u>
Net interest income	47,414	38,220
Provision for loan losses	5,078	15,679
Net interest income after provision for loan losses	<u>42,336</u>	<u>22,541</u>
Non-interest income:		
Service charges on deposits	4,709	4,512
Brokerage and insurance commissions	2,211	2,315
Loan related fees and servicing revenue, net	(452)	(39)
Gain on loan sales activities, net	3,405	5,486
Gain on investment sales	1,113	16,291
Other-than-temporary impairment (“OTTI”) losses:		
Total OTTI losses	(1,576)	–
Non-credit portion of OTTI losses	1,187	–
Net OTTI losses	<u>(389)</u>	<u>–</u>
Other non-interest income	5,431	5,756
Total non-interest income	<u>16,028</u>	<u>34,321</u>
Non-interest expense:		
Compensation, payroll taxes, and other employee benefits	28,643	26,713
Occupancy and equipment	8,629	8,500
Federal insurance premiums	2,525	3,057
Loss on foreclosed real estate, net	4,002	4,205
Other non-interest expense	9,785	9,106
Total non-interest expense before goodwill impairment	53,584	51,581
Goodwill impairment	52,570	–
Total non-interest expense	<u>106,154</u>	<u>51,581</u>
Income (loss) before income taxes	(47,790)	5,281
Income tax expense	1,236	1,521
Net income (loss) before non-controlling interest	<u>(49,026)</u>	<u>3,760</u>
Net loss (income) attributable to non-controlling interest	39	(1)
Net income (loss)	<u><u>\$ (48,987)</u></u>	<u><u>\$ 3,759</u></u>
Per share data:		
Earnings (loss) per share – basic	<u><u>\$(1.07)</u></u>	<u><u>\$0.08</u></u>
Earnings (loss) per share – diluted	<u><u>\$(1.07)</u></u>	<u><u>\$0.08</u></u>
Cash dividends per share paid	<u><u>\$0.05</u></u>	<u><u>\$0.17</u></u>

Refer to Notes to Unaudited Condensed Consolidated Financial Statements

Bank Mutual Corporation 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, 2011	\$788	\$494,377	\$191,238	–	\$(6,897)	\$(366,553)	\$2,925	\$315,878
Comprehensive income:								
Net loss	–	–	(48,987)	–	–	–	–	(48,987)
Net loss attributable to non-controlling interest	–	–	–	–	–	–	(39)	(39)
Other comprehensive income (loss):								
Non-credit portion of OTTI on securities available-for-sale, net of deferred income taxes of \$(476)	–	–	–	–	(711)	–	–	(711)
Change in net unrealized gain on securities available-for-sale, net of deferred income taxes of \$6,668	–	–	–	–	9,960	–	–	9,960
Reclassification adjustment for gain on securities included in income, net of deferred income taxes of \$(446)	–	–	–	–	(667)	–	–	(667)
Pension asset, net of deferred income taxes of \$(41)	–	–	–	–	(62)	–	–	(62)
Total comprehensive loss								<u>(40,506)</u>
Equity contribution by non-controlling real estate partnership	–	–	–	–	–	–	50	50
Issuance of management recognition plan shares	–	(123)	–	–	–	123	–	–
Exercise of stock options	–	(4,375)	–	–	–	5,840	–	1,465
Share based payments	–	210	–	–	–	–	–	210
Cash dividends (\$0.05 per share)	–	–	(2,418)	–	–	–	–	(2,418)
Balance at September 30, 2011	<u>\$788</u>	<u>\$490,089</u>	<u>\$139,833</u>	<u>–</u>	<u>\$1,623</u>	<u>\$(360,590)</u>	<u>\$2,936</u>	<u>\$274,679</u>
Balance at January 1, 2010	\$788	\$499,376	\$272,518	\$(347)	\$(2,406)	\$(367,452)	\$2,924	\$405,401
Comprehensive income:								
Net income	–	–	3,759	–	–	–	–	3,759
Net income attributable to non-controlling interest	–	–	–	–	–	–	–	–
Other comprehensive income (loss):								
Change in net unrealized gain on securities available-for-sale, net of deferred income taxes of \$7,443	–	–	–	–	11,114	–	–	11,114
Reclassification adjustment for gain on securities included in income, net of income taxes of \$(6,533)	–	–	–	–	(9,758)	–	–	(9,758)
Total comprehensive income								<u>5,115</u>
Purchase of treasury stock	–	–	–	–	–	(5,029)	–	(5,029)
Issuance of management recognition plan shares	–	(184)	–	–	–	184	–	–
Committed ESOP shares	–	338	–	260	–	–	–	598
Exercise of stock options	–	(5,121)	–	–	–	5,474	–	353
Share based payments	–	99	–	–	–	–	–	99
Cash dividends (\$0.17 per share)	–	–	(7,762)	–	–	–	–	(7,762)
Balance at September 30, 2010	<u>\$788</u>	<u>\$494,508</u>	<u>\$268,515</u>	<u>\$(87)</u>	<u>\$(1,050)</u>	<u>\$(366,823)</u>	<u>\$2,924</u>	<u>\$398,775</u>

Refer to Notes to Unaudited Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30	
	2011	2010
	<i>(Dollars in thousands)</i>	
Operating activities:		
Net income (loss)	\$(48,987)	\$3,759
Adjustments to reconcile net income to net cash provided by operating activities:		
Net provision for loan losses	5,078	15,679
Net loss on foreclosed real estate	4,002	4,205
Provision for depreciation	1,931	1,942
Amortization of intangibles	304	304
Goodwill impairment	52,570	–
Amortization of mortgage servicing rights	1,718	2,100
Increase in valuation allowance on MSRs	1,097	198
Stock-based compensation expense	210	697
Net premium amortization on securities	2,568	2,164
Loans originated for sale	(139,261)	(277,394)
Proceeds from loan sales	150,215	225,035
Net gain on loan sales activities	(3,405)	(5,486)
Net gain on sale of investments	(1,113)	(16,291)
Net OTTI losses	389	–
Increase in non-controlling interest in real estate partnership	(39)	–
Decrease in accrued interest receivable	679	3,226
Decrease in other liabilities	(12,412)	(22,023)
Decrease (increase) in other assets	13,996	(1,322)
Net cash provided (used) by operating activities	29,540	(63,207)
Investing activities:		
Proceeds from maturities of investment securities	185,824	1,059,148
Purchases of investment securities	–	(1,383,331)
Purchases of mortgage-related securities	(407,532)	(496,360)
Principal repayments on mortgage-related securities	92,253	145,858
Proceeds from sale of investment securities	21,950	554,189
Net decrease (increase) in loans receivable	(20,023)	96,004
Proceeds from sale of foreclosed properties	8,843	4,283
Net purchases of premises and equipment	(1,193)	(1,584)
Net cash used by investing activities	(119,878)	(21,793)

(continued)

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

	Nine Months Ended September 30	
	2011	2010
	<i>(Dollars in thousands)</i>	
Financing activities:		
Net decrease in deposits liabilities	\$(69,165)	\$(78,504)
Proceeds from long-term borrowings	4,270	–
Repayments of borrowings	(819)	(778)
Net increase in advance payments by borrowers for taxes and insurance	27,485	27,471
Proceeds from exercise of stock options	1,416	327
Excess tax benefit from exercise of stock options	49	26
Equity contribution by non-controlling real estate partnership	50	–
Cash dividends	(2,418)	(7,762)
Purchase of treasury stock	–	(5,029)
Net cash used by financing activities	(39,132)	(64,249)
Decrease in cash and cash equivalents	(129,470)	(149,249)
Cash and cash equivalents at beginning of period	232,832	227,658
Cash and cash equivalents at end of period	\$103,362	\$78,409
Supplemental information:		
Cash paid in period for:		
Interest on deposit liabilities and borrowings	\$22,195	\$52,091
Income taxes	–	5,061
Non-cash transactions:		
Loans transferred to foreclosed properties and repossessed assets	21,641	18,704
Due from brokers for security purchases	–	536,990

Refer to Notes to Unaudited Condensed Consolidated Financial Statements

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2011

(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 2010 Annual Report on Form 10-K. Operating results for the three and nine months ended September 30, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

In January 2010 the FASB issued new accounting guidance related to certain disclosures about fair value measurements. Certain aspects of the new guidance were effective for reporting periods beginning after December 15, 2009, which for the Company was the first quarter of 2010. However, certain other aspects were not effective until the first reporting period beginning after December 15, 2010, which was the first quarter of 2011 for the Company. The Company’s adoption of the new guidance had no impact on its financial condition, results of operations, or liquidity.

In December 2010 the FASB issued new accounting guidance clarifying the presentation of pro forma information required for business combinations when a public company presents comparative financial information. The amendments in this guidance are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. This new accounting guidance had no impact on the Company’s financial condition, results of operations, or liquidity.

During the second quarter of 2011 the FASB issued new accounting guidelines related to (i) determination of whether a loan restructuring is a troubled debt restructuring, (ii) accounting for repurchase agreements, (iii) certain fair value measurements of assets, liability, and instruments classified in shareholders’ equity, and (iv) presentation of net income, other comprehensive income, and total comprehensive income. Except for the first item, these new guidelines will be effective for the first interim period beginning on or after December 15, 2011, which will be the first quarter of 2012 for the Company. With respect to troubled debt restructurings, the new guidelines became effective for the first interim period beginning on or after June 15, 2011, which was the third quarter of 2011 for the Company. The adoption of this guideline did not have a material impact on its financial condition, results of operations, or liquidity. The Company’s adoption of the other aforementioned guidelines is not expected to have a material impact on its financial condition, results of operations, or liquidity. However, the new guidelines may affect 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 Note 1 of its Audited Consolidated Financial Statements contained in its 2010 Annual Report on 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 nine month periods ended September 30, 2011 and 2010, can be found in Note 3, “Loans Receivable,” below. Significant judgments and/or estimates are also made in accounting for the Company’s goodwill and other-than-temporary impairment (“OTTI”) of its securities available-for-sale. The Company completed an interim goodwill impairment analysis during the three months ended June 30, 2011, and determined that goodwill was impaired in that period. For additional information, refer to Note 14, “Goodwill Impairment.” Information regarding the impact OTTI has had on the Company’s financial condition and results of operations for the three and nine month periods ended September 30, 2011 and 2010, can be found in Note 2, “Securities Available-for-Sale.”

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2011

(Dollars in Thousands, Except Per Share Amounts)

2. Securities Available-for-Sale

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

	September 30, 2011			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Investment securities:				
U.S. government and federal obligations	\$20,000	\$26	–	\$20,026
Mortgage-related securities:				
Federal Home Loan Mortgage Corporation	540,138	14,458	–	554,596
Federal National Mortgage Association	137,055	2,813	–	139,868
Government National Mortgage Association	1,542	22	–	1,564
Private-label CMOs	72,490	540	\$(5,837)	67,193
Total mortgage-related securities	751,225	17,833	(5,837)	763,221
Total securities available-for-sale	\$771,225	\$17,859	\$(5,837)	\$783,247
	December 31, 2010			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Investment securities:				
U.S. government and federal obligations	\$205,825	\$395	\$(252)	\$205,968
Mutual funds	20,837	1,218	–	22,055
Total investment securities	226,662	1,613	(252)	228,023
Mortgage-related securities:				
Federal Home Loan Mortgage Corporation	314,858	105	(896)	314,067
Federal National Mortgage Association	30,594	293	(77)	30,810
Government National Mortgage Association	2,711	44	–	2,755
Private-label CMOs	90,741	682	(3,821)	87,602
Total mortgage-related securities	438,904	1,124	(4,794)	435,234
Total securities available-for-sale	\$665,566	\$2,737	\$(5,046)	\$663,257

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2011

(Dollars in Thousands, Except Per Share Amounts)

2. Securities Available-for-Sale (continued)

The following tables summarize available-for-sale securities by amount of time the securities have had a gross unrealized loss as of the dates indicated:

	September 30, 2011							
	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		
	Mortgage-related securities:							
Private-label CMOs	\$126	2	\$3,474	\$5,711	20	\$43,641	\$5,837	\$47,115
Total mortgage-related securities	\$126	5	\$3,479	\$5,711	20	\$43,641	\$5,837	\$47,120

	December 31, 2010							
	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	\$252	4	\$49,749	-	-	-	\$252	\$49,749
Mortgage-related securities:								
Federal Home Loan Mortgage Corporation	880	7	187,848	\$16	2	\$11,688	896	199,536
Federal National Mortgage Association	77	5	26,372	-	-	-	77	26,372
Private-label CMOs	-	-	-	3,821	21	58,669	3,821	58,669
Total mortgage-related securities	957	12	214,220	3,837	23	70,357	4,794	284,577
Total	\$1,209	16	\$263,969	\$3,837	23	\$70,357	\$5,046	\$334,326

Certain of the Company's securities that were in an unrealized loss position at December 31, 2010, consisted of U.S. government and federal agency obligations and mortgage-related securities issued by government sponsored entities. None of these securities were in an unrealized loss position at September 30, 2011. At December 31, 2010, the Company believed that it was probable that it would receive all future contractual cash flows related to these securities. The Company did not intend to sell the securities and it is unlikely that it would be required to sell the securities before the recovery of their amortized cost. Accordingly, the Company determined that the unrealized loss on its U.S. government and federal agency obligations and mortgage-related securities was temporary as of December 31, 2010.

Except as noted below, the Company also determined that the unrealized loss on its private-label collateralized mortgage obligations ("CMOs") was temporary as of September 30, 2011, and December 31, 2010. The Company does not intend to sell these securities and it is unlikely that it will be required to sell these securities before the recovery of their amortized cost. The Company believes it is probable that it will receive all future contractual cash flows related to these securities. 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. As of September 30, 2011, the Company had private-label CMOs, with a fair value of \$39,927 and unrealized losses of \$4,778 that were rated less than investment grade. These 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.

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2011

(Dollars in Thousands, Except Per Share Amounts)

2. Securities Available-for-Sale (continued)

In the second quarter of 2011 the Company recognized \$389 in net OTTI losses in earnings related to its investment in three private-label CMOs. There was no amount recognized in earnings prior to this charge and there was no change to the credit loss component of these OTTI losses in the third quarter. The determination of the net OTTI loss in the second quarter was based on 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. The following assumptions were used in determining the amount of the credit loss: (1) prepayments speeds with a range of 6.1% to 14.9% and a weighted average rate of 11.6%, (2) default rates with a range of 3.7% to 5.2% and a weighted average rate of 4.4%, (3) loss severity rates with a range of 40.0% to 43.0% and a weighted average rate of 40.8%, and (4) current credit enhancements with a range of 5.1% to 6.7% and a weighted average rate of 5.6%. These CMOs had an adjusted cost basis of \$8,616 and a fair value of \$7,429 at September 30, 2011.

Results of operations included gross realized gains on the sale of securities available-for-sale of zero and \$5,220 for the three months ended September 30, 2011 and 2010, respectively, and \$1,113, and \$16,291 for the nine month periods ending September 30, 2011 and 2010, 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 September 30, 2011, are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations without penalty.

	Amortized Cost	Fair Value
Due in one year or less	—	—
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	\$20,000	\$20,026
Mortgage-related securities	751,225	763,221
Total securities available for sale	<u>\$771,225</u>	<u>\$783,247</u>

Investment securities with a fair value of approximately \$98,856 and \$68,500 at September 30, 2011, and December 31, 2010, respectively, were pledged to secure deposits, borrowings, and for other purposes as permitted or required by law.

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2011

(Dollars in Thousands, Except Per Share Amounts)

3. Loans Receivable

The following table summarizes the components of loans receivable as of the dates indicated:

	September 30 2011	December 31 2010
Permanent mortgage loans:		
One- to four-family	\$516,790	\$531,874
Multi-family	237,182	247,210
Commercial real estate	237,154	248,253
Total permanent mortgages	991,126	1,027,337
Construction and development loans:		
One- to four-family	16,900	13,479
Multi-family	29,643	19,308
Commercial real estate	7,867	24,939
Land	18,184	25,764
Total construction and development	72,594	83,490
Total real estate mortgage loans	1,063,720	1,110,827
Consumer loans:		
Fixed home equity	98,224	103,619
Home equity lines of credit	87,633	87,383
Home improvement	23,259	24,551
Student	16,094	17,695
Automobile	2,127	2,814
Other consumer	7,290	7,436
Total consumer loans	234,627	243,498
Commercial business loans	81,114	50,123
Total loans receivable	1,379,461	1,404,448
Undisbursed loan proceeds	(35,564)	(32,345)
Allowance for loan losses	(35,567)	(47,985)
Unearned loan fees and discounts	(477)	(549)
Total loans receivable, net	\$1,307,853	\$1,323,569

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. Substantially all of the Company's non-mortgage loans have also been made to borrowers in these same lending areas.

At both September 30, 2011, and December 31, 2010, certain one- to four-family mortgage loans, multi-family mortgage loans, and home equity loans with aggregate carrying values of approximately \$200,000 were pledged to secure advances from the Federal Home Loan Bank ("FHLB") of Chicago.

The unpaid principal balance of loans serviced for others was \$1,076,879 and \$1,076,772 at September 30, 2011, and December 31, 2010, respectively. These loans are not reflected in the consolidated financial statements.

Bank Mutual Corporation and Subsidiaries

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September 30, 2011

(Dollars in Thousands, Except Per Share Amounts)

3. Loans Receivable (continued)

The following table summarizes the activity in the allowance for loan losses for the periods indicated:

	Nine Months Ended September 30	
	2011	2010
	<i>(Dollars in thousands)</i>	
Balance at the beginning of the period	\$47,985	\$17,028
Provision for loan losses:		
One- to four-family	1,446	294
Multi-family	617	6,814
Commercial real estate	577	1,707
Construction and development	897	4,300
Consumer	450	628
Commercial business	1,092	1,936
Total provision for loan losses	5,078	15,679
Charge-offs:		
One- to four-family	(2,519)	(275)
Multi-family	(4,812)	–
Commercial real estate	(6,941)	(5,331)
Construction and development	(2,607)	–
Consumer	(724)	(570)
Commercial business	(551)	(173)
Total charge-offs	(18,154)	(6,349)
Recoveries:		
One- to four-family	49	20
Multi-family	19	–
Commercial real estate	4	1
Construction and development	550	–
Consumer	17	30
Commercial business	18	–
Total recoveries	657	51
Net charge-offs	(17,497)	(6,298)
Balance at the end of the period	\$35,567	\$26,409

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2011

(Dollars in Thousands, Except Per Share Amounts)

3. Loans Receivable (continued)

The following table summarizes the activity in the allowance for loan losses by loan portfolio segment for the period indicated. The table also summarizes the allowance for loan loss and loans receivable by the nature of the impairment evaluation, either individually or collectively, at the dates indicated (the loans receivable amounts in the table are net of undisbursed loan proceeds).

	At or For the Nine Months Ended September 30, 2011						
	One- to Four- Family	Multi- Family	Commercial Real Estate	Construction and Development	Consumer	Commercial Business	Total
Allowance for loan losses:							
Beginning balance	\$3,726	\$9,265	\$21,885	\$10,141	\$1,427	\$1,541	\$47,985
Provision	1,446	617	577	897	450	1,092	5,078
Charge-offs	(2,519)	(4,812)	(6,941)	(2,607)	(724)	(551)	(18,154)
Recoveries	49	19	4	550	17	18	657
Transfers	-	2,765	2,026	(4,791)	-	-	-
Ending balance	<u>\$2,702</u>	<u>\$7,854</u>	<u>\$17,551</u>	<u>\$4,190</u>	<u>\$1,170</u>	<u>\$2,100</u>	<u>\$35,567</u>
Loss allowance individually evaluated for impairment	<u>\$145</u>	<u>\$3,683</u>	<u>\$10,301</u>	<u>\$2,762</u>	<u>\$367</u>	<u>\$129</u>	<u>\$17,387</u>
Loss allowance collectively evaluated for impairment	<u>\$2,557</u>	<u>\$4,171</u>	<u>\$7,250</u>	<u>\$1,428</u>	<u>\$803</u>	<u>\$1,971</u>	<u>\$18,180</u>
Loan receivable balances at the end of the period:							
Loans individually evaluated for impairment	\$15,278	\$25,112	\$43,040	\$20,915	\$1,741	\$4,871	\$110,957
Loans collectively evaluated for impairment	493,706	208,848	192,133	29,122	232,887	76,244	1,232,940
Total loans receivable	<u>\$508,984</u>	<u>\$233,960</u>	<u>\$235,173</u>	<u>\$50,037</u>	<u>\$234,628</u>	<u>\$81,115</u>	<u>\$1,343,897</u>

During the nine months ended September 30, 2011, the Company adjusted certain factors used to determine the allowance for loan losses on loans that are collectively evaluated for impairment. Management considered these adjustments necessary and prudent in light of recent trends in real estate values, economic conditions, and unemployment. The Company estimates that these adjustments, as well as overall changes in the balance of loans to which these factors were applied, resulted in a \$961 increase in the total allowances for loan losses during the nine months ended September 30, 2011. The transfers noted in the table were the result of the reclassification of certain construction loans to permanent loans as a result of the completion of construction.

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2011

(Dollars in Thousands, Except Per Share Amounts)

3. Loans Receivable (continued)

The following tables present information regarding impaired loans that have a related allowance for loan loss and those that do not as of the dates indicated (the loans receivable amounts in the table are net of undisbursed loan proceeds).

	At or For the Nine Months Ended September 30, 2011				
	Loans Receivable Balance, Net	Unpaid Principal Balance	Related Allowance for Loss	Average Loan Receivable Balance, Net	Interest Income Recognized
With an allowance recorded:					
One- to four-family	\$2,925	\$2,925	\$145	\$4,244	\$41
Multi-family	16,325	16,325	3,683	24,196	713
Commercial real estate:					
Office	8,090	8,090	3,398	9,278	296
Retail/wholesale/mixed	19,097	19,097	6,401	20,359	700
Industrial/warehouse	1,254	1,254	222	1,295	-
Other	710	710	280	1,229	45
Total commercial real estate	29,151	29,151	10,301	32,161	1,041
Construction and development:					
One- to four-family	-	-	-	-	-
Multi-family	4,488	4,488	700	4,486	202
Commercial real estate	154	154	85	2,348	9
Land	1,977	1,977	1,977	2,932	-
Total construction and development	6,619	6,619	2,762	9,766	211
Consumer:					
Home equity	316	316	288	454	-
Student	-	-	-	-	-
Other	97	97	79	141	-
Total consumer	413	413	367	595	-
Commercial business:					
Term loans	174	174	84	821	13
Lines of credit	118	118	45	376	3
Total commercial business	292	292	129	1,197	16
Total with an allowance recorded	\$55,725	\$55,725	\$17,387	\$72,159	\$2,022
With no allowance recorded:					
One- to four-family	\$11,518	\$12,927	-	\$12,412	\$129
Multi-family	8,227	10,765	-	7,921	266
Commercial real estate:					
Office	2,413	3,604	-	2,027	23
Retail/wholesale/mixed	4,140	8,509	-	7,567	178
Industrial/warehouse	226	448	-	1,300	7
Other	556	1,482	-	774	8
Total commercial real estate	7,335	14,043	-	11,668	216
Construction and development:					
One- to four-family	-	-	-	-	-
Multi-family	-	-	-	25	-
Commercial real estate	844	844	-	3,074	-
Land	3,100	6,059	-	3,584	29
Total construction and development	3,944	6,903	-	6,683	29
Consumer:					
Home equity	1,131	1,131	-	941	30
Student	-	-	-	-	-
Other	126	126	-	102	2
Total consumer	1,257	1,257	-	1,043	32
Commercial business:					
Term loans	679	786	-	835	29
Lines of credit	670	795	-	192	38
Total commercial business	1,349	1,581	-	1,027	67
Total with no allowance recorded	\$33,630	\$47,476	-	\$40,754	\$739

Bank Mutual Corporation and Subsidiaries

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September 30, 2011

(Dollars in Thousands, Except Per Share Amounts)

3. Loans Receivable (continued)

	At or For the Twelve Months Ended December 31, 2010				
	Loans Receivable Balance, Net	Unpaid Principal Balance	Related Allowance for Loss	Average Loan Receivable Balance, Net	Interest Income Recognized
With an allowance recorded:					
One- to four-family	\$5,301	\$5,301	\$1,182	\$5,411	\$21
Multi-family	31,461	31,461	6,834	14,431	460
Commercial real estate:					
Office	11,190	11,190	4,938	4,208	-
Retail/wholesale/mixed	16,205	16,205	7,310	5,404	45
Industrial/warehouse	1,419	1,419	305	416	19
Other	714	714	300	143	-
Total commercial real estate	29,528	29,528	12,853	10,171	64
Construction and development:					
One- to four-family	-	-	-	-	-
Multi-family	4,440	4,440	568	888	-
Commercial real estate	8,923	8,923	4,791	1,785	-
Land	5,477	5,477	3,965	4,896	-
Total construction and development	18,840	18,840	9,324	7,569	-
Consumer:					
Home equity	543	543	513	544	19
Student	-	-	-	-	-
Other	176	176	128	177	5
Total consumer	719	719	641	721	24
Commercial business:					
Term loans	1,712	1,712	568	746	-
Lines of credit	400	400	169	80	-
Total commercial business	2,112	2,112	737	826	-
Total with an allowance recorded	\$87,961	\$87,961	\$31,571	\$39,129	\$569
With no allowance recorded:					
One- to four-family	\$13,381	\$13,526	-	\$9,383	\$14
Multi-family	6,328	6,468	-	3,759	-
Commercial real estate:					
Office	725	725	-	145	-
Retail/wholesale/mixed	10,513	16,150	-	6,908	-
Industrial/warehouse	687	927	-	597	-
Other	1,794	2,632	-	2,599	-
Total commercial real estate	13,719	20,434	-	10,249	-
Construction and development:					
One- to four-family	-	-	-	-	-
Multi-family	100	100	-	20	-
Commercial real estate	3,818	3,818	-	764	-
Land	3,812	7,187	-	4,336	-
Total construction and development	7,730	11,105	-	5,120	-
Consumer:					
Home equity	826	826	-	852	21
Student	-	-	-	-	-
Other	99	99	-	17	3
Total consumer	925	925	-	869	24
Commercial business:					
Term loans	1,138	1,819	-	1,206	-
Lines of credit	194	667	-	472	-
Total commercial business	1,332	2,486	-	1,678	-
Total with no allowance recorded	\$43,415	\$54,944	-	\$31,058	\$38

Bank Mutual Corporation and Subsidiaries

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(Dollars in Thousands, Except Per Share Amounts)

3. Loans Receivable (continued)

The following tables present information relating to the Company's internal risk ratings of its loans receivable as of the dates indicated (all amounts in the tables are net of undisbursed loan proceeds):

	September 30, 2011				Total
	Pass	Watch	Special Mention	Substandard	
One- to four-family	\$489,265	\$4,311	\$130	\$15,278	\$508,984
Multi-family	185,573	14,082	9,193	25,112	233,960
Commercial real estate:					
Office	56,106	19,853	2,031	10,503	88,493
Retail/wholesale/mixed	49,908	8,861	22,785	25,554	107,108
Industrial/warehouse	24,769	540	1,130	4,670	31,109
Other	4,499	1,127	524	2,313	8,463
Total commercial real estate	135,282	30,381	26,470	43,040	235,173
Construction and development:					
One- to four-family	7,206	-	-	-	7,206
Multi-family	6,791	-	-	13,139	19,930
Commercial real estate	2,952	-	-	1,765	4,717
Land	11,956	-	217	6,011	18,184
Total construction/development	28,905	-	217	20,915	50,037
Consumer:					
Home equity	207,619	-	-	1,497	209,116
Student	16,094	-	-	-	16,094
Other	9,174	-	-	244	9,418
Total consumer	232,887	-	-	1,741	234,628
Commercial business:					
Term loans	23,576	1,638	-	2,911	28,125
Lines of credit	48,408	2,324	298	1,960	52,990
Total commercial business	71,984	3,962	298	4,871	81,115
Total	\$1,143,896	\$52,736	\$36,308	\$110,957	\$1,343,897

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2011

(Dollars in Thousands, Except Per Share Amounts)

3. Loans Receivable (continued)

	December 31, 2010				Total
	Pass	Watch	Special Mention	Substandard	
One- to four-family	\$505,100	–	–	\$18,972	\$524,072
Multi-family	164,177	\$27,521	\$6,429	48,582	246,709
Commercial real estate:					
Office	67,764	5,089	–	13,014	85,867
Retail/wholesale/mixed	63,254	22,888	545	28,119	114,806
Industrial/warehouse	25,400	3,488	–	3,446	32,334
Other	5,503	4,062	502	2,311	12,378
Total commercial real estate	161,921	35,527	1,047	46,890	245,385
Construction and development:					
One- to four-family	6,382	–	–	–	6,382
Multi-family	5,556	–	–	4,609	10,165
Commercial real estate	6,267	–	–	13,740	20,007
Land	14,095	203	887	10,310	25,495
Total construction/development	32,300	203	887	28,659	62,049
Consumer:					
Home equity	214,132	–	–	1,421	215,553
Student	17,695	–	–	–	17,695
Other	9,846	–	–	342	10,188
Total consumer	241,673	–	–	1,763	243,436
Commercial business:					
Term loans	20,322	1,314	403	3,155	25,194
Lines of credit	20,991	2,527	96	1,644	25,258
Total commercial business	41,313	3,841	499	4,799	50,452
Total	\$1,146,484	\$67,092	\$8,862	\$149,665	\$1,372,103

Loans rated “pass” or “watch” are generally current on contractual loan and principal payments and comply with other contractual loan terms. Pass loans generally have no noticeable credit deficiencies or potential weaknesses. Loans rated watch, however, will typically exhibit early signs of credit deficiencies or potential weaknesses that deserve management’s close attention. Loans rated “special mention” do not currently expose the Company to a sufficient degree of risk to warrant a lower rating, but possess clear trends in credit deficiencies or potential weaknesses that deserve management’s close attention. The allowance for loan losses on loans rated pass, watch, or special mention is typically evaluated collectively for impairment using a homogenous pool approach. This approach utilizes quantitative factors developed by management from its assessment of historical loss experience, qualitative factors, and other considerations.

Loans rated “substandard” involve a distinct possibility that the Company could sustain some loss if deficiencies associated with the loan are not corrected. Loans rated “doubtful” indicate that full collection is highly questionable or improbable. The Company did not have any loans that were rated doubtful at September 30, 2011, or December 31, 2010. Loans rated substandard or doubtful that are also considered in management’s judgment to be impaired are generally analyzed individually to determine an appropriate allowance for loan loss. A loan rated “loss” is considered uncollectible, even if a partial recovery could be expected in the future. The Company generally charges off loans that are rated as a loss. As such, the Company did not have any loans that were rated loss at September 30, 2011, or December 31, 2010.

Bank Mutual Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2011

(Dollars in Thousands, Except Per Share Amounts)

3. Loans Receivable (continued)

The following tables contain information relating to the past due and non-accrual status of the Company's loans receivable as of the dates indicated (all amounts in the table are net of undisbursed loan proceeds):

	September 30, 2011						
	Past Due Status				Total Current	Total Loans	Total Non- Accrual
	30-59 Days	60-89 Days	> 90 Days	Total Past Due			
One- to four-family	\$11,062	\$1,823	\$12,261	\$25,146	\$483,839	\$508,984	\$14,443
Multi-family	9,625	-	11,055	20,680	213,281	233,960	24,552
Commercial real estate:							
Office	1,070	-	4,245	5,315	83,178	88,493	10,503
Retail/wholesale/mixed	4,415	6,008	6,243	16,666	90,443	107,108	23,237
Industrial/warehouse	94	-	1,480	1,573	29,536	31,109	1,480
Other	-	-	847	847	7,616	8,463	1,266
Total commercial real estate	5,579	6,008	12,815	24,401	210,773	235,173	36,486
Construction and development:							
One- to four-family	-	-	-	-	7,206	7,206	-
Multi-family	-	4,488	-	4,488	15,441	19,930	4,488
Commercial real estate	-	-	843	843	3,874	4,717	998
Land	166	-	4,675	4,841	13,343	18,184	5,077
Total construction	166	4,488	5,518	10,172	39,864	50,037	10,563
Consumer:							
Home equity	1,145	334	1,447	2,926	206,189	209,116	1,447
Student	450	227	510	1,186	14,907	16,094	-
Other	127	49	223	399	9,019	9,418	223
Total consumer	1,722	610	2,180	4,511	230,115	234,628	1,670
Commercial business:							
Term loans	213	-	326	539	27,586	28,125	853
Lines of credit	64	15	578	657	52,333	52,990	788
Total commercial	277	15	904	1,196	79,919	81,115	1,641
Total	\$28,431	\$12,944	\$44,733	\$86,106	\$1,257,791	\$1,343,897	\$89,355

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September 30, 2011

(Dollars in Thousands, Except Per Share Amounts)

3. Loans Receivable (continued)

	December 31, 2010						
	Past Due Status				Total Current	Total Loans	Total Non- Accrual
	30-59 Days	60-89 Days	> 90 Days	Total Past Due			
One- to four-family	\$6,704	\$3,256	\$18,684	\$28,644	\$495,428	\$524,072	\$18,684
Multi-family	6,847	10,337	14,557	31,741	214,968	246,709	31,660
Commercial real estate:							
Office	1,936	1,072	3,081	6,089	79,778	85,867	11,915
Retail/wholesale/mixed	2,164	1,364	12,870	16,398	99,460	115,858	25,695
Industrial/warehouse	–	–	853	853	31,481	32,334	2,107
Other	–	–	1,527	1,527	9,799	11,326	1,527
Total commercial real estate	4,100	2,436	18,331	24,867	220,518	245,385	41,244
Construction and development:							
One- to four-family	–	–	–	–	6,382	6,382	–
Multi-family	–	4,441	–	4,441	5,724	10,165	4,540
Commercial real estate	2,975	843	–	3,818	16,189	20,007	12,741
Land	112	–	9,282	9,394	16,101	25,495	9,282
Total construction	3,087	5,284	9,282	17,653	44,396	62,049	26,563
Consumer:							
Home equity	855	400	1,369	2,624	212,929	215,553	1,369
Student	485	140	373	998	16,697	17,695	–
Other	183	96	275	554	9,634	10,188	275
Total consumer	1,523	636	2,017	4,176	239,260	243,436	1,644
Commercial business:							
Term loans	150	246	1,992	2,388	22,806	25,194	2,185
Lines of credit	523	–	194	717	24,541	25,258	594
Total commercial	673	246	2,186	3,105	47,347	50,452	2,779
Total	\$22,934	\$22,195	\$65,057	\$110,186	\$1,261,917	\$1,372,103	\$122,574

As of September 30, 2011, and December 31, 2010 \$510 and \$373 in student loans, respectively, were 90-days past due, but remained on accrual status. No other loans 90-days past due were in accrual status as of either date.

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Notes to Unaudited Condensed Consolidated Financial Statements

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3. Loans Receivable (continued)

The Company classifies a loan modification as a troubled debt restructuring (“TDR”) when it has granted a borrower experiencing financial difficulties a concession that it would otherwise not consider. Loan modifications that result in insignificant delays in the receipt of payments (generally six months or less) are not considered TDRs under the Company’s TDR policy. TDRs are relatively insignificant and/or infrequent in the Company. There were no new TDRs during the three month and nine month periods ended September 30, 2011. TDRs are evaluated for impairment and appropriate credit losses are recorded in accordance with the Company’s accounting policies and GAAP.

The following table contains the number and dollar amount of TDRs restructured within the previous twelve months that had a payment default during the nine months ended September 30, 2011. There were no payment defaults on TDRs during the three month period ended September 30, 2011.

	Number	Amount
Commercial real estate:		
Office	1	\$1,070
Retail/wholesale/mixed	2	5,796
Other	1	486
Total commercial real estate	4	7,352
Construction and development land loans	1	1,977
Total	5	\$9,329

All of the TDRs in the above table were included in non-accrual loans at September 30, 2011.

Bank Mutual Corporation and Subsidiaries

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4. Mortgage Servicing Rights

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

	Nine Months Ended September 30	
	2011	2010
MSRs at beginning of the period	\$7,775	\$7,186
Additions	1,664	2,048
Amortization	(1,718)	(2,100)
MSRs at end of period	7,721	7,134
Valuation allowance at end of period	(1,103)	(485)
MSRs at end of the period, net	\$6,618	\$6,649

The following table shows the estimated future amortization expense for MSRs for the periods indicated:

		Amount
Estimate for three months ended December 31:	2011	\$284
Estimate for years ended December 31:	2012	1,107
	2013	1,061
	2014	1,024
	2015	995
	2016	953
	Thereafter	1,194
	Total	\$6,618

The projections of amortization expense shown above for MSRs are based on existing asset balances and the existing interest rate environment as of September 30, 2011. Future amortization expense may be significantly different depending upon changes in the mortgage servicing portfolio, mortgage interest rates, and market conditions.

5. Other Assets

The following table summarizes the components of other assets as of the dates indicated:

	September 30	December 31
	2011	2010
Accrued interest:		
Mortgage-related securities	\$1,472	\$1,432
Investment securities	560	511
Loans receivable	4,737	5,506
Total accrued interest	6,770	7,449
Premises and equipment, net	50,422	51,165
Federal Home Loan Bank stock, at cost	46,092	46,092
Bank owned life insurance	56,586	55,600
Prepaid FDIC insurance premiums	6,333	8,694
Deferred tax asset, net	33,333	40,320
Prepaid and other assets	41,960	45,389
Total other assets	\$241,497	\$254,709

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6. Deposit Liabilities

The following table summarizes the components of deposit liabilities as of the dates indicated:

	September 30 2011	December 31 2010
Checking accounts:		
Non-interest-bearing	\$101,315	\$94,446
Interest-bearing	221,526	219,136
Total checking accounts	<u>322,841</u>	<u>313,582</u>
Money market accounts	407,207	423,923
Savings accounts	<u>210,691</u>	<u>210,334</u>
Certificates of deposit:		
Due within one year	727,679	825,661
After one but within two years	246,825	126,710
After two but within three years	67,975	134,120
After three but within four years	16,635	29,890
After four but within five years	9,292	14,090
Total certificates of deposits	<u>1,068,406</u>	<u>1,130,471</u>
Total deposit liabilities	<u>\$2,009,145</u>	<u>\$2,078,310</u>

7. Borrowings

The following table summarizes borrowings as of the dates indicated:

	September 30, 2011		December 31, 2010	
	Balance	Weighted-Average Rate	Balance	Weighted-Average Rate
Federal Home Loan Bank advances maturing				
2012	\$100,000	4.52%	\$100,000	4.52%
2013	237	4.17	249	4.17
2017 and thereafter	<u>53,148</u>	5.08	<u>49,685</u>	5.15
Total borrowings	<u>\$153,385</u>	4.75%	<u>\$149,934</u>	4.73%

Substantially all of the Company's advances from the FHLB of Chicago are subject to prepayment penalties if voluntarily repaid by the Company prior to stated maturity. At September 30, 2011, \$100,000 of the Company's FHLB of Chicago advances was redeemable on a quarterly basis at the option of the FHLB of Chicago.

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 September 30, 2011.

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7. Borrowings (continued)

The Bank had lines of credit with two financial institutions at September 30, 2011 totaling \$10,000. At December 31, 2010, the Bank had lines of credit with two financial institutions totaling \$15,000. At September 30, 2011, and December 31, 2010, 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 September 30, 2011, that the Bank met or exceeded all capital adequacy requirements to which it is subject. The Company is not aware of any conditions or events which would change the Bank's status from "well capitalized."

The following table presents the Bank's actual and required regulatory capital amounts and ratios as of the dates indicated:

	September 30, 2011					
	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)	\$251,991	18.10%	\$111,356	8.00%	\$139,195	10.00%
Tier 1 capital (to risk-weighted assets)	234,592	16.85	55,678	4.00	83,517	6.00
Tier 1 capital (to adjusted total assets)	234,592	9.54	98,363	4.00	122,954	5.00
	December 31, 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)	\$245,628	17.86%	\$110,044	8.00%	\$137,555	10.00%
Tier 1 capital (to risk-weighted assets)	228,434	16.61	55,022	4.00	82,533	6.00
Tier 1 capital (to adjusted total assets)	228,434	9.12	100,215	4.00	125,268	5.00

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9. Earnings Per Share

The following table summarizes the computation of basic and diluted earnings per share for the periods indicated:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Basic earnings (loss) per share:				
Net income (loss)	\$1,349	\$926	\$(48,987)	\$3,759
Weighted average shares outstanding	46,177,657	45,573,340	45,991,853	45,518,562
Allocated ESOP shares for period	–	15,772	–	47,316
Vested MRP shares for period	1,745	1,194	5,234	3,082
Basic shares outstanding	46,179,402	45,590,306	45,997,087	45,568,960
Basic earnings (loss) per share	\$0.03	\$0.02	\$(1.07)	\$0.08
Diluted earnings (loss) per Share:				
Net income (loss)	\$1,349	\$926	\$(48,987)	\$3,759
Weighted average shares outstanding used in basic earnings (loss) per share	46,179,402	45,590,306	45,997,087	45,568,960
Net dilutive effect of:				
Stock option shares	–	208,654	–	329,576
Diluted shares outstanding	46,179,402	45,798,960	45,997,087	45,898,536
Diluted earnings (loss) per share	\$0.03	\$0.02	\$(1.07)	\$0.08

The Company had stock options for 2,382,500 shares outstanding as of September 30, 2011, and for 1,904,000 shares as of September 30, 2010, that were not included in the computation of diluted earnings per share because they were anti-dilutive. These options had weighted average exercise prices of \$9.46 and \$10.67 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 \$45 and \$47 during the three-month periods ended September 30, 2011 and 2010, respectively, and \$124 and \$123 during the nine-month periods ended September 30, 2011 and 2010, 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.

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10. Employee Benefit Plans (continued)

The following table summarizes the qualified plan's net periodic benefit cost for the periods indicated:

	Qualified Plan For the Three Months Ended September 30		Qualified Plan For the Nine months Ended September 30	
	2011	2010	2011	2010
Service cost	\$626	\$485	\$1,878	\$1,455
Interest cost	569	506	1,707	1,518
Expected return on plan assets	(650)	(573)	(1,950)	(1,719)
Amortization of net loss from earlier periods	216	—	648	—
Net periodic benefit cost	<u>\$761</u>	<u>\$418</u>	<u>\$2,283</u>	<u>\$1,254</u>

The net periodic benefit cost for the Company's supplemental plan was \$6 and \$107 for the three months ended September 30, 2011 and 2010, respectively, and \$18 and \$321 for the nine months ended September 30, 2011 and 2010, respectively. The amounts in all periods consisted solely of interest cost.

The 2011 contribution to the qualified plan was \$5,000 and was paid in the second quarter. The payment was determined based on a number of factors, including the results of the Actuarial Valuation Report as of January 1, 2011. No contribution is necessary for 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. The 2001 Plan has expired and no options remain outstanding and no further awards may be made under this 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 September 30, 2011, 617,721 MRP shares and options for 1,033,862 shares remain eligible for award under the 2004 Plan.

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 \$30 and \$25 for the three month periods ended September 30, 2011 and 2010 respectively, and \$90 and \$67 for the nine month periods ended September 30, 2011 and 2010 respectively. Outstanding non-vested MRP grants had a fair value of \$107 and an unamortized cost of \$302 at September 30, 2011. The cost of these shares is expected to be recognized over a weighted-average period of 1.5 years.

During the three months ended September 30, 2011 and 2010, the Company recorded stock option compensation expense of \$40 and \$13, respectively. During the nine months ended September 30, 2011 and 2010, the Company recorded stock option compensation expense of \$121 and \$33, respectively. As of September 30, 2011, there was \$603 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 2.0 years.

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11. Stock-Based Benefit Plans (continued)

The following table summarizes the activity in the Company's stock options during the periods indicated:

	Nine Months Ended September 30			
	2011			2010
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding at beginning of period	2,462,464	\$9.0184	3,129,398	\$8.1823
Granted	438,500	4.9730	50,000	7.2200
Exercised	(488,464)	3.2056	(566,934)	3.2056
Forfeited	(30,000)	9.1735	(210,000)	10.6730
Outstanding at end of period	<u>2,382,500</u>	<u>\$9.4637</u>	<u>2,402,464</u>	<u>\$9.1189</u>

The following table provides additional information regarding the Company's outstanding options as of September 30, 2011.

	Remaining Contractual Life	Non-Vested Options		Vested Options	
		Stock Options	Intrinsic Value	Stock Options	Intrinsic Value
Exercise Price:					
\$10.6730	2.6 years	–	–	1,700,000	–
\$12.2340	4.8 years	–	–	50,000	–
\$11.1600	6.6 years	12,800	–	19,200	–
\$12.0250	6.9 years	20,000	–	30,000	–
\$7.2200	8.6 years	40,000	–	10,000	–
\$4.7400	9.2 years	70,000	–	–	–
\$5.0500	9.3 years	388,000	–	–	–
\$4.3000	9.5 years	25,000	–	–	–
\$3.7200	9.8 years	17,500	–	–	–
Total		<u>573,300</u>	<u>–</u>	<u>1,809,200</u>	<u>–</u>
Weighted average remaining contractual life		<u>9.1 years</u>		<u>2.8 years</u>	
Weighted average exercise price		<u>\$5.4700</u>		<u>\$10.7246</u>	

The intrinsic value of options exercised during the nine month period ended September 30, 2011 and 2010 was \$296, and \$1,825, respectively. The weighted average grant date fair value of non-vested options at September 30, 2011 was \$1.20 per share. During the nine months ended September 30, 2011, options for 438,500 shares were granted, options for 36,400 shares became vested, and 8,000 shares of non-vested options were forfeited.

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 weighted-average assumptions were used to value 438,500 options granted during the nine month period ended

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11. Stock-Based Benefit Plans (continued)

September 30, 2011: risk free rate of 2.06%, dividend yield of 2.04%, expected stock volatility of 25%, and expected term to exercise of 7.5 years. These options had a weighted-average value of \$1.15 per option using these assumptions. The following assumptions were used to value 50,000 options granted during the nine month period ended September 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 \$1.15 per option using these assumptions.

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

12. Financial Instruments with Off-Balance Sheet Risk

Off-balance sheet financial instruments or obligations whose contract amounts represent credit and/or interest rate risk are summarized in the following table as of the dates indicated:

	September 30 2011	December 31 2010
Unused consumer lines of credit	\$150,557	\$146,381
Unused commercial lines of credit	26,863	20,856
Commitments to extend credit:		
Fixed rate	31,166	73,340
Adjustable rate	5,778	1,784
Undisbursed commercial loans	2,622	462
Standby letters of credit	360	339

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 September 30, 2011, and December 31, 2010, net unrealized gains of \$412 and \$1,474, 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 \$743 and \$(800) 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:

	September 30, 2011		December 31, 2010	
	Notional	Fair Value	Notional	Fair Value
Interest rate lock commitments	\$80,000	\$1,472	\$14,003	\$(57)
Forward commitments	87,079	(1,060)	49,854	1,531
Net unrealized gain		\$412		\$1,474

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.

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13. 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's 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's 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.

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.

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13. Fair Value of Financial Instruments (continued)

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.

	September 30 2011		December 31 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$103,362	\$103,362	\$232,832	\$232,832
Securities available-for-sale	783,659	783,659	663,257	663,257
Loans held-for-sale	28,606	28,606	37,819	37,819
Loans receivable, net	1,307,853	1,296,353	1,323,569	1,213,460
Mortgage servicing rights, net	6,618	6,715	7,769	9,368
Federal Home Loan Bank stock	46,092	46,092	46,092	46,092
Accrued interest receivable	6,770	6,770	7,449	7,449
Deposit liabilities	2,009,145	1,961,242	2,078,310	1,967,742
Borrowings	153,385	168,704	149,934	163,521
Advance payments by borrowers	30,182	30,182	2,697	2,697
Accrued interest payable	805	805	2,428	2,428
Off-balance-sheet items:				
Interest rate lock commitments on loans	80,000	81,472	14,003	13,946
Forward commitments to sell loans	87,089	88,139	49,854	48,323

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 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).

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13. Fair Value of Financial Instruments (continued)

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 September 30, 2011			Total
	Level 1	Level 2	Level 3	
Loans held-for-sale	–	\$28,606	–	\$28,606
Securities available-for-sale:				
Investment securities	–	20,026	–	20,026
Mortgage-related securities	–	763,221	–	763,221
	At December 31, 2010			
	Level 1	Level 2	Level 3	Total
Loans held-for-sale	–	\$37,819	–	\$37,819
Securities available-for-sale:				
Investment securities	\$22,054	205,970	–	228,024
Mortgage-related securities	–	435,234	–	435,234

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. 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 September 30, 2011, had an amortized cost basis of \$7,455 and a fair value of \$6,352 as of that date. Pools determined to be impaired at December 31, 2010, had an amortized cost basis of \$390 and a fair value of \$384 as of that date. Accordingly, the Company had a valuation allowance as of September 30, 2011 of \$1,103, compared to \$6 as of December 31, 2010. 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 allowance of \$17,387 was recorded for loans with a recorded investment of \$110,957 at September 30, 2011. These amounts were \$31,571 and \$149,665 at December 31, 2010, 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 September 30, 2011, \$18,975 in foreclosed properties were valued at collateral value compared to \$17,742 at December 31, 2010.

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14. Goodwill Impairment

In prior years the Company recorded goodwill as the result of the acquisitions of financial institutions in 1997 and 2000. In the second quarter of 2011, in connection with the preparation of its financial statements for the quarter, the Company determined that its goodwill was impaired. The Company performed an interim goodwill impairment test during that quarter as a result of a number of developments including the decline in the Company's stock price and market capitalization and the announcement that the Company and Bank had each entered into a separate Memorandum of Understanding ("MOU") with their primary regulators. To determine the fair value of goodwill, as well as the amount of the impairment, the Company obtained a third-party independent appraisal of the Company, which consists of a single reporting unit, and its assets and liabilities. The fair value of the Company was estimated using a weighted average of three valuation methodologies, including a public market peers approach, a comparable transactions approach, and a discounted cash flow approach. A comparison of the weighted average value from these approaches to the net carrying value of the Company indicated that potential impairment existed. The weighted average value of the Company was subsequently compared to the estimated net fair value of the Company's individual assets and liabilities. As a result of this comparison, the Company concluded that goodwill was impaired and recorded an impairment charge of \$52,570 in the second quarter of 2011, which represented the total amount of the Company's goodwill.

Goodwill impairment is not deductible for income tax purposes. Accordingly, the Company recorded income tax expense of \$1,236 during the nine months ended September 30, 2011, regardless of the fact that it incurred a net loss before income taxes. Excluding the goodwill impairment from the Company's net loss before income taxes, the Company's effective tax rate for the nine months ended September 30, 2011 was 25.8%.

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 instability in credit, lending, and financial markets; declines in the real estate market, which could further affect both collateral values and loan activity; continuing relatively high unemployment and other factors which could affect borrowers' ability to repay their loans; negative developments affecting particular borrowers, which could further adversely impact loan repayments and collection; 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; the effects of further regulation and consolidation within the financial services industry, including substantial changes under the Dodd-Frank Act and the transfer of regulatory authority from the Office of Thrift Supervision ("OTS") to the Office of the Comptroller of the Currency ("OCC") and the Federal Reserve Board ("FRB"); regulators' increasing expectations for financial institutions' capital levels and restrictions imposed on institutions, as to payments of dividends or otherwise, to maintain or achieve those levels, including the possible effect of the MOUs mentioned in this report; potential regulatory or other actions affecting the Company or the Bank; potential adverse publicity relating to any such action or other developments affecting the Company or the Bank; potential changes in Fannie Mae and Freddie Mac, which could impact the home mortgage market; increased competition and/or disintermediation within the financial services industry; changes in tax rates, deductions and/or policies; potential further changes in Federal Deposit Insurance Corporation ("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; 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; changes in customers' demand for other financial services; the Company's potential inability to carry out business plans or strategies; changes in accounting policies or guidelines; natural disasters, acts of terrorism, or developments in the war on terrorism; the risk of failures in computer or other technology systems or data maintenance, or breaches of security relating to such systems; 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 2010 Annual Report on Form 10-K.

Results of Operations

Overview The Company's net income was \$1.3 million or \$0.03 per diluted share during the three months ended September 30, 2011, compared to \$926,000 or \$0.02 per diluted share during the same period in 2010. The increase in net income between these periods was principally due to an increase in net interest income and a decrease in provision for loan losses. These developments were offset in part by a decrease in gains on sales of loans and investments, increased losses on mortgage servicing activities, and an increase in non-interest expenses, particularly compensation-related costs.

The Company's net loss was \$49.0 million or \$1.07 per diluted share during the nine months ended September 30, 2011. This loss was due principally to a \$52.6 million non-cash goodwill impairment in the second quarter that had no effect on the liquidity, operations, tangible capital, or regulatory capital of the Company or the Bank. The goodwill impairment is described more fully in "Financial Condition—Goodwill," below. Excluding this impairment, the Company's earnings during the nine months ended September 30, 2011, was \$3.6 million or \$0.08 per diluted share compared to \$3.8 million or \$0.08 per diluted share in same period in 2010. The decrease in earnings between these periods was caused by the same developments described in the previous paragraph, except that the magnitude of the various changes resulted in lower earnings in the 2011 year-to-date period compared to the same period in 2010.

The following paragraphs describe these changes in greater detail, along with other matters affecting the Company's results of operations during the three- and nine-month periods ended September 30, 2011 and 2010.

Net Interest Income Net interest income increased by \$3.8 million or 32.2% during the third quarter of 2011 compared to the same quarter of 2010. Net interest income also increased by \$9.2 million or 24.1% during the nine months ended September 30, 2011, compared to the same period in 2010. These increases were primarily attributable to an improvement in the Company's net interest margin, which increased to 2.75% and 2.80% in the three and nine month periods of 2011, compared to 1.46% and 1.58% in the same periods of 2010, respectively. The improvement in net interest margin in the current year periods was primarily the result of the Company's early repayment of \$756.0 million in high-cost borrowings from the FHLB of Chicago in December of 2010. The repayment resulted in a significant decline in the average cost of interest-bearing liabilities in the 2011 periods compared to the same periods in the previous year.

Also contributing to the improvement in the Company's net interest margin in the 2011 periods was a decline in its average cost of deposits. The Company's average cost of deposits declined by 37 and 43 basis points during the three and nine month periods ended September 30, 2011, respectively, compared to the same periods in 2010. The Company continues to manage its overall liquidity position by aggressively managing the rates it offers on its certificates of deposits and certain other deposit accounts.

Also contributing to the improvement in the Company's net interest margin during the three and nine months ended September 30, 2011, was a 37 and 28 basis point improvement, respectively, in the yield on interest-earning assets compared to the same periods in 2010. These improvements were caused by a favorable change in the mix of earning assets from lower-yielding assets, such as overnight investments and available-for-sale securities, to higher-yielding assets, such as loans receivable. The changes in mix were caused by the buildup in 2010 of lower-yielding assets to increase liquidity due to market conditions and management's outlook at that time for the direction of future interest rates. Partially offsetting the favorable impact of the improved asset mix was a decline in the average yield on the Company's loans receivable and available-for-sale securities in 2011 compared to 2010. These declines were caused by a declining interest rate environment during much of 2010 and 2011 that resulted in lower yields on these earning assets in the current year. In addition, the Company sold a substantial number of higher-yielding available-for-sale securities in 2010 at gains, which reduced the overall yield on its securities portfolio.

The following tables present 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 September 30

	2011			2010		
	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Paid	Average Yield/ Rate
<i>(Dollars in thousands)</i>						
Assets:						
Interest-earning assets:						
Loans receivable (1)	\$1,362,337	\$17,468	5.13%	\$1,469,435	\$19,780	5.38%
Mortgage-related securities	755,394	4,303	2.28	695,903	4,528	2.60
Investment securities (2)	75,875	219	1.15	862,224	4,071	1.89
Interest-earning deposits	59,058	27	0.18	186,208	62	0.13
Total interest-earning assets	<u>2,252,664</u>	<u>22,017</u>	<u>3.91</u>	<u>3,213,770</u>	<u>28,441</u>	<u>3.54</u>
Non-interest-earning assets	241,067			251,934		
Total average assets	<u>\$2,493,731</u>			<u>\$3,465,704</u>		
Liabilities and equity:						
Interest-bearing liabilities:						
Regular savings deposits	\$213,942	18	0.03	\$211,173	24	0.05
Money market accounts	408,888	435	0.43	349,951	534	0.61
Interest-bearing demand accounts	193,627	25	0.05	200,015	28	0.06
Certificates of deposit	1,067,048	4,253	1.59	1,238,908	6,279	2.03
Total deposit liabilities	<u>1,883,505</u>	<u>4,731</u>	<u>1.00</u>	<u>2,000,047</u>	<u>6,865</u>	<u>1.37</u>
Advance payments by borrowers for taxes and insurance	25,960	2	0.03	26,129	2	0.03
Borrowings	149,958	1,798	4.80	906,297	9,863	4.35
Total interest-bearing liabilities	<u>2,059,423</u>	<u>6,531</u>	<u>1.27</u>	<u>2,932,473</u>	<u>16,730</u>	<u>2.28</u>
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	114,689			92,425		
Other non-interest-bearing liabilities	50,595			42,060		
Total non-interest-bearing liabilities	<u>165,284</u>			<u>134,485</u>		
Total liabilities	<u>2,224,707</u>			<u>3,066,958</u>		
Total equity	269,024			398,746		
Total average liabilities and equity	<u>\$2,493,731</u>			<u>\$3,465,704</u>		
Net interest income and net interest rate spread		<u>\$15,486</u>	<u>2.64%</u>		<u>\$11,711</u>	<u>1.26%</u>
Net interest margin			<u>2.75%</u>			<u>1.46%</u>
Average interest-earning assets to average interest-bearing liabilities	<u>1.09x</u>			<u>1.10x</u>		

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

(2) The carrying value and earnings on stock in the FHLB of Chicago is included in investment securities.

Nine Months Ended September 30

	2011			2010		
	Average Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Paid	Average Yield/ Rate
<i>(Dollars in thousands)</i>						
Assets:						
Interest-earning assets:						
Loans receivable (1)	\$1,366,840	\$52,887	5.16%	\$1,488,060	\$60,515	5.42%
Mortgage-related securities	613,668	12,131	2.64	732,041	16,040	2.92
Investment securities (2)	193,147	2,843	1.96	806,628	13,256	2.19
Interest-earning deposits	85,182	125	0.20	188,908	207	0.15
Total interest-earning assets	<u>2,258,837</u>	<u>67,986</u>	<u>4.01</u>	<u>3,215,637</u>	<u>90,018</u>	<u>3.73</u>
Non-interest-earning assets	300,275			261,768		
Total average assets	<u>\$2,559,112</u>			<u>\$3,477,405</u>		
Liabilities and equity:						
Interest-bearing liabilities:						
Regular savings deposits	\$213,841	62	0.04	\$206,864	81	0.05
Money market accounts	401,368	1,417	0.47	340,173	1,543	0.60
Interest-bearing demand accounts	199,578	72	0.05	197,607	79	0.05
Certificates of deposit	1,074,425	13,659	1.70	1,258,040	20,798	2.20
Total deposit liabilities	<u>1,889,212</u>	<u>15,210</u>	<u>1.07</u>	<u>2,002,684</u>	<u>22,501</u>	<u>1.50</u>
Advance payments by borrowers for taxes and insurance	16,896	3	0.02	16,977	4	0.03
Borrowings	157,639	5,359	4.53	906,555	29,293	4.31
Total interest-bearing liabilities	<u>2,063,747</u>	<u>20,572</u>	<u>1.33</u>	<u>2,926,216</u>	<u>51,798</u>	<u>2.36</u>
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	106,325			90,776		
Other non-interest-bearing liabilities	92,707			59,586		
Total non-interest-bearing liabilities	<u>199,032</u>			<u>150,362</u>		
Total liabilities	<u>2,262,779</u>			<u>3,076,578</u>		
Total equity	296,333			400,827		
Total average liabilities and equity	<u>\$2,559,112</u>			<u>\$3,477,405</u>		
Net interest income and net interest rate spread		<u>\$47,414</u>	<u>2.68%</u>		<u>\$38,220</u>	<u>1.37%</u>
Net interest margin			<u>2.80%</u>			<u>1.58%</u>
Average interest-earning assets to average interest-bearing liabilities	<u>1.09x</u>			<u>1.10x</u>		

- (1) For the purposes of these computations, non-accruing loans and loans held-for-sale are included in loans receivable.
- (2) The carrying value and earnings on stock in the FHLB of Chicago is included in investment securities.

The following tables present 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 September 30, 2011 Compared to September 30, 2010		
	Increase (Decrease)		
	Volume	Rate	Net
	<i>(Dollars in thousands)</i>		
Interest-earning assets:			
Loans receivable	\$(1,420)	\$(892)	\$(2,312)
Mortgage-related securities	360	(585)	(225)
Investment securities	(2,697)	(1,155)	(3,852)
Interest-earning deposits	(51)	16	(35)
Total interest-earning assets	(3,808)	(2,616)	(6,424)
Interest-bearing liabilities:			
Savings accounts	5	(11)	(6)
Money market accounts	80	(179)	(99)
Interest-bearing demand accounts	(1)	(2)	(3)
Certificates of deposit	(798)	(1,228)	(2,026)
Total deposit liabilities	(714)	(1,420)	(2,134)
Advance payments by borrowers for taxes and insurance	–	–	–
Borrowings	(8,982)	917	(8,065)
Total interest-bearing liabilities	(9,696)	(503)	(10,199)
Net change in net interest income	\$5,888	\$(2,113)	\$3,775

	Nine Months Ended September 30, 2011 Compared to September 30, 2010		
	Increase (Decrease)		
	Volume	Rate	Net
	<i>(Dollars in thousands)</i>		
Interest-earning assets:			
Loans receivable	\$(4,813)	\$(2,815)	\$(7,628)
Mortgage-related securities	(2,465)	(1,444)	(3,909)
Investment securities	(9,146)	(1,267)	(10,413)
Interest-earning deposits	(141)	59	(82)
Total interest-earning assets	(16,565)	(5,467)	(22,032)
Interest-bearing liabilities:			
Savings accounts	(2)	(17)	(19)
Money market accounts	248	(374)	(126)
Interest-bearing demand accounts	1	(8)	(7)
Certificates of deposit	(2,761)	(4,378)	(7,139)
Total deposit liabilities	(2,514)	(4,777)	(7,291)
Advance payments by borrowers for taxes and insurance	–	(1)	(1)
Borrowings	(25,373)	1,439	(23,934)
Total interest-bearing liabilities	(27,887)	(3,339)	(31,226)
Net change in net interest income	\$11,322	\$(2,128)	\$9,194

Provision for Loan Losses The Company's provision for loan losses was \$1.1 million during the third quarter of 2011 compared to \$6.2 million in the same quarter last year. The provision for the nine months ended September 30, 2011, was \$5.1 million compared to \$15.7 million in the same period last year. The provisions for loan losses in these periods continue to be impacted by weak economic conditions, high unemployment, and lower values for real estate. These conditions have been particularly challenging for borrowers whose loans are secured by commercial real estate, multi-family real estate, and land. During the third quarter of 2011, the Company recorded \$1.8 million in additional loss provisions against two unrelated loan relationships aggregating \$6.1 million. These loans were secured by an apartment complex and a multi-tenant retail building. The losses on these loans were based on internal management evaluations of the collateral that secures the loan, as well as management's knowledge of current market conditions. During the third quarter of 2011 the Company also recorded \$586,000 in loss provisions against a number of smaller multi-family, commercial real estate, and business loan relationships, as well as certain residential and consumer loans. These losses were based on updated independent appraisals or internal management evaluations of the collateral that secures the loans. In addition, during the third quarter the Company recorded approximately \$1.1 million in additional loss provision that reflected management's general concerns related to continued economic weakness, elevated levels of unemployment, depressed real estate values, and the internal downgrades of certain loans. The impact of these developments, however, was substantially offset by \$2.4 million in loss recaptures due to the payoff of \$8.3 million in non-performing loans.

During the third quarter of 2010 the Company recorded \$3.9 million in loss provisions against a number of unrelated loan relationships, the largest of which was a \$1.1 million loss on a \$4.1 million loan relationship secured by partially developed land. In addition, the Company recorded \$2.3 million in additional loss provisions during the third quarter of 2010 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.

On a year-to-date basis in 2011 the Company recorded \$10.8 million in loss provisions against a number of multi-family, commercial real estate, and business loan relationships, and certain smaller residential and consumer loans, as well as loss provisions related to management's general concerns for the economy, as previously described. This development was partially offset by \$5.7 million in loss recaptures on loans that paid off during the period or were upgraded to performing status. The year-to-date loss provision in 2010 was \$15.7 million due principally to \$9.7 million in losses on a number of larger multi-family, commercial real estate, and business loans.

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

Non-Interest Income Total non-interest income decreased by \$7.5 million or 57.8% and by \$18.3 million or 53.3% during the three- and nine-month periods ended September 30, 2011, compared to the same periods in the previous year. These decreases were primarily attributable to a decline in gains on sales of investments, which were zero and \$1.1 million during the three and nine months ended September 30, 2011, respectively, compared \$5.2 million and \$16.3 million during the same periods in 2010, respectively. In the first quarter of 2011 the Company sold a \$20.8 million investment in a mutual fund that management did not expect would perform well in future periods. During the nine months ended September 30, 2010, the Company sold \$885.0 million in longer-term, fixed-rate mortgage-related securities and \$189.9 million in adjustable-rate mortgage related securities. Significant reasons for other changes in non-interest income are discussed in the following paragraphs.

Service charges on deposits increased by \$59,000 or 3.6% during the three months ended September 30, 2011, compared to the same quarter in 2010. On a year-to-date basis, service charges increased by \$197,000 or 4.4% in 2011 compared to the same period in the previous year. Management attributes this improvement to an increase in the Company's average core deposit accounts, consisting of checking,

savings, and money market accounts, which increased by \$70.1 million or 9.4% during the nine months ended September 30, 2011, compared to the same period in the previous year. In addition, management believes that unfavorable economic conditions during early 2010 resulted in reduced spending by consumers in general in that year, which had an adverse impact on the Company's transaction fee revenue, which consists principally of ATM, debit card, and overdraft fees.

Brokerage and insurance commissions were \$765,000 during the third quarter of 2011, a \$27,000 or 3.7% increase from the same period in the previous year. On a year-to-date basis, commissions were \$2.2 million in 2011, a \$104,000 or 4.5% decline from the same period in 2010. Commissions in the third quarter of 2011 benefited from increased sales of tax-deferred annuity products compared to the previous year. Commissions in 2010 benefited from favorable trends in equity markets in the first half of that year, which resulted in increased revenue from sales of mutual funds and other equity investments relative to the year-to-date period in 2011. In addition, employment conditions in the Company's local markets in early 2010 resulted in increased revenue from rollovers by customers' of their employee benefit plans into products offered by the Company.

Net loan-related fees and servicing revenue was a loss of \$1.0 million during the three months ended September 30, 2011, compared to a loss of \$291,000 in the same period of 2010. On a year-to-date basis, the loss was \$452,000 in 2011 compared to a loss of \$39,000 in the same period of 2010. The following table presents the primary components of net loan-related fees and servicing revenue for the periods indicated:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	<i>(Dollars in thousands)</i>			
Gross servicing fees	\$679	\$646	\$2,039	\$1,913
Mortgage servicing rights amortization	(726)	(1,064)	(1,718)	(2,100)
Mortgage servicing rights valuation (loss) recovery	(1,103)	8	(1,097)	(198)
Loan servicing revenue, net	(1,150)	(410)	(776)	(385)
Other loan fee income	114	119	324	346
Loan-related fees and servicing revenue, net	<u>\$(1,036)</u>	<u>\$(291)</u>	<u>\$(452)</u>	<u>\$(39)</u>

Gross servicing fees increased in the 2011 periods compared to the prior year periods as a result of an increase in the amount of loans that the Company services for third-party investors. As of September 30, 2011, the Company serviced \$1.1 billion in loans for third-party investors compared to \$1.0 billion at September 30, 2010. Related amortization has decreased in the 2011 periods due to higher interest rates on mortgage loans during the first half of the year, which has resulted in fewer loan prepayments and slower amortization of the MSR's. Loan-related fees and servicing revenue is also impacted by changes in the valuation allowance that is established against MSR's. The change in this allowance is recorded as a recovery or charge, as the case may be, in the period in which the change occurs. During the third quarter of 2011 the valuation allowance increased by \$1.1 million due principally to a decline in mortgage interest rates during the third quarter, which resulted in increased loan prepayment expectations. As of September 30, 2011, the Company had a valuation allowance of \$1.1 million against MSR's with a gross book value of \$7.7 million.

The valuation of MSR's, as well as the periodic amortization of MSR's, is significantly influenced by the level of market interest rates and loan prepayments. 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 MSR's. In addition, amortization expense could increase due to likely increases in loan prepayment activity. Alternatively, 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 previously established allowance on MSRs, as well as record reduced levels of MSR amortization expense.

Gains on sales of loans were \$2.3 million in the third quarter of 2011 compared to \$3.7 million in the same period last year. Year-to-date, gains on sales of loans were \$3.4 million in 2011 compared to \$5.5 million in the same nine months of 2010. During the three and nine months ended September 30, 2011, sales of one-to four-family mortgage loans were \$48.1 million or 40.7% lower and \$72.8 million or 32.6% lower than they were during the same periods in the previous year, respectively. Loan sales were lower in the 2011 periods due to higher market interest rates for fixed-rate, residential mortgage loans during the first half of 2011, which reduced borrower incentives to refinance their existing mortgage loans. The Company typically sells most fixed-rate, residential mortgage loans that it originates in the secondary market. However, during the third quarter of 2011, interest rates on residential mortgage loans declined to historically low levels. As such, management expects that gains on sales of loans could be elevated in the near term as borrowers are incented to refinance higher, fixed-rate mortgage loans at lower rates.

In the second quarter of 2011 the Company recognized \$389,000 in net OTTI losses related to its investment in certain private-label CMOs that were rated less than investment grade. No additional net OTTI losses were recognized on these CMOs in the third quarter of 2011. Management attributed the net OTTI loss in the second quarter to renewed weakness in national housing market in 2011, which resulted in lower values for the residential properties that secure the CMOs. The Company's total investment in private-label CMOs was \$67.2 million as of the September 30, 2011. The collection of the amounts due on the Company's private-label CMOs is subject to numerous factors outside of management's control and a future determination of OTTI could result in additional losses being recorded through earnings in future periods. Refer to "Financial Condition—Available-for-Sale Securities," below, for additional discussion.

Other non-interest income was \$1.8 million and \$5.4 million during the three and nine months ended September 30, 2011, respectively, compared to \$2.0 million and \$5.7 million during the same periods in 2010, respectively. The decrease between periods was due primarily to lower earnings on assets set aside in trust for certain non-qualifying employee benefit plans.

Non-Interest Expense Total non-interest expense was \$106.2 million and \$51.6 million during the nine months ended September 30, 2011 and 2010, respectively. This increase was caused by a \$52.6 million non-cash goodwill impairment recorded by the Company in the second quarter of 2011. This impairment had no effect on the liquidity, operations, tangible capital, or regulatory capital of the Company or the Bank (for additional discussion refer to "Financial Condition—Goodwill," below). Total non-interest expense before the goodwill impairment increased by \$642,000 or 3.7% and by \$2.0 million or 3.9% during the three and nine months ended September 30, 2011, compared to the same periods in 2010. Significant reasons for these increases are discussed in the following paragraphs.

Compensation-related expenses increased by \$640,000 or 7.1% during the three months ended September 30, 2011, compared to the same period in 2010. The increase in these expenses during the nine month period in 2011 was \$1.9 million or 7.2% compared to the same period in 2010. These increases were primarily due to an increase in compensation expense related to annual merit increases, as well the Company's hiring of certain key management and other personnel. Also contributing to the increase in compensation-related expense in the 2011 periods was an increase in costs related to the Company's defined-benefit pension plan. This increase was caused by an increase in the number of qualified participants in the plan in recent periods, as well as a decline in the interest rate used to determine the present value of the pension obligation. The increase in compensation-related expense between the 2011 and 2010 periods was partially offset by a decline in ESOP expense. Last year marked the scheduled end of a 10-year commitment to the ESOP.

Federal deposit insurance premiums were \$756,000 and \$2.5 million during the three and nine month periods ended September 30, 2011, respectively. These amounts compared to \$1.0 million and \$3.1 million

during the same periods in 2010, respectively. In the second quarter of 2011 the FDIC implemented a new rule that changed the deposit insurance assessment base from an insured institution's domestic deposits (minus certain allowable exclusions) to an insured institution's average consolidated assets (minus average tangible equity and certain other adjustments). The Company's deposit insurance costs declined as a result of the new rule because the Company has a relatively low level of non-deposit funding sources, such as advances from the FHLB of Chicago.

Losses on foreclosed real estate were \$1.1 million during the third quarter of 2011 compared to \$1.2 million in the same quarter of last year. On a year-to-date basis, losses on foreclosed real estate were \$4.0 million in 2011 compared to \$4.2 million during the same nine months in 2010. Since the beginning of 2010 the Company has experienced elevated losses on foreclosed real estate due to declining real estate values and weak economic conditions. If these conditions persist, future losses on foreclosed real estate could remain elevated in the near term.

Other non-interest expense increased by \$351,000 or 10.8% and \$679,000 or 7.5% during the three and nine months ended September 30, 2011, respectively, compared to the same periods last year. These developments were the result of increased costs associated with the management of foreclosed real estate and increased legal, accounting, and other professional fees. These increases were partially offset by lower marketing and advertising costs between the periods.

Income Tax Expense Income tax expense was \$610,000 during the three months ended September 30, 2011, compared to \$307,000 in the same period of 2010. Income tax expense was \$1.2 million during the nine months ended September 30, 2011, compared to \$1.5 million during the same nine months in 2010. The Company's effective tax rate ("ETR") for the third quarter of 2011 and 2010 was 31.3% and 24.9%, respectively. Excluding the goodwill impairment from income (loss) before taxes (which is not deductible for income tax purposes) the Company's ETR the nine months ended September 30, 2011 and 2010, was 25.9% and 28.8%, respectively. The Company's ETR was lower in the 2010 quarterly period and the 2011 year-to-date period because non-taxable revenue, such as earnings from bank-owned life insurance ("BOLI"), comprised a larger portion of pre-tax earnings in those periods.

Like many Wisconsin financial institutions, the Company has non-Wisconsin subsidiaries that hold and manage investment assets and loans, the income from which has not been 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 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, which includes tax years back to 1997. This is merely a preliminary determination made by the auditor and does not represent a formal assessment. The Bank's outside legal counsel has met with representatives of the Department to discuss, and object to, the auditor's proposed adjustments. The Department has requested further information to support the Company's position; the Company expects to provide that information by the end of 2011.

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 such resolution is reached. 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 \$91.8 million or 3.5% during the nine months ended September 30, 2011. Total assets at September 30, 2011, were \$2.50 billion compared to \$2.59 billion at December 31, 2010. A substantial portion of this decline was caused by the \$52.6 million goodwill impairment, as previously described. In addition, during the period the Company's cash and cash equivalents declined by \$129.5 million or 55.6% and its loans held-for-sale and loans receivable declined by \$24.9 million or 1.8% in the aggregate. However, these declines were offset in part by a \$120.0 million or 18.1% increase in securities available-for-sale during the period. The Company's deposit liabilities decreased by \$69.2 million or 3.3% during the nine months ended September 30, 2011. The Company's total shareholders' equity decreased from \$313.0 million at December 31, 2010, to \$266.3 million at September 30, 2011, due principally to the goodwill impairment. Non-performing assets decreased by \$23.5 million or 16.5% to \$118.7 million during the nine months ended September 30, 2011. The following paragraphs describe these changes in greater detail, along with other changes in the Company's financial condition during the nine months ended September 30, 2011.

Cash and Cash Equivalents Cash and cash equivalents declined from \$232.8 million at December 31, 2010, to \$103.4 million at September 30, 2011. This decline was primarily caused by the Company's purchase of mortgage-related securities during the period, as well as decrease in deposit liabilities.

Securities Available-for-Sale The Company's portfolio of securities available-for-sale increased by \$120.0 million or 18.1% during the nine months ended September 30, 2011. This increase was primarily the result of the Company's purchase of \$407.5 million in medium-term government agency mortgage-backed securities ("MBSs") and CMOs during the period. The impact of these purchases was partially offset by \$185.8 million in securities that were called by issuers during the period, as well as the sale of a \$20.8 million mutual fund, as previously described.

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. The fair value adjustment on the Company's available-for-sale securities was a net unrealized gain of \$12.0 million at September 30, 2011, compared to a net unrealized loss of \$2.3 million at December 31, 2010. This improvement was caused by a general decline in interest rates during the nine month period and the favorable impact such has on the types of securities owned by the Company.

The Company maintains an investment in private-label CMOs that were purchased from 2004 to 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 purchase. However, several of the securities in the portfolio have been downgraded in recent periods. 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):

	September 30, 2011		December 31, 2010	
	Carrying Value	Unrealized Gain (Loss), Net	Carrying Value	Unrealized Gain (Loss), Net
Credit rating:	<i>(Dollars in thousands)</i>			
AAA/Aaa	\$5,868	\$229	\$12,876	\$322
AA/Aa	2,752	(122)	8,600	(84)
A	7,290	(270)	19,249	(1,155)
BBB/Baa	11,356	(356)	11,142	(242)
Less than investment grade	39,927	(4,778)	35,735	(1,981)
Total private-label CMOs	\$67,193	\$(5,297)	\$87,602	\$(3,139)

During the second quarter of 2011 management determined that it is unlikely the Company will collect all amounts due according to the contractual terms on three of its securities that are rated less than investment grade. Accordingly, the Company recorded \$389,000 in net OTTI loss on these securities in that period. As of September 30, 2011, management has determined that none of the Company's other private-label CMOs were other-than-temporarily impaired as of that date. 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.

Loans Held-for-Sale Loans held-for-sale decreased from \$37.8 million at December 31, 2010, to \$28.6 million at September 30, 2011. The Company's policy is to sell substantially all of its 30-year, fixed-rate, one- to four-family mortgage loan originations, as well as certain 15-year, one- to four-family loans, in the secondary market. The origination of these loans were generally lower during the first half of 2011 due to slightly higher market interest rates for such loans, which reduced borrower incentives to refinance existing mortgage loans. However, during the third quarter of 2011, interest rates on residential mortgage loans declined to historically low levels. As such, management expects that originations and sales of such loans could be elevated in the near term as borrowers are incented to refinance higher, fixed-rate mortgage loans at lower rates.

Loans Receivable Loans receivable decreased by \$15.7 million or 1.2% during the nine months ended September 30, 2011. The Company's aggregate portfolio of multi-family and commercial real estate loans decreased from \$495.5 million at December 31, 2010, to \$474.3 million at September 30, 2011. In addition, its construction and development loans decreased from \$83.5 million to \$72.6 million during the same period. The decrease in multi-family and commercial real estate loans was caused by loan payoffs and foreclosures that exceeded originations during the period. The decrease in construction and development loans was due primarily to the reclassification of certain construction loans to permanent loans as a result of the completion of construction. The Company's originations of multi-family and commercial real estate loans were \$66.3 million in the aggregate during the nine months ended September 30, 2011, compared to \$38.1 million during the same period in 2010. Originations of construction and development loans were \$23.6 million and \$25.1 million during these same periods, respectively.

The Company's portfolio of one- to four-family loans decreased from \$531.9 million at December 31, 2010, to \$516.8 million at September 30, 2011. In recent periods the origination of one- to four-family loans that the Company retains in portfolio, which consist principally of adjustable-rate loans and, from time-to-time, fixed-loans with maturity terms of up to 15 years, have approximated loan repayments. The Company also retains certain 30-year, fixed-rate loans in its portfolio under an internal low-income lending program.

The Company's consumer loan portfolio declined from \$243.5 million at December 31, 2010, to \$234.6 million at September 30, 2011. Consumer loan originations, which consist primarily of fixed-term home

equity loans and home equity lines of credit, were \$62.1 million during the nine months ended September 30, 2011, compared to \$57.7 million during the same period in the prior year.

The Company's portfolio of commercial business loans increased from \$50.1 million at December 31, 2010, to \$81.1 million at September 30, 2011. Commercial business loan originations during the nine months ended September 30, 2011, were \$64.6 million compared to \$22.2 million during the same period in the previous year. In recent periods the Company has been successful at attracting a number of new commercial business relationships as a result of its recent initiatives to expand its presence in the mid-tier commercial banking market, as described more fully below.

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2011	2010	2011	2010
Mortgage loans:	<i>(Dollars in thousands)</i>			
One- to four-family (1)	\$98,273	\$173,767	\$198,408	\$298,866
Multi-family	20,552	12,278	28,262	24,531
Commercial real estate	15,627	11,171	38,025	13,603
Construction and development loans	10,361	4,881	23,608	25,097
Total mortgage loans	144,813	202,097	288,303	362,097
Consumer loans	25,565	19,313	62,072	57,733
Commercial business loans	35,626	14,716	64,635	22,161
Total loans originated	\$206,004	\$236,126	\$415,010	\$441,991

(1) Includes \$84.8 million and \$133.7 million in loans originated for sale during the three months ended September 30, 2011 and 2010, respectively, and \$139.6 million and \$245.6 million during the nine months ended as of the same dates, respectively.

In April 2010 David A. Baumgarten joined the Company as President. Mr. Baumgarten has significant commercial banking experience in senior roles with other large commercial banks and has significant experience in the Company's major market area, Milwaukee and southeastern Wisconsin. In recent periods the Company has also hired two new senior vice presidents, as well as a number of other commercial relationship managers, that are experienced in managing and selling loans, deposit, and cash management services to the mid-tier commercial banking market, defined by the Company as business entities with sales revenues of \$10 to \$100 million. This is a new market segment for the Company. In the near term the Company intends to add additional professionals capable of serving this market segment. The Company is unable to determine at this time the level of success, if any, that it will have in increasing its share of this market segment. Further, the Company is unable to provide any assurances that it will be able to attract or retain the talent necessary to increase its share of this market segment.

Foreclosed Properties and Repossessed Assets The Company's foreclosed properties and repossessed assets increased to \$28.9 million at September 30, 2011, from \$19.3 million at December 31, 2010. This increase was caused by foreclosures related to a number of commercial real estate loans and, to a lesser extent, single-family residential loans. This increase was partially offset by charge-offs on foreclosed properties due to continued declines in real estate values and weak economic conditions, as previously described. Management expects foreclosed properties and repossessed assets to remain elevated in the near term as the Company continues to work out its non-performing loans.

Goodwill In prior years the Company had recorded goodwill as the result of its acquisitions of two financial institutions in 1997 and 2000. In the second quarter of 2011, in connection with the preparation of its financial statements for the quarter, management determined that the value of the Company's goodwill was impaired. The Company performed an interim goodwill impairment test during the second

quarter as a result of a number of developments during that period including a continued decline in the Company's stock price and market capitalization and the announcement that the Company and Bank had each entered into a separate MOU with regulators. In order to determine the fair value of goodwill, as well as the amount of the impairment, management obtained a third-party independent appraisal of the Company and its assets and liabilities. The fair value of the Company, which consists of a single reporting unit, was estimated using a weighted average of three valuation methodologies, including a public market peers approach, a comparable transactions approach, and a discounted cash flow approach. A comparison of the weighted average value from these approaches to the net carrying value of the Company indicated that potential impairment existed. The weighted average value of the Company was subsequently compared to the estimated net fair value of the Company's individual assets and liabilities. As a result of this comparison, management concluded that the Company's goodwill was impaired and recorded an impairment charge of \$52.6 million in the second quarter of 2011, which represented the total amount of the Company's goodwill. This impairment was a non-cash charge and had no effect on the liquidity, operations, tangible capital, or regulatory capital of the Company or the Bank.

Mortgage Servicing Rights The carrying values of the Company's MSR's was \$6.6 million at September 30, 2011, and \$7.7 million at December 31, 2010. These amounts were net of valuation allowances of \$1.1 million and \$6,000 as of such dates, respectively. As of September 30, 2011, and December 31, 2010, the Company serviced \$1.1 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 September 30, 2011, and December 31, 2010, and which is included as a component of other assets. As of September 30, 2011, the Company owns substantially more common stock of the FHLB of Chicago than it would otherwise be required to own given its level of borrowings from the FHLB of Chicago. From 2007 through 2010 the FHLB of Chicago suspended the payment of dividends on its common stock, as well as the repurchase of common stock from its members. The FHLB of Chicago resumed the payment of quarterly cash dividends at a modest amount in 2011. The original suspension was due to the FHLB of Chicago entering into a memorandum of understanding with its primary regulator the Federal Housing Finance Board ("FHFB") which, among other things, restricted the dividends that the FHLB of Chicago could pay without prior approval of the FHFB, as well as the stock that it can repurchase from its members. Management is unable to determine whether the FHLB of Chicago will continue to pay dividends on its common stock or the amount of future dividends, if any. Furthermore, the Company is unable to determine when, or if, it will be able to reduce its holdings of the common stock of the FHLB of Chicago. The FHLB of Chicago has received regulatory approval for a plan under which it would convert its stock on January 1, 2012, and that stock would be potentially redeemable in the future. However, there can be no assurances as to when or how such plan will be implemented or shares would be redeemed.

The Company's investment in the common stock of the FHLB of Chicago is carried at cost (par value) and is periodically reviewed for impairment. Investments in FHLB of Chicago common stock are considered to be long-term investments under GAAP. Accordingly, the evaluation of FHLB of Chicago common stock for impairment is based on management's assessment of the ultimate recoverability at the stock's par value rather than by temporary declines in its value. Based on a review of the FHLB of Chicago's results of operations, capital, liquidity, commitments, and other activities, as well as the continued status of the FHLB System as a government-sponsored entity, management concluded that the Company's FHLB of Chicago stock was not impaired as of September 30, 2011. However, this conclusion is subject to numerous factors outside the Company's control, including, but not limited to, future legislative or regulatory changes and/or adverse economic developments that could have a negative impact on the Company's investment in the common stock of the FHLB of Chicago. Accordingly, a future determination of impairment could result in significant losses being recorded through earnings in future periods.

Deposit Liabilities Deposit liabilities decreased by \$69.2 million or 3.3% during the nine months ended September 30, 2011, to \$2.01 billion compared to \$2.08 billion at December 31, 2010. Core deposits, consisting of checking, savings, and money market accounts, declined by \$7.1 million or 0.7% during the period while certificates of deposit declined by \$62.1 million or 5.5%. Core deposits were higher than typical at December 31, 2010, due to the timing of certain local government tax deposits which had not been withdrawn as of that date. However, average core deposits have increased by \$70.1 million or 9.4% during the nine months ended September 30, 2011, compared to the same period in 2010. With respect to certificates of deposit, the Company has reduced the rates it offers on this product during the past year in an effort to manage its overall liquidity position, which has resulted in a decline in certificates of deposit since December 31, 2010.

Borrowings Borrowings, which consist of advances from the FHLB of Chicago, declined slightly during the nine months ended September 30, 2011. The following table presents the Company's FHLB of Chicago advances by contractual maturities as of that date.

	Amount	Rate
FHLB of Chicago advances maturing in:	<i>(Dollars in thousands)</i>	
2012	\$100,000	4.52%
2013	237	4.17
2017 and thereafter	53,148	5.08
Total FHLB of Chicago advances	<u>\$153,385</u>	<u>4.75</u>

The Company's advances from the FHLB of Chicago are subject to significant prepayment penalties if repaid by the Company prior to their stated maturity. In December 2010, the Company repaid \$756.0 million in high-cost borrowings that had an average remaining maturity of six years. The Company recognized a one-time charge of \$89.3 million during the fourth quarter of 2010, as previously noted. As of September 30, 2011, \$100.0 million in advances from the FHLB of Chicago that mature in 2012 are redeemable at the option of the FHLB of Chicago, although management believes such is unlikely to occur.

Management believes that additional funds are available to be borrowed from the FHLB of Chicago or other sources in the future to fund loan originations or security purchases or to fund existing advances as they mature if needed or desirable. There can be no assurances of the future availability of borrowings or any particular level of future borrowings.

Advance Payments by Borrowers for Taxes and Insurance Advance payments by borrowers for taxes and insurance (i.e., escrow deposits) were \$30.2 million at September 30, 2011, compared to \$2.7 million at December 31, 2010. 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 \$313.0 million at December 31, 2010, to \$271.7 million at September 30, 2011. This decrease was principally caused by the \$52.6 million goodwill impairment, as previously described. The Company's ratio of shareholders' equity to total assets was 10.87% at September 30, 2011, compared to 12.07% at December 31, 2010. If goodwill had been excluded from shareholders' equity and total assets as of December 31, 2010, this ratio would have been 10.25% as of that date. Book value per share of the Company's common stock was \$5.88 at September 30, 2011, compared to \$6.84 at December 31, 2010. If goodwill had been excluded from this computation at December 31, 2010, this value would have been \$5.69 as of that date.

A quarterly cash dividend of \$0.01 per share was paid in the third quarter of 2011; the dividend payout ratio during this period was 34.2% of earnings. On November 7, 2011, the Company's board of directors announced that it had declared a \$0.01 per share dividend payable on December 1, 2011, to shareholders of record on November 18, 2011. During the first nine months of 2011 the Company did not repurchase

any shares of its common stock nor did its board of directors authorize a program for the purchase of additional shares.

For additional discussion relating to the Company's ability to pay dividends or repurchase shares of its common stock, 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 September 30 2011	At December 31 2010
	<i>(Dollars in thousands)</i>	
Non-accrual mortgage loans:		
One- to four-family	\$14,443	\$18,684
Multi-family	24,552	31,660
Commercial real estate	36,486	41,244
Construction and development	10,563	26,563
Total non-accrual mortgage loans	<u>86,044</u>	<u>118,151</u>
Non-accrual consumer loans:		
Secured by real estate	1,447	1,369
Other consumer loans	223	275
Total non-accrual consumer loans	<u>1,670</u>	<u>1,644</u>
Non-accrual commercial business loans	<u>1,641</u>	<u>2,779</u>
Total non-accrual loans	<u>89,355</u>	<u>122,574</u>
Accruing loans delinquent 90 days or more	<u>510</u>	<u>373</u>
Total non-performing loans	<u>89,865</u>	<u>122,947</u>
Foreclosed properties and repossessed assets	<u>28,858</u>	<u>19,293</u>
Total non-performing assets	<u>\$118,723</u>	<u>\$142,240</u>
Non-performing loans to loans receivable, net	6.87%	9.29%
Non-performing assets to total assets	4.75%	5.49%
Gross interest income that would have been recorded if non-accrual loans had been current (1)	\$4,763	\$8,531
Interest income on non-accrual loans included in interest income (1)	\$2,761	5,985

(1) Amounts shown are for the nine months ended September 30, 2011, and the twelve months ended December 31, 2010, respectively.

The Company's non-performing loans were \$89.9 million or 6.87% of loans receivable as of September 30, 2011, compared to \$122.9 million or 9.29% as of December 31, 2010. Non-performing assets, which includes non-performing loans, were \$118.7 million or 4.75% of total assets and \$142.2 million or 5.49% of total assets as of these same dates, respectively. The Company's level of non-performing loans and assets is due to continuing weakness in economic conditions, low values for commercial and multi-family real estate, and high unemployment rates in recent years, which has resulted in increased stress on borrowers and increased loan delinquencies. Many properties securing the Company's loans have experienced increased vacancy rates, reduced lease rates, and/or delays in unit sales, as well as lower real estate values. As of September 30, 2011, non-performing loans included \$28.9 million in loans that were current on all contractual principal and interest payments, but which management determined should be classified as non-performing in light of underlying difficulties with the properties that secure the loans, as well as an increasingly strict regulatory environment. The Company has continued to record periodic interest payments on these loans in interest income provided the borrowers have remained current on the loans and provided, in the judgment of management, the Company's net recorded investment in the loan has been deemed to be collectible. The decline in the Company's non-performing and classified loans

during the nine months ended September 30, 2011, was due to loans that were paid off or upgraded during the period, as previously described, as well as loans that were partially charged off because the Company had commenced and/or completed foreclosure proceedings during the period.

In addition to non-performing assets, at September 30, 2011, management was closely monitoring \$36.3 million in additional loans that were classified as “special mention” and \$21.1 million that were adversely classified as “substandard” in accordance with the Company’s internal risk rating policy. These amounts compared to \$8.9 million and \$27.1 million, respectively, as of December 31, 2010. These loans are primarily secured by commercial real estate, multi-family real estate, land, and certain commercial business assets. Although these loans were performing in accordance with their contractual terms, management deemed their classification prudent in light of deterioration in the financial strength of the borrowers and/or the performance of the collateral, including an assessment of occupancy rates, lease rates, unit sales, and/or estimated changes in the value of the collateral. The decrease in the additional substandard loans from \$27.1 million to \$21.1 million during the nine months ended September 30, 2011, was largely due to the repayment of two loans from the same borrower that aggregated \$6.1 million. The Company charged-off \$1.9 million in previously established loan loss allowances related to the resolution of this loan relationship. The increase in special mention loans during the nine months ended September 30, 2011, was primarily caused by the Company’s downgrade of a \$15.9 million loan secured by a multi-tenant retail development. Also contributing was the downgrade of three other loan relationships that aggregated \$9.4 million. These loans are secured by a industrial/warehouse building, multi-tenant retail building, and an apartment complex. Although these loans are performing in accordance with their contractual terms, management determined that classification as special mention was appropriate in light of recent trends in occupancy levels and/or lease rates on the collateral properties. The Company does not expect to incur a loss on these loans at this time, although there can be no assurance.

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

	Nine Months Ended September 30	
	2011	2010
	<i>(Dollars in thousands)</i>	
Balance at the beginning of the period	\$47,985	\$17,028
Provision for loan losses:		
One- to four-family	1,446	294
Multi-family	617	6,814
Commercial real estate	577	1,707
Construction and Development	897	4,300
Consumer loans	450	628
Commercial business loans	1,092	1,936
Total provision for loan losses	<u>5,078</u>	<u>15,679</u>
Charge-offs:		
One- to four-family	(2,519)	(275)
Multi-family	(4,812)	–
Commercial real estate	(6,941)	(5,331)
Construction and development	(2,607)	–
Consumer loans	(724)	(570)
Commercial business loans	(551)	(173)
Total charge-offs	<u>(18,154)</u>	<u>(6,349)</u>
Recoveries:		
One- to four-family	49	20
Multi-family	19	–
Commercial real estate	4	–
Construction and development	550	–
Consumer	17	30
Commercial business loans	18	–
Total recoveries	<u>657</u>	<u>51</u>
Net charge-offs	<u>(17,497)</u>	<u>(6,298)</u>
Balance at the end of the period	<u>\$35,567</u>	<u>\$26,409</u>
	September 30	December 31
	2011	2010
Allowance as a percent of total loans	2.72%	3.63%
Allowance as a percent of non-performing loans	39.58%	39.03%
Net charge-offs to average loans (1)	1.71%	1.26%

(1) Annualized rate for the nine- and twelve-month periods ended September 30, 2011, and December 31, 2010, respectively.

The Company's allowance for loan losses declined to \$35.6 million or 2.72% of total loans at September 30, 2011, compared to \$48.0 million or 3.63% at December 31, 2010. As a percent of non-performing loans, the Company's allowance for loan losses was 39.6% at September 30, 2011, compared to 39.0% at December 31, 2010. The decrease in the allowance was caused by \$17.5 million in net charge-offs, as well as \$5.7 million in provision recaptures, as previously described. These developments were partially offset by \$10.8 million in additional loss allowances established during the period, also as previously described. During the period the Company charged off \$5.2 million related to loans that were paid off during the period and \$12.3 million related to loan relationships that management commenced and/or completed foreclosure proceedings during the period. Refer to "Operating Results—Provision for Loan Losses," above, for additional discussion.

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.

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, 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.

Scheduled payments and maturities of loans and securities available-for-sale are relatively predictable sources of funds. However, cash flows from customer deposits, 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. These factors increase the variability of cash flows from 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 September 30, 2011, the Bank had a Tier 1 capital ratio of 9.54% and a total risk-based capital ratio of 18.10% compared to ratios of 9.12% and 17.86% at December 31, 2010, respectively (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%. As previously noted, the goodwill impairment recorded in the third quarter of 2011 had no impact on the regulatory capital ratios of the Bank because goodwill is excluded from the regulatory capital calculations.

In May 2011, the Company and the Bank agreed with the OTS to address certain items identified in recent OTS examinations by entering into separate MOUs with the OTS. An MOU is an agreement between the OTS and a financial institution which requires the institution to exercise reasonable good faith efforts to comply with the requirements of the MOU, but the institution is not subject to direct judicial enforcement as are other forms of supervisory actions such as those required in formal consent or cease and desist orders. As a result of the elimination of the OTS under the Dodd-Frank Act, the Bank's MOU is now administered by the OCC and the Company's MOU is administered by the FRB. The MOUs contain various provisions relating to credit and problem asset administration and capital management, including requirements related to the payment of dividends. As of the date of this report, management believes the Company and the Bank have complied with the specific requirements established in each MOU. Management does not believe ongoing compliance with the MOUs will have a material adverse impact on the Company or Bank's operations. However, under their respective MOUs the Company and the Bank are required to obtain the non-objection or approval of the appropriate regulator prior to declaring or paying cash dividends and, in the case of the Company, prior to

repurchasing common shares, or incurring, issuing, increasing, modifying or redeeming any debt or lines of credit. As such, the Company cannot provide any assurances that dividends will continue to be paid to shareholders, the amount of any such dividends to shareholders, or the possible future resumption of share repurchases.

On November 7, 2011, the Company's board of directors announced that it had declared a \$0.01 per share dividend payable on December 1, 2011, to shareholders of record on November 18, 2011. During the nine months ended September 30, 2011, the Company did not repurchase any shares of its common stock nor did its board of directors authorize a program for the purchase of additional shares.

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

Contractual Obligations The following table presents, as of September 30, 2011, 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	\$940,739	–	–	–	\$940,739
Certificates of deposits	727,679	\$314,800	\$25,927	–	1,068,406
Borrowed funds (1)	100,000	237	–	\$53,148	153,385
Operating leases	866	1,193	1,119	1,816	4,994
Purchase obligations	1,680	3,360	3,360	5,040	13,440
Non-qualified retirement plans and deferred compensation plans	979	1,978	2,179	6,326	11,463

(1) Includes \$100.0 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 September 30, 2011.

	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	\$5,242	–	–	–	\$5,242
Residential real estate loans	31,702	–	–	–	31,702
Revolving home equity and credit card lines	150,557	–	–	–	150,557
Standby letters of credit	309	\$41	–	\$10	360
Commercial lines of credit	26,863	–	–	–	26,863
Undisbursed commercial loans	2,622	–	–	–	2,622

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 September 30, 2011, the Company had forward commitments to sell one- to four-family mortgage loans of \$87.1 million to Fannie Mae. As described in Note 12, “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 September 30, 2011.

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 table on the following page presents the amounts of the Company's interest-earning assets and interest-bearing liabilities outstanding at September 30, 2011, 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. \$20.0 million in investment securities with maturities beyond one year have been classified as due within one year base 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.

	At September 30, 2011					
	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	\$89,955	\$86,950	\$167,612	\$90,272	\$60,549	\$495,338
Adjustable	78,653	265,584	112,030	29,051	–	485,318
Construction:						
Fixed	–	–	11,152	95	8,430	19,677
Adjustable	11,184	358	984	2,090	–	14,616
Consumer loans	104,500	51,612	42,339	19,408	15,269	233,128
Commercial business loans	55,587	10,631	10,958	2,058	476	79,710
Interest-earning deposits	65,177	–	–	–	–	65,177
Investment securities	20,000	–	–	–	–	20,000
Mortgage-related securities:						
Fixed	41,186	125,043	281,801	156,495	108,610	713,135
Adjustable	38,090	–	–	–	–	38,090
Other interest-earning assets	46,092	–	–	–	–	46,092
Total interest-earning assets	<u>550,424</u>	<u>540,178</u>	<u>626,876</u>	<u>299,469</u>	<u>193,334</u>	<u>2,210,281</u>
Non-interest-bearing and interest-bearing liabilities:						
Non-interest-bearing demand accounts	607	1,798	4,640	4,422	89,848	101,315
Interest-bearing liabilities:						
Deposit liabilities:						
Interest-bearing demand accounts	1,326	3,932	10,145	9,670	196,452	221,525
Savings accounts	1,413	4,180	10,725	10,140	184,233	210,691
Money market accounts	407,208	–	–	–	–	407,208
Certificates of deposit	308,743	514,520	219,216	25,927	–	1,068,406
Advance payments by borrowers for taxes and insurance	30,182	–	–	–	–	30,182
Borrowings	294	100,923	2,830	2,883	46,454	153,385
Total interest-bearing and non-interest-bearing liabilities	<u>749,773</u>	<u>625,353</u>	<u>247,556</u>	<u>53,042</u>	<u>516,987</u>	<u>2,192,712</u>
Interest rate sensitivity gap	<u>\$(199,349)</u>	<u>\$(85,175)</u>	<u>\$379,320</u>	<u>\$246,427</u>	<u>\$(323,653)</u>	<u>\$17,569</u>
Cumulative interest rate sensitivity gap	<u>\$(199,349)</u>	<u>\$(284,524)</u>	<u>\$94,796</u>	<u>\$341,223</u>	<u>\$17,570</u>	
Cumulative interest rate sensitivity gap as a percentage of total assets	<u>(7.97)%</u>	<u>(11.38)%</u>	<u>3.79%</u>	<u>13.65%</u>	<u>0.70%</u>	
Cumulative interest-earning assets as a percentage of interest bearing liabilities	<u>73.41%</u>	<u>79.31%</u>	<u>105.84%</u>	<u>120.36%</u>	<u>100.80%</u>	

Based on the above gap analysis, at September 30, 2011, the Company's interest-bearing liabilities maturing or repricing within one year exceeded its interest-earning assets maturing or repricing within the same period by \$284.5 million. This represented a negative cumulative one-year interest rate sensitivity gap of

(11.38)%, and a ratio of interest-earning assets maturing or repricing within one year to interest-bearing liabilities maturing or repricing within one year of 79.31%. Based on this information, over the course of the next year the Company's net interest income could be adversely impacted by an increase in market interest rates. Alternatively, the Company's net interest income could be favorably impacted 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 2010 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 September 30, 2011. 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>				
+400	\$192,058	\$(145,171)	(43.0)%	8.27%	(37.9)%
+300	228,451	(108,778)	(32.3)%	9.62%	(27.8)%
+200	267,175	(70,054)	(20.8)%	11.00%	(17.4)%
+100	303,595	(33,634)	(10.0)%	12.23%	(8.1)%
0	337,229	—	—	13.31%	—
-100	330,229	(7,000)	(2.1)%	12.87%	(3.3)%

Based on the above analysis, the Company's PVE could 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 prepayments on loan and mortgage-related securities and reduced likelihood of calls on certain investment securities), partially offset by a decline in the present value of deposit liabilities and FHLB of Chicago advances. Also based on the above analysis, the Company's PVE could be adversely impacted by a modest amount by a decrease in interest rates. However, 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 2010 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 2010 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 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: November 8, 2011

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

Date: November 8, 2011

/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 September 30, 2011

<u>Exhibit No.</u>	<u>Description</u>	<u>Incorporated Herein by Reference To</u>	<u>Filed Herewith</u>
31.1	Sarbanes-Oxley Act Section 302 Certification signed by the Chairman and Chief Executive Officer of Bank Mutual Corporation		X
31.2	Sarbanes-Oxley Act Section 302 Certification signed by the 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
101 *	The following materials are furnished from Bank Mutual Corporation's Quarterly Report on Form 10-Q for the periods ended September 30, 2011, formatted in Extensible Business Reporting Language ("XBRL"): (i) the Unaudited Condensed Consolidated Statements of Financial Condition, (ii) Unaudited Condensed Consolidated Statements of Income, (iii) Unaudited Condensed Consolidated Statements of Equity, (iv) Unaudited Condensed Consolidated Statements of Cash Flow, and (v) Notes to Unaudited Condensed Consolidated Financial Statements tagged as blocks of text.		
101.INS *	XBRL Instance Document		X
101.SCH *	XBRL Taxonomy Extension Schema Document		X
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document		X

<u>Exhibit No.</u>	<u>Description</u>	<u>Incorporated Herein by Reference To</u>	<u>Filed Herewith</u>
101.LAB *	XBRL Extension Labels Linkbase Document		X
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document		X
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document		X

* In accordance with SEC rules, this interactive data file is deemed “furnished” and not “filed” for purposes of Sections 11 or 12 of the Securities Act of 1933 and Section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under those sections or acts.

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2011, 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: November 8, 2011

/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 September 30, 2011, 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: November 8, 2011

/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 September 30, 2011, 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
November 8, 2011

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 September 30, 2011, 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
November 8, 2011

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.